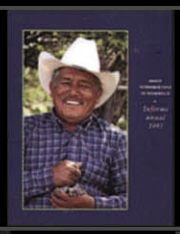
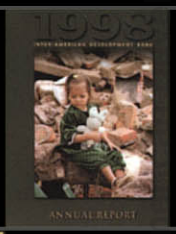
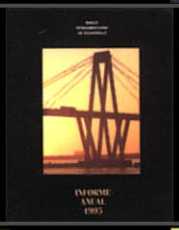
INTER-AMERICAN DEVELOPMENT BANK

40 YEARS

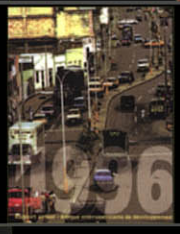
MORE THAN A BANK

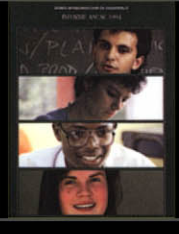













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Felipe Herrera

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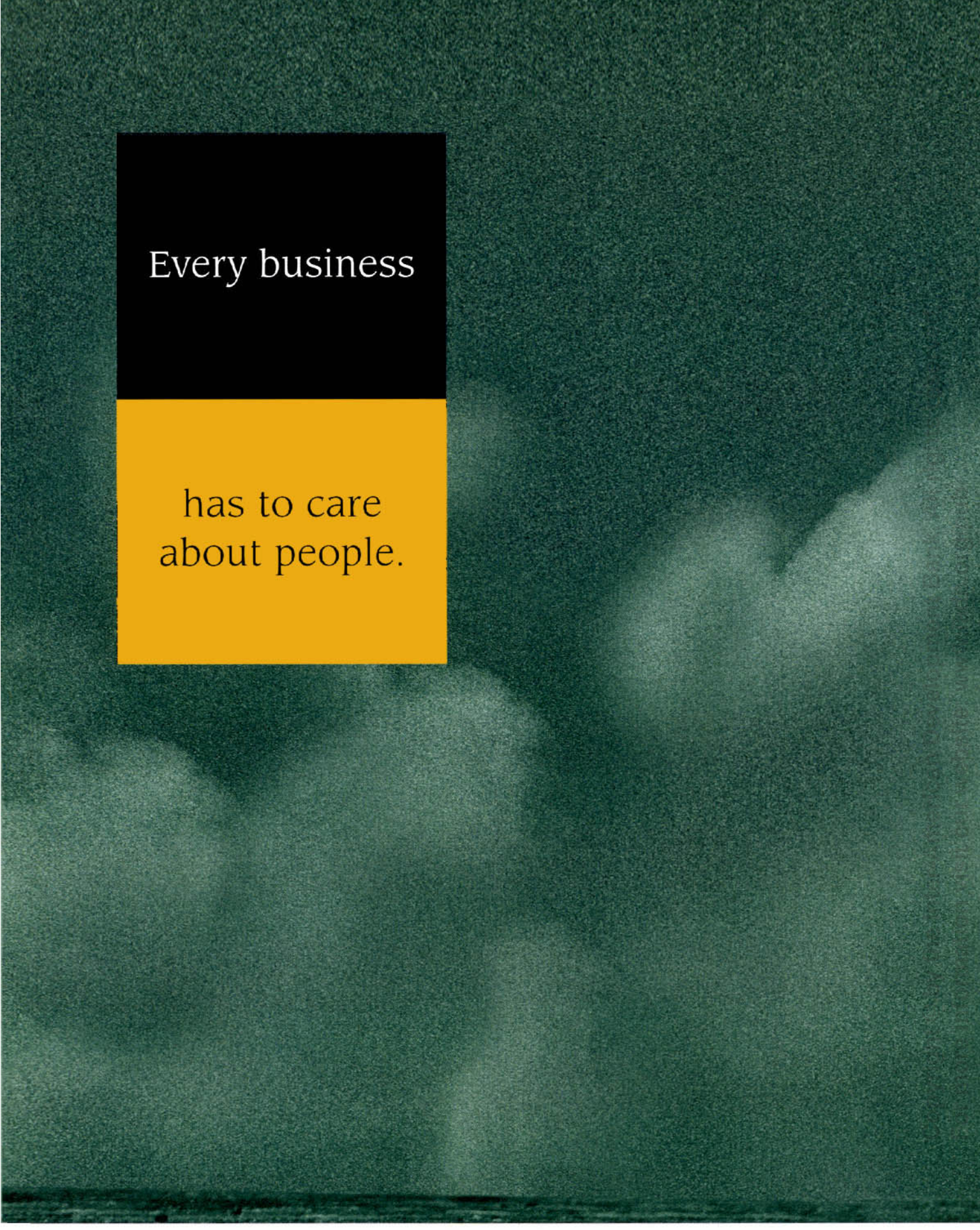

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This book would never have been possible without the collaboration of many people who expressed their interest in and fondness for the Bank in countless ways and are worthy of our deepest gratitude. David H. Smith-Soto was the architect of the book's format and put together the team in charge of its execution. The president of the Association of Retirees, Julio Luna, helped to trigger the chain reaction of contacts that enabled us to conduct some 70 interviews for the book. As we express our gratitude to those who contributed to the realization of the interviews, we also wish to apologize to everyone whose collaboration we were unable to incorporate into the final edition due to an obvious lack of space. I cannot begin to count the number of Bank officials who contributed to the enrichment of the book and to setting the record straight and clarifying its content with statistics, suggestions, information, opinions, contacts and moral support. I'd like to single out the help of Adriana Avalos, José Bergara, Rafael E. Cruz, Robert Devlin, Daniel Drosdoff, David Einhorn, Alfredo García, Carlos Herrera, John Madrid, Daniel B. Martin, Lyle Prescott, Renato L. Puch, Luisa C. Rains, Angel R. Ríos, Claudio Rosado, Fernando Rossel, Luz S. Sadak, Magdalena Sanguinetti and Manuel Valderrama Aramayo. Eloy B. García provided invaluable assistance on many fronts.

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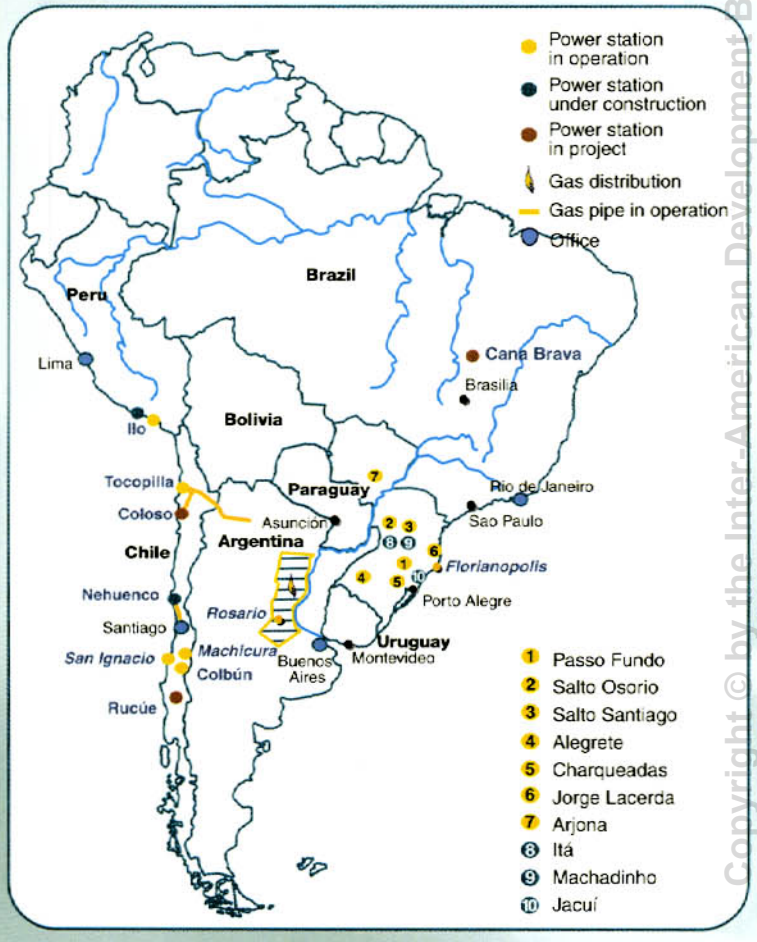

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Foreword

In 1999, the Inter-American Development Bank proudly celebrated the 40th anniversary of its founding. Creation of the IDB within the Inter-American System was the fruit of protracted and tenacious efforts of the Latin American countries to establish a continental financial institution to help finance their development. The establishment of such an institution was already suggested at the First Inter-American Conference, which took place in 1890 in Washington, D.C. Over the course of its first 40 years, the Bank has gained rich experience in institutional consolidation and in increasing its operational resources. It has fulfilled lending and technical cooperation functions to benefit the economic and social as well as the individual and collective development of its Latin American and Caribbean member countries.

With regard to institutional consolidation, the original Bank membership included 19 countries from Latin America and the Caribbean plus the United States. Between 1967 and 1992, six English-speaking Caribbean countries and Suriname joined the institution. Canada was admitted in 1972. From the signing of the Declaration of Madrid in 1974 until 1993, 18 countries from outside the Western Hemisphere were added to the membership: 16 European countries, Israel and Japan. Since that time, the Bank's family has included 46 member countries, 26 of which are borrowers.

Another aspect pertaining to the Bank's growth was the creation of the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF), which began operations in 1989 and 1993, respectively. The Bank and these two entities comprise the IDB Group and coordinate their activities.

Over the years, financial resources available to the Bank have increased extraordinarily. The Bank's initial ordinary capital of $850 million[1] in 1960 (worth much more in today's dollars) has been increased on eight successive occasions and amounted to $94.3 billion by June 30, 1999. With completion of the Eighth General Increase in Resources of the Bank, which was approved in 1994, ordinary capital will reach $101 billion. At the time the ordinary capital was originally funded, the Fund for Special Operations was also set up to grant loans under concessional conditions, preferably to less developed regions and countries. The Fund started with $150 million, and has grown to more than $10 billion, including net accrued income. Furthermore, many member countries have entrusted the Bank with the administration of trust funds for lending for selected development projects, mostly to benefit vulnerable social groups. The United States established the first of these trust funds, the Social Progress Trust Fund, in 1961. As of June 1999, the Bank administered a total of 49 such funds plus cofinancing agreements with similar operating modalities.

(1) All amounts of money appearing in this book are in U.S. dollars, unless otherwise specified.

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In 1991, the IDB reestablished its position as the major source of multilateral financing for Latin America and the Caribbean as a whole. In addition, the IDB has held the distinction for many years of being the main continuous and, at times, sole source of this type of resource for most of the smaller and less developed countries of the region. The Bank's financial support of economic and social development consists mainly of authorized loans, which grew from an accumulated total of $290 million at the end of 1961 to $100.5 billion by June 1999. These loans have contributed to financing investments in the region with a total cost of $240 billion. In addition to these loans, as of June 1999, the Bank has provided nonreimbursable technical assistance to all of its member countries for a total of $1.7 billion for regional projects or projects of interest to two or more countries, mainly in support of economic integration.

Lending and technical cooperation provided by the Bank have contributed to the implementation of a wide range of economic and social development projects and programs in the region. The main categories benefiting from Bank loans can be broken down for the period between 1961 and 1998 in the following way: 28 percent of the authorized lending portfolio went to social development; 24 percent to productive sector development; and 30 percent to physical infrastructure development. Over the five-year period from 1994 to 1998, loans earmarked for social development accounted for 42.3 percent of the total.

Throughout the history of the Bank, one trait that has remained constant is its ability to examine the socio-economic landscape of each of its borrowing member countries and grasp the priority needs for their economic and social development. From the beginning of the Bank's operations, the institution has forged a name for itself based on its capacity for innovation, pragmatism and efficiency, as well as its spirit of cooperation in service and respect for the sovereignty and cultural values of each individual country. This has made it possible for the Bank to venture forth, alongside its member countries, into the uncharted territory of development problems, especially in social fields such as education, health care and urban and rural development during the early 1960s, or, more recently, in the fields of microenterprise, crime and violence, the environment and conservation of natural resources, preservation of cultural heritage, and women in development. The Bank's pioneering efforts in these fields have developed alongside its support for more conventional infrastructure projects and programs. Faithful to its roots, the institution has been consistently committed to encouraging Latin American and Caribbean integration.

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In commemorating the first 40 years of the IDB, we attempt to provide an overview of the major achievements of the Bank and the challenges and problems faced by the institution over the course of the administrations of Felipe Herrera, from 1960 to 1971, Antonio Ortiz Mena, from 1971 to 1988, and my own, from 1988 to the present. Throughout its history, the Bank has made great strides in the expansion, improvement and consolidation of the institution and its operations. It has always managed to reconcile the continuity of its mission and founding principles with tactical adjustments in its operations in the face of changes in the circumstances of each nation and on the worldwide stage, and changes in the priorities of the economic and social development needs of the Latin American and Caribbean member countries.

The book has three sections, one for each Bank president's term. The sections include a brief analysis of the economic and social backdrop that set the stage for economic policy making in the member countries during the period. The sections explain where the Bank focused its cooperation efforts, and provide an account of the Bank's activities. The book examines the challenges and new or pending tasks faced by the institution as the first two administrations came to an end, and gives a view of future Bank endeavors during the transition to the new century.

More Than a Bank bears testimony to the rich history of the Bank over the course of its 40 years of active life. The main sections were written by three eyewitnesses who directly took part in the making of this history and have firsthand experience of events. These authors are, in order of appearance of their respective sections, Luciano Tomassini, Oscar Rodríguez-Rozic and Jorge Espinosa Carranza. The book provides an account and analysis of the milestones reached along the road that the institution has followed, including achievements and dilemmas, as well as dreams and expectations. It is essentially a retrospection that should be of great value to new generations of Bank leaders and officials who are committed to honoring, preserving and strengthening the founding principles of the institution. It contributes to their efforts in supporting the economic and social development of Latin American and Caribbean member countries. Only by taking stock of the past shall we be able to make the Bank a greater institution and lend dignity to our efforts.

Enrique V. Iglesias
President
Inter-American Development Bank

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The Vision of Felipe Herrera: *More Than a Bank*

Luciano Tomassini



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Over the course of the 20th Century, countries in Latin America and the Caribbean have made great strides in establishing democratic regimes, expanding and integrating their economies, and creating more flexible and egalitarian social structures. In the last four decades, the Inter-American Development Bank has been a creative and innovative partner to the region in these still unfinished tasks.

A New Development Strategy

The evolution of Latin America in the past hundred years has been greatly influenced by patterns that hearken back to a colonial past characterized by authoritarianism, centralization, and social fragmentation. During the first three decades of the century, primary product exports drove the economies in the region, while the modern industries, services and technologies that were typical in industrial nations played a minor role.

Until 1930, Latin America and the Caribbean successfully specialized in the production and export of minerals and agricultural raw materials. The region imported from the industrial nations the manufactured and capital goods needed to sustain its budding development and the living standards of the groups in whose hands power and wealth were concentrated. This model was vulnerable because of its excessive dependence on the industrial countries' demand for the region's basic commodities and, consequently, on the external economic cycle. The fluctuations of this cycle, nevertheless, were not viewed as insurmountable or permanent obstacles to further economic growth.

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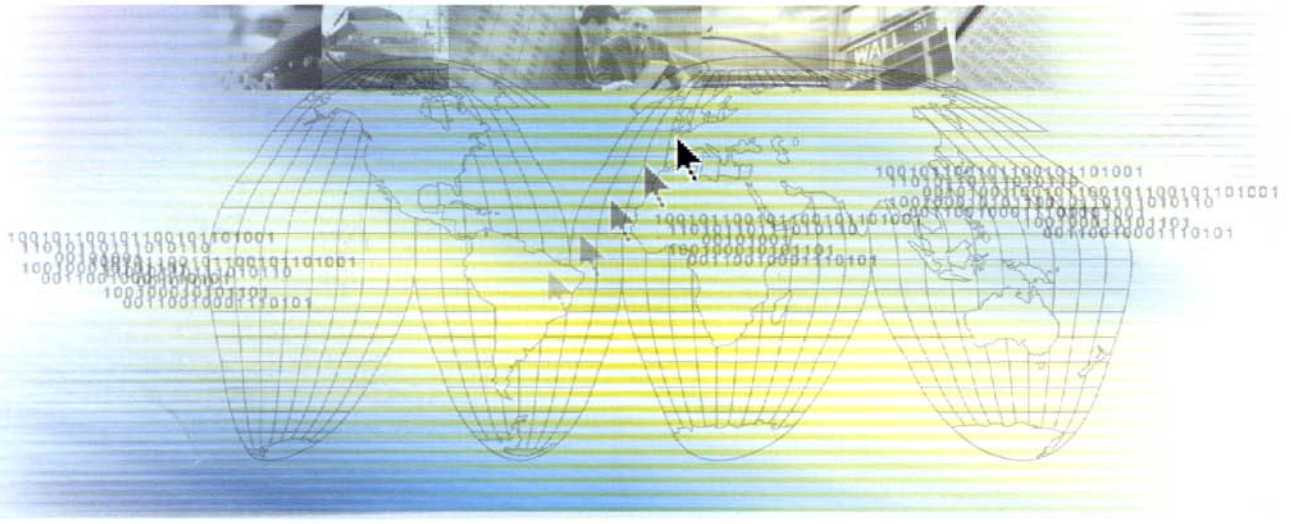

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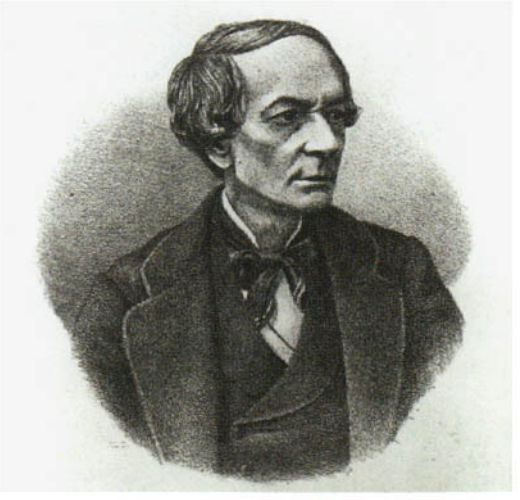

Right: *In 1844, Argentine statesman Juan Bautista Alberdi presented a thesis at the University of Chile that for the first time recommended the creation of a continental bank.*

The Great Depression of the 1930s was different in both magnitude and effects from any phases of economic depression that had taken place in the past. Stock markets around the world crashed, business and trade became paralyzed, unemployment skyrocketed and investment capacity and purchasing power plummeted everywhere. Shrinking markets in the industrialized world led to lower demand and lower prices for commodities. Purchasing power in the region decreased as a result of the decline in exports, and Latin America and the Caribbean experienced great difficulties in obtaining the industrial goods they had been importing. Simultaneously, the stream of foreign funding and investment slowed to a trickle.

Since economic theory provided no answers to the crisis, many of the countries of the region had no other alternative than to adopt policies of producing domestically much of what had been imported before the crisis. They set about to expand or create a domestic industrial sector through strong state support and protection, which were needed because of the relative weakness or absence of entrepreneurs and domestic incentives. In the late 1940s, these policies received intellectual validation from the United Nations Economic Commission for Latin America (ECLA) and its first Executive Secretary, Raúl Prebisch. ECLA's efforts were the fruit of an original approach to economic development issues and made it possible to articulate a more systematic strategy of import substitution industrialization (ISI). This strategy included state planning and intervention so the domestic economies would not be solely left to market forces.

The aftermath of World War II further validated the strategy of ISI as many of the trade and investment restrictions initiated during the Great Depression remained in place, particularly in Europe. This situation adversely affected the Latin American countries whose economies had

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Left: Delegates to the First International American Conference held in Washington, D.C., between 1889 and 1890, created the Regional Office of the American Republics, the forerunner of the Organization of American States. The Conference recommended the creation of a regional bank for the Americas.

been more dependent on Europe and, in particular, on the United Kingdom. Moreover, the emergence of the United States as the leading power in technology, production, finance and trade at first provided few economic incentives for Latin America and the Caribbean. To compound matters, U.S. foreign aid policy gave higher priority to Europe than to any other region, and allocated vast resources to a defense build-up aimed at counteracting threats from the socialist countries. The International Monetary Fund and the International Bank for Reconstruction and Development (better known as the World Bank) were created as lending agencies in 1944 at the Bretton Woods Conference to aid in the reconstruction of the postwar world. Neither institution gave Latin America much priority during that period.

In the international context of the times, the strategy of ISI was relatively successful, as was the economic model that preceded the Great Depression. ISI had widespread economic, social and political repercussions as it gave rise to new industries, social classes and groups, and government institutions. It was built on alliances between new public bureaucracies, budding industrialists, the middle class, and factory worker organizations emerging from an economic and social transition that also produced a wave of immigration from rural areas into the cities. This transition made it imperative, and feasible, to provide education, health care and social welfare services to the new social actors; such benefits, prior to that time, had been almost unheard of. The role of the State in the economy and in society underwent a remarkable expansion. Thus began a new stage of economic, social, technological, and political modernization in the countries of the region. This stage, of course, took place at different points in the evolution of each individual country, and developed at a different pace and varied considerably in content from country to country. This

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Below: *At the Inter-American Conference on Problems of War and Peace, held in Chapultepec, Mexico in 1945, it was first stated that development was the responsibility of all American States.*



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process produced a high average economic growth rate for the region, reaching an annual rate of 5.3 percent between 1950 and 1970, with a substantially higher rate in the industrial sector.

ISI promised to have a threefold effect: to reduce the economies' dependence on imports, to generate well-paying industrial jobs, and to gradually create a competitive industrial sector with the capacity to export to other markets. Nonetheless, with the passage of time, ISI only managed to substitute imports of consumer goods for capital goods and other industrial inputs. The bill for these imports had to be paid with external financing and with income generated by a primary export sector devoid of much capacity to grow. In fact, ISI resulted in a low volume of industrial exports because the manufacturing sector was overprotected and lacked incentives to increase efficiency in order to compete on world markets. The cumulative result was a persistent imbalance in the external accounts and chronic currency devaluations that, together with the deficits of the heavily strained public budgets, fueled inflation. In the 1970s, inflation hit an average annual rate above 20 percent and it soared even higher during the following decade.

The creation of the Inter-American Development Bank at the end of 1959 was an important factor in strengthening and implementing the best ingredients of this development strategy. The countries of the region (initially very few, particularly Chile) began to abandon ISI in the 1970s and returned to orthodox economic practices, such as opening up to foreign capital and international trade, pursuing macroeconomic balance, and giving the private sector a major role in the economy. These changes spread throughout the countries of the region in the wake of the external debt crisis that erupted in 1982 and practically coincided with the restoration of democracy in the region.

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Right: *Brazilian President Juscelino Kubitschek (center right) visited U.S. President Dwight D. Eisenhower. Both agreed to revitalize the Inter-American System through cooperation for economic and social development in Latin America.*

History and Roots of the Bank

The prospects of Latin American countries after World War II were closely linked to the new world order. Europe, Japan and the socialist countries had been devastated during the war; the United Kingdom had suffered great damage. Latin America began to gravitate to a greater degree toward the United States in its foreign relations. In the context of the cold war, U.S. governments, for the most part, considered Latin America to be a "safe region" and, for this reason, did not give high priority to foreign aid programs for the region. This position was at odds with Latin America's aspirations to put support for development at the forefront in its relationship with the United States.

The struggle of the Latin American countries to get the United States to incorporate development cooperation into its hemispheric policy objectives took a long time. It was heavily influenced not only by changes taking place in the region, but also by the evolution of events on the international scene. Originally, the main focus of these efforts was the creation of a regional lending organization, an idea that predated World War II and had roots as far back as the 19th century. At the Seventh International Conference of American States, held in Montevideo in 1933, delegates endorsed the idea of creating a cooperation agency that would function as a central bank for the entire American continent. The purpose would have been to promote lending and movement of capital between the countries of the hemisphere. A slightly modified version of this proposal was backed by the First Meeting of American Ministers of Foreign Affairs, which was held in Panama City in 1939 in order to come to a consensus on a unified hemispheric foreign policy in light of the seeming inevitability of World War II. None of these initiatives were ever actually ratified.

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David H. Pollock

"I Give Felipe Herrera Six Months at Best"

"After President Eisenhower decided to support the establishment of the IDB to show his support for regional cooperation, the idea sparked opposition in several circles of the United States for three reasons: private was preferable to public capital; the World Bank already existed, with capacity for all necessary multilateral aid operations; and Latin Americans did not know enough about international finance to play a major role in the design and management of the IDB. The two issues that made critics particularly nervous were that, on the one hand, voting power and staff would be dominated by the borrowers and, on the other hand, a virtually unknown Chilean, Felipe Herrera, was the main candidate for IDB President. At the time, I was an ECLA official in Washington and I recall that a government official told me: 'this new bank needs someone who can win over the immediate trust and cooperation of Wall Street and large institutional investors. Many international financiers have the idea that Latin American bankers only reach out to shake hands with their palm facing up. At best, I give Herrera six months.' I wonder what that official thought 12 years later, when Herrera retired?"

David H. Pollock was a consultant for the IDB in the 1980s and 1990s.

In early 1945, as the end of World War II drew near, the Inter-American Conference on the Problems of War and Peace was held in Chapultepec, Mexico a few weeks after the San Francisco Conference had drafted the Charter Agreement of the United Nations. At the time, the United States espoused a global agenda and wanted to continue focusing hemispheric relations on security issues, while the Latin American countries focused on the necessity of formulating cooperation policies to address their specific needs and geopolitical and economic position in the hemisphere. One argument in support of this position was that, during World War II, Latin America had abandoned its neutral stance and aligned itself with the allied forces and contributed to their war effort by supplying them with raw materials at prices that were virtually frozen.

In 1947, the role of the United States in implementing the Marshall Plan for the reconstruction of Europe fueled expectations that a similar program would be established for Latin America. These expectations were strongly voiced in 1948 at the Bogotá Conference where the Organization of American States (OAS) was created. At this conference, many proposals were put forth on the need to create a financial institution to promote the region's economic and social development. Even though a compelling event was unfolding outside the doors of the conference site in Bogotá, this agenda was not unanimously endorsed by the delegates. The Conference was held in the midst of a violent popular insurrection, triggered by the assassination of Jorge Eliecer Gaitán, one of the leading presidential candidates in the electoral campaign at the time in Colombia. This episode highlighted the magnitude of the social problems that many countries of the region were facing. The Bogotá Conference assigned the duty of examining the proposals to the Inter-American Economic and Social Council (CIES) of the OAS. Nevertheless, the CIES decided in 1950 that "under

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Right: *Meeting in 1959 of the Special Advisory Commission of the Inter-American Economic and Social Council, which drafted the agreement to establish the Inter-American Development Bank.* ***Opposite page:*** *The representatives of Costa Rica and the United States, Jorge Hazera and T. Graydon Upton, sign the final document of the Commission's meeting.*

present circumstances, creation of institutions of this nature does not seem feasible or advisable." To offset this less than encouraging assessment, a commitment was made to convene a specialized inter-American economic conference that, over the next few years, did not win enough support to materialize.

Eventually, that conference did take place from November 22 to December 2, 1954, at the Quitandinha Hotel, on the Petropolis heights near Rio de Janeiro, in the framework of the CIES. The countries assigned the Executive Secretariat of ECLA the task of drafting a preliminary report, which would subsequently serve as the basis for the work of a preparatory committee. Chilean Senator Eduardo Frei Montalva chaired this committee, the rapporteur was Carlos Lleras Restepo of Colombia, and the sitting members were Evaristo Araiza of Mexico, Rodrigo Facio of Costa Rica, Franscisco García Olano of Argentina, and Cleantho de Paiva Leite of Brazil. It is fitting to point out that both Frei and Lleras, later on, became presidents of their respective countries. Through this work, the Latin American countries articulated the most comprehensive vision so far of the objectives and mechanisms being pursued with regard to the creation of a regional financial agency.

The proposals brought by the Chilean delegation were of particular significance. They included the provision that the resources of the newly created institution should be comprised mostly of contributions from the Latin American countries, which would transfer to it nearly $3.5 billion of their international reserves with the assurance that these funds would be "reasonably and prudently mobilized." The Chilean delegation, which was headed by the General Manager of the Central Bank, Felipe Herrera, had arrived with a comprehensive proposal, and had held prior consultations with most of the governments of the region concerning these ideas. In a climate of skepticism, the meeting

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concluded with the formation of a commission comprised of representatives of the central banks of some Latin American countries. The commission was given the duty of submitting to the OAS a proposed draft charter for the financial organization. This draft proposal was sent to the CIES to receive feedback from the governments involved. Although the draft proposal did not obtain final approval, it brought together many ideas that allowed the advancement toward the creation of the new bank.

The region's economic and social problems became notorious and pressing around 1958. Early that year, U.S. Vice President Richard M. Nixon toured several Latin American countries where he could gain firsthand knowledge of the prevailing social malaise. On the other hand, as part of his electoral campaign platform, Brazilian President Juscelino Kubitschek had forcefully advocated meeting the development needs of Latin America. In May of 1958, he sent a letter stating these hopes to U.S. President Dwight D. Eisenhower. Eisenhower answered the note and, not long after that, Secretary of State John Foster Dulles paid a visit to the President of Brazil, eventually giving U.S. consent for a meeting to be held in support of a hemispheric cooperation program, which Kubitschek dubbed Operation Pan America.

At a special session of the CIES in August that same year, U.S. Under Secretary of State Douglas Dillon, who personally favored this initiative, announced that the United States was willing to participate in a regional financial organization. Between January and April of 1959, a Special Advisory Commission created for this purpose drafted what would become the charter agreement of the proposed bank. For the most part, it was based on the ideas put forth in Quitandinha. The draft paved the way for the formation of a Preparatory Commission to perform its duties at the OAS

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Gonzalo de la Pezuela

Cuba Participates in Drafting the Charter Agreement of the IDB

"There was heightened interest among the members of the Latin American delegations in Cuba's participation in the Bank. Interest was so great that a delegation, which included Felipe Herrera and Ignacio Copete, of Colombia, went to Havana. They met with high-level Cuban officials and returned discouraged because when they arrived they did not see much interest in joining the IDB, which would have been a way of becoming a part of the western world and uniting with the other countries of Latin America. The Cuban officials wanted to establish a communist state and were actively taking steps to establish close ties with the Soviet Union, which they eventually accomplished. I was a member of the Cuban delegation that participated in drafting the charter agreement of the Bank between January and April of 1959. I was working at the time for the National (Central) Bank as its representative in Washington. The political change in Cuba occurred on January 1, 1959. I was still in Washington in the middle of 1960, when the National Bank decided to recall the delegation and asked us to return to Cuba. I managed to return to Washington to settle some pending matters, resigned my post, and stayed. Then, Ernesto 'Che' Guevara took over for Felipe Pazos as President of the National Bank. I was still a Cuban citizen when I came to the IDB in 1961 and worked as an operations officer."

Gonzalo de la Pezuela came to the Bank in 1961, was Bank Representative in Mexico, Bolivia and Nicaragua, and retired in 1985 as Senior Officer for Argentina.

between September of 1959 and February of 1960, prior and subsequent to the ratification of the Bank's charter. The Preparatory Commission set about the task of designing the structure and defining the functions of the institution. The members of the commission included individuals who would go on to become executive directors of the Bank, such as Mario Mendivil of Argentina; Cleantho de Paiva Leite of Brazil; Jorge Hazera of Costa Rica; Rafael Glower Valdivieso of El Salvador; Juan Gallardo Moreno and Armando Amador of Mexico; T. Graydon Upton, James Lynn and Arnold Weiss of the United States; and Felipe Herrera and Javier Urrutia of Chile. Antonio Casas Gonzales of Venezuela, Enrique Pérez-Cisneros of Cuba, Carlos Gibson of Peru, and Pedro Irañeta, on behalf of the General Secretariat of the OAS, also took part in this exercise.

The Agreement Establishing the Bank took effect on December 30, 1959 after being ratified by almost all of the governments. The twenty founding members of the IDB were Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela and the United States.

The Board of Governors of the new institution held its first meeting in February 1960 in San Salvador, and unanimously elected Felipe Herrera as President of the Bank. The IDB officially opened its doors for business on October 1 of that same year and approved its first loan in February 1961.

Felipe Herrera Lane brought to the IDB a commitment to the development of Latin America and broad experience in economic matters, as well as the ideas that he advocated and brought to bear on his endeavors to create the Bank. Herrera studied law at the University of Chile, his native country, and economics at the London School of Economics. His leadership skills were evident at

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Below: *First Annual Meeting of the Board of Executive Directors of the IDB, held in San Salvador in 1960, after the election of Felipe Herrera (center left) as President of the Bank.*



an early age when he was elected President of the Chilean Federation of Students. He began his professional career as a legal counsel for the Central Bank of Chile, and went on to become the General Manager at only 31 years of age. This position automatically made him Chile's Governor at the International Monetary Fund and the World Bank. He later became Under Secretary of the Economy and Commerce and Finance Minister of Chile. At the International Monetary Fund, he became Executive Director for the Southern Cone countries. He also taught economics at the University of Chile. The first President of the IDB died in Santiago in 1996.

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The Alliance for Progress

Shortly after operations began, the Bank became closely linked to an important U.S. initiative, which reflected the effervescence of the inter-American spirit of the day: the Alliance for Progress. The main figures that contributed to making this idea a reality were, for the most part, the same figures who held sway in the creation of the Bank.

The political events that unfolded in the region at that time greatly contributed to consolidating hemispheric collaboration. As soon as the IDB was created, Fidel Castro marched into Havana. In June 1961, a group of Cuban exiles attempted to invade their homeland and failed. As a result of these events, the United States became deeply concerned about the evolution of Latin America. During his presidential campaign and when he began his term in 1961, U.S. President John F. Kennedy gathered a distinguished team of advisors on U.S.-Latin American relations, which included Gordon Lincoln, Robert Alexander and Richard Goldwin. Kennedy also forged close ties with progressive Latin American leaders, such as Rómulo Betancourt in Venezuela and José Figueres in Costa Rica. In the early part of his presidential term, Kennedy established contact with the Ambassador of Venezuela in Washington, José Antonio Mayobre, who eventually urged a group of leading Latin American economists to formulate a regional policy proposal. This group consisted of Raúl Prebisch, Felipe Pazos, Jorge Sol Castellanos and Felipe Herrera, who were almost all linked with international organizations. The group summarized their ideas in a document that was delivered to the U.S. President in early March 1961. On the 17th day of that same month, in a message issued from the White House, Kennedy announced a program that he dubbed the Alliance for Progress. The goal

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Below: *First headquarters building of the IDB, officially opened in 1960 on 17th St. NW, in Washington, D.C., two blocks from the White House.*

of the program was to contribute to the development of the Latin American countries through long-term loans and investment. To achieve this goal, $20 billion would be contributed over the course of a decade, half from the public sector and half from the private sector. The Kennedy government formalized its program at a meeting of the CIES in Punta del Este, Uruguay, August 5-17, 1961. The ideas that were discussed at that meeting were hatched by a working group chaired by Felipe Pazos, former president of the Central Bank of Cuba.

At Punta del Este, in reference to the IDB, Kennedy stated:

"I am convinced that the IDB will play a vital role in the development of the hemisphere. It will undoubtedly be one of the most important instruments available to the Latin American nations that have already indicated their desire to use the Bank as a basic tool for making the



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1961

Below: *Drinking water and sewerage system in Arequipa, Peru, the first project financed with a loan from the IDB (**see opposite page**).* **Right:** *Bolivian peasants benefited from the first financing of the Fund for Special Operations, in the amount of $10.25 million.*



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Juan Alfaro

The First Bank Loan

"The IDB has been identified with basic sanitation - drinking water, sewerage and solid waste - since its creation. It was no coincidence that its first loan would finance the Master Plan of the Potable Water and Sewerage System in Arequipa, Peru. In addition to assisting in construction of the works, the project made it possible to create an autonomous, self-financing, fee-based enterprise that is still regarded as a model today. In the 1970s, the Bank was a pioneer in social programs, particularly in the field of sanitation. Once it became evident that these projects could be financed and the investment was recoverable, other international agencies, which prior to that time had geared operations exclusively toward the productive sectors, became interested in the social sectors. Perhaps the most important accomplishments of the Bank were in the rural sector, where a concept of cooperative organization was established and made it possible to provide potable water to thousands of communities. This community-managed model was devised with a sliding rate scale, which varied according to the payment capacity of the residents. It made it possible, in larger countries such as Argentina, to not only technically operate the services, but also to repay the IDB loans used to fund 50 percent of the investment. The cooperatives, called Potable Water Boards, were actually a sui generis form of privatization."

Juan Alfaro came to the Bank in 1973. He retired in 1992 as Chief of Basic Environmental Sanitation.

Alliance for Progress a reality. Therefore, this progressive and liberal institution, guided as it is by men with extensive expertise, can be a great help in fulfilling the ambitions of the Hemisphere to bring about social change and achieve economic progress."



Finally, during the brief interval between 1958 and 1961, the vigorous efforts and drive that would lay the solid foundations for inter-American economic cooperation came full circle. They had indeed been a long time in the making.

"More Than a Bank"

The creation of the Inter-American Development Bank represented the realization of Latin America's longstanding goal and tireless quest to make this dream come to pass. The hopes enshrined in the spirit, structure and policies of the institution won the day because Latin America had been consistent and steadfast in its purpose. The Bank had to be different from the World Bank, which, up until that time, had been the model development institution. The World Bank was created to

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Arnold Weiss

Herrera Confronts Ernesto "Che" Guevara

"An incident at the Punta del Este Conference, where the Alliance for Progress was adopted in August of 1961, was a turning point for the newly created IDB. As secretary of the IDB delegation, I was with Felipe Herrera and others. Ernesto 'Che' Guevara was in attendance as head of the Cuban delegation. At one point, Guevara stood up and asked U.S. Under Secretary of State Douglas Dillon whether Cuba would be participating in the Alliance for Progress. Dillon told him: 'No. You are not members of the IDB.' Guevara stood up and gave a long speech in which he called the IDB 'the Bank of the bathrooms,' an allusion to the loans for water and sewer works that had just been approved for Arequipa, Peru. When Guevara finished, Felipe requested the floor and walked over to where he was. He pointed to his face and assured him: 'You're very right. We are the Bank of the bathrooms, we are the Bank of clean water, we are the Bank that shall protect the newborn babies of Latin America and we shall be the Bank of economic integration. 'Then he proceeded to give one of the best speeches of his career. That day the mission and the priorities of the IDB began to take shape. At that instance, Felipe really defined the role of the Bank."

Arnold Weiss came to the Bank in 1960 and retired as Manager of the Legal Department in 1977.



serve all the regions of the world. Originally, it was responsible for rebuilding the physical infrastructure of Europe and Japan, which had been devastated by World War II, and whose reconstruction required specific policies and tools. At that time, there was a widely held impression that the gap between the level of development of Latin America and the industrial world was not as large as it was for other regions, such as Asia and Africa. Other prevailing views of the day maintained that Latin American authorities lacked the capacity to formulate specific projects and that, in practice, all projects could find some sort of funding. By the time the IDB was created, sensitivity toward Latin America had changed. More people had become aware of the importance of international cooperation with the region and of how the region differed from the rest of the world, having its own idiosyncrasies and needs.

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Opposite page: *Felipe Herrera and John F. Kennedy sign the agreement designating the Bank as the administrator of the Social Progress Trust Fund, within the framework of the Alliance for Progress.* ***Right:*** *The first IDB technical cooperation financing was approved on November 8, 1960, for $61,500, to strengthen the mining sector of Bolivia (see inset box on page 25).* ***Below:*** *One of the first loans granted by the Social Progress Trust Fund was $12 million for the construction of rural housing in Venezuela.*



The most distinct trait of the IDB was its regional nature. This was not only because it was the first multilateral development bank focused on the Latin American region, but also because its structure, policies, staff and working style were, from the time it was created, rooted in Latin America. This was evident in the make-up of its membership, the composition of its capital, its organizational structure and internal decision-making process, and the correlation of its policies and operational programs with the development needs of Latin America.

From a historical perspective, the IDB was a unique creation. As was the case of ECLA, an entity that had close intellectual ties with the Bank, the IDB was the product of innovative thinking with regard to the development needs of Latin America. The IDB had unique characteristics and it placed greater emphasis on some development approaches than did other development organizations at the time. The founders of the IDB believed that, in the words of Felipe Herrera, it was "more than a bank."

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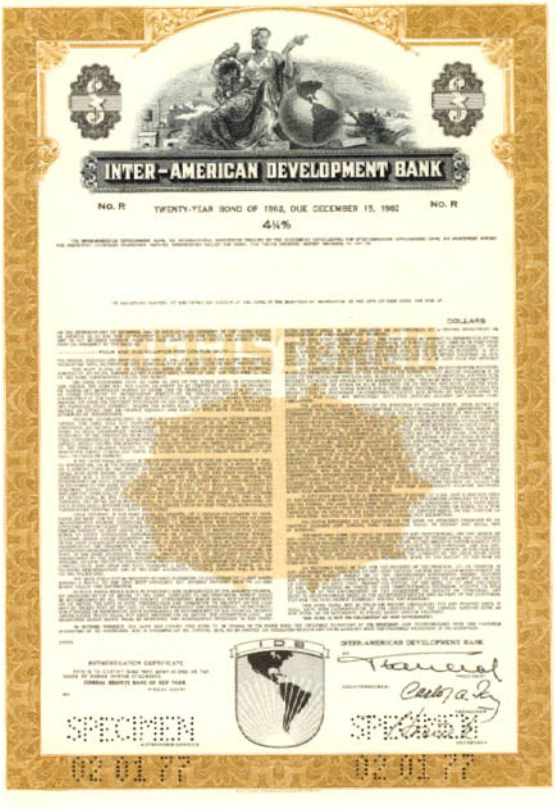
Joseph Hinshaw

Felipe Herrera, Man of Imagination

"Felipe Herrera, a meticulous man with a great imagination, expected everyone to be like him. In the early days of the Bank he was in the habit of calling officials at 9:00 a.m. and paying a surprise visit to one or more floors, with no prior announcement other than a buzz from "Radio Hallway." He would shake hands and chat with everyone. According to one account, he once opened the door of a director's office and found him asleep. Herrera would carefully review drafts of the Annual Report, changing words, inserting paragraphs, and replacing whole sections. He reviewed speeches, rewrote them and learned them by heart. At my first Annual Meeting, at the Hotel Copacabana in Rio de Janeiro in 1961, I was Press Chief. I was reading Herrera's meticulous speech, around 64 pages, which in the first half set forth in detail the Bank's deeds during its first year [of activity] and in the second part examined the future of the Bank and the state of the hemisphere. It seemed to me that the latter part was more interesting. Herrera came in to look for the speech that he would give the next day. He asked me what I felt about it. 'It seemed to me that it really took off in the second half,' I replied. He gave me a piercing look. 'The problem with you, Hinshaw, is that you have no imagination.' Herrera, meticulous man that he was, however, did have one."

Joseph Hinshaw came to the Bank in 1960. He was the Bank's first Press Chief and retired in 1989 as Associate Deputy External Relations Advisor.

The IDB set out to become a "bank of ideas" that would contribute to the region's development by conducting a thorough analysis of its problems. It would be dedicated to providing intellectual leadership and to playing an active role in the design of economic, social and integration programs and projects. In other words, the Bank would not be limited to merely receiving, processing and funding projects. It was meant to be an intellectual partner as well as an active, creative and flexible associate in implementing development programs. This is why the Bank, from the day it began operations, has been able to support both economic planning and the projects that were part of development and integration programs, as well as the institutions responsible for their preparation. In this way, the Bank has played a key role in strengthening institutions in the region.



The IDB floats its first bonds in Italy for an equivalent to $24.2 million.

The mandate of funding not only economic but also social development projects - such as water and sewerage, urban development, health, education and training, and science and technology -

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R. Alberto Calvo

The IDB as University

"Felipe Herrera would state that ever since the days of the struggle for independence, up until the creation of ECLA, the meeting places of Latin Americans had been 'eccentric places': London, Paris or Madrid. Herrera envisioned the IDB as a meeting place for Latin Americans with a calling for public service, who could bring home a rich experience to the countries of the continent. On the first trip he made to the member countries as President, he arrived in Caracas, where Ambassador Juvenal Hernández, former Rector of the University of Chile, held a dinner in his honor. Hernández proposed to Herrera that the IDB should create a Latin American Development Institute where the experiences of the institution could be studied and disseminated in post-graduate courses. Herrera responded that that idea could only come to fruition after the IDB itself became a solid institution: 'Can you imagine, Juvenal, how the gringos would react if I now propose that the IDB also be a university? If we put an academic face on the IDB, they'll call us poets. The Bank shall indeed become an educational center, but it must first gain recognition as an efficient bank.' Three years before his death, I had lunch with Herrera at his house on El Bosque Street in Santiago. I asked him how he would assess the IDB, in hindsight. Without hesitation, he responded: 'As the great university of Latin American development.'

R. Alberto Calvo worked at the IDB from 1960 until 1980. He was Deputy Manager for Integration and Director of INTAL.

was nothing short of a revolutionary innovation for that time. This innovation blazed a trail for all of the other development organizations to follow. Until the IDB commenced operations in this field, social development programs and projects were viewed as having low or null financial or economic returns and, as such, were given low priority. The generation that waged the struggle culminating in the creation of the IDB thought that the Bank ought to contribute to comprehensive development. Within that context, the IDB received the mandate to support not only physical infrastructure, but also productive activities, including those of the private sector. It also had a mandate to assist small and medium enterprises through innovative arrangements.

The IDB was designed as the bank of regional cooperation and solidarity. This was especially evident in the Bank's principle that less developed or economically vulnerable borrowing countries would receive more favorable financial terms than the more developed countries. The spirit of aid and cooperation also gave rise to the mandate to provide intellectual, institutional and financial support to binational, subregional and regional cooperation and integration. This concept of integration, decades later, was broadened to encompass a plan to create a hemispheric free trade zone. The founders of the IDB were mindful of the economic and social development needs of the region and of the unequal levels of development between countries. They rejected the "graduation" rule adopted by the World Bank, which dictated that countries be disqualified from continuing to receive loans from the institution upon reaching a certain level of income per capita.

Over the years, many of the IDB's policy and operational innovations were adopted by other international organizations, in particular, the regional development banks that were created subsequently to the IDB and, in fact, were modeled on the Bank.

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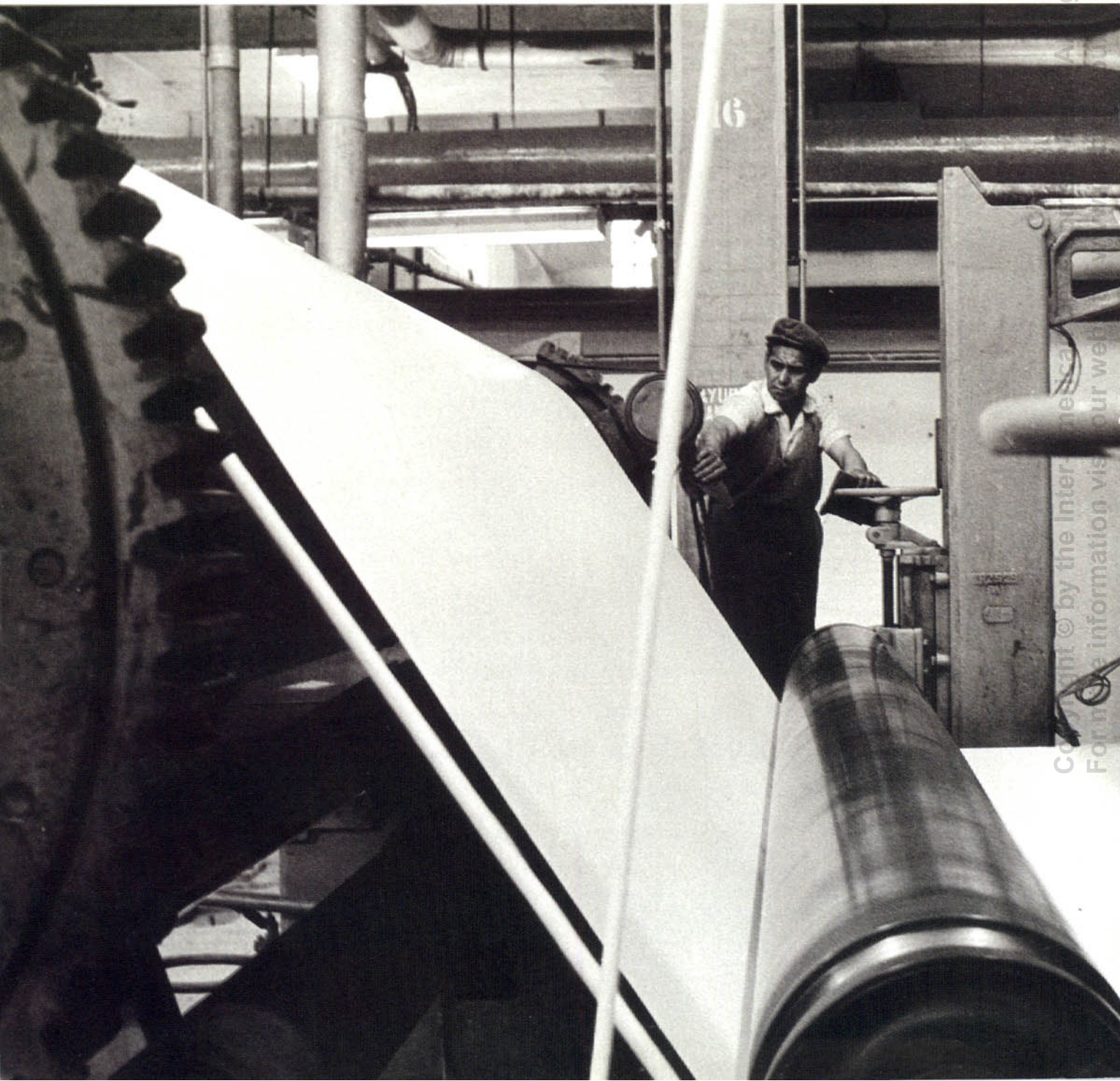
1962

Below: *Paper manufacturing was one of the sectors that benefited from an industrial credit program for Chile financed by the Bank in 1962.* ***Right:*** *Expansion of the drinking water system of Rio de Janeiro funded with IDB loans for $23.1 million approved in 1962.* ***Far right:*** *Bank support to universities began with a loan for $5 million for the Argentine higher education system.*



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The New Institution

Only the member countries of the OAS were allowed to take part in the ratification of the Agreement Establishing the Bank. Although Cuba had participated in the preparatory work, it did not ratify the Agreement. The original members of the Bank were the United States and 19 other Romance language-speaking countries of the region. Trinidad and Tobago, Barbados and Jamaica joined in the 1960s. The rest of the English-speaking countries of the Caribbean would do so at a later date. The second chapter describes the global security approach in international politics at the time, which, together with the pro-regional approach voiced at the IDB, hampered efforts to expand IDB membership to include countries outside the Western Hemisphere.

Since its creation and until the present day, the basis for the IDB's legitimacy, institutional strength, and scope of action lies in its Latin American roots. The make-up of its share capital, known as the ordinary capital, is a reflection of these roots. As a result of one of the initiatives that was adopted with regard to this issue at Quitandinha, the negotiators of the Agreement Establishing the Bank operated under the premise that the Latin American member countries ought to contribute the majority of the ordinary capital. This view eventually won the day, running counter to the dictates of many important precedents. It flew in the face of skepticism in U.S. government and financial circles, which feared the image of "a bank managed by its debtors."

One of the main questions looming over the talks leading to the creation of the IDB was resolved by drawing a dividing line between the Bank's ordinary capital and the "soft" resources also received by the entity. It was determined that the voting power of the member countries would be

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Maurice Wolf

The Bank Sells Wood...

"In 1977, the Bank's General Legal Counsel, Arnold Weiss, refused to accept my resignation until the Lutcher case was settled. The Bank approved its first loan to a private enterprise, the Brazilian pulp and paper company Lutcher S.A. Celulose e Papel, for $4 million, shortly after beginning operations, and later increased that amount by $4 million. The project was poorly designed and managed, but there was extensive quality timberland involved. Eventually, the IDB faced new, difficult and complex legal issues in the Brazilian and U.S. courts. Lutcher challenged the validity of the loan in Brazilian courts. It challenged the terms and conditions of the loan agreement in international arbitration. It then filed suit against the Bank in a Washington court, the first case of its kind. Afterwards, the IDB began to foreclose on the mortgage on the properties in Brazil. An agreement was reached and the Bank took control of the property and sold a portion of the trees in order to recover the cost of the loans and expenses. This was the first time that a lawsuit was filed against an international organization and its immunity from legal action was debated, the first use of arbitration against an international organization, the first mortgage foreclosure on property pledged as collateral to the Bank, the first take-over of a private business in a member country, and the first commercial operation of the Bank: selling wood in Brazil."

Maurice Wolf came to the Bank in 1966 as Legal Counsel and retired in 1977 as Senior Legal Counsel.

proportional to the shares of ordinary capital contributed by each country. Since the Latin American countries would contribute more than 50 percent of the ordinary capital as a group, this block of countries would hold greater voting power than the United States, the largest individual shareholder.

Certain checks and balances were put in place during the discussions on the Bank's charter in order to help reconcile differences between the conflicting interests of individual member countries. However, the legal and political principle that the voting power of the member countries should be equal to their respective contribution to the ordinary capital was always upheld, even after nonregional member countries were admitted in the 1970s. Under this same principle, the Latin American countries held onto majority decision-making power in the governing bodies of the institution.

Another original feature of the new entity, which had been proposed in several of the documents preceding its creation, was the authorization to receive and administer soft resources; this was almost unprecedented among the first international lending organizations. The purpose of these resources was to make lending operations and technical assistance possible under concessional terms for less developed countries or areas of countries, or for low-income segments of the population. These terms included reduced interest rates, long grace and amortization periods, and the option to repay loans in local currency. These operations required financial resources at such a low cost that they could not be obtained on the international markets. It was a challenge to incorporate this type of operation into the financial structure of the institution and, for this purpose, the charter of the Bank created the Fund for Special Operations (FSO). The soft funds of the FSO received a great boost when the United States placed the Social Progress Trust Fund under the administration of the IDB, in the framework of the Alliance for Progress.

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Manuel Valderrama Aramayo

The First Rush

"Even though the IDB began operations in October 1960, it had received advance applications for financing. The first ones were for technical assistance in Bolivia, one from the Mining Bank and another from the Bolivian Mining Corporation. I was supposed to prepare the operational plans for those cases, for which I lacked a model. Thanks to the support of colleagues and secretaries, I managed to finish them quickly. Then, Clarence Pierce told me that it had just been decided that the two operations would be melded into a single operation. This did not present any problem, except that Herrera needed the final document urgently, which spurred me to work well into the night. The next day Herrera asked me for the plan, which we brought him with Pierce. Gladys Bonilla, the perfect secretary, showed us into the office of the president, whom we found with his coat off, the only time I've ever seen him like that. He reviewed the plan, asked questions and ordered that it be presented to the Operations Committee the next day. René Otero, of the Secretariat, facilitated distribution of the document, which was swiftly approved by the Board of Executive Directors. This is how the rush season at the Bank began, and it has never ended since then."

Manuel Valderrama Aramayo came to the Bank in 1960 and retired in 1987. He held numerous positions at the IDB, including Representative in Peru. He is a consultant to several departments.

Given the fact that the international credit rating of the IDB had to be safeguarded, the incorporation of soft resources into its financial structure had the potential to create a problem from the standpoint of the solidity of the backing offered by the Bank to raise funds on the market.

A solution was found for this dilemma. A clear dividing line would be drawn between how and when ordinary capital resources could be used, and how and when soft funds could be used. It was also decided that the ordinary capital could be used as backing to obtain resources on the market and that soft funds could not be used in this way. Separating these two types of resources, however, did not lead to a separation of their administration into two parallel units, although this was proposed several times during the course of the negotiations on the Bank's charter. Instead, administration was consolidated into a unified structure for the whole IDB. That made it possible to maintain the unity of operational policies and financial and administrative management of the Bank without damaging its credit rating in international capital markets.



Felipe Herrera visits a housing project in a slum of Panama City, Panama. The Bank approved a loan for $7.6 million for the construction of 3,000 housing units in that town.

During the discussions leading to the birth of the institution, the issue of the location of its headquarters was debated. A group of countries felt it would be wise for the seat of the Bank to be located in the United States to facilitate Bank ties to its major individual source of resources, while

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Below: *Workers at a farm cooperative in Patzún, Guatemala, harvest wheat with machinery obtained through a national loan program administrated by the Ministry of Agriculture. The program was financed with a loan from the Bank for $2.5 million dollars.*



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Right: *A loan to Paraguay for $14.2 million dollars, approved in 1963, financed the construction of a 45,000 kw hydroelectric plant on the Acaray River.*

others advocated that it be in Latin America, in order to strengthen its regional character. The city of Caracas was officially proposed as the candidate by the Latin American advocates, and had been suggested by Venezuela in 1954, when Felipe Herrera was touring several countries of the region to drum up support for the blueprint for the Bank that Chile would present in Quitandinha. Only after intense negotiations was it decided that the Bank headquarters would be located in Washington, D.C..

According to the Agreement Establishing the Bank, all powers relating to the running of the Bank resided in the Board of Governors, which was made up of one governor and one alternate governor appointed by each member country. The powers of this body included the admission of new members and suspension of members in accordance with the provisions of the charter; the appointment of the President of the Bank; setting the amounts for the ordinary capital and the Fund for Special Operations, as well as the contributions that countries were to make to these funds; and approving financial statements and amendments to the Agreement Establishing the Bank. During the preliminary negotiations on the creation of the Bank, proposals were put forth for the Board of Governors to have the power to establish the operational policies of the Bank, but this attribution was not explicitly written into the charter, for it was felt that this was an implicit function, being that all powers of governance of the institution were vested in the Board. Furthermore, all specific matters of the Bank's financial and operational policy that were debated and proposed by the Board of Executive Directors always had to be submitted to the Board of Governors for approval. This body was obligated to meet one time per year in the capital city of one of the member countries of the Bank and, soon after its formation, adopted the practice of convening extraordinary meetings or creating general commissions on specific tasks.

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Below: *The National Cooperative of Milk Producers of Uruguay expanded their operations thanks to a $ 3.6 million loan from the IDB.*



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Right: *The first Bank loan targeted toward export financing was granted to the Mexican railroad industry for the production of rails.*

The day-to-day operations of the Bank were the responsibility of the Board of Executive Directors, the president, and an executive vice president who, in practice, was from the United States. The Board of Executive Directors had to meet on a permanent basis at Bank headquarters. It was made up of seven directors, six elected by predetermined groups of Latin American countries, and one appointed by the United States; the seven directors each served for a three-year term. In determining the composition of the Board, particular care was taken to ensure access of the less developed countries to a share of the voting power. Members of the first Board of Executive Directors representing groups of countries were Mario Oscar Mendivil of Argentina, Cleantho de Paiva Leite of Brazil, Ignacio Copete of Colombia, Alfonso Rochac of El Salvador, Lucien Hibbert of Haití, and Raúl Martínez de Ostos of Mexico. Robert Cutler represented the United States.

The wording of the Bank's charter seemed to imply that the executive vice president would perform most of the day-to-day management functions of the institution. In practice, however, the first person to serve in that capacity, T. Graydon Upton, a former banker and official of the U.S. Department of the Treasury, defined the position as ongoing collaboration with the president.

The president would chair the meetings of the Board of Executive Directors and would be chief of the Administration. From the very beginning, the Administration showed flexibility in its structure in order to be able to cope with the demands arising from the volume and nature of its operations. The Bank was established with various divisions and soon its institutional structure had six departments. This organizational model is still in place, although the number of departments has subsequently grown. The original six departments were Operations, Finance, Technical, Legal, Administrative and Secretariat. As a result of the close relationship the Bank was establishing with its member countries, country offices, called representations,

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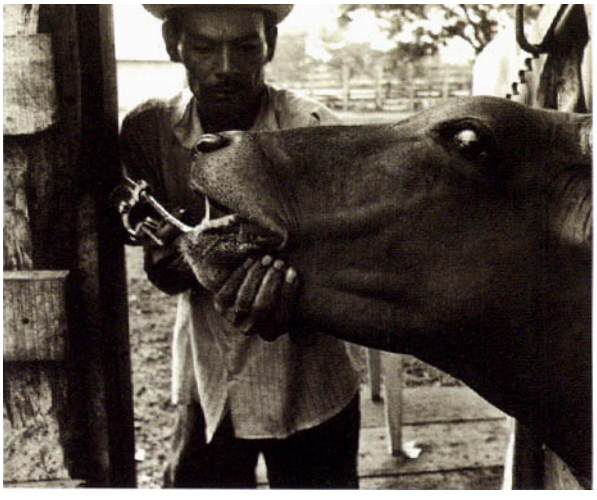
Charles T. Brannan

Loan Inspection and Oversight Fund

"One of the most successful operational, administrative and financial decisions that the IDB has made was to create the Loan Inspection and Oversight Fund. When the Fund was created in 1963, the prevailing opinion among international organizations and the governments of some countries was that this proposal was marred by serious shortcomings. I recall that our critics were none too few and were quite outspoken. History has proven that the creation and operation of the Fund was a complete success. Merging the Fund together with the existing operational, budgetary, financial and administrative processes at the IDB made it possible to strengthen operations at the country offices, improve loan management, and streamline disbursements. Additionally, it facilitated the creation of a team of Latin American and Caribbean professionals specialized in projects at a time when there was a huge void in the field and, therefore, a dire need for such specialists in the region."

Charles T. Brannan came to the IDB in July 1960. He retired in 1989 as Deputy Manager for Budget and Services.

were set up throughout the region.



It took only a year to put the main components of the institution's organizational structure into full swing. The problem of making the multilateral character of the institution compatible with its Latin American roots was solved. The problem of making possible a transparent and constructive collaboration between the largest shareholder and the borrowing member countries was also solved. All of this made possible a fluid formulation of policies and a good functioning of the operational structure of the Bank. These adjustments were facilitated by the institution's flexibility to adapt its work to the novel challenges it faced.

Resources of the Bank

The Bank was created with $1 billion in resources, of which $850 million was authorized for the ordinary capital and $150 million went to the Fund for Special Operations. Of the ordinary capital, $400 million was in contributions payable in cash over a period of three years. The balance was in subscriptions of callable capital that could serve as backing for the Bank to gain access to financial markets. U.S. contributions to the ordinary capital were to be made in dollars; contributions

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Opposite page below: *Loans granted by the Bank to Nicaragua in 1964 for $8.6 million funded animal health programs throughout the country.* ***Right:*** *Secretary of State for Foreign Affairs of Canada, Paul Martin, and Felipe Herrera sign the administration agreement of the Canadian Fund.*

from the borrowing countries were to be made in dollars as well as in their domestic currencies. By the end of 1970, the IDB had approved financing for a total of more than $4.1 billion. That volume would not have been possible without the strong support of all the member countries, particularly the United States.

During Felipe Herrera's term as president, the ordinary capital benefited from three increases or replenishments. The first increase was approved in 1964, for $1.3 billion, of which $75 million was payable in cash. The second replenishment occurred in 1968, for $1.005 billion, no part of which was payable in cash. The third increase took place in 1970 and was for $2 billion, with $400 million payable in cash. The authorized ordinary capital of the Bank had increased by means of these replenishments to a total of $5.155 billion, bringing the total amount of resources belonging to the institution to $8.980 billion.

The FSO was set up to service loan applications that absolutely required resources under concessional conditions, that is, loans granted under more favorable terms than conventional loans. Over the course of the Bank's first ten years, this type of operation became qualitatively very important for the less developed countries. At the meeting of the Board of Governors held in Panama in 1964, it was decided that future increases in soft resources would be carried out through the FSO window, in order to simplify the financial and operational structure of the IDB. The Bank was able to significantly increase the resources of the FSO by adding $73 million in 1964, $900 million after the meeting in Panama, and $1.2 billion in 1967. In 1970, an increase in FSO resources was authorized for $1.5 billion, which was to be contributed between 1971 and 1973. In 1970, Felipe Herrera officially commended the more developed countries for their willingness to allow their contributions to the FSO in local currency

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Below: *The first loan with resources from the Canadian Fund went to expanding and modernizing the port of Acajutla, El Salvador.*



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Right: *Efraim Gómez stores onions in a new locale financed with resources provided by the IDB through the National Bank of Costa Rica, which made it possible to grant loans to 500 farms that were damaged by the eruption of the Irazú Volcano.*

to be used for loans granted to other countries, particularly to the less developed countries.

In September 1960, in the midst of the efforts to organize the Bank, the United States entrusted the institution with the administration of the Social Progress Trust Fund, which originally consisted of $394 million and was expanded in February 1964 to $525 million. The resources of the Social Progress Trust Fund were channeled to the funding of rural development, housing, urban sanitation and higher education programs backed by the Alliance for Progress. The Bank made sure that those investments were part of an overall development plan and broader reform efforts in the beneficiary countries. These countries were also expected to mobilize a significant amount of local resources for the implementation of these projects.

The Bank's ability to generate additional resources to supplement the contributions of its members, particularly to bolster the ordinary capital, was a result of its robust financial health, its good operational performance and the excellent quality of its portfolio. All of these factors contributed to the high rating that its negotiable securities commanded in a very short time on the international markets. This, in turn, made it possible for the Bank to obtain resources under favorable terms in the form of bonds and direct loans.

During its first ten years, the Bank also received financial contributions from several developed nonmember countries through borrowing, parallel financing, sale of participation in loans and special funds entrusted to the Bank's administration. The largest of these funds was created by Canada. Most of the Bank's borrowing activities to build up its resources occurred between 1968 and 1970. All of those contributions set an important precedent for the eventual admission of nonregional countries into the Bank, which took place during the following decade and is one of the main topics of the next section of this book.

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Left: *Felipe Herrera (center left) and the President of Argentina, Arturo U. Illia (center), at the ceremony in Buenos Aires, Argentina, in August 1965, creating the Institute for the Integration of Latin America, known by its Spanish acronym INTAL.*

The original idea was for most of the IDB's debt to be traded on U.S. markets. However, by the end of the Bank's first 10 years of business, 48 percent of the total amount of resources taken in had indeed come from the U.S. market. The balance was made up as follows: 33 percent from Austria, Belgium, Germany, Italy, Japan, the Netherlands, Switzerland, Sweden, South Africa and the United Kingdom, and 19 percent from short-term bonds purchased by central banks in Latin America. Since the Bank obtained a substantial portion of its resources from international securities and banking markets and had to pay prevailing market interest rates, the decision was made to set the average annual interest rate for ordinary capital loans at 8 percent during the Bank's first 10 years. The Executive Board of Directors and the Board of Governors were forever debating and grappling with the issue of interest rates that the Bank had to pay to obtain its resources, and the demands and constraints that the relatively high cost of these resources placed on the Bank's own operations.

The effect of Bank operations was very important for the mobilization of internal resources from the member countries. The relationship of resource providers and borrowing countries in international development financing is much closer than that of lenders and debtors in common bank operations. The goals of the parties involved in international development go well beyond the mere transfer of external resources to make up for some shortfall in the economy, in this particular instance, to close trade and savings gaps that so afflicted economies at that time. Operations in international development are more geared toward generating a higher and sustained economic growth rate, which, additionally, may become self-financed. For this reason, in the early years of the Bank, international cooperation was considered, on the one hand, an essentially transitional exercise, and on the other hand, a useful tool for strengthening the mobilization of domestic resources in the

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Jerome I. Levinson

Borrowers Have Majority Voting

"Among international financial institutions, the IDB is unique in that its borrowing member countries hold the majority of its shares. According to the Bank's charter, decisions are made by a simple majority vote, unless otherwise specified. Theoretically, the borrowers could approve operations without the consent of the nonborrowers. But this power exists more in the realm of theory than in practice. In order for replenishment of resources to take effect, the participation of the nonborrowing countries is required. As a result, the IDB has made its most important decisions with a consensus of its membership. In political and psychological terms, Latin American majority ownership was important for the way the Bank was perceived in the countries of the region, including the English-speaking Caribbean. It also created a more balanced negotiating structure between member borrowing and nonborrowing countries than other international financial organizations had."

Jerome I. Levinson returned to the IDB as Manager of the Legal Department in 1977 and retired in 1990. He first came to the Bank in 1969.

recipient countries. This domestic effort leaves the most lasting imprints in the development process. It demands the formulation of policies that will make programs and projects succeed, thus generating a virtuous circle leading to sustained development. Furthermore, only a vigorous domestic effort, in financial and technical terms, makes it possible for borrowing countries to acquire what later came to be called a sense of ownership of their projects, another essential condition for the sustainability of development. It is interesting to note that, in the 10-year period beginning in 1960, internal savings of Latin American countries financed 92 percent of their total investment. That translates into a higher level of self-sufficiency and a lower amount of external contributions than in any other developing region of the world.

In its first decade of operations, for every dollar lent by the Bank, almost two dollars of additional resources contributed by the borrowing countries were mobilized, in addition to contributions obtained from other sources of financing. This proved that the provision of the Bank's charter stating that the IDB must "cooperate with the member countries to guide their development policy toward better utilization of their resources" was, indeed, implemented. The Bank, however, was flexible in applying this policy to the contribution of local counterpart funding to projects with regard to the particular sector or country involved. The Bank generally financed a higher percentage of project cost with the less developed countries and with investments in the social sectors. Concessional resources, in turn, became very important in covering the local costs of the loans provided by the institution.

The Bank adopted special policies to promote domestic savings and investment by incorporating into its lending agreements measures that strengthened the financial situation of the

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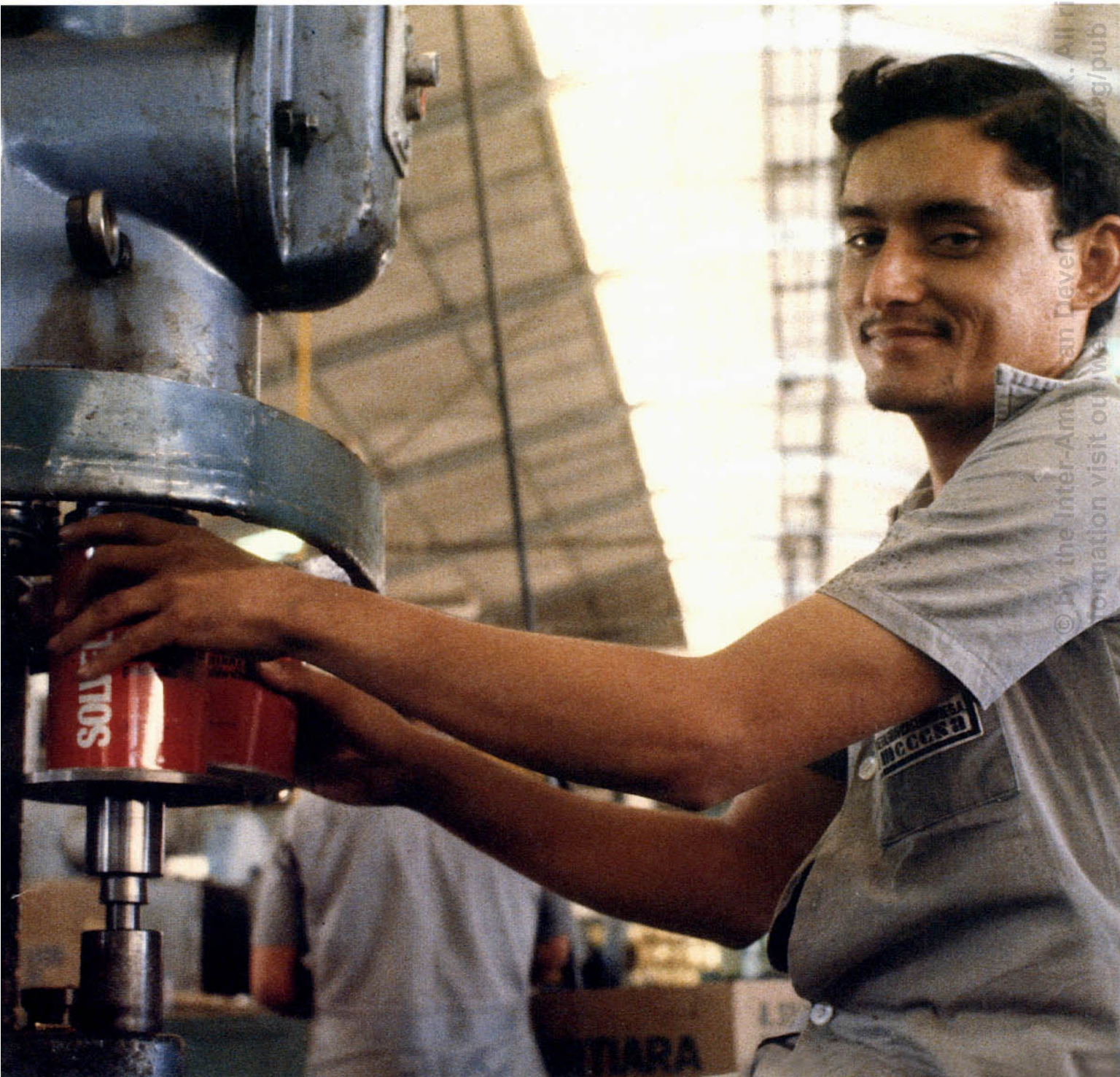
1 9 6 6

Below: *Container factory Mecasa, in Fortaleza, received funds from the Industrial Credit Program to Northeast Brazil, financed in 1966 with an IDB loan of $10 million.*



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Right: *The British Ambassador to the United States, Sir Patrick Dean, signs the administration agreement for the U.K. Fund with Felipe Herrera. The Fund, created in 1966, was the first of its kind established by a non member country.*

executing agencies and that brought about an overhaul of the rates or prices charged by these agencies for their services. It also provided support, in the form of loans and technical assistance, to national development institutions; industrial, agricultural and mining development banks; credit unions; marketing and housing cooperatives; and other financial institutions.

Bank Policies and Operations

During its first decade of operations, the IDB promoted development in the region by providing or helping to mobilize financial resources for the promotion of specific programs and projects. The IDB also formulated relevant and effective policies that were particularly successful at serving countless areas and sectors of Latin American societies and bringing about integration projects between countries. The priorities of the Bank during its first 10 years, and its resulting portfolio, were not the products of a mandate written into the Bank's charter, nor were they the product of set or static policy formulations. Rather, they were the fruit of a development model based on the Bank's close ties to the governments of the region and on a keen ability to see things for how they really were in each country. The IDB did not simply focus its efforts on the sectors where it had invested the most money, because qualitative factors also figured into the equation for identifying priority sectors.

As a result of the strong spirit of support and cooperation between member countries, the Bank was always deeply concerned about achieving a balance in the level of development throughout the countries and regions of Latin America and the Caribbean.

This concern led to the adoption of a deliberate policy of paying priority attention to less

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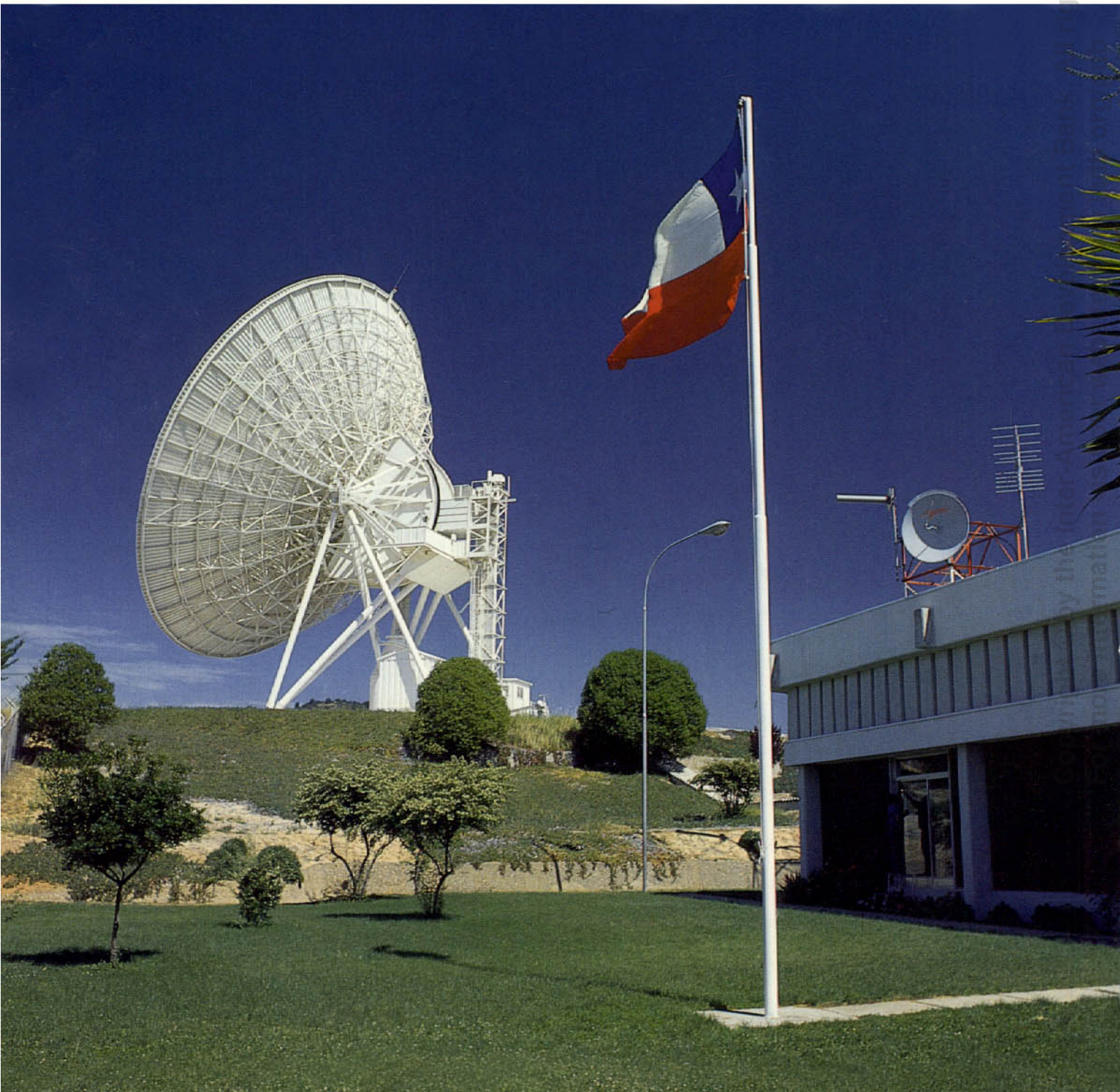
1 9 6 7

Below: *The IDB financed a satellite telecommunications station in Longovillo, Chile. A study of telecommunications systems of the region supported by the Bank in 1966 recommended a modernization program to link national telecommunication systems with satellites that had recently been launched into orbit.*



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Right: *This carpet-weaving enterprise in Santiago benefited from an industrial credit program financed by a Bank loan to Chile in 1966.*

developed countries, as well as less developed areas within a single nation. This policy was expressed in the relative volume of resources as well as in the lending terms and conditions that were made available to less developed countries or regions. Over the course of its first decade, the Bank approved average per capita financing of more than $15 per person for Latin America as a whole; for the less developed countries of Central America, the Caribbean and South America, per capita financing was approximately two times greater. The terms of financing for the less developed or more vulnerable countries or areas, mostly provided with soft resources, were much more favorable not only in terms of interest rates, amortization and grace periods, but also in terms of requirements for local counterpart funds. The Bank was concerned about balance between the types of operations it conducted, especially between economic development projects and projects targeting social progress. This last type of project, in particular, was often funded by soft loans, and the growing availability of these loans enabled the Bank to make a significant effort to improve social conditions in the region.

By the end of its first decade, the institution's portfolio consisted of more than 600 programs and projects for which $4.102 billion had been authorized, and whose total cost exceeded $11.4 billion. Of that total, 38 percent was authorized with ordinary capital resources; 49 percent was charged to the Fund for Special Operations; 12 percent came from the Social Progress Trust Fund, and 1 percent came from funds that the Bank administered for nonmember countries, such as Canada, the United Kingdom, Sweden and the Vatican. More than 60 percent of lending operations were approved under concessional conditions.

During that period, disbursements exceeded $2.150 billion, an amount that represented more than 50 percent of the total amount of loans approved.

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Beatriz Harretche

A Marriage of Convenience

"In July 1967, Felipe Herrera had the courage to appoint me as Director of the Division of Technical Assistance of the Bank. I say courage because the appointment made me the first woman executive at the institution. Felipe forgot one detail, which was to consult with the manager of the Technical Department, Francisco Aquino. When I showed up to take over my responsibilities, his reaction was hostile and humorous at the same time. He said to me: 'Ok, ma'am, as you know, we have been married without anyone consulting with us first. What do you say to making this marriage of convenience a useful alliance?' And so it was. Those were the days!"

Beatriz Harretche came to the Bank in 1964. She retired as Deputy Manager of the Department of Economic and Social Development in 1983. She is an advisor for projects to benefit vulnerable social groups and President of the Conciliation Committee of the Bank.

By the end of the decade, increased technical and operational capacity and more effective technical preinvestment and assistance led the Bank to have a pipeline of approximately $1.8 billion in operations. This figure reflects the increased capacity of the borrowing countries for investment programs and project design.

The breakdown of the Bank's portfolio at the end of that period can be viewed in several ways. At that time, 45 percent of all committed resources were targeted toward productive activities such as agriculture, which benefited with loans totaling $1.103 billion, or 27 percent of the portfolio; and industry (including export financing), mining and tourism, which together received $717 million, or 18 percent of the portfolio. Physical infrastructure - especially projects in transportation, port development, telecommunications, and electric power - received loans totaling $1.204 billion, or 29 percent of the portfolio. Urban development benefited from loans for $373 million, or 9 percent of the portfolio, and water and sanitation $476 million, or 12 percent of the portfolio. Education received $146 million, or 4 percent, and health received $11 million. Preinvestment projects benefited from $49 million, amounting to 1 percent of the portfolio.

The Bank's lending portfolio shows a high percentage of operations in the social sectors. This figure is high because it includes not only housing and urban sanitation projects, but also most Bank investments in agriculture and rural development and education. From the standpoint of the individual development of the countries, all of the above mentioned social sectors appear closely linked to each other. Progress in each sector affected, and was affected by, the progress achieved in the others. Likewise, constraints and obstacles arising in any one of these sectors frequently produced a ripple effect on the rest of the economy; consequently, the Bank had to rethink its vision to be

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Below: *Sir Ellis Clarke, Ambassador of Trinidad and Tobago to the United States, with Felipe Herrera. The Ambassador signs the accession agreement for his country to join the Bank in 1967, making it the 21st member of the IDB.*

increasingly more in tune with the development needs of the region.

The agricultural sector had an important role as a source of employment and in the overall health of the economies of Latin America. However, the sector was characterized by backwardness and poverty. The Bank set out to contribute to agricultural modernization and the improvement of the standard of living of the rural population in the region. Loans for the agricultural sector of Latin America represented one-half of total external financing provided to the region in the first decade of the Bank's existence. This effort encompassed projects as diverse as irrigation, development of peasant settlements, diversification of monoculture, loans for farming and raising livestock, electrification and mechanization of agriculture, product marketing, and financing for extension and research services. Loans for rural electrification, access roads, housing and drinking water in rural areas complemented these activities, which together contributed to improving and bringing into production more than 3.6 million hectares of land. Under a type of financing arrangement called global loans, which were granted to agricultural development institutions, 815,000 individual loans eventually benefited more than seven million people involved in small and medium-scale farming in the region.

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1 9 6 8

Below: *A Chilean rancher vaccinates his cattle against hoof and mouth disease as part of an animal health program backed by an IDB loan for $2.3 million.*



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Right: *An IDB loan for $8.3 million to Uruguay financed the modernization of the port of Montevideo.*

When the IDB was created, one of its most novel features was written into the charter agreement. This was the Bank's authorization to make direct loans to private enterprises both with and without government guarantees as part of its mandate to support productive sectors with a variety of instruments. Throughout the first decade of the institution, direct loans without government guarantee were adversely affected by the complex circumstances that prevailed during the period. One major problem at the time was difficulty in obtaining foreign exchange for repayment of loans, which compelled the Bank to temporarily abandon this type of operation, only to reinstate it under new policy guidelines during the 1990's. Direct loans to the private sector during the Bank's first 10 years amounted to $157 million, $70.4 million of which was granted without government guarantees. Support to the private sector also relied on another innovative financing mechanism, global credit operations, whereby the IDB lent resources to financial institutions, which, in turn, channeled the funds to individual loans in different sectors. This valuable instrument, which was of particular benefit to small and medium-sized businesses, is still in use at the present time. By the end of the IDB's first decade, global loans had totaled $845 million. These loans were granted to national development agencies that contributed, in turn, to the financing of thousands of small and medium-scale projects.

During the course of its first 10 years of activity, the Bank granted a total of $627 million in loans to the industrial and mining sector to contribute to the construction or expansion of factories and mining facilities. The Bank provided direct financing to 50 large businesses and supported directly or through global loans the expansion or creation of almost 4,500 private manufacturing companies. The large beneficiary enterprises included oil refining, petrochemicals, fertilizer, textiles, steel, paper and pulp, dairy products, and meat processing and packing, among others. The Bank also promoted

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Enrique Pérez Cisneros

Felipe Herrera Creates a Culture of Devotion to the IDB

"Beginning with the first meetings he held with the miniscule staff of the Bank in 1960, Felipe Herrera dedicated himself with true passion to creating a 'culture of devotion' or wholehearted commitment to the institution. This meant that officials and employees came to feel that it was a privilege to work at the Bank and contribute to the economic development and social progress of Latin America. This is one of the many memories that I keep of Felipe Herrera, who enjoyed meeting with the Bank staff and staying in touch with each and every one of its members. He knew them by first and last name, he also knew if they had a family or not, and he never failed to inquire about the families of staff members. His memory was prodigious."

Enrique Pérez-Cisneros came to the Bank in August 1960. He was the first Cuban to do so. When he retired at the end of 1981, he was Secretary of the Bank.

the expansion of manufacturing in the borrowing countries by providing financing for the export of capital goods within the region.



In the physical infrastructure sector, 50 percent of the loans authorized by the Bank during this period were for electric power generation, transmission and distribution projects, representing an investment of some $2.3 billion, substantially increasing the supply of electric power in the region. Another 49 percent of the infrastructure loans were targeted toward road projects. During its first 10 years, many of the IDB's operations focused on integration projects, such as improvement of highway connections between countries (beginning with a highway between Paraguay and the Brazilian port of Paraguaná), border integration, regional economic complementation, and development magnet areas. An outstanding example of these programs was the River Plate Basin project between Uruguay and Argentina. At the end of the Bank's first decade, more than $500 million had been allocated to these projects. As of 1967, the Bank began to act either directly or as an executing agent with other sources of financing in an effort to complete each national leg of an Inter-American Telecommunications Network.

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Opposite page: *President Lyndon B. Johnson hands Felipe Herrera the pen he used to sign the bill that authorized the United States to subscribe its shares of capital stock for $412 million in 1968 as part of a $1 billion increase in the Bank's authorized capital.* **Below:** *In October 1968, Mexican Secretary of the Treasury and Credit Antonio Ortiz Mena, future President of the IDB, together with Felipe Herrera, signs the agreement for a loan of $4.9 million earmarked for Mexican export financing.*



At a meeting in Punta del Este in 1967, the heads of state of the hemisphere made a joint statement:

"Economic integration of Latin America demands a vigorous and sustained effort to complete and modernize the physical infrastructure of the region. It is necessary to build a network of land connections and improve transportation systems of all types in order to facilitate the circulation of people and goods throughout the continent; to establish a suitable and efficient system of telecommunications; to install interconnected power systems; to jointly develop international watersheds, border regions and economic zones that encompass the territory of two or more countries."

The Bank, in fact, had gotten a head start on that mandate. After the meeting in Punta del Este, it continued to be its main executor.

From the beginning of its operations, the Bank focused on financing housing and urban development, granting this sector a total of $374 million during the institution's first decade. Latin America has traditionally been a region characterized by so called accelerated "urbanization without industrialization," which means that the rate of productive employment creation and the rate of growth of basic services and housing are unable to keep pace with urban population growth. During

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1969

Below: *A rural settlement program in Valle del Cauca, Colombia, was the first operation financed by the Bank with resources from the Populorum Progressio Fund for agrarian reform created by the Vatican in 1969.*



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***Right**: A national agricultural credit program in Argentina benefited from $31 million in Bank loans.* ***Below:** A metal furniture factory received a $4 million loan through a global industrial credit program granted in 1969 to Paraguay.*



its inaugural decade, the Bank granted loans to this sector that contributed to the construction of more than 413,000 housing units. Aware of the lack of available resources for housing construction start-ups to satisfy the unlimited demand for housing in the region, the Bank had no choice but to recognize its limited impact on the sector. Nevertheless, it made an effort to play a catalytic role, both in the mobilization of local counterpart funds as well as in the realm of institutional development. During its first 10 years, the Bank contributed to the development of 14 national housing agencies and created another four of these agencies, in addition to playing a decisive role in the development of savings and loan systems for the sector. Despite the limited resources it had available for housing, the IDB made a notable contribution to integrated urban development and to the design of strategies for this sector.

The IDB always responded swiftly to the natural disasters that beset the region. Under Felipe Herrera's presidency, for example, a loan of $35 million for housing, urban reconstruction and other basic necessities was approved to alleviate a critical situation that developed in Peru. In May of 1970, Peru suffered one of the worst calamities ever to hit any nation in the hemisphere: the earthquake

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César Atala

Globalization Demands Democracy

"During the first years of the Bank, development financing in Latin America and the Caribbean involved a sort of religious devotion, a sense of duty toward the realization of the dream of [Latin American] integration that Bolivar and the other founding fathers of Independence had. Integration today is more of a matter of practical considerations such as tariffs and commerce; but at that time, it was more of a dream, in the political sense of the word. Today, with the whole world undergoing globalization, integration is inevitable. Nonetheless, one vitally important issue must be taken into consideration: democracy. Globalization and market economies can work properly only under democratic regimes that uphold respect for the rule of law. Otherwise, they easily turn into open or masked dictatorships, benefiting very few. The Bank, with its considerable influence, must continue to aid in strengthening a democratic form of government in each and every country of Latin America and the Caribbean."

César Atala joined the Bank in 1964. He was Bank Representative in the English-speaking Caribbean and Executive Director for Peru and Colombia. He retired in 1984.

that devastated a huge expanse of the country, killing 70,000 people and leaving hundreds of thousands homeless.

During its first decade, the Bank greatly contributed to satisfying the social needs of the borrowing countries by allocating $476 million for the construction of potable water and sewerage services. These resources made it possible to build or expand 3,839 drinking water systems and 367 sewerage systems that benefited more than 4,000 cities and rural communities.



Pope Paul VI and Felipe Herrera at the Vatican in March 1969, after signing the agreement for the Populorum Progressio Fund created by the Holy See.

Human Resources and Institutional Development

Another major concern of the Bank was to enhance the technical capabilities of the countries of the region and to develop human resources to create a skilled workforce. The Bank knew that economic development was dependent not only on physical construction or reconstruction - as had been the case in Europe and Japan after World War II - or on the sheer magnitude of investments, but also on human development and the quality of project preparation and execution. Hence, the Bank

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Charles A.T. Skeete

Eric Williams led the English-speaking Caribbean into Membership at the OAS and the IDB

"First Jamaica and then Trinidad and Tobago gained their formal independence in 1962, one year after the collapse of the Federation of the West Indies, the signing of the Charter of Punta del Este, and the first year of IDB lending. Both Barbados and Guyana achieved their independence in 1966, followed by the Bahamas in 1973. In short, the historical commitment of the United States to make financial contributions to the development of Latin America came just one to two years before the start of the process of Great Britain's detachment from the responsibility for foreign relations and the general development of its former colonies in the Caribbean. Accession of the former British Caribbean into the Inter-American System concomitantly with the achievement of independence of those countries was, to a great extent, the result of the vision and leadership of Dr. Eric Williams, the Prime Minister of Trinidad and Tobago at the time. Even though his country was not the first one of the British colonies in the Caribbean to gain independence, it was the first to apply for admission to the OAS and then to the IDB. Perhaps Dr. Williams came to understand the importance of the English-speaking Caribbean forging hemispheric ties as a result of his experience as a member of the Caribbean Commission, headquartered in Puerto Rico. One of the Bank's key activities that is perhaps not fully appreciated is the support it lends to the institutional development of Latin America and the Caribbean, which made it possible for [the Bank] to assist Caribbean institutions that were in serious danger, such as the Caribbean Development Bank and the University of the West Indies, even before it became familiar with the project financing modalities in the subregion."

Charles A. T. Skeete was Executive Director and Alternate for the English-speaking Caribbean countries and Venezuela between 1975 and 1978. He is a Senior Advisor in the Department of Strategic Planning and Budget.

was a pioneer in supporting the development of education as well as science and technology. Its efforts mainly focused on universities and colleges - which earned it the epithet of "the bank of universities" - where scientists, professionals and technicians from the countries of the region came to further or enrich their education. These efforts did not stop simply at supplying resources for physical expansion of educational and training facilities. They also promoted the modernization of the organizational structure of universities and the institutionalization of the scientific research they conducted. During the early years of the Bank, very few universities of the day failed to benefit from these efforts.

As part of the broader institutional development effort described hereafter, the Bank also supported the creation of national science and technology councils, technological institutes and institutions and policies designed to strengthen the Latin American countries' position in the transfer of technology from outside the region.

The IDB supported training programs and notably boosted the development of many national and regional institutions such as the Brazilian Institute of Municipal Administration (IBAM), the American Association of Port Authorities (AAPA), the Latin American Center for Demography (CELADE), and the Inter-American Institute of Agricultural Sciences (IICA). The Bank complemented this effort by providing financing for job training at factory, power plant, communications office and farm level.

Another major concern of the Bank was to promote the countries' own institutional development in order to strengthen their respective capacity to formulate development policies, prepare investment projects and administer and execute those investments on their own. This concern

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Below: *The Trans-Andean Highway, which links Valparaíso, Chile, to the Argentine border at Las Cuevas, Mendoza. The road, opened in 1970, was financed in 1966 with a $15 million loan from the IDB.*



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Norbert Max-Neef

Creative Solutions for the "Education Bank"

"Felipe Herrera called the IDB the 'education bank,' as the institution was a pioneer in this sector. Among other projects, I particularly recall the Technological and Higher Education Institute in Monterrey, Mexico, whose brilliant director, Fernando García Roel, convinced us near the end of our first decade to grant a $1 million loan to improve and expand the School of Engineering, the technical library and other things. Since this was a private enterprise, we had to negotiate, among other things, a guarantee. Ferruccio Accame, Chief of the Education Unit, proposed that García Roel look into the possibility of obtaining backing from some of his industrial partners. As a result, three large industrial companies in Monterrey, including the famous Cuauhtémoc Breweries, would become guarantors. There were no objections and the loan was approved by the Board of Executive Directors. Years later, in 1975, when I was travelling by land to El Salvador as Representative of the Bank, I made a brief stop in Monterrey and was able to see for myself the huge impact that our loan had had on that magnificent educational institute."

Norbert Max-Neef came to the Bank in 1962 and served as Division Chief and Representative in El Salvador. He retired in 1981.

was very much reflected in the prerequisites attached to the first loan disbursements that were authorized by the Bank and in many other provisions written into loan agreements, as well as in the strong intellectual and financial backing for the creation and strengthening of specialized and sector development institutions. The IDB backed the establishment of national planning offices; development banks; savings and loan systems; industrial, agricultural and mining development banks and institutions; irrigation planning agencies; agricultural research institutions; and, in general, consolidation of an adequate institutional framework in all facets of development. The main instrument used by the Bank in these efforts was technical cooperation financing, one of the most innovative functions of the IDB. These operations, which surpassed a total of $150 million during the Bank's first decade, were conducted under both reimbursable and nonreimbursable arrangements. Nonreimbursable technical cooperation, which exceeded $30 million during this period, would generally be part of loan projects and was aimed at improving the design and execution quality of the projects. The less developed countries received a higher proportion of nonreimbursable cooperation than did the more developed countries.

Integration

The Bank played a crucial role in regional and subregional economic integration. These processes came into being at practically the same time as the IDB. In 1960, five Central American countries signed the General Treaty of Central American Economic Integration - the Treaty of Managua - in order to form a common market. That same year, the Treaty of Montevideo between Mexico and the South American countries was signed to create the Latin American Free Trade Association.

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Román Mayorga

Education

"In 1982, Felipe Herrera paid us a visit at the former Education Unit of the Bank. We told him we were having trouble making new loans to universities and science and techno. ogy organizations because some people thought that the Bank should only serve the needs of basic level education. The answer he gave us was: 'That's dumb! The levels of education are like the legs of a three-legged stool and, in Latin America, we should not feel satisfied with a lame stool. Furthermore, if there's any level we should pay particular attention to, it is higher education because the world of the future shall be a world of knowledge and that's where we are most lame.'"

Román Mayorga is a Senior Specialist in Education, Science and Technology. He came to the Bank in 1981.

In 1963, the IDB approved its first loan to a subregional development bank, the Central American Bank for Economic Integration, for $6 million. As its first decade of operations came to a close, the Bank had funneled $514 million to integration programs. The IDB had also helped to bring forth a rich process of debate that shed light on technical and other aspects relating to both the scope of integration and the different forms that it could take. These efforts crystallized in research papers and publications.

In 1965, Chilean President Eduardo Frei asked José Antonio Mayobre, Raúl Prebisch, Carlos Sanz de Santa María and Felipe Herrera for a report on this subject. They produced the Report of the Four, which would have a profound effect on ideas and decisions that would be adopted subsequently as well as on the resolutions adopted at the Meeting of Presidents in Punta del Este in 1967. Furthermore, in 1965, with the backing and support of the member governments, the IDB created the Institute for the Integration of Latin America (INTAL), based in Buenos Aires, to conduct research studies and provide technical cooperation and training in the field of integration. The following year, the Bank established the Preinvestment Fund for the Integration of Latin America, in keeping with the mandate of the Board of Governors that had gathered in Mexico that same year. Support for integration and free trade agreements continued to be one of the fundamental tasks of the institution.

Hopes and Challenges

By the end of the IDB's first 10 years, in addition to achieving institutional and operational consolidation and making great strides in improving relations with its member countries, the Bank had developed a clear vision of the tasks and challenges ahead.

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The development model followed by Latin America since 1930 was reaching the limits of its potential. Around 1969, experts began to warn about the exhaustion of import substitution industrialization. Furthermore, during the two previous decades, the industrial nations had lifted restraints on international commerce, thus paving the way for the emergence of a new export-based economic model. This model was adopted in the 1970s by several Asian countries. Meanwhile, in Latin America and the Caribbean, imbalances in the current account of the balance of payments became sharper as a result of the import substitution strategy. This forced the Bank to consider stepping out of its role as a funding agency for specific projects, and preparing to add a greater number of large loans to its portfolio that would also indirectly contribute to the alleviation of the external debt payment problems of the borrowing countries.

This would require a change in operational policies and loan application procedures and, therefore, the entire internal workings of the institution. It also implied the challenge of transcending the role of provider of external resources for specific projects and trying little known mechanisms of financial engineering in which the Bank was to be the coordinator for other sources of funding. This new role of the IDB gave rise to several new practices, such as negotiating cofinancing arrangements for projects. This new role also entailed greater access to a wider variety of international financial markets, a requirement that fit right in with the restructuring and expansion that was taking place in these markets as a result of far-reaching changes taking place in the world economy. In light of this complex scenario, it became apparent that it was time to expand the Bank's membership.

Moreover, the political landscape was changing. U.S. President Richard M. Nixon viewed cooperation policies to be less effective as an instrument of development than the removal of barriers

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Below: *Felipe Herrera is honored at the headquarters of the Organization of American States after resigning his position as President of the IDB in October of 1970.*



to international trade. Important changes were taking place in the political make-up of the region. In Chile, socialist Salvador Allende had won the presidency; his longstanding friendship and affinity with Felipe Herrera moved the Bank's president to express his moral support for the newly elected Chilean chief executive. In the context of the cold war, Allende's new government could spell conflict with the United States. It was these circumstances and Felipe Herrera's expressed personal desire to return to work in his native land, especially at the university where he had been a professor, that led the IDB's president to tender his resignation. In his memoirs, Herrera stated that he felt that he had devoted most of his life to the integration of Latin America and to changes in its social structures

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Jorge Ferraris

Swimming Lessons

"Introducing the environmental dimension into projects took years of work and persuasion. This anecdote gives an idea of where we were coming from and may be an inspiration to people who have continued to pursue the task. Thirty years ago, together with other officials, I was negotiating a loan to build a hydroelectric dam. Our counterpart was a national delegation headed by the president of a state-owned power utility company. The dam was located on an almost inaccessible site, but the formation of the reservoir would adversely affect the inhabitants of the area who had appropriated small areas of land for subsistence agriculture. Our hydraulic engineer, who had conducted the analysis of the project, did not find any reference to the environmental impact and, less so, to any measure designed to relocate the peasant farmers. We offered technical cooperation to complete the studies with an environmental impact assessment. It occurred to me to ask the chief of the delegation what they were planning to do with the displaced families. This person, who had reluctantly accepted the conducting of 'further studies,' responded to my question this way: 'Okay, we'll give those people swimming lessons...'"

Jorge Ferraris came to the Bank in 1966. He retired in 1989 as Manager of the Department of Project Analysis.

for the purpose of attaining greater well being and justice in the region. He said that he had been away from Chile for too long and wished to return.

At an extraordinary meeting of the IDB's Board of Governors, convened in Washington, D.C. on November 27, 1970, Herrera's indeclinable resignation was accepted and took effect as of March 1, 1971. At the time, the Board felt that Herrera's outstanding performance in his position at the IDB during both its creation and first phase of life had turned the institution into "the multilateral financial and technical instrument of the greatest importance to the promotion of the individual and collective development of its member countries," and made it possible for the Bank to bring together the common efforts of many Latin American leaders through a veritable bank of ideas for the development of the region.

***Luciano Tomassini**, General Director of the Felipe Herrera Foundation, is a Professor at the University of Chile and Executive Secretary of its Center for the Analysis of Public Policy. He became an IDB official in 1965 and Assistant to the President of the Bank from 1976 to 1978. He has a master's degree in political science from Georgetown University. He is author or editor of 12 books on international relations and public policy.*

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COMMITTED TO SOLIDARITY



The ONCE Foundation for Latin America (FOAL) and Banco Interamericano de Desarrollo, hand-in-hand on a joint social project.

The ONCE Foundation for Latin America (FOAL) and Banco Interamericano de Desarrollo (Inter-American Development Bank) have signed a co-operation agreement for the co-ordination, planning and execution of professional training and aid programmes for disabled institutions in Latin America and the Caribbean.

A healthy investment for all: the social and labour integration of all disabled persons.

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ONCE

www.once.es • e-mail: foal@once.es

ONCE: COMMITMENT TO SERVE AND FURTHER SOLIDARITY

The raison d'être of the Spanish National Organisation of the Blind is to provide services for its blind members, together with its decisive solidarity towards other disabled groups, this commitment to serve and further solidarity having been renewed on a daily basis for 62 years now.

With the passing of time, this solidarity has progressively been extended to include other blind persons and organisations around the world. This has been particularly true through direct action in the less privileged countries and, indirectly, through its presence in, and support of, international institutions that bring together the blind and, more generally, disabled persons.

In Spain, the ONCE strives actively to achieve the full integration of its members in society at large.

These efforts are especially directed towards ensuring stable employment for the blind, focusing on their professional preparation and training to enable them to carry out their work efficiently, as well as on the development and promotion of new technologies that contribute towards achieving this goal.
For many years now, the fruits of this work have been evident in the figures that show that the ONCE is one of the leading generators of employment in Spain.

The ONCE itself employs 27,500 people and the ONCE Foundation, its expression of solidarity towards the other disabled groups, has contributed to the creation of 24,000 jobs through its own, outside and joint projects. And the commitment goes on with, if possible, even greater strength and enthusiasm.

The concession from the Spanish state to run a lottery, the famous ONCE 'coupon', has provided the means for disabled persons to demonstrate that they have the know-how and are capable of doing things well. The added value attached to this product over the years by so many people, the way it has united the associative disabled movement and the firm support of the whole of Spanish society to the ONCE's daily commitment are all plus points that merit attentive reflection and, indeed, they form the basis of its intrinsic solidarity vocation.

This solidarity has been continuously exercised in Latin America through FOAL for the past 15 years and clearly reflects the active commitment of the Spanish blind population to apply its enthusiasm and experience to the benefit of all those individuals and institutions who are involved in the transformation process that will favour their social integration.



Fundación ONCE para
AMÉRICA LATINA
(FOAL)

"...se hace camino al andar"
"...you make your way as you go. "

An "interview*" with Felipe Herrera

How would you assess the context of the IDB's growth during its early period?

We cannot forget that 1960 marked the start of a decade of hopeful expectations throughout the world.

This spirit of reform was infused with dreams of improvements for the masses and financial and technical cooperation between nations was extolled as the most effective tool to overcome underdevelopment. This is why the UN would dub the following 10-year period as a "decade of development."

(Speech at the XI Meeting of the Board of Governors, Punta del Este, Uruguay, April 1970)

Did changes also take place throughout the region and in the Inter-American System?

I was referring to the region when I spoke of a period of hope. We recall quite well that, in August 1961, a new regional cooperation policy designed to speed up economic and social development in Latin America was implemented and enshrined in the Charter of Punta del Este.

Furthermore, we recall that, in 1967, at Punta del Este as well, in addition to stressing the guiding principles of that document, the heads of state of the hemisphere made a commitment to take far-reaching and politically significant action to consolidate the integration of Latin America. By assigning additional tasks to the IDB, those two meetings added several new dimensions to the institution.

(Speech at the XI Meeting of the Board of Governors, Punta del Este, April 1970)

*This "interview" is based on extracts from speeches given by Felipe Herrera and his memoirs.

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What stands out in your mind with regard to how the countries of the region responded to those changes?

It is plain to see that not as much was accomplished as was hoped for in the beginning, being that the economic and technological gap between the underdeveloped countries and the richest countries of the world continued to widen at a steady pace. Over the course of those ten years, this first group of countries, however, became more pragmatic and realistic. Not only were the underdeveloped countries able to get a better feeling for the difficulties and obstacles that they were up against in their endeavors to improve their lot, but, in a certain way, they appeared to be more skeptical about the validity of some development models. What emerged, as a result of this, was a desire to conduct self-criticism and in-depth analysis of reality.

(Speech at the XI Meeting of the Board of Governors, Punta del Este, Uruguay, April 1970)

How did the institution respond to these challenges?

As is often the case with the greatest innovations, practice comes before theory. When I look back on those 11 years, I think that, no matter how risky that was, it turned out to be healthy. It was risky because, in doing our job, we were questioning the entire philosophy that had been conceived in the developed countries, without really having a clearly articulated alternative model of our own. Moreover, I feel that it was healthy because we were able to take our own action without necessarily having to make it conform to preestablished molds. That forced the entire Bank staff to have a greater sense of responsibility in the face of the indisputable fact that we were heading down paths that, prior to that time, truly had never been trodden. So this is why Antonio Machado's statement rang so true for us: "Caminante, no hay camino; se hace camino al andar" ("Wayfarer, there is no way, you make your way as you go").

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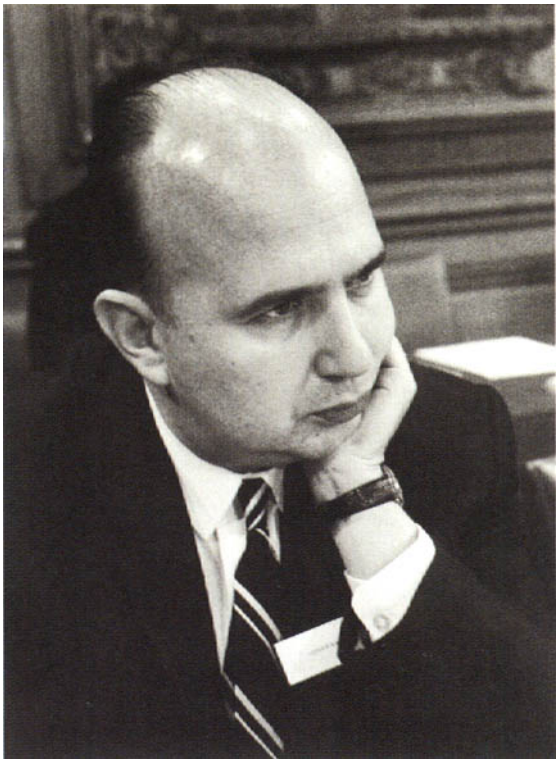
(Farewell speech on the occasion of leaving the presidency of the IDB, at the Extraordinary Meeting of the Board of Governors, Buenos Aires, March 1, 1971)

Within that pragmatic spirit, what was the Bank's view regarding external financial cooperation?

We noticed several different circumstances that planted doubts in our minds about the effectiveness of the traditional way in which external financial cooperation was extended and implemented. These factors included growing pressure on available resources in the leading capital exporting countries as a result of domestic problems, a changing political situation throughout the world, and a growing wave of nationalism among underdeveloped countries. It was also recognized that foreign aid was often viewed through a distorted lens, as a function of the foreign policy of



the industrial countries or as a mechanism to promote their capital goods and technology exports. Another important corollary of this analysis is acceptance that external cooperation must be fundamentally linked to the goals that the recipient

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country has set for itself within its economic and social development process, and must be based, as much as possible, on its capacity to design its own development plan or "blueprint for development," and to mobilize local resources required to carry out the plan.

(Speech at the XI Meeting of the Board of Governors, Punta del Este, Uruguay, April 1970)

What were the IDB's objectives with regard to local resources?

One of the main reasons for creation of the IDB was because there was a need to increase the low rate of regional capital accumulation by transferring and adding external funds from public and private sources. The Bank, however, became fully aware that the external cooperation it provided to its members served a complementary and catalytic purpose. That is why one of the Bank's most persistent efforts has been to focus the attention of member country governments and other international agencies on the critical sectors of development, where "seed capital" would be most likely to generate a self-sustaining stream of investments.

(Speech given when leaving the presidency of the IDB)

How did the Bank contribute to expanding the domestic resource mobilization capacity of its member countries?

The Bank had a significant influence on capital accumulation throughout the continent. A substantial part of the process was carried out with resources generated by the efforts of our own people and by the mechanisms that guide the productive efforts of our communities. Nevertheless, independently of a mechanical quantification of our direct or even indirect contribution to the

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progress of our countries, we are having an influence by our presence and our technical efforts to build societies that must learn to adapt within increasingly shorter periods of time to the contradictions that are so much a part of the contemporary world, through our technical cooperation and dissemination of ideas.

(Speech at the XI Meeting of the Board of Governors, Punta del Este, Uruguay, April 1970)

The Bank of the first decade is remembered as a great creator of institutions. How would you assess that effort?

One major characteristic of our institution during that period was that it was a great promoter of institutional development, even though that duty was not expressly set forth in our charter agreement. Institutional support activities carried out by the Bank drew their inspiration from the conviction that improvement of technical and administrative capacity of the agencies whose job it is to guide and direct development efforts is as important as channeling financial resources to member countries. For this reason, the Bank backed the establishment of national planning offices and national preinvestment funds, and the strengthening of development financing institutions, universities and science and technology institutions.

(Speech given when leaving the presidency of the IDB)

Why is integration important?

The Latin American nation is not a fictitious entity. It underlies the roots of our modern states; it persists as a vital force and profound reality. It bears the mark of three centuries of Iberian domination on its age-old indigenous base, diverse in its forms and manners, but similar in its essence. It was formed by a common thread of experiences, institutions, culture

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and influences that run from Mexico all the way down to the Strait of Magellan.

If America wants to make up for lost time and not lag behind for good in the history of mankind, it must step up the pace of its economic integration and, in order to do so, face up to the need for its political integration. Instead of launching a new process, it is time for it to resurrect the impetus of the thwarted process of economic development as a united entity. Latin America is not a group of nations: it is one large nation that has been broken up.

(Speech given in Salvador, Bahía, Brazil, August 6, 1962)

How was this feeling of Latin American unity reflected at the Bank during your period?

During that decade, the process of national reaffirmation took on particular importance in Latin America. This process manifested itself in ways that substantially differentiated it from the old-school nationalism, which was often limited by rhetorically exclusionary statements and attitudes. This was a pragmatic and convergent nationalism. It was pragmatic in that there was a concrete capacity for achievement behind its goals, a conviction that the new groups involved were capable of efficiently guiding the destiny of nations. It was convergent in that this new awareness did not allow itself to stop at national borders, but rather was open to currents of interdependency, which - because of compatibility between nations, close geographic proximity, and similarity in historic evolution - crystallized in the form of regional or subregional accords for economic and technical integration.

The IDB must not only be prepared to serve those purposes, but must also intensify its efforts to vigorously promote them in conjunction with the governments of its member countries and

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other regional organizations. This constituted the crux of the Bank's mission.

(Speech given when leaving the presidency of the IDB)

Was there a climate of change when you resigned from the office of the President?

I always felt that it was a crucial moment, both of convergence and departure, when the decade of the 1960s made way for a new decade, and this new one clearly and distinctly took a new course.

(Speech given when leaving the presidency of the IDB)

What led you to return to Chile and leave the presidency of the IDB?

There were many reasons that led me to decide to conclude my term early. I thought deeply about the experience I had had, and about the period that lay ahead for the IDB, and came to the conclusion that its new tasks and challenges also required new leadership.

I felt that a period of 10 years as the head of an international institution was more than enough to complete a career that had made it possible for me to give, perhaps, the best part of my life to the service of a noble cause. My desire to return to my native country also influenced my decision. Even though the distinction between national, regional and international is becoming increasingly blurred, there are times when the concerns and ideals that fuel our efforts can be better served in the place that is nearest and dearest to our hearts. I thought that, after years of absence and at a new and challenging time for my own country, I ought to return there.

My intent was to pick up my academic career where I had left off coinciding with the political process that was just getting under way

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in Chile with the government of Salvador Allende. I was determined to continue fighting, on another front, for the three great principles that were, as I understood it, the bedrock foundation of the future of Latin America: economic integration of the region, affirmation of its peoples, and introduction of the great changes that were required in its social structures in order to ensure greater well being and justice for the majority. In short, an economic development that placed social issues at the top of the list.

(Memoirs)

Luciano Tomassini

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MERCANTIL SERVICIOS FINANCIEROS

Prepared for Market Recovery

Seventy five years of experience in Venezuela has been Mercantil Servicios Financiero's best ally in strategically expanding services and restructuring operations under inhospitable macroeconomic conditions. With $5.02 billion in assets of December 1999, Venezuela's first and most comprehensive financial services holding company defied the country's deep economic contraction of 7.2 percent in 1999 by maintaining strong asset quality ratios while still turning a modest profit of S25 million. Total equity at year-end was a solid S838 million.

"Throughtout 1999, we continued the corporate restructuring we began in 1996," explains MSF chairman and CEO Gustavo Marturet. "We worked on reducing costs throughout the past two years, and concentrated not on growth, but rather on consolidating our operations to reduce duplication of both human effort and physical infrastructure. These same efforts continue through the first semester of 2000, and we expect to see the fruits of what we have sown in the second half of this year."

MSF owns 99.68 percent of the universal bank Banco Mercantil, Venezuela's second largest bank; 100 percent of the securities brokerage firm Merinvest; 100 percent of the U.S.-based Commercebank with seven branches in Florida; 50.1 percent of the insurance company Seguros Mercantil (a joint venture with Aetna), and 100 percent of holding Mercantil International (HMI), which wholly owns financial institutions in Curaçao, Switzerland, Panama, and the Cayman Islands. On January 27, 2000, its former Zurich-based subsidiary BMS Finanz AG, was granted a banking license by the Swiss government to become Banco Mercantil Switzerland.

Banco Mercantil Colombia facilitates import/export business between Venezuela and Colombia, while representative offices in Mexico City, Bogota, Lima, São Paulo, Manaus, Zurich, and London consolidate MSF's global reach, supported by a worldwide correspondant banking network.

International Recognition

MSF's commitment to a rigorous risk management program, optimal use of corporate resources, and effective allocation of its strong capital base continues to be recognized internationally. In 1999, *Euromoney* named Banco Mercantil, MSF's largest asset, accounting for two-thirds of the Group's portfolio, "the best bank in Venezuela" for the second consecutive year. *Latin Finance* also qualified Banco Mercantil as the country's best bank in its October 1999 edition, and the bank was also cited for "the best internet banking 1999" by *PC News and Report* in acknowledgement of technological innovation.

In 1999, when *The Banker*, a Financial Times publication, released its ranking of the world's 1,000 best banks based on the previous year's results, Banco Mercantil garnered the top spot in Venezuela and ranked 17th in the world in terms of return on equity and fourth in Latin America. In terms of return on assets, Mercantil ranked 13th globally and second in the region.

Financial Environment

Challenges posed to the entire Venezuelan banking system during 1999 required MSF to undertake preventative measures that impacted its bottom line. With the real value of exports falling by 11.1 percent, private consumption down by 4.7 percent, and gross fixed investment plunging by 24.9 percent for the year, credits to higher-risk sectors such as consumer lending were curtailed to protect MSF's loan portfolio. System-wide profits were also affected by an agreement in August 1999 between the banking industry and the government to cut lending rates by 2 percent and raise deposit rates by 1 percent. Although the intermediation ratio remains high by international standards, by the end of 1999 the lending rate among Venezuela's six largest commercial and universal banks averaged 28.4 percent and the 90-day deposit rate averaged 16.5 percent. As a result, Mercantil's net interest income provisions declined by 23 percent in 1999.

A one-time hit that heavily influenced the

Mercantil Servicios Financieros
Summary of Consolidated Financial Statements*

	12/31/98 Bs millions	12/31/99 Bs millions
Loan Portfolio, net	1,762,729	1,616,169
Investment Portfolio, net	507,551	569,754
Total Assets	3,323,336	3,252,544
Customers Deposits	2,381,264	2,400,524
Shareholder's Equity	543,507	546,302
Net Income	39,655	16,124

*Figures stated in constant bolivars at December 31, 1999

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"Having attained a superior level of asset and liability management during 1999, and having restructured its domestic and international operations in the midst of one of Latin America's severest cyclical economic downturns, MSF is well positioned for growth and profitability."

Group's bottom line was the $22 million spent in 1999 for MSF's ambitious modernization plan. "We made a strategic decision to support our restructuring program, which meant undertaking significant non-recurring costs for the year," Marturet explains. Tangible results from eliminating redundancies were already visible in the fourth quarter of 1999, when operating expenses fell by $3.2 million compared to the fourth quarter of 1998. Asset quality ratios also improved during the fourth quarter, and credit demand began to increase as interest rates stabilized. During 1999, MSF shifted its international loan portfolio geographically, overweighting the U.S. and Brazil.

Having attained a superior level of asset and liabilty management during 1999, and having restructured its domestic and international operations in the midst of one of Latin America's severest cyclical economic downturns, MSF is well positioned for growth and profitability. "Our growth target for the year is around 20 percent, " says Marturet, "but we must continually revise our goals based on inflation and GDP growth estimates. If the economy grows faster, so will we. If it slows down, we will be more cautious." (The recovery of oil prices through the first quarter of 2000, a mainstay of Venezuela's GDP, augurs well for immediate-term economic recovery.)

Banco Mercantil: MFS Flagship

Banco Mercantil retained its rank as Venezuela's second-largest bank last year, representing 10.6 percent of banking system assets, 12.2 percent of loans, 10.7 percent of deposits, and 19.7 percent of the system's total equity. As of December 1999, Banco Mercantil had total assets of $3.3 billion, equity of $412 million, and net income of $78 million. Mercantil's return on equity in 1999 was 22.7 percent, slightly ahead of the system's average, and its return on assets was 2.6 percent.

Banco Mercantil's coverage ratio for all its lending activities in 1999 was 137.3 percent, superior to the 119.6 percent average

Expansion of Distribution Channels
(Mercantil Servicios Financieros)

	1997	1998	1999
Branches	235	271	285
ATMs	383	490	605

Banco Mercantil Financials

	12/31/98 Bs million	12/31/99 Bs million
Assets		
Cash and due from banks	447,548	498,670
Loan portfolio, net	1,098,730	1,185,927
Investment in securities, net	192,538	262,200
Fixed assets	64,047	84,604
Other assets	89,420	110,377
Total Assets	**1,892,283**	**2,141,778**
Liabilities and Equity		
Deposits	1,469,072	1,682,384
Other dep. and obligations	130,763	117,498
Other liabilities	60,918	74,398
Total Liabilities	**1,660,753**	**1,874,280**
Paid in capital	40,906	81,812
Reserves	190,624	185,686
Total Equity	231,530	267,498
Total Liabilities and Equity	**1,892,283**	**2,141,778**

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for Venezuela's banking system. At 4.9 percent, its non-performing loans as a percentage of gross loans were well below the banking sector's average of 6.0 percent. MSF's consolidated past-due and in litigation loans were lower, at 3.8 percent of its total loan portfolio. During 1999, Mercantil increased lending by 4.4 percent in Venezuela, but shifted the composition of its loan portfolio away from individual consumer and vehicle lending to place more emphasis on agricultural, construction, foreign trade and commercial loans.

Preparing for eventual recovery of the Venezuelan economy, during 1999 Banco Mercantil expanded its distribution network - from 271 offices in 1998 to 285 offices by the end 1999. The addition of 115 automatic teller machines during the year expanded its ATM network to 605, with ample coverage in every region in Venezuela. Through the expansion of internet and phone banking and new ATMs, total points of sale increased from 6,187 in 1998 to 8,821 in 1999, all connected to the nationwide Maestro network.

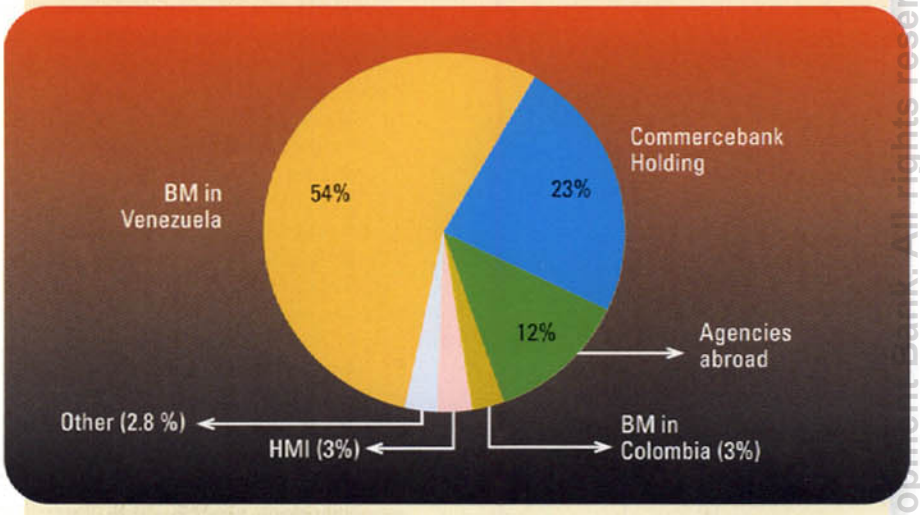
A focal point of Mercantil's restructuring efforts has been customer satisfaction. "We have maintained our position in the corporate and medium-sized business segments, and now we are making inroads in the personal banking segment with products designed specifically for the needs of the individual," notes Marturet. Mercantil has segmented its market to customize services and design specialized products for large commercial businesses, small and medium-sized businesses, productive sectors (industry, agriculture and construction), and the retail segment.

In 2000, the focus on personal banking will include streamlining services and accounts. "In the near future, we plan to introduce a single account for personal banking that will combine checking and savings, much like the executive account we now offer," notes Marturet. Mercantil maintains exclusivity for Diners Club cardholders in Venezuela, and services a credit card customer base of 315,160, including Visa and Master Card cardholders.

Mercantil's fees for services rendered in Venezuela have stayed constant since 1998, with the exception of commissions for issuing cashier's checks. The current fee structure is intended to encourage banking via Mercantil's online service, Teleabra 24, and its ATMs - a more cost-efficient option for Mercantil. Electronic delivery channels accounted for 59.3 percent of total transactions in 1999.

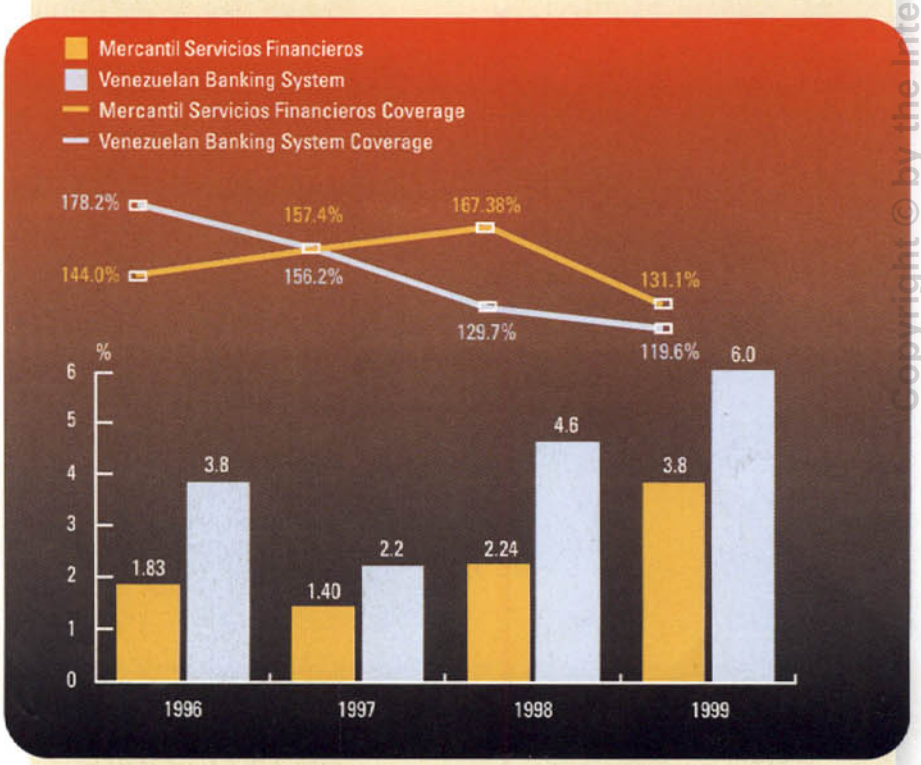
While Y2K posed no problems for Banco

Distribution of Assets by Subsidiary
(December 31, 1999)



Total Assets = $5.02 billion

Consolidated Loan Portfolio
Asset Quality Ratios



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Mercantil, equally important was assuring its customers that the bank could confront any problems presented by the transition to the new millenium. As of July 1999, Mercantil's systems and equipment, and all branches, point-of-sale, ATMs, credit cards, payments and services, were operating on a Y2K-compliant platform. Mercantil mitigated potential customer concern by promptly distributing 300,000 account statements from December 1999 in the first week of January 2000.

Merinvest

With $40.9 million in assets under management and a record profit of $9 million in 1999, MSF's brokerage arm held its position as Venezuela's largest mutual funds manager, with a 26.1 percent market share as of December 1999. Merinvest's nominal return on equity in 1999 was 44.3 percent.

Among its diversified portfolio of mutual fund products and investment instruments, the Mercantil Balanced Investment Portfolio yielded an annual return of 50.2 percent, while the Mercantil Investment Portfolios (PMI) Wall Street fund generated a six-month return of 26.9 percent from its July 1999 launch to year-end. The PMI Fixed Income fund earned 36.1 percent in 1999.

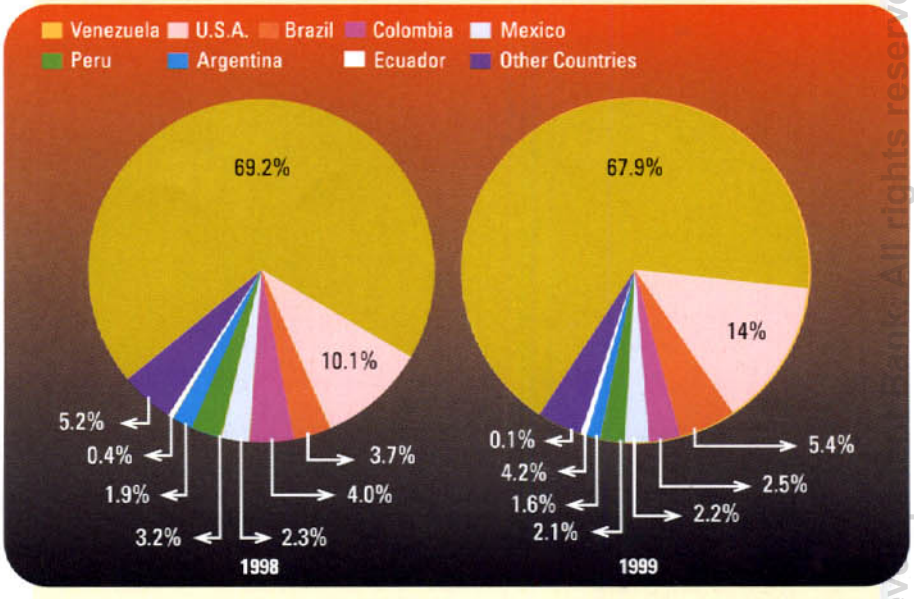
MSF's reorganization strategy includes integrating Merinvest's products into the umbrella of options to be cross-sold across business units to expand sales volumes, increase the transparency of MSF's corporate structure, and better serve its clients. In October 1999, *Latin Finance* named Merinvest one of Venezuela's top three suppliers of stock market and economic information.

Commercebank

Cited as one of the "Top 100 Hispanic Companies" in Florida in September 1999 by the Greater Miami Chamber of Commerce, this wholly owned subsidiary of MSF specializes in the South Florida commercial and real estate markets. Expanding service in Florida since its inception in 1987 when it managed only $20 million in assets, In December 1999 Comercebank's total assets reached a record $1.189 billion, reflecting 15.3 percent growth over 1998. Deposits at year-end were $960.5 million, up 13.3 percent from 1998, and equity stood at $91 million. Commercebank's return on assets in 1999 was 1.23 percent, well above the 1 percent benchmark for banks in its peer group. Net income rose by 39 percent in 1999 over the previous year to 11.1 million.

Loan Portfolio by Geographic Location

In millions of constant bolivars as of December 31, 1999



Seguros Mercantil

As floods devastated many parts of northern Venezuela toward the end of 1999, Seguros Mercantil's strategic alliance with Aetna International one year earlier proved critical to responding quickly and effectively to the rise in insurance claims.

During 1999, insurance premiums grew by nearly 40 percent, and the company expanded its range of operations to provide specialized auto and medical insurance. Seguros Mercantil's expansion plans include eventual entry into the pension fund market, once the pension system in Venezuela has been privatized.

Capital Adequacy

	1997	1998	1999
Banco Mercantil			
SUDEBAN* (Unconsolidated)	10.68%	17.21%	17.29%
Basel (Consolidated and inflation-adjusted)	19.55%	27.15%	31.51%
Mercantil Servicios Financieros			
Basel (Consolidated and inflation-adjusted)	19.95%	27.38%	29.40%

*SUDEBAN= Venezuelan Superintendency of Banks

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Antonio Ortiz Mena: *Continuity and Change*

Oscar Rodríguez-Rozic



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The Internationalization of the IDB

A little more than a decade after its creation, Felipe Herrera's Bank had become a formidable reality. Its growing volume of operations was considerable and started to touch the lives of millions of people in the region. This "debtors bank, directed and managed by the debtors" had ceased to be a paradox or dream and had turned into a real-life institution, capable of mobilizing resources on the capital markets of the United States, Europe and Japan.

The novel *idées-forces* launched by Herrera, such as financing social programs and the first efforts to attain subregional economic integration, were materializing. When Herrera left the presidency of the IDB on March 1, 1971, the institution had become a major player in the economic and social development of Latin America and the Caribbean. It was the interpreter of the hopes and dreams of the countries and the standard-bearer of the best ideas and objectives for progress that inspired international cooperation.

Antonio Ortiz Mena had been linked to the IDB from the time of its founding. He attended the meeting of ministers of economy and finance that was held in Quitandinha, Brazil, in 1954, and set into motion the creation of the Bank. Ortiz Mena was alternate representative for the Mexican delegation and was actively involved in the negotiations. He participated in the founding and leadership of the Bank as Governor for Mexico and attended all of the annual meetings of the Board of Governors during the institution's first years of life. At the 1970 Annual Meeting, which was held in Punta del Este, Uruguay, it was Ortiz Mena's duty as senior governor to give the opening speech and, in so doing, he put forth a lucid overview of the Bank's creation and its

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accomplishments over its first 10 years of work. It would be his job to guide the Bank over the next 17 years as its second president.

When Ortiz Mena took the office of President of the IDB, he already had an impressive record of public service in the economics and finance of his country, Mexico, and in international financial and commercial relations. Highlights of his career included serving as Deputy General Director of the National Bank of Works and Public Services (Banco Nacional de Obras y Servicios Públicos), as General Director of the Mexican Institute of Social Security (Instituto Mexicano del Seguro Social), and, from 1958 to 1970, as Mexican Secretary of the Treasury and Public Credit. On the international scene, he took part in meetings of the ministers of finance and economy of the region, including the 1961 meeting where the charter of Punta del Este was drafted. This agreement was formalized at the meeting of the Inter-American Social and Economic Council (CIES) of the OAS that set the Alliance for Progress into motion. Ortiz Mena was Mexico's representative in the CIES during the 1960s, and its president in 1962 and 1963.

Ortiz Mena was very much a Latin American. He was also a multifaceted figure deeply rooted in the humanities, being highly versed in universal culture and philosophy, history, music and the arts. His turn as President of the Bank has left an indelible mark on the standards of international public service, which he always defined as equal and selfless service to all Latin American countries.

In this chapter, we look back on some of the most meaningful events of the IDB's history during Ortiz Mena's term in office, which was characterized by a smooth transition from the Bank's creation and early years as well as by creative adaptation to the new needs and challenges for the development of the region.

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The International Context and Regional Outlook

At the end of World War II, the United States took on the enormous responsibility of being the driving force behind the economies of the free world, as well as defraying the cost of its defense.

Thanks to Europe's own efforts and to the economic instruments that were created for its support, the Marshall Plan and the Bretton Woods organizations, the pace of reconstruction after the war was quickened and solidified in the 1950s and 1960s. The brand new European industrial base in many ways proved to be more modern and efficient than that of the United States. Japan also rebuilt, modernized its industries, and, as did the European countries, began to successfully compete at exporting to what had been, up until the end of the war, the exclusive markets of the United States.

The dollar continued to be strong, but in the 1960s an adverse international financial outflow from the U.S. became more pronounced. This caused increasing amounts of gold to be removed from Fort Knox and sent to Europe, which significantly depleted the enormous amount of gold reserves that had been built up by the U.S. government over the course of the previous decades. At the beginning of the 1970s, this outflow forced the authorities in Washington to abandon backing the dollar with gold as well as the system of fixed rates of exchange established in the Bretton Woods accords.

In the 1960s and 1970s, relations between Europe and Latin America took on a new dimension. The European countries entered into agreements with the most advanced Latin American countries to provide them with long-term financing for large-scale development projects. These novel mechanisms combined medium-term suppliers' loans with long-term financing. These funds would cover local costs and make it possible for European goods and services suppliers to participate in partnerships

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Below: *Expansion of the Volta Redonda steel mill in the state of Rio de Janeiro was financed with a $40 million loan from the IDB granted in 1971. Three years later, a second loan for $63 million made it possible to expand production capacity even more.*



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Right: *A $19 million loan granted to Bolivia in 1971 financed construction of a 530 kilometer gas pipeline between Santa Cruz and Argentina, which helped to promote Bolivian gas exports.*

with Latin American industries and enterprises in project execution. This provided for an additional financial support mechanism to the development of the region, which existed side by side with the traditional commercial ties of Europe to Latin America.

In 1966, the creation of the world's second multilateral regional development bank, the Asian Development Bank, was a significant event in the evolution of international aid-provision mechanisms. This meant that the process of the U.S. acting as engine and financier to the noncommunist developing countries, which began as World War II came to an end, had reached a turning point. The Asian Development Bank was set up under a three-pronged contribution scheme between Europe, Japan and the United States, who shared in leadership and financial responsibilities for the economic development of Asia.

These important developments show how the institutional structure of the IDB did not reflect the new economic and political landscape of the world at the end of the 1960s, since Japan and the European countries were not members of the institution. The growing participation of the European countries and Japan in the development of the region set the stage for their accession to the Bank and explains the reasoning that first led Mexico and later the United States to propose admitting those countries as full members of the IDB. The process of accession was completed in the mid 1970s, replacing the previous mechanism that Felipe Herrera had put into place to mobilize resources from these countries. The old method was based on obtaining resources from Europe, on concessional terms when possible, and managing trust funds on concessional terms, in exchange for eligibility for procurement of goods and services for projects financed by the IDB.

Overhauling the structure of the IDB and bringing up-to-date the financial cooperation agreements that had given life to the institution 10 years earlier had become absolutely essential. The

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Henry J. Constanzo

The Debtors' Bank Finances Cancún

"We all know that, in its early years, the Bank was a pioneer in activities that usually did not receive international financing. Perhaps what people really can't quite appreciate long after the fact is how difficult the decision-making process was within the Bank when attempts were made to move in a new direction. One of the factors that the Bank had to take into consideration, particularly during its fledgling years, was the suspicion aroused among many outside observers by the fact that its capital was under majority control by its borrowing members. I recall the long and arduous process that the Bank undertook in 1970, shortly after I became a member of the Board of Executive Directors, to decide whether it would participate in what later would prove to be a highly successful project: the development of the resort area of Cancún in Yucatán, Mexico. And although it is difficult to understand now, the Bank's decision to participate in the original financing of Cancún was not free from criticism."

Henry J. Constanzo was the Executive Director of the IDB for the United States and Vice President during the terms of Felipe Herrera and Antonio Ortiz Mena. After a brief absence, he returned in 1976 as Manager of the Finance Department, a position he held until he retired in 1988.

Bank had been created within the framework of the Organization of American States, in the context of essentially bilateral cooperation: the United States operated as provider of assistance and its neighbors to the south could count on preferential consideration for receiving that aid. The new arrangement, in which responsibility for cooperation would be shared between the United States, Europe and Japan, was to have a profound effect on the region. It meant that, by opening membership to rest of the world, the Bank had reached institutional maturity. Ortiz Mena, who presided over the IDB at that time, considered the admission into the institution of countries from outside the region as the most significant change to occur at the IDB since its creation.

The ECLA Model and Planning

The development model of the United Nations' Economic Commission for Latin America (ECLA) was the backdrop that set the stage for development in Latin America and the Caribbean and guided the Bank's efforts during the 1960s and 1970s. This model drew its inspiration from Raúl Prebisch and was developed and disseminated by the technicians that staffed the great think tank that was ECLA's office in Santiago, Chile. One of the basic premises sustaining this model was that economic and social development cannot take place spontaneously and should not be left simply to the vagaries of market forces. In order for development to be swift, effective and socially equitable, it was felt that the efforts and undertakings of economic and financial actors must be conducted within the framework of medium and long-term plans.

The state and public entities played a key role in the formulation and execution of these plans and were responsible for the creation of the economic infrastructure as well as for the

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Reuben Sternfeld

Cancún Provides More Jobs and Increases Foreign Exchange

"Despite the controversy it generated at the time, the financing of Cancún's development by the Bank proved to be a successful venture in the end; it led to several accomplishments, such as increased employment and higher foreign exchange income. I had the privilege of visiting the uninhabited construction site with the original architect and the director of Fonatur, a former Bank official who later became the Mexican Minister of Tourism. We arrived in Isla Mujeres by plane, traveled by boat to Cozumel, and continued onward to the peninsula with its clear water and magnificent beaches of white sand. I visited the area as a Bank official in its early days, including the year the Bank held its Annual Meeting of the Board of Governors there. My next visit occurred 20 years later as a tourist. What a beautiful sight to see the original dream come true! The excessive commercialization was somewhat disappointing. The biggest disappointment, however, was to observe a time-share marketer saying to a group of foreign tourists that another international development bank had been responsible for launching the development of the area."

Reuben Sternfeld came to the Bank in 1966 as Alternate Director for the United States. He was also Executive Vice President and Special Representative in Europe. He retired in 1987.

development of basic and heavy industries. Another premise of this model was based on recognition of a need to speed up the pace of industrialization and import substitution at the time. Other components of the model were agrarian reform, rural electrification, and integrated urban and rural development programs.



An IDB loan for $24.9 million provided in 1971 to Fondo Nacional para el Turismo (Fonatur), a national tourism-promotion fund, financed the construction of infrastructure works in Cancún, today one of the largest tourist resorts in Mexico.

This planning strategy was endorsed by the international agencies headquartered in Washington and constituted part of the conceptual basis for the programs of the Alliance for Progress. At the same time that the influx of all these ideas was taking place, governments began to create planning ministries or councils. National preinvestment funds were set up as well to bring about the formulation and evaluation of specific investment programs and projects that would define the direction that development would take. The IDB supported this process.

Those entities welcomed onto their staffs the generation of technicians trained at the United Nations Latin American Institute for Economic and Social Planning (ILPES) in Santiago, Chile and at the Economic Development Institute of the World Bank. These two institutes closely examined planning experiences that were widely considered successful and served as models for the development

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Below: *Construction of irrigation ditches in Tomatlán, Mexico, one of seven large-scale irrigation projects financed with a $126 million IDB loan in 1972.*



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plans that Latin American countries would eventually formulate. The subjects of their studies included two U.S. models, the Tennessee Valley Authority (TVA) and a program designed to create public enterprises and develop industries and employment in areas of the Appalachian Mountains, such as in the state of West Virginia. The indicative and socially coordinated planning efforts of France and the industrialization programs of the institute for the promotion of the development of southern Italy, Casa per il Mezzogiorno (financed by the World Bank), had particular influence on the planning process in Latin America. In a short time, these industrialization programs of the Casa helped to transform the south of Italy, which had been as underdeveloped as any other region of the third world, into a hub of heavy industry and flourishing agroindustrial exports.

In the 1960s, the OAS established the mechanism of coordination between national development plans and aid for the financing of these plans, the Inter-American Economic and Social Council/Inter American Committee on the Alliance for Progress (CIES/CIAP), whose operations never ceased throughout the decade. The CIES/CIAP acted as a consultation and negotiation agency through which Latin American countries could present their development plans and programs to donor countries and international lending agencies in order to obtain financing. The IDB, the United States Agency for International Development, and the World Bank were the main actors in this process, which was designed to tie technical and economic aid to the adoption of specific economic policies and the achievement of quantifiable objectives in the recipient countries. An important operational premise in this process was that long-term external financing from multilateral or bilateral aid agencies ought to be used exclusively for specific predefined and pre-evaluated investment projects.

Antonio Ortiz Mena: Continuity and Change
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Below: *In 1972, Canada became the 24th nation to join the IDB. The Canadian Ambassador to the United States, Marcel Cadieux (left), signs the agreement at the Organization of American States in Washington, D.C. next to the General Secretary of the OAS, Galo Plaza (middle), and the Assistant General Secretary, M. Rafael Urquia.*



Economic Growth and the Debt Crisis

The other major backdrop to the development of the region during the 1970s was the radical changes taking place at the time in the field of international finance. Economic progress in the region continued to be significant and sustained: the high annual growth rate of the 1960s, 5.5 percent, rose to almost 7.5 percent over the three-year period between 1970 and 1972. Some countries, such as Brazil and Mexico, achieved an even higher annual rate than 10 percent, which was significantly higher than their rate of population growth and made it possible for social conditions to improve

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Charles T. Greenwood

Canada Joins the Bank

"At the beginning of the 1970s, the government of Prime Minister Pierre Elliott Trudeau closely reexamined Canada's international relations policy and concluded that the country ought to establish more active relations with Latin America. He also concluded that the best way to achieve this objective would be to join the IDB. Although bilateral relations between Canada and the Latin American countries had developed considerably by that time, Canada's joining the IDB paved the way for even closer ties with Latin America. During the Trudeau era, Canada was undergoing great changes, which included a generational change. Canadians perceived Trudeau's election as the start of a new era of confidence in the country's international role. Establishing closer ties with Latin America was seen as an extension of that confidence. The business community, in particular, was interested in strengthening ties with Latin America and in Canada's joining the IDB, and provided support to the Trudeau initiative. Since then, Canada's interest in Latin America has broadened and has generated much interest in civil society, among other issues."

Charles T. Greenwood became Alternate Executive Director for Canada in 1973. Later, as an IDB official, he became an advisor to the government of Honduras and has been the Representative to six different countries.

considerably. Industrialization expanded further and quickened its pace. According to a widely held belief at that time, Latin America had been part of the underdeveloped world ten years earlier; but in the mid 1970s, the region attained an intermediate level of development.

Although the extent to which those results could be attributed to general planning strategies and heavy state intervention was debatable, there seemed to be no doubt that the region had crossed the threshold into a phase of economic upturn, and was conditioned but not being held back by the severe economic crisis that the industrial countries experienced in 1974 as a result of sharp increases in oil prices in 1973. For Latin America and the Caribbean, that crisis translated into less demand for their exports and deterioration in the terms of trade for non-oil exporting countries. Nevertheless, beginning in 1975 and over the course of the rest of the decade, the region showed steady annual average economic growth above 4.5 percent, which was a considerably higher rate than that achieved by the industrial countries and certainly other regions of the developing world.

An essential factor for the continuing development of Latin America was access to medium and long-term loans in foreign exchange. The volume of external financing acted as one of the determining factors for the pace of growth to which these countries could aspire. Once the outlook for the economic growth of the larger and more developed countries of the region became rosier, access to credit from U.S., European, and Japanese lenders became easier. As exporters from the industrial world ventured out to compete and expand their penetration into the promising markets of Latin America, loan terms became longer and many times complementary credit, also in foreign exchange, was tacked onto lending packages in order to finance the local expenses of the projects. This flow of funds complemented the efforts of the IDB and the World Bank.

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Below: *A $40 million loan granted to Brazil in 1973 financed the construction of the Camacari petrochemical complex in the state of Bahia.*



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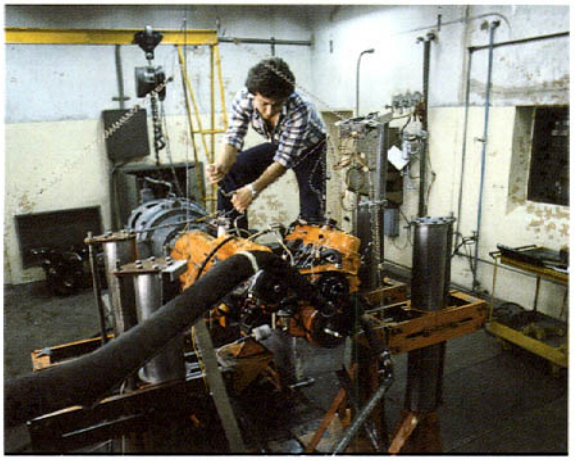
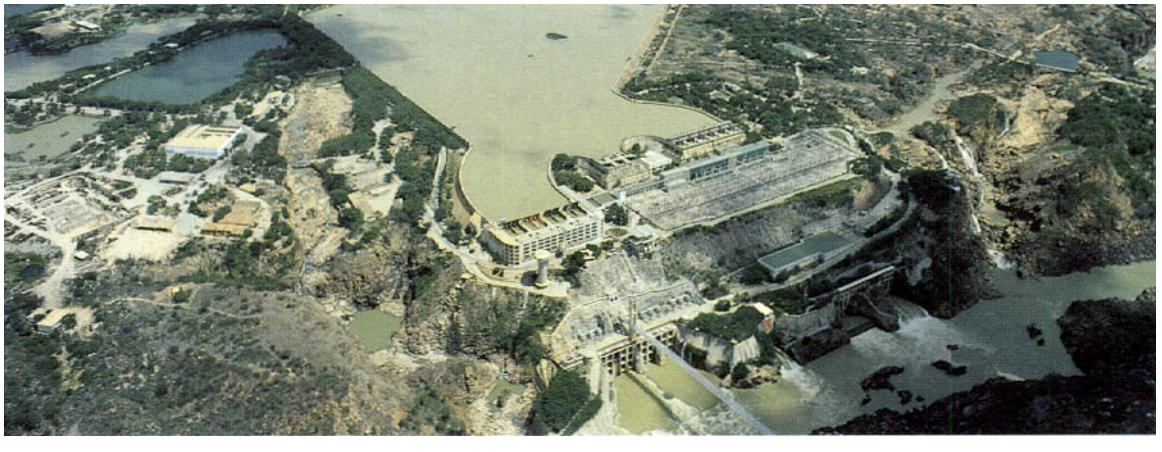


Below: *Several IDB loans contributed to covering the cost of construction of the Paulo Afonso hydroelectric plant on the São Francisco River in Brazil. A $84.8 million loan approved in 1973 helped double the electrical generating capacity.* ***Right:*** *A technician at an alcohol motor technology research and development center, which was the recipient of a $32 million IDB program that was approved in 1973 for Financiadora de Estudos e Projetos S.A. of Brazil.*

Beginning in 1973, the combination of economic growth in the region and recycling of petrodollars created ripe conditions for a new and important source of external financing for the countries of Latin America. In a short time, private commercial international banks became the largest providers of external resources to the region. Countries like Mexico, Brazil and Argentina had easy access to these resources.

The greatest volume of these loans was not channeled to the financing of development projects. The lack of regulation and oversight by central banks with regard to these operations contributed to the disorderly and accelerated proliferation of short-term loans at high nominal but not necessarily real interest rates. These were mainly granted by the commercial banks of the United States, but also by European commercial banks, and went to governments and to public and private enterprises in the region.

This cornucopia of external financing from private commercial banks, which in 1973 had already surpassed an annual aggregate amount of $2.5 billion - more than double the combined amount of resources allocated by the IDB and the World Bank to the region - often gave rise to wild swings in the balance of trade. These loans enabled Latin American countries to increase their



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Below: *In December 1974, Ortiz Mena reads the Declaration of Madrid, which opened the way for the nonregional countries to join the IDB.*



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James F. Armistead

Health Insurance for Bank Employees

"In 1973, the Bank established a comprehensive medical insurance program. For the first time, quality health insurance benefits were extended to the different types of employees at headquarters; to local officials in the country offices; to people who continued to receive income as a result of the Bank's extended disability insurance program; to the parents and inlaws of employees; as well as retirees, widows and other dependents that survived members of the retirement plan. The Bank also adopted a dental insurance plan and a shared medical expense payment schedule between the Bank and employees with the annual individual cost limit per employee capping off at 10 percent of annual salary. At that time, many companies refused to offer medical insurance to residents outside the United States or else were incapable of honoring claims for medical expenses in 24 different currencies, as the Bank required. Nevertheless, an insurance company established an unusual arrangement, whereby the Bank would administer and guarantee the obligations of the health insurance program and would contract out a reinsurance agent for extraordinary cases and long-term catastrophic care. This co-management concept served the Bank and its employees well for almost 20 years."

James F. Armistead came to the Bank in 1972. He retired in 1997 as Executive Secretary of the Staff Retirement Plan.

imports of consumer and luxury goods as well as military hardware and to expand defense expenditures, while covering up capital flight under the guise of trading on foreign financial markets, which served as tax and regulatory havens.

During this period, some countries started to change their economic strategies. Mexico and Brazil continued import substitution but simultaneously attempted to diversify their exports with heavy state support. Argentina, Uruguay, and particularly Chile, notably opened their foreign trade and finance to foreign products and investors.

In 1975, a recession in the industrial nations took a turn for the worse, Latin American exports leveled off or decreased, and the terms of trade for non-oil exporting countries continued to deteriorate. At the beginning of the second half of the decade, ECLA warned the countries of the region about the dangers of the growing external debt and about the need to reinforce industrialization and exports as a mechanism to confront the difficulties in becoming part of the world economy.

Unbridled, short-term external debt, coupled with the adverse effect of another sharp increase in oil prices in 1979-80, generated a growing strain on the balance of payments for many countries of the region. This situation was further compounded by a weakening of markets for the major Latin American export products.

Meanwhile, contributions from official bilateral or multilateral sources to the external financing of the region plummeted from an average of 60 percent at the beginning of the 1960s to less than 15 percent by the end of the 1970s. A growing proportion of the payment capacity of the Latin American countries was diverted toward external debt servicing to private banks, particularly in the United States. For this reason, in August of 1982 an economic crisis was triggered when Mexico

Antonio Ortiz Mena: *Continuity and change*
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Below: *Over the course of its history, the IDB has been a wholehearted supporter of scientific research in agriculture. An IDB nonreimbursable technical cooperation for $1.8 million granted in 1974 to the Center for the International Maize and Wheat Improvement Center (CIMMYT) in El Batán, Mexico, financed studies on cross-pollination of varieties of wheat in order to produce an improved hybrid.*



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*A nonreimbursable technical cooperation for $1.7 million granted to the International Center for Tropical Agriculture (CIAT) in Cali, Colombia, supported research on the improvement of strains of black beans (**right**) and cassava (**below**).*

found itself unable to service its debt to commercial banks.



The crisis had an immediate ripple effect, which prevented Venezuela from successfully completing a large borrowing operation with a consortium of commercial banks, even though it had been a country that up until that time had never had any problem generating resources from its oil exports. This crisis, which spread to the whole region, was one of the factors that triggered the drastic change in Latin American economic policies that took place in the latter part of the decade and led to an overhaul of international financial mechanisms and a change in the role of the multilateral lending agencies. These events had a significant impact and marked the beginning of a new stage in the life of the IDB. The rapid economic growth of the region during the 1970s ground to a halt in 1981 and 1982; for the first time since the 1930s, the countries of the region posted a drop in their gross domestic product. In 1983, the recession was quite significant, as GDP dropped between 3 and 4 percent.

Steeper oil prices, slowing growth in the industrial economies, neoprotectionism, sagging prices for primary export products of the countries of the region, and the rising cost of external debt service as a result of sharply increasing interest rates in the industrial world all conspired to

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Right: *Ortiz Mena (middle), with Panamanian leader Omar Torrijos (right) at the signing of a $29.7 million loan agreement entered into with Panama in 1974 to finance the construction of the Pan American Highway in the Tapón del Darién area.*

bring about this crisis of unprecedented magnitude and duration and led to a sharp deterioration in the living conditions of Latin Americans. Between 1981 and 1990, the average annual growth rate of the region was 1.2 percent, which caused a considerable drop in per capita income. The recessive adjustment resulted in a large surplus of foreign exchange, which was necessary to honor debt service payments. This surplus was a result of an increase in exports and virtual stagnation of imports. Between 1982 and 1990, the countries of the region transferred $230 billion outside Latin America, which represented 200 percent of the value of their exports and 50 percent of the debt that had been accumulated up until the end of 1982.

During the 1960s and the first five years of the 1970s, Latin America had a considerable capacity for inclusion in the social arena. Although the economic growth achieved at this time did not satisfy the basic needs of all social groups, it did serve to promote the incorporation of important segments into modern markets. Economic growth made it possible for many people to benefit from goods and services provided by the state, such as housing, health care, and education, and helped in bringing a higher number of people into the modern economy. This tendency reversed itself as a result of the crisis of the 1980s, which contributed to an increase in poverty and to the growing inability of the state to maintain open channels of social inclusion.

Looking back on the 1970s and 1980s, it is evident that several shortcomings in the development model of the region were mainly the result of a pronounced tolerance toward certain aspects of the economy and society. On the one hand, the era was marked by overt tolerance of instability: the norm throughout the region was a bloated state that became accustomed to fiscal deficits and lenient monetary policies, all of which fanned the fire of the rampant inflation that

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Left: *Construction of the Bayano-Cañazas leg of that highway.*

prevailed throughout many countries. On the other hand, the period was also characterized by tolerance of inefficiency, with economies that at first remained relatively sealed off from the rest of the world and lost positions on international markets. And lastly, there was tolerance of long-standing and growing social and economic inequality that was building up with greater intensity in the cities and was growing at a faster rate than in any other region of the world.

Both crisis and renewal characterized the 1980s. Latin America won back its democratic form of government and, at the same time, began to shed ideological economic policies, thus paving the way for the far-reaching reforms that took place at the end of the 1980s and during the 1990s. The region regained its stability, thanks to fiscal reform and an orthodox monetary policy formulated by independent central banks. Efficiency was improved throughout the region by accelerating and unilaterally opening economies and jump starting export expansion programs. Moreover, many governments of the region began to privatize state-owned enterprises, overhaul regulatory systems, and decentralize the state apparatus. At the same time that countries were opening trade and investment to the outside world, a fresh attempt was being made to modernize the mechanisms of regional economic integration and establish free trade partnerships. These efforts began to yield fruit in the 1990s.

The Bank underwent a profound change as Ortiz Mena's presidential term started off. The institution was compelled to adapt to the new rules of the game for international cooperation with the developing world: the responsibilities no longer belonged exclusively to the United States, but were shared with Japan and Europe. At the end of Ortiz Mena's term, the prevailing development model of the region underwent a major overhaul and was framed in the global context characterized by the liberal economic policies of British Prime Minister Margaret Thatcher and U.S. President

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Right: *Conference on Women in Development in Latin America at the headquarters of the IDB in November 1974.*

Ronald Reagan. These policies created a new paradigm of modernization and opening up of economic systems that became the prevailing model as the Cold War came to an end and the pace of economic globalization increased.

Membership of New Countries in the Bank

As was mentioned in the first chapter, the founding members of the IDB were the United States and 19 countries located south of the Rio Grande. According to the original charter, only countries that belonged to the Organization of American States could become members of the Bank. Therefore, as Europe's colonies in the Caribbean gained their independence and these new nations joined the OAS, they became eligible to join the Bank. Trinidad and Tobago became a member in 1967, as did Barbados and Jamaica in 1969. This process would continue as Guyana joined in 1976 and Bahamas in 1977. Suriname joined in 1980 and Belize in 1992. It is interesting to note that a number of eastern Caribbean island nations who are members of the OAS are not members of the Bank. Therefore, in order to be able to receive support from the institution without being a member, provisions were adopted in the by-laws of the Bank in the 1970s that made it possible to transfer resources to the Caribbean Development Bank for development projects in those nations.

Accession of the English-speaking Caribbean countries served to accentuate the multilateral character of the Bank and contributed to establishing new ties between these countries and their Latin American neighbors. Citizens from those Caribbean nations joined the Bank staff, contributing their expertise and technical innovation to the institution.

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Right: *Establishment of the Venezuelan Investment Fund with $500 million in February 1975. Sitting from left to right: Héctor Hurtado, Venezuelan Minister of Finance; Ortiz Mena; and Constantino Quero Morales, President of the Venezuelan Investment Fund.*

Canada's cooperative relations with the Bank and the countries of the region, especially with the Caribbean nations, began to develop in 1964, which was the year when the government of Ottawa placed the important Canadian Trust Fund at the disposal of the Bank to provide concessional financing to member countries. Canada, which at first was granted the status of permanent observer at the OAS, joined the Bank in 1972, shortly after Ortiz Mena became president, thanks to an amendment in the by-laws of the IDB.

When Canada was admitted as a full member of the Bank, it was not a member of the OAS. Although its membership did not violate the strict regional limitation that was originally imposed on the members of the institution, Canada's accession represented a milestone for the geopolitical make-up of the Bank and, in a certain way, helped to set into motion the process that would lead Ortiz Mena to bring nonregional industrial nations into the Bank.

Although Felipe Herrera employed a method that was effective at ensuring contributions of resources from the European countries and Japan, it was difficult to administer. Herrera's method was based on the principle of reciprocity. On the basis of the resources provided to the Bank by nonmember countries, every six months the institution would decide which providers of goods and services from those countries would be eligible to participate in Bank projects. These resources were measured in terms of the funds placed at the disposal of the Bank either by establishing a trust fund management arrangement or by opening their financial markets to IDB bond issues.

The U.S. foreign aid strategy had changed course and at the negotiations on the Asian Development Bank this became evident to Ortiz Mena, who was Governor of the IDB for Mexico at the time. Therefore, at the Annual Meeting of the IDB in 1969, he proposed bringing Japan and

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Below: *The first IDB loan with resources from the Norwegian Trust Fund, approved in 1975, helped to finance the construction and equipping of 243 health clinics, including one in Lejamani, Honduras.*



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Right: *In 1975, construction of the Cerrón Grande hydroelectric plant in El Salvador, financed with a $38 million IDB loan in 1972. It began to generate electricity in 1977.*

the European countries into the Bank as members. In 1970, the Committee of the Board of Governors recommended that measures be taken so that any interested industrial nations may join the Bank as full or associate members. In 1972, the Governors approved the rules and conditions for admission of the nonregional countries to become nonborrowing members, and the particular rules and conditions for Canada's accession as well.

The initiative for Bank membership of European countries and Japan met some resistance from officials and countries that remained wedded to the original vision of the IDB as an essentially bilateral cooperative effort between the United States and Latin America. In spite of this sentiment, the initiative stayed right on course as a response to an irreversible change in international politics.

The process that began with the admission of Canada and culminated in the mid 1970s with the accession of Japan, Israel and several European nations was based on the borrowing countries' acceptance that their relative share capital participation in the institution would undergo a significant decrease in order to make way for the inclusion of the new members. These countries' admission as full members and not as associate members meant, therefore, that far-reaching changes in the original structure of the share capital would have to be introduced so that the borrowing and nonborrowing shareholders owned approximately equal shares. The notion of a Bank whose shares are owned half by the contributing countries and half by the recipient countries was more of an implicit concept in the 1970s, but 20 years later, on the occasion of the 8th General Increase in Resources, would become formally adopted as part of the agreements that were negotiated in Guadalajara, Mexico in 1994.

One of the Bank's major turning points was reached in Spain in 1974 at the negotiations on admission of nonregional countries to the Bank, when the 12 countries attending signed the Declaration

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Below: *Ceremony held in July 1976, which marked the admission to the Bank of nine nations that were not part of the Western Hemisphere: Belgium, Denmark, Germany, Israel, Japan, Spain, Switzerland, the United Kingdom and Yugoslavia.*



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Right: *Japanese officials sign the membership documents for Japan to join the IDB.*

of Madrid establishing the rules for their Bank membership.

Political decision making procedures and legal provisions that grant a government the authority to enter into agreements and contribute the required amount of resources to the Bank varied greatly in each country. Therefore, it was impossible for all of these new member countries to join the Bank at the same time. The first crop of nine new members who joined the Bank in 1976 were Belgium, Denmark, Germany, Israel, Japan, Spain, Switzerland, the United Kingdom and Yugoslavia. Another six countries - Austria, Finland, France, Italy, the Netherlands and Sweden - became members in 1977. The process was finalized with the admission of Portugal in 1980 and Norway in 1986.

During the talks on the admission of nonregional countries, an agreement on the relative size of their participation in the ordinary capital of the Bank had to be worked out. There were no models to follow or precedents to resolve this issue, which was of particular political significance to all the parties involved. It is interesting to point out that in the initial talks with Japan, it was specifically proposed that this country ought to be the main shareholder of the nonregional group, albeit marginally. Japan's special role would be reaffirmed 20 years later in the agreements for the 8th Replenishment.

Another interesting aspect of the negotiations involved the membership of the Eastern European countries, which were becoming somewhat more independent from the Soviet Union, a harbinger of the things to come after the end of the Cold War. The Bank contacted and held negotiations with several countries and, consequently, Yugoslavia was admitted to the Bank. In 1993, Croatia and Slovenia became members as successor states of Yugoslavia.

In addition to Japan, the only non European country to join the Bank was Israel. Its admission provided a wealth of valuable technical expertise, particularly in agriculture and water resource

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Below: *The 4.83 kilometer San Martin Bridge over the Uruguay River between Fray Bentos, Uruguay and Puerto Unzué, Argentina was completed in 1976. Its construction was financed partly by the IDB.*



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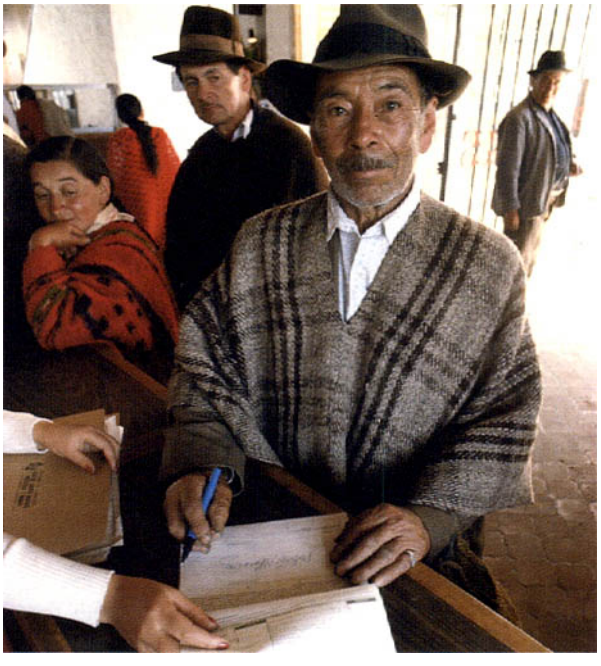
Below: *A peasant in Boyacá, Colombia signs a loan agreement obtained through an integrated rural development project financed in 1976 with a $64 million IDB loan.*



management, which were crucial technologies for many Latin American countries. Israel's technical cooperation ties with the region were reinforced and made it possible for the Bank to gain expertise in new important areas of action because of their social relevance, such as the development of handicrafts for export.

One not-too-widely-known issue that surfaced during the negotiations on the admission of nonregional countries to the Bank was whether oil producing, Islamic-Arab countries would be admitted. Ortiz Mena held talks with the Shah of Iran, which suggested that this country might have been considering applying for membership in the IDB, after Iran's admission to the Asian Development Bank was formalized. These talks, which in the end came to naught, took place only a few months before the triumph of the fundamentalist movement that deposed the monarch.

Admission to the Bank of Canada and the nonregional countries had important institutional repercussions. For example, it gave the borrowing countries several new interlocutors in the governing bodies. The positions of Canada and of the nonregional countries would not always necessarily be aligned with those of the United States. Therefore, the addition of new voices would serve to enrich

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Left: *IDB loans granted in 1976 and 1979 for a total amount of $66.4 million financed the expansion and modernization of the Cobriza mine in Huancavelica, Peru.*

the debate and make the institution's mechanisms of governance take different views into account, which were not necessarily at odds with each other, especially when making decisions on operational policies. The officials and employees who came to the Bank from the new member countries brought a long-standing tradition and experience in public service and development aid programs. Their entry into the Bank also contributed to cultural diversification and institutional enrichment.

Looking back over the previous decades, there is no doubt that Canada's and the nonregional countries' accession to the IDB was a resounding success. It is difficult to imagine just what the IDB would be today without their participation as full members and without their active support. The special relations that link Latin America and the Caribbean with these countries have strong cultural and historical ties that justified their admission and made it only natural for their presence in the institution. Furthermore, these ties are evident today in the realm of international trade and finance, especially in the steady stream of direct investment that flows from those countries into the region. More importantly, the successful experience of economic and political integration in Europe is a beacon lighting the way for Latin America, guiding and sustaining its integration efforts. Latin American integration, of course, has been a core concern of the Bank since its founding and today is well on its way to coming to pass.

Policies and Operations

Despite the institutional changes that admission of new countries to the Bank brought about, Ortiz Mena's term was characterized by continuity between the programs and operations that dated back to the original operations of the institution. The Bank's main asset was its capacity to respond to

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Maurice Wolf

States of the Eastern Caribbean

"When the smallest countries of the Caribbean tried to gain access to Bank loans, the Board of Executive Directors realized that it was going to be difficult to include the micro states of the Eastern Caribbean as members for several reasons, mainly because of the cost of subscription of ordinary capital and contributions to the FSO. Since these countries weren't members of the Bank, and the Bank's charter did not authorize lending money to them, we hatched an idea in the Legal Department to provide them with loans. Since all of them were members of the Caribbean Development Bank, we proposed amending the by-laws of the Bank to make it possible to provide loans to the CDB, which in turn would transfer the resources to its members. This amendment, together with the other changes related to the admission of nonregional countries, was approved. Subsequently, Ortiz Mena gave a speech in Kingston, where he stated that the Bank had altered the notion and the meaning of the term 'Latin America' in order to include the English-speaking countries of the Caribbean. This is how unity came about among the members of the Bank, whether they were English, Spanish, French or Portuguese-speaking."

Maurice Wolf came to the Bank in 1966 as a Legal Counsel and retired in 1977 as Senior Legal Counsel.

the ever-changing demands and needs of the region by coming up with creative solutions. In terms of volume, the Bank was becoming increasingly more important to the external financing of the region.

The total amount of resources authorized by the institution after the replenishment approved in 1970 was around $9 billion and was increased under Ortiz Mena by $32.81 billion. Ordinary capital resources rose by $28.806 billion and those of the Special Operations Fund by $4.005 billion. In 1975, the governors approved a fourth replenishment of $5.806 billion in the authorized capital for the period 1976-78, which included the resources contributed by the new members of the Bank. Subsequently, the governors approved a fifth replenishment for $8 billion and a sixth, for $15 billion. Only $1.703 billion of the total amount of these resources was to be contributed in cash. The paid-in-cash portion of the Sixth Replenishment, $675 million, represented only 4.5 percent of the total amount of pledged funds. The Fund for Special Operations benefited from respective increases of $1.552 billion, $1.750 billion and $703 million in each one of these three replenishments.

The proportion of operations approved from ordinary capital resources, which was supplemented with the interregional capital that is described below, was higher than it had been during the first decade of Bank operations, accounting for as much as 70 percent of the total portfolio between 1971 and 1987. The proportion of operations that was financed from the Fund for Special Operations was reduced to 24 percent of the total portfolio, reflecting the scarcity of soft funds. Both the ordinary capital and the FSO also financed technical cooperation operations, including nonreimbursable projects, which specifically came out of the FSO. Funds contributed by other sources to the portfolio during that period represented 4 percent of the total. Since few resources were available from the FSO, in 1983 the Intermediate Financing Facility was created, which made it possible to cover a portion of the cost of

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Below: *The first IDB loan to Guyana granted in 1977 financed the construction of drainage and irrigation ditches to help farmers of the Abaray River watershed.*



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Right: *Queen Elizabeth II and Prince Philip at the opening of the Barbados Community College in November 1977. The construction of the buildings was financed with a $2.8 million IDB loan.* ***Below:*** *The owner of a condiment factory in St. Lucia shows her merchandise. A $12 million IDB loan to the Caribbean Development Bank in 1977 made it possible for the IDB to begin supporting development projects in countries that were not IDB members.*

the interest on ordinary capital loans benefiting less developed countries.



Antonio Ortiz Mena: Continuity and Change

When the nonregional countries became members of the Bank in 1976, restrictions were in effect on outstanding bond issues for ordinary capital making it necessary, from the legal perspective, to create an interregional capital in order to allow for admission of the new countries into the institution. This measure made it possible to use the capital subscriptions of nonregional members to back bonds independently of bonds for the ordinary capital. The amendments to the by-laws of the Bank in 1976 provided for merging both types of capital as soon as the restrictions that were written into the conditions of the ordinary capital bonds issued before 1975 were no longer in effect. The merger of the two types of capital was completed in 1987 and strengthened the position of the IDB in international markets. For a period of 10 years, the voting power of each member country was determined by its share in the sum of the ordinary capital plus the interregional capital.

The volume of financing approved by the Bank grew remarkably over the course of the 17 years of Ortiz Mena's term until it surpassed $3 billion annually as of 1983. Between 1971 and 1987, the aggregate amount of loans authorized by the Bank reached $32.606 billion. The physical infrastructure sector received $13.207 billion, or 41 percent of the total; the productive sectors

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Below: *Residents of Jicaral, Costa Rica proudly pose in front of their house after obtaining access to electricity for the first time in their lives in 1978. A $13.5 million IDB loan financed a rural electrification project.*



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Left: A highway that connects La Paz with the El Alto International Airport, Bolivia. In 1972, a $10 million IDB loan financed the construction of the road, which was opened in 1978.

received $13.180 billion, or 40 percent of the total; and the social sectors received $5.718 billion, or 18 percent of the total. The infrastructure sector included loans for energy, which totaled $8.880 billion, followed by loans for transportation in the amount of $3.974 billion, and for communications for $353 million. The main productive sectors were agriculture and fishing, which received $7.256 billion, followed by industry with $3.959 billion, mining with $854 million, tourism with $463 million, science and technology with $429 million, and forestry with $220 million. In the social sectors, $2.852 billion went to sanitation, $1.186 billion to urban development, $1.175 billion to education, and $482 million to health care. Moreover, social and environmental investment was allocated a total of $22 million. The Bank approved $35 million for the financing of exports and $414 million for preinvestment studies. The Bank's efforts continued to make a qualitative difference, particularly in developing new operational methods and in strengthening the institutions of the region.

Preferential Treatment for Less Developed Countries

One characteristic that the Bank absorbed into its basic culture was the spirit of reciprocal solidarity among member countries. This culture was based on recognition that each borrowing country not only had different needs compared with the others, but also was at a different level of development. The spirit of solidarity was clearly reflected in the policies of preferential treatment for different groups of countries and explicitly became the official policy of the institution in 1972. This spirit was also evident in the financial contributions that the borrowing countries made to the institution, which were directly proportional to their size and degree of development.

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David Mangurian

The Bank Changes the Lives of its Beneficiaries

"As a photographer and editor I have visited more than 500 projects since 1970, more than any other Bank official. My eyes tell me that, although statistics may show that over the last two decades poverty has increased in the region, numerous IDB projects have improved the lives of many people. The Bank financed hydroelectric works throughout Latin America during the 1960s and 1970s and transmission lines during the 1980s. Today it is difficult to find a town without electricity. Most of the houses in poor urban and rural areas have electricity and their residents find it costs less than kerosene and candles. Once I visited the little village of Jicaral in Guanacaste, Costa Rica, two years after an IDB project brought in electricity. The results were astonishing. Straw thatch-roofed huts had lamps and television sets, the grocery store and the butcher shop had refrigerators, and electricity powered the tailor's sewing machine and the furniture maker's saw. A factory produced ice for the fishermen and there were 60 telephones in the city, used by fishermen and farmers to check market prices. A business sold electric appliances. The school offered night adult education classes. I believe that there wasn't anyone who hadn't benefited from the project."

David Mangurian has been a photographer and editor at the Bank since 1970.

Since the less developed countries were supposed to receive this preferential treatment, beginning in the 1970s they were the main or only recipients of concessional resources in foreign exchange. Loans approved for less developed countries were provided at preferential interest rates, with longer grace and amortization periods, and reduced requirements for local counterpart funds. Starting in the 1970s, concessional resources in foreign exchange that were contributed to the Bank did not only come from the United States and other industrial member countries, but a substantial amount of these resources were also contributed by the more developed Latin American countries.

Another mechanism adopted by the Bank to make sure that the countries that most needed resources gained access to lending was to establish quantitative limits on the total volume of loans that the more developed borrowers could receive on an annual basis. Some countries would actually voluntarily and temporarily waive their right to apply for new loans when the state of their economies and access to other sources made this possible. It is noteworthy that in 1970 Argentina made funds available to the Bank to administer under the condition that these resources be used to provide loans to less developed countries.

Another example of this spirit of solidarity between nations would be the Venezuelan Trust Fund, which this country put under the administration of the IDB in 1975. This fund was important not only because of its large size but also because these resources enabled the Bank to branch out into the execution of innovative experiments in financing new sectors and activities. Another example of a creative, regional partnership was the mechanism created by Mexico and Venezuela at the end of the 1970s to finance Central American and Caribbean countries oil imports and make it possible for these countries to generate resources to fulfill the local counterpart funding requirements for Bank projects.

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Right: *A $500,000 loan to Manos del Uruguay, a cooperative of weavers, marked the start of the IDB's innovative small projects program in 1978.*

Technical Cooperation

One of the characteristics that distinguish the IDB from other international lending institutions is its wide range and diversity of technical cooperation operations. From the time the Bank opened its doors for business, this type of operation has been just as important a tool as loans have been for the promotion of the region's development. It is important to clarify that the IDB does not view technical cooperation merely as financing specialized technical services; an equal amount of importance is attached to the actual processes of technology transfer that benefits the Latin American or Caribbean country or the entity that receives the cooperation. The purpose of technical cooperation is for local institutions and technicians to effectively gain access to, assimilate and integrate technology as a permanent contribution to the institutional development of the country.

This leading role in providing technical cooperation intensified and branched out into an even more diverse range of fields during the Ortiz Mena period. In 1972, he created a separate operational unit at the managerial level to administer these operations and step up efforts to improve development planning, investment programs and project preparation and identification, including institutional strengthening and personnel training. In short, this endeavor focused on cooperating with the member countries so that they could increase their capacity to absorb resources targeted toward investments and, at the same time, streamline the decision-making process pertaining to the investments. This approach underscored the relevance of technical cooperation within the Bank's activities. This mechanism made it possible to implement important regional programs and provide innovative responses to some of the new issues and challenges that the region faced at the time.

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Below: *The binational hydroelectric plant of Salto Grande on the Uruguay River, between Argentina and Uruguay, financed by the Bank, began to generate electricity in 1979.*



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Right: *Ortiz Mena (right) visits Salto Grande during its construction.*

In 1976, a special, horizontal technical cooperation program was implemented: the transfer of technology and expertise between Latin American organizations. These operations were based on a philosophy of mutual cooperation between developing countries. One Latin American entity acted as a donor of technical services, either by hosting and training technicians from the recipient country or by sending technicians to that country, and the Bank financed all travel expenses. Thus, minimal expenditure of resources could produce important results. This mechanism made it possible to face the usual problems that arise during the execution of Bank-financed projects. It also enabled technicians who had successfully coped with the pitfalls of similar programs in other countries to act as advisors and train those whose job it was to run troubled projects. Subsequently, other international organizations took off on this concept and created programs that became known as south-south cooperation.

It is interesting to note that Ortiz Mena actually drew upon his own personal expertise to participate in one particular technical cooperation program. With his experience as a veteran treasury minister from the region, he was able to contribute to tax system reform and modernization programs that were implemented at the beginning of the 1980s. The basic premise of this program was that the Latin American countries ought to have a value-added tax (VAT) as a core component of their internal revenue collection systems, just as the European countries had. The idea was to restructure the indirect or sales tax system so that it would help generate a higher volume of tax revenue without causing a price increase in basic staples. The VAT, which would not be applied to export goods, would also have a positive effect on the creation of employment. According to Ortiz Mena's view and based on the evolution of public expenditure financing in Europe, adoption of the VAT would enable Latin American countries to move forward in the coordination of economic integration agreements and in

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Suez Lyonnaise des Eaux

Suez Lyonnaise des Eaux ("SLDE") with more than 100 years of experience in providing water and sewerage services and serving more than 100 million people all over the world, has faced the important challenge of developing water and sewerage services in Latin America as well as in the rest of the world.

At the beginning of the last decade, Argentina led one of the most important privatization processes in Latin American history. This process was implemented by the government as a result of the lack of financial resources needed to perform the investments required by the population. Privatization was also considered as the best way to increase operations efficiency. In the water and sewerage sectors, particularly, there was an imperative need for connecting the whole population to both services, as well as to sewerage treatment plants. This is where SLDE plays a key role in the region, through its commitment not only to the supply of water and sewerage services, but also to environmental protection.

In regards to water provision, sewerage collection and treatment areas, SLDE operations began in April 1993, when Aguas Argentinas, a consortium led by SLDE, won the international public bid to be the exclusive provider for 30 years of potable water and sewerage services in the City of Buenos Aires and seventeen surrounding districts in Argentina. The concession area is the largest private water and sewerage provider in the world, covering around 10 million inhabitants.

Since the takeover and following into the year 2000, Aguas Argentinas SA has invested approximately US $1.5 billion, primarily in modernizing and expanding the water and sewage systems, as well as the construction of new treatment plants and the revamping of existing ones.

At the end of 1995, Aguas Provinciales de Santa Fe, a consortium also led by SLDE was granted a 30-year concession for the provision of water and sanitation services in fifteen municipalities in the Province of Santa Fe. The concession area covers 1.8 million inhabitants and includes the capital of the Province of Santa Fe and the province's largest city, Rosario. The province of Santa Fe, along with Cordoba and Buenos Aires, is one of the three most important provinces in Argentina.

Since privatization, APSF has invested approximately 245 million dollars in the expansion of the network whilst also rehabilitating water supply plants and sewage treatment facilities.

In March, 1997, Aguas Cordobesas, another consortium led by SLDE, was awarded a 30-year concession for water services in the city of Cordoba, capital of the Province of Cordoba, Argentina. The company provides services to 700,000 inhabitants. So far, the company has invested approximately 85 million dollars in the expansion of water production capacity.

Also in May 1997, Aguas del Illimani, a new consortium led by SLDE was granted with a 30-year concession of provision of water and sewerage services. The concession area includes the city of La Paz and El Alto in Bolivia. In these cities, the population reaches 1.4 million people and is characterized by a high level of poverty. Since the takeover, Aguas del Illimani invested 50 million dollars in expanding its service. Currently, the concession is supplying water services to 100% of the population.

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Delivering the essential of life

In June 1999, SLDE together with Aguas de Barcelona, acquired for approximately US $1 billion, a 51% share of EMOS. This company manages the water and sewerage services for the 5.3 million inhabitants of the city of Santiago de Chile. In the year 2000, EMOS acquired Aguas Cordilleras, a company that provides water services in the residential area of the northeast of Santiago de Chile, for approximately US$ 190 million.

In addition, in June 2000, following an international bidding process, SLDE acquired a 90% share of Manaus Saneamiento, and then renamed it Aguas do Amazonas, which was simultaneously awarded the 30-year exclusive concession for the rendering of water and wastewater services to the city of Manaus, Brazil. Aguas do Amazonas provides services to approximately 1.4 million inhabitants and is the largest private water utility operating in Brazil to date. The company's major challenge will be to develop wastewater treatment in the concession area. Prior to this acquisition, SLDE operations in Brazil were limited to a small concession in Limeira (approximately 200,000 inhabitants).

Finally, in October 2000, Bogatana de Aguas y Sanemiento ("BAS"), a wholly owned SLDE subsidiary, started to operate a wastewater treatment plant in the Capital District of Santa Fe de Bogota, Colombia. BAS had previously received from the District a 30-year concession to build, operate and transfer the plant, construction began in 1997. This contract is part of a vast project led by the District to clean-up the highly polluted Bogota River.

From 1993 to 2000, SLDE has strongly invested in the vital improvement and expansion of the water and sewerage services in Latin America, and as a consequence is the sector leader in development. This development could not have been achieved without the key support of an organism such as the Inter-American Development Bank ("IDB"), which has financed a great amount of the necessary infrastructure investments.

The need for SLDE, as well as for financial organisms such as the IDB will be consolidated through the continual requirement for service expansion and improvements of the privatized regions as well as those soon to be privatised in Latin America.

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SUEZ LYONNAISE DES EAUX



Carlos Gabel

Transcending Borders

"In the 1970s and 1980s, technical cooperation supported national and sector planning, created project units, trained officials and modernized fiscal and customs policies and administration in the countries of the region. Targeting low-income populations and attempting to preserve and reclaim traditional handicraft know-how and skills and incorporate new technologies into this sector, the Bank hired Israeli expert Ruth Dayan, who was the driving force behind productive integration of the handicraftsmen and women who came to her country. I accompanied Ruth and several technicians from different nations on start-up missions for projects in Bolivia, Costa Rica, Ecuador, Guatemala, Haiti and Panama. In one country, we went out with Ruth to make our way along almost impenetrable roads in search of a small hamlet immersed in abject poverty and unemployment. After overcoming countless problems, weaving looms were installed, raw materials arrived, and training was completed. After a few weeks, a group of 20 girls had completed a magnificent collection of modern tapestries. In another country, a handmade jewelry project involved an expert who didn't speak any of the languages of the village. In a few months' time, the program participants had not only learned the craft of jewelry making but had also learned another language, an example of how technical cooperation also helped cultural enrichment."

Carlos Gabel came to the Bank in 1970; he retired in 1994 as a Technical Cooperation Officer.

the gradual convergence and harmonization of their fiscal and monetary policies. These were indispensable components for consolidation of integration. By the time Ortiz Mena left the office of the Bank president, practically every Latin American country had incorporated a VAT into its tax system.

The OAS/IDB/ECLA Program on Taxation bolstered tax administration by adopting an open-ended approach with no prior commitment for funding. This way, countries could request technical assistance in the field of tax administration and be jointly served by technicians and resources from the participating organizations listed in the title of the program. Under this program, national registries of taxpayers were established, tax auditing functions were strengthened, and the process of administrative decentralization of internal revenue services was implemented so that case management could take place in regional offices, and planning at the central offices.

Regional Integration

The regional and subregional economic integration of Latin America and the Caribbean is one of the main goals of the Bank, and had just as high a priority as economic and social development, as defined in the mission statement contained in the Bank's charter.

Support for the economic integration effort initiated by Felipe Herrera was also a clear priority of the Bank during the 1970s and 1980s. In his inaugural speech as president in 1971, Ortiz Mena addressed the issue of how urgent it was to accelerate the process of integration and grant broader support to regional lending agencies, such as the Andean Development Corporation, the Central American Bank for Economic Integration and any other lending organizations and instruments

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that would eventually be established. In addition, he stated that integration was strategically important to industrial streamlining by facilitating economies of scale, reducing production costs and increasing Latin America's competitiveness in international markets.

During the 1970s, Latin America endeavored to improve its manufacturing competitiveness as a basis for sustained development of nontraditional exports. Since most domestic markets in Latin America were too small, integration schemes called for industrial integration as an extension of the individual domestic markets. Several different mechanisms were designed for this purpose, such as the Agreement on Industrial Complementation of the Latin American Free Trade Association, the Sector Programs for Industrial Development of the Andean Group, and the Agreement on Manufacturing and Integration Industries of the Central American Common Market. The Bank set out to thoroughly review preinvestment applications for these integration projects and look deeper into potential integrated industrial development programs. The Bank viewed the use of the Pre-Investment Fund for Latin American Integration as its basic tool for this purpose.



Above: *A wicker basket maker in Woburn Lawn, Jamaica. In 1979, IDB funds financed a variety of economic and infrastructure development community projects.* ***Top:*** *The TransChaco highway, between Asunción and Filadelfia in Paraguay, was partly financed by the IDB in 1979.*

Antonio Ortiz Mena: *Continuity and change*
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Below: *In 1980, an $8.8 million IDB loan financed the drilling of wells on the sides of Miravalle Volcano in Costa Rica to promote development of geothermal energy.*



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Improving communication and transportation systems between the countries of the region was also considered indispensable to bringing about efficient industrialization. The Bank designed a checklist of physical infrastructure projects that also served as a sort of a primer for governments on how to identify particular projects that would contribute to improving the coordination of their respective national physical infrastructure plans and, at the same time, take into consideration the demands of efficient and competitive industrial development on the regional and international levels.

The Latin American Integration Institute (INTAL) received solid support and stepped up its research and education efforts with an eye toward training and motivating the technical staff of national institutions responsible for the execution of integration agreements. This institute was also assigned the task of acting more often as an advisor to countries by conducting studies aimed at identifying potential multinational projects.

Ortiz Mena's reorganized Bank administration was made operative in 1972 and created a specialized unit at the managerial level that focused exclusively on the coordination of programs and projects in this field. This unit's job was to manage technical and financial cooperation programs that were implemented by the Bank in order to create or strengthen subregional integration agreements and institutions for Central America, the Caribbean, the Andean Group, and the Río de la Plata Basin, as well as the Latin American Integration Association (ALADI), which took up the banner left by the Latin American Free Trade Association (LAFTA). Some of the main beneficiaries and creations of this ambitious effort were the Bank for Central American Economic Integration, the Caribbean Development Bank, the Andean Development Corporation and the Financial Fund for the Development of the Río de la Plata Basin (FONPLATA).

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In addition to financing human resource development and providing support to integration institutions, during this period the Bank financed important transnational physical integration projects, continuing the pioneering work started in 1965 with the construction of the Brazil-Paraguay highway. The first energy integration projects to be promoted and financed by the Bank at the beginning of the 1970s were interesting because of their innovative nature. Examples of these projects include the gas pipeline between Santa Cruz and Yacuiba, which linked Bolivia to Argentina and whose financing was approved by the Bank in 1971, and the electric interconnection between Paraguay and the Province of Misiones, Argentina. These projects showed how crucial the Bank's involvement was. IDB technicians made great contributions to bringing about the mutual trust that made feasible these first experiences of economic interdependence between countries whose authorities were still leery of the impact that this type of project would have on their national security and international borders.

These experiences laid the foundations to undertake years later the large-scale, transnational hydroelectric and electric integration projects that today link Paraguay, Brazil, Argentina and Uruguay. In 1972, the Bank granted the first binational loan to Argentina and Uruguay for the first of these projects, the Salto Grande hydroelectric dam over the Uruguay River.

One of the most complex multinational projects ever undertaken by the Bank at that time was the electrical integration of the Central American isthmus. The first loan granted within the context of this program was in 1972 for construction of the Cerrón Grande power plant in El Salvador. Ortiz Mena enthusiastically embraced this project, convinced that it would eventually make it possible to establish energy connections between North and South America, linking Mexico and the interconnected North American system to Colombia, whose vast energy resources could then be harnessed.

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Opposite page: *Antonio Ortiz Mena and Felipe Herrera celebrate the 20th anniversary of the IDB during a ceremony in Washington, D.C. in February, 1980.*
Below: *After his reelection to another five-year period, Ortiz Mena is congratulated by William Miller, U.S. Secretary of the Treasury (left) and Antonio Delfim Netto, Brazilian Minister of Planning and Chairman of the Board of Governors.*



Even though integration had a high political priority at the time, industrialization through expansion of domestic markets beyond national borders into regional markets ran up against the economic troubles of both decades, which compelled one country after another to rethink its development and integration strategies.

Economic Infrastructure

A growing priority of the Bank under the leadership of Ortiz Mena was the construction and improvement of the economic infrastructure of the borrowing countries. Between 1971 and 1987, loans used for physical infrastructure construction or improvement represented more than 40 percent of total lending. Energy was a key area, especially electrical power generation, transmission,

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Below: *A $500,000 small project loan provided by the IDB in 1981 helped a fisherman's cooperative to build a processing plant on South Andros Island in the Bahamas.*



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Right: *Construction of the cement manufacturing plant Piedras Azules, in Honduras, which was finished in 1981, was financed with a $15 million IDB loan.*

and distribution projects which, as was mentioned above, also helped to bring about integration between countries. IDB loans helped Venezuela, Colombia, and Ecuador increase their electrical energy production and integrate their power grids in 1971, and helped to increase Bolivia's oil refining capacity in 1973. As a matter of fact, in 1974 electrical energy became the main beneficiary of lending, ahead of agriculture, transportation, communications, sanitation, industry and mining. The Bank also supported hydroelectric power projects in many other countries, including the Dominican Republic, El Salvador, Guatemala, Paraguay and Uruguay. In the early 1980s, the strategy for the energy sector was not as focused on increasing capacity as it was on more efficient utilization and streamlining of production and consumption.

Transportation was another area high on the list of priorities. It is noteworthy that, by the end of the 1970s, a dozen seaport projects had been completed thanks to support from the institution. The Bank contributed to financing the construction of primary and secondary highways and rural access roads and, in most instances, attempted to make these projects as labor intensive as possible in order to provide employment for low-income groups. An example of this practice was a nearly $20 million loan granted to Colombia in 1980 to aid in the construction of 500 kilometers of mountain roads using local workers with picks and shovels.

New Modes of Operation

In order to satisfy the growing demand for financing that paralleled the rapid growth that took place during the 1970s, the Bank implemented new operational procedures that made it possible

Antonio Ortiz Mena: *Continuity and change*
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Below: *The Ginsa tire factory in Guatemala City received a $2 million loan from the Bank of Guatemala through an industrial reactivation program financed by a $60 million IDB loan.*



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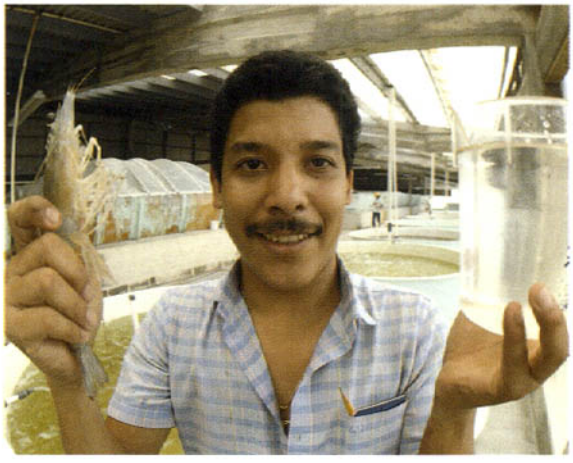

Right: *A $13.2 million IDB loan approved in 1982 for fish and shrimp farmers in Panama financed the construction of pools and incubators.*

to diversify and expand its lending without having to undergo a significant increase in staff size and administrative budget. In order to fully grasp just how radical a departure this was from prior practices, it is necessary to bear in mind that up until that time the Bank only granted direct loans to finance specific, predetermined and preevaluated investment projects, or global loans to intermediary lending institutions. These institutions, in turn, would act under the same criteria as the IDB and grant subloans that were also aimed at financing investment projects, but, because of their small size, did not lend themselves to direct financing by the Bank.

Global loans for multiple works were one of the new modes of operation that were implemented in the 1970s. These loans were designed to finance medium-term investment programs whose components, the specific projects, were not totally defined or identified nor planned out from the technical engineering standpoint at the time that the respective loans were approved. Instead, these operations would be associated with an overall sector plan or program that had been previously approved by the Bank. Furthermore, these loans were contingent upon creation of a program execution unit or office that would be responsible for identification and preparation of the specific projects that the lending operation would eventually entail. Bank technicians would only review in detail a small sampling of the projects and, on the basis of this review, grant a high-volume loan that was pledged and disbursed over a period of several years, while the ad hoc execution unit moved forward in identifying and preparing the different investments, that is, the multiple works that made up the program.

This mechanism was used to finance long-term programs in a single sector, for example, highway works, vocational school construction or public health posts and were also used to finance several interconnected programs in different sectors. This way, with a single operation, the Bank

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José I. Estévez

Staffing Policies, Promises and Women

"My inaugural speech as president of the Employees Association in 1981 sounded harsh. I read a list of promises that Ortiz Mena had made to the staff prior to that time. Many people criticized my style and nobody gave me more than six months at the head of the association. But Ortiz Mena called in his management staff and told them that it was his obligation to make good on what he had promised. It was a year of accomplishments and I lasted four years as president. At that time, I also mentioned the representation of career women at the Bank: there were only 12 women at grades IV or higher out of a total of 360 positions at headquarters; there wasn't one single woman representative or deputy representative; and there were only four women at grade VII or higher out of a total of 200 positions at the country offices. At that same meeting, Ortiz Mena said: 'We shall seek out more and more women to come and serve in the highest positions of the Bank.' Although this is still an issue, we have already had two women vice presidents and the make-up in career positions has undergone a remarkable change."

José Ignacio Estévez came to the Bank in 1977 as the first employee from the nonregional member countries. He has been the Ombudsperson since 1994.

could finance large-scale, far-reaching, integrated rural development programs that could encompass, for example, irrigation works, credit to producers, construction of agricultural product storage and processing facilities, rural electrification lines and construction of experimental agriculture stations. The beneficiary countries of this type of loan arrangement included Venezuela, the Dominican Republic, Honduras and Colombia. Loans for integrated urban development programs were also structured using a similar method.

Beginning in the 1970s, the Bank attached a great deal of importance to institutional issues and policies as well as to the quantitative objectives for programs in its approach to sector operations. This approach predated by many years the idea of structural and sector loans not being linked to projects, which the World Bank and, later, during the 1990s, the IDB would use as instruments to support overhaul of economic policies and state reform efforts. These instruments also proved to be useful for carrying out massive transfers of resources to overcome problems caused by the external debt crisis in Latin America.

In order to facilitate large-scale project financing during the 1970s, the Bank developed a new operational modality by combining Bank loans with coordinated lending packages from suppliers. The purpose of this mechanism was to respond to the need for mobilizing a high volume of financing for electrical generation, irrigation, transportation and communications infrastructure projects and also for basic industrial projects, such as steel production, mining and petrochemicals. This arrangement included obtaining supplemental financing from private banks and export credit insurance from industrial nations.

To orchestrate these arrangements, the Bank would first evaluate the project. Once IDB officials were satisfied that the proposal was viable and fell under a priority category, the project would be

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Right: *Former U.S. Secretary of State Henry Kissinger meets with Ortiz Mena in 1983 at the IDB. Kissinger chaired a U.S. commission that closely monitored the situation in Central America at that time.*

submitted to a capital goods exporting nation's agency, such as the Eximbank of the United States, Coface of France, or Hermes of Germany, whose job it was to grant or back loans to exporters. The Bank would attempt to secure a guarantee of how much and under what terms the agency would be willing to lend funds if service providers or contractors from the same country as the agency were awarded contracts for execution of the project in question. Based on exactly how much money was obtained from these complementary financing agreements, the Bank would determine how much would be lent of its own resources, which was usually much lower than the amount of the complementary loans offered by the foreign providers.

The multiplying effect that this type of IDB loan had was far-reaching and made it possible to leverage considerable resources from other sources. Since the bidding process for goods and services for project execution would only commence after the Bank agreed on a package of loans from providers and approved its own loan, open competition and the best prices were ensured in the procurement and contract awarding processes. This method was successful at mobilizing loans from providers and other complementary financing largely as a result of the high regard that existed in financial circles for the Bank's seal of approval on the projects it evaluated. The institutions that granted these complementary loans had the utmost confidence in the IDB's ability to assess the merits and feasibility of projects as well as to oversee and monitor the bidding process and investment execution in the most objective and technically sound fashion. Some of the largest projects that the Bank helped to finance in 1973 using this method included the Paulo Afonso hydroelectric complex in Brazil and the Las Truchas steel mill in Mexico. In these operations the Bank's loans represented barely 10 percent of the cost of the projects, but served as crucial leverage to mobilize considerable sums from other sources.

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Below: *In 1983, coastal sanitation works were begun in Montevideo. A $78 million IDB loan was granted to the Mayor's Office of the capital of Uruguay to finance the program.*



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This type of cofinancing scheme was extremely advantageous. It ensured that funds lent by commercial banks were directed to well-planned projects that were capable of generating enough resources for debt service either directly or indirectly. Although these loans were not backed by an IDB guarantee, the Bank's participation in the supervision of project execution and in debt service collection essentially made these operations default-proof. The program was highly successful and more popular among private banks than similar programs of the World Bank. Unfortunately, U.S. authorities did not see eye-to-eye with the Bank on this cofinancing mechanism and became concerned about the impact that their potentially explosive growth could have. As a result of these concerns, this cofinancing method was abandoned at the beginning of the 1980s.

The innovative capacity of the Bank was also apparent in its concern for finding efficient mechanisms to provide financing for small-scale projects with a significant social impact, such as development of traditional handicrafts and small productive enterprises. Nevertheless, to pursue these avenues from the Bank's headquarters in Washington, D.C. proved to be costly and difficult if the only instruments available were the same mechanisms and methodologies that were used for lending or traditional technical cooperation operations.

A new special program to finance small projects was devised in response to this challenge. It would involve using resources in local currency that the Bank would have accumulated and could provide on a nonreimbursable basis or give out in the form of highly concessional loans; the program would use nongovernmental, nonprofit institutions to channel the financing directly to microenterprises. A specialized unit was created for the identification and preparation of these projects, as well as for their execution and supervision. Although this program involved a limited use of resources, it made

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Left: In May 1983, during the visit of Pope John Paul II to El Salvador, the new street plan of the tree-lined boulevard that bears the name of the Pontiff was inaugurated. It was one of several main roads that were widened with the support of an IDB loan for $13 million.

it possible to gain experience and to venture into unexplored areas of action that could benefit traditionally marginalized segments of the population, such as indigenous communities. It also enabled the Bank to start programs whose explicit objective was to improve the plight of women and enhance women's participation in development. The first small project loan was approved in 1978 for a textile cooperative, Manos del Uruguay.

Education

The IDB was the first international lending institution to support the education sector, and its pioneering work blazed the trail for other multilateral organizations to follow.

Indisputably, Felipe Herrera's deep-rooted belief in the importance of higher education, science and technology would characterize the institution from the time of its creation and continue to do so into the following decades. Herrera stated on several occasions that "the entity yearned to become the Bank of the Latin American university." During this early stage, the IDB basically helped to finance advanced education and science and technology centers, with the certainty that strengthening these fields was indispensable to nurturing and cultivating the political, economic, technical and cultural leadership that the region required to plan for and attain a higher level of development with decreasing need for outside aid. As the decade began in 1970, the Bank was the leading and the most prestigious institution in this field.

During Ortiz Mena's term, a high priority was still given to higher education, although the number of loans awarded to universities decreased. The number of loans for the development of primary

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Cristina Solari de Ortiz

The Bank Appoints a Woman Representative and Supports Bolivian Recovery

"In 1983, I was honored by the Bank by being appointed as the first woman Representative of the IDB. The country in question was Bolivia. The extreme macroeconomic distortions that the country experienced between 1984 and 1985 - 30,000 percent inflation, a free rate of exchange 50 times higher than the official rate - presented an operational crisis for us every day. We needed suitcases to transport the money required to pay the local employees! This situation led other international organizations to suspend their support to the country. The Bank, nonetheless, identified special ways to continue operating in Bolivia during a period that proved to be historic because it set the foundations for the country's democratic future."

Cristina Solari de Ortiz came to the Bank at the end of 1961 and retired in 1995 as Chief of the Microenterprise Division.

education and vocational training at the middle and high school level, however, gradually increased. These two branches of education, which in the previous period had not caught the attention of the Bank, became important areas of action during Ortiz Mena's period, with each one accounting for as much as 20 percent of the total share of loans to the education sector. Although it is true that in the 1970s and 1980s funding for education did not rise to the same degree that it did during the 1960s, conventional-type loans were granted to primary, secondary and vocational education, which at least enabled countries to receive quick disbursement of funds and facilitated administration of the loans. Moreover, diversification in the focus of education financing had come about as a result of two major reasons. On the one hand, the privileged nature of higher education, in terms of its effects on equity and poverty, was being called into question. On the other hand, an attempt was being made to satisfy the need to ensure availability of schooling and improve the quality and efficiency of education systems at all levels. By the end of the 1980s, the Bank had approved nearly $2 billion worth of loans and technical cooperation for projects in this sector, bringing total investment to nearly $4 billion.

Urban Development

In 1960, only nine Latin American cities had more than one million residents; in 1970, this number totaled 15 cities. By the beginning of the 1970s, six million additional people, who needed shelter and services, would come each year to live in large metropolises that were plagued by serious deficiencies in services and administration. A complex picture was taking shape because, while modern suburbs were being built for the middle and upper-classes, the old urban downtown areas were

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Below: *Monitoring millions of pine trees planted in the Orinoco River Delta as part of a forestry project financed with an IDB loan to Venezuela in 1984.*



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Right: *In 1985, another IDB loan financed studies on air and water pollution in Santiago, Chile.*

deteriorating. Slums or marginal neighborhoods were sprouting up chaotically within cities and on city outskirts, for the most part on unsuitable lands that were lacking in proper infrastructure. At the same time, it was difficult to mobilize enough resources to improve conditions or contain this deterioration. These circumstances demanded the creation or strengthening of mechanisms to coordinate the effort to satisfy infrastructure needs, provide the necessary services, and efficiently use new financial instruments for urban investments. The situation required, for this purpose, a readjustment of the institutional structures of municipal government and the creation of new sources and mechanisms of financing.

Those problems led the Bank during the 1970s to foster programs geared toward: i) reinforcing the relationship between development and urbanization by financing living conditions and housing improvement projects; ii) directing underutilized resources toward urban development, such as social or public assistance funds; iii) increasing government revenue by improving municipal tax collection; and iv) strengthening technical and financial aid to low-income urban groups, especially precarious settlements, by helping them to obtain credit and improving infrastructure in these areas.

The Bank also made technical and financial aid available to the countries to help in designing national policies of urban development, improvement of municipal administration and creation of financial mechanisms aimed at increasing the capabilities of local governments.

Housing sector financing had been an important component of the Bank's lending policies during the 1960s. Moreover, starting in 1965, the IDB extended its original support for water and sewerage projects to the broader context of urban development. This policy made it possible to consider technical assistance and financial aid proposals in areas of special importance to the development of

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Kenneth H. Cole

Small Projects

"The small projects program experience was fascinating. A great deal of what was financed was original. I remember that we met one morning with indigenous members of a cooperative in Otavalo, Ecuador. Sitting on the dirt floor of one of the houses, with the aid of a Spanish-Quechua interpreter, we negotiated a project that was financed by the Bank. What also comes to mind is a discussion to convince the Loan Committee that an association of Aymaras from Bolivia met the Bank's requirements for legal capacity and adequate operational structure. We won out in the end and the project to increase alpaca production was a success. Since we were pioneers in the sector, we learned many lessons, some of which stood in stark contrast with the mandates of the Bank. At the beginning of the 1980s, loans were supposed to be used mainly for fixed assets. We saw how microenterprises required more financing for their working capital, particularly in retail commerce, where many markets were dominated by women. This information made it easier for us to obtain approval for financing working capital. The program loans have made it possible for many organizations to develop the ability to administer even a million dollars in assets."

Kenneth H. Cole came to the IDB in 1965. He retired in 1993 as Coordinator of the Small Projects Program.

cities, with particular emphasis on making such investments components of larger, comprehensive urban development plans.

Technical cooperation and loans were only provided, however, in the following fields: urban planning, urban administration and financing, housing, public services and indispensable community works, programs with local participation in the construction and administration of public and community services, and personnel training. Under this approach, the Bank had financed, over the course of the 1960s, 51 projects in keeping with the traditional directive of building finished housing for low-income groups. The central government of the recipient country would assign project execution to an institution and the housing units would be allotted to beneficiaries under soft amortization terms. This approach was marred by serious defects relating to allotment and cost recovery, which led to institutional and financial difficulties. Furthermore, widespread use of subsidized interest rates that were below financing costs made it impossible for the executing agencies to completely recover their original capital investment.

The seed capital that the Bank had provided for these projects quickly ran out, which made it impossible to carry on with the program. In the 1970s, in response to the ensuing problems, the Bank approved only three projects, two of which were integrated urban development projects with a housing component for low-income groups. The services included in these projects were drinking water, sewers, streets, drainage and electricity, as well as connection of these services to housing units. Beneficiaries built their own houses on the lots that were equipped with services by engaging in self-help or community participation activities. One variation on the "lots with services" model was neighborhood improvement projects, which were designed to improve sanitation conditions

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Juan M. Alfaro

There's No Problem...

"In 1984, after almost 25 years of doing business, the Bank established an environmental sanitation policy that drew on its experience and provided an appropriate and realistic framework for its operations. Still in force, it contains precise directives to ensure water supply sources, give priority to system restoration as opposed to expansion, minimize water loss, include treatment of waste water, endorse a policy of investment recovery through fee collection, and pledge to conduct proper maintenance of new facilities. Moreover, the Bank can be given much of the credit for the fact that today the region has become aware of the environment and regards the treatment of groups of people as the most important part of projects. I remember one time in the mid 1970s when I headed a potable water project analysis mission to a Central American country. We confirmed that several families that supported themselves by subsistence farming lived within an area that would be flooded by a reservoir created by a dam that would supply the nearby city. At the last meeting of the mission with the minister, he listened to us and exclaimed: 'there's no problem, engineer, you can continue to move forward with the loan processing, we'll just send in the army and the area will be cleaned out in one day's time...'"

Juan Alfaro came to the Bank in 1973 and retired in 1992 as Chief of Basic Environmental Sanitation.

and land tenure in poor settlements.

In the mid 1980s, a new approach to construction and financing of low-cost housing began to take shape. Emphasis on housing supply was replaced by a housing demand-focused approach. This new approach was based on participation of the private sector as the main provider of housing units and mortgage loans. In this approach, the government only played a regulatory and facilitating role in the market. Furthermore, low-income families received subsidies for the purchase of housing units to cover the part of the price that they could not afford to finance with their own savings. This subsidy was granted through loans, whose repayment terms were tied to a predetermined maximum family income. At the same time, the Bank continued to support those neighborhood improvement projects that were effective at enhancing housing conditions for low-income groups.

Export Financing

During negotiations on the charter of the IDB, one issue that concerned the representatives of some countries of the region, especially Brazil and Mexico, was how to include financing of Latin American manufacturing exports among the functions of the new institution. The United States did not support this proposal and, therefore, it was not included in the Agreement Establishing the Bank.

Nonetheless, Latin American countries continued to be interested in the Bank establishing a program for nontraditional export financing and, in 1963, managed to get the consent of the United States to put a relatively modest program into place for this purpose. It was specified that Bank financing would only be available for capital goods that were exported from one Latin American country to another. Because

Antonio Ortiz Mena: *Continuity and change*
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Below: *El Cajón hydroelectric plant in Honduras was inaugurated in 1985. Construction was aided by IDB loans totaling $185 million.*



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of those restrictions, the program only provided resources to a small number of countries, which had capital goods industries whose prices could compete with those of exporters in industrial nations.

Despite these restrictions, this first program was a valuable experience for the Bank. It paved the way for establishing cooperation ties with the export financing agencies of the industrial countries so that Bank operations in this field remained in line with the prevailing practices set by these agencies under the Berne Union. These relationships would eventually lead to the mobilization of lines of credit from these providers to support Bank-financed projects.

Creation of the Venezuelan Trust Fund provided an opportunity for the Bank to get around the restrictions that had originally been placed on export financing. By early 1975, prospects for export financing had increased considerably because these Venezuelan resources could be used to finance nontraditional exports of all types, regardless of whether they were directed to countries within the region. The greatest impact of the expanded program was on the institutional level because it enabled the Bank to help in creating and modernizing export financing mechanisms and in backing loans for nontraditional exports in most of the borrowing countries.

In view of the fact that the amount of funds available for export financing from the Bank's own resources together with the Venezuelan Fund was limited, the IDB supported a Panamanian initiative to create a regional bank that would be based in that country and devoted exclusively to this activity. In 1976, an IDB technical cooperation operation financed studies that served to prepare the project that gave rise to the Latin American Export Bank (BLADEX). The IDB also collaborated in the negotiations that culminated in the subscription of the initial capital of BLADEX. In addition, during this bank's first years of operations, the IDB provided resources for the institution by depositing some

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René Costales

Consultations with Affected Populations

"During a visit to a very complex and controversial project in the ecologically fragile Amazon region, a local activist was questioned by a high government official, who had come from the national capital to look into what he had discussed with me at length. The activist rejected this attempt at intimidation as a violation of his right to free speech. In this instance, anyone could see how important it was for the IDB to consult with every party who may be affected by its projects at all levels: private, public, national, local, for or against..."

René Costales came to the Bank in 1973. He was the first Secretary of the Committee on the Environment. He is Chief of the Pension Administration Unit.

of its liquid funds at BLADEX. This institution grew rapidly. Its members were the central banks of the countries of the region, Latin American commercial banks specialized in financing foreign commerce, and international commercial banks. Since that time, BLADEX has served an important purpose by directing resources from private international banks to the financing of Latin American exports.

Although its creation was delayed for quite some time, this bank was a response to that initial concern of Latin American countries that the IDB was unable to address during its early years.

Private Sector Support

Under its by-laws, the IDB may grant loans to private enterprises without government guarantees. This mechanism was used during the early days of the Bank, was then abandoned and, decades later, was resurrected. During the 1960s and throughout Ortiz Mena's term, the Bank's main instrument for private sector support was granting loans to intermediary financial institutions. This method enabled the Bank to support the creation and expansion of small and medium industries by providing resources in foreign exchange to national industrial development banks in order to facilitate capital goods imports.

Given that its charter prevented the IDB from engaging in venture capital investments with its own resources, there was no other alternative than to create an entity for this purpose. Therefore, at the end of the 1970s, the proposal was put forth to create a regional finance corporation (COFIAL), which would be an autonomous entity under the Bank's organizational structure. This corporation would be authorized to carry out this type of investment and provide other types of loans that the Bank was precluded from providing in large volumes, such as loans for Latin American exports.

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Above left: *Ortiz Mena is congratulated after his reelection to a fourth term in December 1985.* ***Above right:*** *U.S. Secretary of the Treasury James Baker (sitting on the left) and Ortiz Mena sign the agreement establishing the Inter-American Investment Corporation in 1985.*

Up until that time, national banks provided businesses with loans using their own resources to cover the working capital needs of enterprises. The crucial element that was missing, however, was an agency or organization to provide the venture capital that was indispensable to starting up new businesses and expanding established enterprises. Without this component, industrial development programs would have a limited impact and would be ill suited to bring about the incorporation of new technologies to small and medium-size enterprises and open up new export markets for these companies.

The COFIAL initiative was enthusiastically supported by the majority of the governors of the Latin American countries and, during the early 1970s, the Bank sponsored several meetings to discuss and define the new entity's scope of action. However, the initiative failed to gain the full support of the United States, an indispensable requirement to make it viable and credible in international financial circles and, for this reason, did not take off at the time.

During the mid 1970s, the creation of the Venezuelan Trust Fund provided the Bank with a novel opportunity to implement a pilot project for support to medium-size industry through venture capital investment. This experience had its limits but managed to focus the attention of the governors once again on the need to find an appropriate institutional vehicle to address this issue.

Ten years after the failed initiative of a regional finance corporation, the political and economic circumstances of the region were ripe for undertaking the effort once again, but this time with the decisive support of the United States and the participation of the nonregional member countries. The scheme proposed by Ortiz Mena for the new entity provided for small amounts of seed capital that would be quickly recycled by selling shares in small and medium-size businesses to private investment funds. The plan was to put together a managerial team to staff the corporation, which would be made

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Below: *The Bank gets a new headquarters in Washington, D.C.. The staff is transferred to the new building in July 1986. Since that time, it has become a hub of international meetings, conferences and seminars on economic and social matters related to Latin America and the Caribbean.*

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Julio Luna

New Headquarters Revives Downtown Washington, D.C.

"One of the most successful gambits of the Ortiz Mena administration was the purchase of the building on New York Avenue. It was a paralyzed construction site, which was offered at a good price in an area of Washington, D.C. that was two blocks away from the White House that people wanted to recover and modernize. The mere announcement of the Bank's move helped to revive the neighborhood, where the main station of the Washington subway system was located. The first stage of the move began when the premises were still under construction. Any move is a mixture between a fire and a shipwreck and gives rise to unbearable tension and stress. For more than a year, the staff regretted the stark change of neighborhood. Today, with the property generously reappraised and the neighborhood modernized and beautified, the IDB family feels pleased and safe."

Julio Luna was the General Coordinator of the Project Analysis Department in 1985-86 and Chief of Agriculture, Forestry and Fishing Development until 1989.

up of three positions: a general manager; an assistant manager who would see to technical-industrial aspects; and an expert in marketing to investment funds. In short, this would be a small staff and all administrative, secretarial, accounting and financial services would be provided by the Bank.

On November 19, 1984, 34 of the member countries of the Bank signed the Agreement Establishing the Inter-American Investment Corporation (IIC) as an affiliated entity of the Bank that was to work toward the development of small and medium-size enterprises in the region. This long-standing dream of the Latin American countries would come true a few years later, when this entity commenced operations under the next Bank President, Enrique V. Iglesias.

Agenda for the 1990s

When Antonio Ortiz Mena left the office of the President in 1989, he was called upon to perform tasks of the highest responsibility in his native country, which was in the midst of great economic difficulties. The Bank's agenda was packed with burning issues that needed to be addressed by the institution and its members. In addition, several challenges and problems that could have an adverse effect on the development of the region needed to be resolved.

The external debt crisis rocked some of the very foundations and premises on which the Bank's effort and actions had been predicated. Heated negotiations between the governors on increases in resources made it clear that, after two years of countless meetings, a comprehensive agreement that would be acceptable to all members was not easy to reach. Two opposing views emerged during the debates: that of a "small" bank that continued along its traditional course of action without any sizable

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Below: *Antonio Ortiz Mena, accompanied by his wife Marta Salinas de Ortiz Mena, announces his resignation from the office of president of the Bank in February 1987.*



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increase in resources, and that of a "large" bank that would receive a substantial replenishment and alter its policies and course of action accordingly.

The small bank could continue to operate at a similar level of lending to that of the 1980s, provided that the volume of loans granted to the more developed countries did not increase. But it was precisely these countries that, as a result of the debt crisis, were deprived of the very sources of financing they had relied on during the debt crisis and had the greatest need for substantial financial support from the Bank. This support would be impossible without a sizable replenishment of capital for the Bank; in other words, without the "large" bank.

At the same time, development strategies were being reexamined. The region was undergoing a far-reaching process of change and transformation. The long-awaited return to democracy in many Latin American countries made it essential for new governments to find new and effective solutions to pressing economic and social problems.

The Bank, which had become internationalized, symbolized the new global interdependence between industrial and developing countries, and was once again called upon to play a major role as interpreter of the needs and hopes of the countries of Latin America and the Caribbean in solving these new problems. Its creativity and expertise in serving as a link between the region, the United States and other industrial nations to develop mechanisms of international support and cooperation would once again be put to the test.

Oscar Rodríguez-Rozic *was Deputy Secretary of the IDB from 1989 to 1998 and Chief of the Office of the President between 1981 and 1989, after serving in other positions. He came to the IDB in 1969. Prior to that time, he was Coordinator of the Department of Technical and Financial Cooperation of the National Development Council of Argentina and consultant to the National Commission of the Rio de la Plata Basin.*

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Going into Debt Could Make Us Lose Our Freedom

An interview with Antonio Ortiz Mena

Antonio Ortiz Mena was interviewed at his residence in Cuernavaca. He had just written the book *El desarrollo estabilizador: Reflexiones sobre una época*, in which he recounts his experiences at the Mexican Institute of Social Security and as Mexican Secretary of the Treasury and Public Credit.

When you were elected president, what was the crucial task ahead for the IDB?

Membership of nonregional countries. The IDB needed to diversify its sources of funding by expanding them to include Europe and Japan, and bring the technology and expertise of other world areas into the region, just as the Asian Development Bank did for the benefit of Asia at the end of the 1960s. At first, Latin American countries were suspicious of the idea of an IDB that would be in any way different from the original one. The United States was opposed as well, but became supportive of the idea toward the end of Felipe Herrera's term in office.

Meetings with the countries of the region helped to clarify the advantages of a globalized Bank and this made it possible to enter into long and complicated negotiations with the European countries, Israel, and Japan. These talks were also drawn out because the U.S. was concerned about keeping its say in the Bank. The admission of the nonregional countries transformed the IDB into a development instrument with a presence throughout the world and made it possible to increase by almost 80 percent the lending granted in the period 1976 to 1980.

What was the purpose of the reorganization of the Bank in 1972?

It became indispensable to bring about a change by capitalizing on lessons learned from Bank operations and adapting its organization to the demands of a new stage of development in the region. The purpose of this change was to better serve the countries by strengthening the selection and analysis of priority projects, while

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streamlining management of operations and stepping up technical cooperation to complement the development planning efforts of the countries.

A Project Analysis Department was created which began to conduct technical, institutional, financial and economic project analysis and was independent of the unit that negotiated and administered loans. Loan negotiation and administration was split up among three divisions of the Department of Operations under separate deputy managers, organized by geographic areas. Someone recently mentioned to me that the World Bank is adopting a setup that was similar to the one we had at the time, and even took up our concept of the country offices, which were strengthened at that time.

In order to expand technical cooperation, the Office of the Technical Manager was turned into the Department of Economic and Social Development, which was made up of the Office of the Deputy Manager for General Studies, the Office of the Deputy Manager for Country Studies, and the Office of the Deputy Manager for Technical Cooperation and Integration. The function of these first two Deputy Manager's Offices was to support countries in strengthening their capacity for absorption of resources for development and also to work with the country offices to become familiarized with the socio-economic situation and activities related to development in each country. The Deputy Manager for Technical Cooperation formulated and supervised programs so that most studies could be conducted in-country, with headquarters maintaining control and supervision in order to ensure uniform criteria and levels of quality acceptable to the sources of external financing.

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This way, countries could have experts at their disposal for basic economic studies, investment planning and identification duties, and promotion of priority projects. The third Deputy Manager's Office took on the functions of the former Office of the Advisor for Integration, incorporating integration into the formulation and execution of technical and financial cooperation. Thus was consolidated the support for technical and financial integration agencies and the work on multinational projects.

We continued to move forward with the major task of the Bank: to help the countries prepare the best investment projects. Under Felipe Herrera, a project preparation culture was nurtured, our technicians visited the countries and listened to the officials who were preparing the project profiles. Later, they would visit the projects and cooperate in their execution. The Bank devoted its efforts almost exclusively to the financing of projects; the main concern was to improve competitiveness of industry and agriculture, where great advances were made.

How did adoption of the value-added tax (VAT) play out in the region?

The idea dates back to the time when I was working for the Mexican government. I was always convinced of the need to streamline tax systems. When I took office as president of the IDB, the region had a quilt-like tax structure that had grown without any plan; internal revenue structure was more geared toward collection, without proper attention being paid to things such as export promotion. I analyzed the topic with the governors and a scheme was designed to study the problem in each country. Technical cooperation was a decisive factor in the gradual adoption of the VAT, which by 1983 had spread to 14 countries.

Another area that we looked into, within the framework of the OAS/IDB/ECLA Joint Program on Taxation, was double taxation. In June 1971, I mentioned the need for Latin America to adopt a common position that would crystallize in bilateral agreements with developed countries. By

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the end of that year, the countries of the Andean Group endorsed a decision establishing a policy to avoid double taxation between member countries and states outside the subregion. The principle was that, regardless of the nationality or domicile of persons, income of any nature that was earned by anyone would only be taxable in the country where the income originated.

How did the approach to education change once you came to the Bank?

Felipe Herrera's idea of financing higher education was correct, since the fate of Latin America is linked to its development and expansion. Nonetheless, because of the importance of this financing and its growing and massive demand in the 1960s and 1970s, a sort of chaotic competition between institutions, colleges, and schools came about and guidance was needed in order to avoid duplication of efforts. The push to educate more students won out over the quality of teaching and also beat out efforts to put order into the system. Universities needed the ways and means to become dynamic and modern centers for the training of professionals, academics and researchers, and for the generation of high culture and science.

This led us to review the social impact of educational benefits, especially in a milieu where sharp inequalities predominated. Given the importance of a more progressive distribution of income, we diversified financing to respond to a triple challenge: providing basic level education to a large majority, raising average school attendance, and preparing a pool of qualified candidates for the managerial and technical positions that development required.

What were the main achievements in the area of integration during your term?

There were two areas: formal schemes of integration and border development projects or bilateral activities. With regard to the first, priority was still given to the government secretariats or

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offices of integration and financial institutions that were part of integration schemes. At the end of the 1970s, loans for integration projects had surpassed $1.5 billion and important basic infrastructure projects had been financed such as Itaipú, Salto Grande and, jointly with the World Bank, Yacyretá. The potential of electrical interconnection in the region continued to be high, particularly the energy potential of Colombia and its interconnection with Central America and Mexico.

In the second area, economic integration infrastructure, the Bank collaborated with the countries on the construction of a highway system for integration; an inventory or check list of physical integration projects was drawn up for this purpose, which was used during my term in office. Often integration took on forms and followed paths that were not the most orthodox, yet they did help to bring about substantial advances. When we decided to reorganize the automobile industry in Mexico, it was not easy to go from high cost assembly of cars to production of components and to broader nationwide integration. But discussions with assembly plants to incorporate components made in Mexico into the cars that they produced throughout the rest of the world were successful and the country earned and saved foreign exchange and developed new technologies. This experience was applied to the Andean Group with the Industrial Development Sector Programs, which included this element of exchange of components that became known as compensatory trade exchange. Nevertheless, the economic crisis, differences in economic policies, exchange rates, and the monetary and fiscal policies of the countries made it impossible for the integration-minded advancements that were expected to come true.

How did the Bank react to the "lost decade"?

The IDB was concerned about the growing external debt of the region. We spoke with private banks and warned them that if they continued to

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lend they were going to lose money because the region did not have any way to generate foreign exchange for repayment. I reached an understanding with one of the main banks in the United States, to keep it from providing loans for projects that were not backed by detailed financial and economic profitability studies. I also warned them about the problem that private banks could cause if they assumed the role of development banks. This understanding did not happen with other banks and the lending boom of the 1970s made conditions ripe for the region to overstep a wise level of indebtedness.

After the external debt crisis broke out, the IDB collaborated with the countries on economic adjustment through implementation of different additional operational policies. The Bank also sped up the conclusion of important projects that may have been at risk because of difficulties in mobilizing national counterpart resources and restoring lines of credit for social investments. Eventually, adjustment helped to restore macroeconomic balance. The cost in social terms was high, but the alternative would have been even more costly.

We Latin Americans have learned a lot during the 1980s and I believe that the region must follow a model that is similar to the European model, which has proven that large and small countries can live together with a common economic philosophy. The big lesson of the decade was that we must be careful about going into debt; since we are young countries, going into debt is dangerous because it can make us lose our freedom.

José Núñez del Arco

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Telefónica: close to society and committed to service



Its priority objectives include the development of social applications for technology in order to promote equality of opportunity and contribute to improving people's lives, striving to help the most vulnerable members of society and those most in need.

Every year Telefónica spends over 40 million dollars on the developent of social and cultural activities in the countries where it has a presence.

One of the core values underlying Telefónica's work is a commitment to the societies in which it carries out its business activities. This commitment is evident, on the one hand, in the various ambitious investment programs Telefónica has undertaken, seeking to develop all that telecommunications has to offer, thereby contributing to the economic progress of the countries in which it operates. But there is another commitment, also of a clearly social nature, that is no less important. A commitment which has an essential characteristic: closeness to the society it aims to serve.

In today's society, access to technology, and particularly to telecommunications, is an essential tool for social progress on both the community and individual levels. A lack of such services is associated with less-advanced economies, therefore making telecommunications an undoubtedly reliable indicator for measuring the extent of socio-economic development.

With this clear perception of its role, Telefónica has established objectives aimed at developing the social applications of technology wherever possible, in order to promote equality of opportunity, and contribute to improving individual lives and social groups, striving to help the most vulnerable members of society and those most in need.

This activity is being carried out by the different companies that make up the Telefónica Group in their respective countries, through a carefully drafted policy regarding patronage, designed to ensure that any sponsorhip action taken will address real needs and reflect proper sensitivity towards the society it intends to serve.

Moreover, with a view to providing an efficient means of articulating this social and cultural activity, Telefónica has created a foundation (Fundación Telefónica). Currently engaged in developing specific plans in Spain, Argentina, Brazil, Peru and Morocco, the foundation proposes and develops projects and activities within the national context of each country, in joint efforts with autonomous foundations sharing a common philosophy, common pursuits and common working methods. The goal is the same: to come as close to society as possible.

All told, Telefónica has been spending over 40 million

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dollars every year for the development of social and cultural activities in those countries in which it has a presence.

The Telefónica Foundation promotes activities in the fields of education, social and health applications of telecommunications, social inclusion, community development, and volunteer work, among others. Also noteworthy is its work involving the protection and restoration of the rich historical and cultural heritage of all these countries.

In the field of education, an important project is "Educared, Educación en la Red" (online education), which is offered as a way to promote educational uses of the Internet, by facilitating internet connections and countless educational services for students, their parents, and educators in centers of learning. This project is currently in development stage in Argentina, Brazil, Chile and Peru. Moreover, in the year 2000, a university portal called CampusRed (www.campusred.net) was created for the purpose of serving as a platform for collaborations between university professors and students in Latin America. As in the case of EducaRed, it is primarily designed to offer portal users the ability to create their own content as well as exchange experiences, information and research. CampusRed was therefore launched with the aim of providing a tool for professors, students, managers and non-academic personnel of Spanish and Latin American universities to carry out their work more effectively.

The year 2000 has also seen further development of the Red Iberoamericana de Solidaridad (Ibero-American solidarity network), which provides a means for collaboration between not-for-profit institutions, facilitating the exchange of experiences, opinions and common projects. In addition, the network has its own internet portal, and in the year 2000, applications were received from 23 new entities requesting status as promoters of the portal.

In the field of humanitarian aid, already one of Fundación Telefónica's traditional activities, telephones and emergency units were provided to alleviate the effects of natural disasters such as the floods in Venezuela, Mozambique and India, as well as the famine in Ethiopia and the earthquake in El Salvador. The humanitarian and relief telephone service carried nearly 24,000 calls during the year 2000.

Cultural activities follow two main lines of action: on the one hand, the development of efforts for the restoration and conservation of national historic treasures, and on the other, the promotion and dissemination of contemporary artistic and cultural works.

In the case of the former, Fundación Telefónica provides support for the restoration of treasures in danger of being destroyed and whose loss would have especially serious consequences for the countries to which they belong. Included in this category is, for example, the exterior and interior restoration work being carried out on the three churches which make up the cathedral compound in the city of Cuzco, Peru, with a budget of a million dollars.

Telefónica's commitment to contemporary culture is expressed through its permanent exhibition rooms in several Latin American cities, which also serve as focal points for an intense program of related activities, with both new and established artists, as well as for the projection of new forms of artistic expression, such as cybernetic art and avant-garde movements.

Sixty-five million customers

Telefónica is the leading telecommunications operator in the Spanish- and Portuguese-speaking worlds, where it has a potential market exceeding 550 million people, of which 65 million are already its customers. Each year the company invests approximately 6.5 billion dollars for the development of infrastructure and telecoms services in the countries in which it operates, as part of its firm resolve to constantly renew and modernize its assets.

Another gauge of its closeness to society is its million-strong body of direct shareholders, which also enables it to extend the benefits from its own development as a company to broad sectors of the society. Telefónica shares are listed on the Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia) as well as on the stock exchanges of Lima, Buenos Aires, Sao Paulo, New York, London, Paris, Frankfurt and Tokyo.

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Enrique V. Iglesias: *Challenge and Response*

Jorge Espinosa Carranza



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Democracy and Development

The third administration of the Bank commenced in the midst of deep-rooted transformations in the societies and economies of Latin America and the Caribbean and throughout the world. The IDB was also going through a critical period when the Annual Meeting of Governors elected Enrique V. Iglesias to a five-year term as President of the institution on February 18, 1988.

The Bank faced the historical challenge of consolidating democracy and opening the region's economies to the rest of the world. In 1989, and again in 1994, the governors approved sizable increases in the Bank's resources and a drastic expansion of the mandate to support the economic and social development of its borrowers.

From Runaway Inflation to Stability

During the 1980s, runaway inflation in almost every country was one of the most insidious components of the region's economic crisis. It was the result of growing fiscal deficits financed by printing money and of the resulting macroeconomic imbalances, which became increasingly worse since the middle of the decade. A crisis situation persisted despite several countries' repeated stabilization efforts, most of which did not achieve the intended results. In the end, governments came to recognize the need for more daring and radical structural reforms and stabilization policies.

Inflation became chronic in the second half of the decade, especially in some countries where triple digit or even higher rates were recorded, and in certain instances remained at high levels until 1994.

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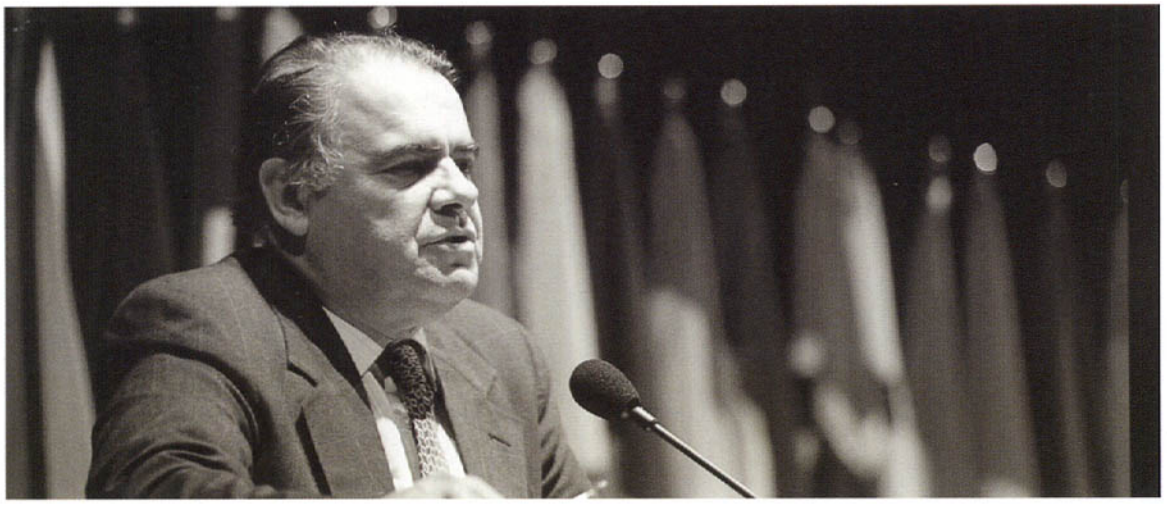

Nevertheless, during the first half of the 1990s, inflation began to lose its stranglehold in many countries. By 1997, it had fallen to 12 percent for the region, thanks mainly to the stabilization policies applied by the countries that had suffered the worst hyperinflation. The main countries falling in this category were Argentina (from 3,085 percent in 1989 to virtual stability in 1996 and thereafter), Brazil (from 230 percent in 1987 to 2,669 percent in 1994, and down to 7 percent by 1997), Nicaragua (from 10,215 percent in 1988 to 7.8 percent in 1994), and Peru (from 7,592 percent in 1990 to 8.6 percent in 1997).

Although a wide variety of stabilization efforts were made, it would be worthwhile to identify some common characteristics of the methods adopted by these countries. One of these characteristics was fiscal discipline, which entailed a severe reduction in public expenditures in most of the countries. Lower public spending, in turn, led to a lower fiscal deficit in many of the countries, or to a greater surplus in a few countries, specifically Chile, Peru, and Venezuela. Fiscal discipline also involved an effort to reduce the bureaucracy, privatize enterprises, increase tax revenue, and streamline the state. A second pillar of these stabilization efforts was monetary policy: increases in the money supply progressively decreased between the late 1980s and the early 1990s. A third stabilization factor in some countries was the real exchange rate; measures were taken to achieve a balance or appreciation in this rate in real terms. These measures were often supported by a growing influx of foreign capital. Some of the countries that experienced hyperinflation successfully used the exchange rate, at least for a period of time, as a nominal anchor of their stabilization policies. A fourth factor that contributed to reducing inflation was the combined effect of the drop in real wages and in the prices of inputs and imported capital goods on the costs of production, as a result of opening up to foreign trade. Lower prices of imported goods, in particular, can be attributed to the lower import duties and, in

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Opposite page: *Enrique V. Iglesias gives his speech at the Annual Meeting of the Board of Governors of the IDB and the IIC in Tokyo, 1991.*

some cases, overvalued exchange rates.

The year 1991 marked the beginning of a period of reinvigorated growth in production in Latin America and the Caribbean, as the region finally overcame the deceleration registered between 1984 and 1990. Nevertheless, as of 1991, GDP growth rates did fluctuate widely, between 5.7 percent in 1994 and 0.8 percent in 1995, averaging 3.4 percent from 1991 to 1998. This average represented a notable improvement over the average annual rate of 1 percent during the 1980s, but was far from the average annual rate of 6 percent during the 1970s.

Since 1988, the weak and unstable economies of the region had a negative impact on the recovery of real wages and on job creation, which increased at an annual rate of 2.9 percent between 1990 and 1995, compared to a growing supply of labor that expanded at a 3.3 percent annual rate in the 1990s after increasing at an annual rate of 3.8 percent in the 1980s. Consequently, urban open unemployment increased to 5.8 percent between 1990 and 1991 and to 8 percent in 1996, and there is evidence that hidden urban and rural unemployment also rose. The magnitude of the problem was reflected in the growth of the informal sector, which accounted for as much as 56 percent of nonagricultural employment in 1995 and provided as many as 84 percent of the new jobs created in the region between 1990 and 1995. This sector is now comprised of a large part of the low-income population, which lacks health care and social insurance benefits.

The economic stagnation that took place between 1981 and 1990 and the weak performance that was posted between 1991 and 1998 can be partly attributed to the inertia of gross domestic investment, which was held down to between 16 percent and 18 percent of the regional GDP. Only after 1992 did this statistic show an upward swing until it passed 20 percent in 1997, although

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Below: *In 1993 the Japan Special Fund (JSF) provided $2.7 million in nonreimbursable technical cooperation that helped create a computerized information system to provide technical support to Peruvian legislators. The JSF was created in 1988.*



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Below right: *$2.2 million in nonreimbursable technical cooperation from the JSF was granted to Peru in 1994 to establish taxpayer assistance centers as part of a tax system reform and modernization program.* ***Right:*** *With the support of a $71 million IDB loan granted in 1984, researchers at the national agricultural research agency of Brazil, known by its Portuguese acronym EMBRAPA, discovered a nitrogen-fixing bacteria that saved around $1 billion per year in fertilizer costs for soybean growers.*

throughout this period it remained far below the high figures that prevailed until 1981. The disappointing showing of domestic investment during the 1980s was a reflection of a variety of adverse factors. Stagnation and the lack of prospects for recovery put a damper on investors' expectations and, therefore, fueled the recessionary trend. Moreover, in order to sustain an increased rate of investment, the savings rate must also be high. Unfortunately, savings had plummeted, not only as a result of the downward trend of real income, which had also been hit hard by a sharp decline in the terms of trade, but also as a result of massive transfers of savings in foreign exchange in order to service the external debt.



From Adjustment to Reform

Between 1985 and 1990, the region continued to make determined adjustment efforts, which were combined with structural economic reforms. The unveiling of the Baker Plan in October 1985 was a key step. It recognized that in order for the most highly indebted countries to regain a healthy growth rate and payment capacity, more would be needed than just domestic adjustments and rescheduling of debt, operating under the premise that the crisis was a result of a liquidity problem. In contrast, U.S. Treasury Secretary James A. Baker proposed that debtor nations adopt streamlined

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macroeconomic policies and economic reforms with the support of the IMF and the multilateral banks; these would provide rapid disbursement adjustment loans and engage in an active dialog on policies with the governments. Despite these efforts, the recovery that appeared to be taking shape in 1986 did not take place over the next four years and did not regain momentum until 1991.

In March of 1989, the United States announced a new debt resolution proposal, the Brady Plan, which incorporated debt service reduction, a demand the Latin American countries had insisted on from the very beginning of the external debt crisis. The IMF and the multilateral banks were given a key role in the effort to reduce the size of the debt, improve the contractual terms of repayment, act as a catalyst to obtain contributions from other sources, and oversee the formulation and execution of adjustment and reform policies.

Adjustment efforts and the search for solutions to the debt crisis in the late 1980s gave rise to a convergence of the region's economic policies, which became more closely tied to international cooperation. This convergence was expressed in the Washington Consensus, formulated by John Williamson in November 1989. Either implicitly or explicitly, the Consensus became a common agenda of economic policy in Latin America and the Caribbean. It included the following items:

- Fiscal discipline.
- Redirecting public expenditures toward priority areas.
- Tax reform.
- Financial sector liberalization.
- Adoption of unified and competitive rates of exchange.
- Trade liberalization.

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James Armistead

Retirement Plan for Country Offices

"In the middle of 1988, one of the first measures Iglesias took was to establish a separate retirement plan for the local employees at country offices, thus fulfilling a commitment that the administration had taken on a long time ago. The plan provided equal treatment to international and local staff with regard to retirement benefits, which were paid in the local currency of the country where the official served and were adjusted periodically to maintain the value. At the beginning, only 15 country offices were eligible to participate in the plan. Its application was delayed in the remaining 11 offices because of labor legislation in the countries concerning severance pay, termination of service, mandatory retirement age, and the official status of citizens that work at local offices of international organizations. Now the employees of almost all the country offices participate in the plan. For the three offices that do not, the local employees have a compensatory savings plan."

James Armistead came to the Bank in 1972. He retired in 1997 when he was Executive Secretary of the Staff Retirement Plan.

- Free access and equal treatment to foreign investment.
- Privatization.
- Deregulation and elimination of regulations restricting competition.
- Guarantees for property ownership rights.



Opposite page left: *Oscar Arias Sánchez, President of Costa Rica and Nobel Peace Prize winner, visits Enrique V. Iglesias in April 1988.* ***Opposite page right:*** *In 1988, the President of Spain, Felipe González, gives a speech at a meeting in which Spain established a trust fund of $500 million to commemorate the quincentennial of the encounter between Europe and America.* ***Above:*** *In 1988, Makoto Sunagawa, of the Eximbank of Japan, and James W. Conrow, Vice President of the IDB, sign the first agreement between the IDB and the Eximbank of Japan in order to cofinance construction of a hydroelectric plant in Pehuenche, Chile.*

The changes in attitudes and policies that the majority of the countries of the region undertook at the end of the 1980s - not to dwell on the experiences of Argentina, Chile and Uruguay in the mid 1970s - were grounded in common principles. The new development strategies that emerged pursued three major broad objectives: price stability and macroeconomic balance based on the efficient operation of markets; opening up to the flow of international trade, capital and technology and the strengthening of economic integration; and modernization and redefinition of the state, including national, provincial and local governments.

The return of democracy to the region helped to bolster the economic reforms that won a broad consensus as a result of dialog between governments of different ideological persuasions, politicians

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*The Inter-American Investment Corporation (IIC) approved its first loans and investments in 1989, heralding a new era of support for the private sector. The first capital investment, for $2 million, went to Caderi, a venture capital company from Porto Alegre, Brazil. The company has made its own investments in small enterprises such as Digitel (**below**), a manufacturer of computer components and Aeromot (**opposite page**), a company specialized in aeronautical electronics and aircraft components.*



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and representatives of business and civil society.

Latin America and the Caribbean have not escaped the process of globalization, which has transformed their prior relationship of economic interdependence. As the majority of the countries opened up trade and finance to the rest of the world, they have become more dependent on and vulnerable to the world economy, which has had periods of both vigor and crisis since the mid 1980s.



Over the 1990s, industrial nations have posted the lowest level of inflation of the last 30 years. As inflation has come down, so too have interest rates, which, in turn, has helped to alleviate the burden of the external debt of developing countries. This has also led to an extraordinary expansion of portfolio investment and other available funding sources in these countries for emerging markets. There has been an attempt to seek out higher profitability than in the countries of origin of these sources. Nevertheless, excessive amounts of this type of investment in emerging markets creates instability. At times it has had adverse economic and social repercussions on the region that have even been contagious for other countries and even the industrial nations themselves. At the same time, experts have observed a long-standing tendency for real prices of raw materials to drop. On the one hand, the decrease in these prices serves to stabilize prices in the industrial world, but, on the other hand, it harms the value of the exports in which the developing countries have a comparative advantage.

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Opposite page below: *Negotiators put the finishing touches on the Seventh General Increase in Resources of the Bank, which took place at the Annual Meeting of the IDB in Amsterdam, the Netherlands, in March 1989.* ***Left:*** *In 1988, the Uruguayan fruit export company Migranja S.A. received a $1 million capital investment and a $2.35 million loan from the IIC.*

The Bank in 1988–98

The actions taken by the Bank in 1988–98 were rooted in the guidelines and policies set forth in its charter and reaffirmed at the Annual Meeting of the Board of Governors on momentous occasions, such as when the capital of the institution was increased. Such was the case on the occasion of the Seventh and Eighth Replenishments, which were agreed upon in 1989 and 1994, respectively. In general, each increase in capital has helped to make the Bank reassess its performance and its success at adapting to meet the needs of the member countries. Adjustments in Bank policies, procedures or operations resulting from this self-assessment were intended to improve the efficiency and significance of the Bank, which has stood out from the time of its founding as a flexible and creative institution.

In order to fully grasp the changes that the Bank underwent as of 1988, it is necessary to understand the events that occurred in 1987. At the beginning of 1987, part of the subscribed contributions to the ordinary capital and to the Fund for Special Operations were still outstanding, although countries' pledges had been approved in 1983 at the Sixth Increase in Resources. In order to remedy the situation, intense negotiations were held in the Committee of Governors between 1986 and 1987, in anticipation of the Seventh Replenishment. The Committee also debated the loan amounts for the 1987-90 program, the possibility of providing sector-targeted loans, country programming, the decision-making procedures of the Board of Executive Directors, and methods to speed up loan processing. The Committee ran into several stumbling blocks that stood in the way of successfully concluding the negotiations on time for the Seventh Replenishment. The request for an increase in capital, together with proposals on new fields of action, such as rapid disbursement loans linked to sector adjustment programs, entailed a debate

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Alberto Pico

The Bank's Bionic President

"In 1989, the year Iglesias took office as president, attempts were made to complete the agreement on the Seventh Replenishment in a marathon of sessions at the Annual Meeting in Amsterdam. On the eve of the official last day, at 11:00 P.M., negotiations on the document were to resume, paragraph by paragraph. During the early morning hours, the interpreters gave up out of exhaustion, and Iglesias proposed to continue in English; the staff of the Secretariat held up as well as they could, but more and more people were nodding off to sleep and the ranks of the delegations were gradually decimated. Well into the morning, an agreement was reached and, after a short break, Iglesias notified the chairman of the meeting that the committee should report the final results. After a few last minute scares, the agreement was formalized at noon. Everyone was happy and toasted the success. With more or less valid excuses, the Bank staff began to slip away to make up for a lost night of sleep. Iglesias held a press conference, attended a luncheon, chaired and conducted the closing ceremony of a seminar, and noticed the low attendance rate of the staff (he would point it out to us upon his return to Washington). According to the account of a colleague who later drove with him to Paris on the same trip, he only treated himself to a brief snooze during the ride, after going 36 hours without sleep."

Alberto Pico came to the Bank in 1987. He was Controller and is Special Advisor to the Office of the President.

on changes in the organizational structure of the Bank. This led to the nonborrowing countries requesting better guarantees with regard to the quality of the projects submitted to the Board of Executive Directors.



Iglesias, who had started his term in office on April 1, 1988, played a key role in the success of the negotiations. Iglesias brought to the position of president his vast experience in economics and diplomacy and profound insight into the needs of the region. He had acquired these in his capacity as Uruguayan Foreign Relations Minister from 1985 to 1988 and as Executive Secretary of the U.N. Economic Commission on Latin America and the Caribbean (ECLAC) from 1972 to 1985. His international accomplishments included serving as chairman of the Ministerial Meeting that started up the Uruguay Round of trade negotiations of the General Agreement on Tariffs and Trade (GATT) in Punta del Este in 1986, and as Secretary General at the U.N. Conference on New and Renewable Sources of Energy in 1981. From 1966 to 1968, Iglesias had been President of the Central Bank of Uruguay, his country of citizenship, which he represented at countless economic forums. He was also a professor of economic development and participated in activities and courses sponsored by several different organizations of the region, such as the Latin American Council of Social Sciences, INTAL and the Latin American Institute for Economic and Social Development, which he chaired from 1967 to 1972. In 1968 he was a member of the group of experts formed by Raúl Prebisch, at the request of

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Gunther H. Muller

IIC Expands Talks with Private Sector

"The Inter-American Investment Corporation expanded the IDB Group's dialog with the private sector by focusing its operations on small and medium-size enterprises. The Corporation has been successful at contributing to the economic and social development of the region by supporting many enterprises that are able to create jobs, expand exports, incorporate new technologies, and increase production in every sector of the economy, without requiring governmental guarantees for lending operations. That mandate, based on the notion that development is a task that involves everyone and benefits everyone, makes it possible to strengthen the society and democratize the economy. This is why the original mandate of the Corporation has only grown more and more valid over time."

Gunther H. Muller was General Manager of the IIC between 1988 and 1993.

Felipe Herrera, to prepare a study on the economic prospects of Latin America at the beginning of the 1970s. Iglesias was reelected twice as president of the IDB, in 1992 and again in 1997, for terms of five years on both occasions.

At the 1989 Annual Meeting in Amsterdam, an agreement was hashed out in connection with the Eighth Replenishment making it possible to put off loan approvals so that one or more executive directors could conduct a more thorough study of the projects. Then, at the end of the discussion period, the analysis of the project would be submitted to the Board for approval via the ordinary procedure. Also, new organizational guidelines were approved that centralized analysis of policy adjustment loans into one specialized department and made approval of these loans contingent upon cofinancing with the World Bank for a two-year period. Over the course of those years, the Bank gained expertise in processing and managing these operations and, therefore, was able to let that condition lapse.

The Seventh Replenishment

In 1989, an increase of $26.5 billion was approved for the Seventh General Increase in Resources to expand the ordinary capital for the four-year period between 1990 and 1993; this went into effect on January 17, 1990. The resources of the Fund for Special Operations were increased by $200 million on this occasion. The main purpose of this increase was to strengthen the Bank's efforts in backing economic recovery in the borrowing countries, restore macroeconomic balance, combat inflation, solve the external debt crisis, correct global economic and sector distortions, expand employment and improve social conditions. The main operational policy guidelines included the following:

- Introduction of sector loans to improve economic efficiency in a variety of sectors,

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The Corporation Overcomes its Early Obstacles

Interview with John C. Rahming, General Manager of the IIC



John C. Rahming

What were the initial challenges to the IIC?

In March 1989, I came to the IIC as Operations Manager, as part of the team in charge of putting the organization into operation, which, naturally, required several years to overcome the usual developmental problems of any new institution.

I worked full time on staffing the department and developing a line of projects. We ran into the typical dilemma of the chicken or the egg: the directors did not take the projects into consideration until operational policies and parameters for projects were approved; while the administration insisted that these projects should be market-oriented, based on experience with private businessmen. A compromise was reached and general rules were approved in October 1989 and the green light was given to process 10 to 20 projects, after which specific operational policies would be drawn up. The Board of Executive Directors approved the first project in November.

From the policy perspective, the most contentious matters were project size, new projects vs. expansion of old projects, direct vs. indirect projects, impact on development vs. profitability, value added by IIC, participation from the start of a project, and availability of private financing. In the end all of these issues were worked out.

How did the issue of the Corporation's resources play out?

Another key issue was how fast the IIC should grow. This in turn generated controversy over whether it should be managed with the means that it had at its disposal, or by rapidly increasing its staff, allocating all of its funds right away to prove how necessary the institution was to the region. This way it could demonstrate that it needed an increase in capital and that it was capable of managing its resources very well. A group of outside consultants headed by Pedro Pablo Kuczynski concluded that the IIC was facing a "mission impossible." This climate led to the resignation of the general manager in August 1993, and to the request for me to fill the position of acting general manager. After evaluating the situation of the IIC, the Board recommended that it be downsized, that its expenditures be cut and that it be focused instead on indirect operations with intermediary financiers.

In 1994, another attempt to achieve an increase in capital was unsuccessful as well, and almost led to the decision to close the IIC. Instead, the decision was made to invite an outside group headed by Moeen Qureshi to evaluate the role of the Corporation. His report concluded that it was a valuable instrument for the development of small and medium-size businesses, but that changes were necessary in order to give shareholders a valid reason to support an increase in its capital. The recommendations were incorporated into the Action Plan of 1995–1997, approved by the Board of Governors at its Annual Meeting in Jerusalem in 1995.

The administration and the Board had achieved the intended results. Efficiency increased; expenditures were brought under control; productivity increased, and greater emphasis was placed on capital investments, private investment funds and building venture capital funds. Income from consulting services grew and the number of operations conducted through intermediary financiers also rose, as did strategic partnerships.

At the 1998 Annual Meeting in Cartagena, the governors authorized the directors to work with the administration on the drafting of a proposal for an increase in resources. This yielded the 2000–2009 plan that required an increase in capital of $500 million. Both the increase and the plan were approved by the governors at the Annual Meeting in Paris in 1999. Moreover, the IIC admitted three new member countries, and another seven applied for membership.

The staff at the IIC, professionals of many different nationalities, can now continue to support economic and social development and reduction of poverty through the strengthening of small and medium businesses, which are an important source of employment and entrepreneurship for the private sector in Latin America and the Caribbean.

Carlos V. Brezina

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1990

Below: *In 1990, the IDB launched its sector loan program with a $300 million line of credit to Mexico that supported several projects, including a mandatory truck inspection program to ensure compliance with pollution emission regulations.*



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Right: *New farm machinery acquired through a program designed to revive sugar and rice production in Guyana and increase export revenue. The program was financed with a $27 million IDB loan approved in 1990.*

which would represent up to 25 percent of total lending between 1990 and 1993.

- Continue to pursue the goal of allocating 50 percent of the total lending program to benefit low-income groups.
- Increase the financial and human resources of the Bank that are allocated to environmental protection and natural resource conservation.
- Increase support to microenterprise.
- Strengthen the role of women in economic development.
- Other priorities were technical cooperation for preinvestment and project cycle, institutional development, and strengthening project and program execution.

Priority areas that were targeted for sector loans included streamlining and improving the public sector, implementing financial reform, privatizing enterprises and promoting the participation of the private sector in the economy. Working in these areas opened up opportunities for in-depth policy dialog with the countries, specific studies of obstacles to development in each country, and finding policy solutions that the Bank would support using these new instruments. These loans would also help borrowing countries to cushion the blow or mitigate the negative effects of the economic reforms by means of rapid-disbursement sector operations that could be used for the financing of general imports. The Bank quickly approved the first sector loans in 1990, and they became emblematic of the future work of the institution. The first loan of this type went to Mexico, its main objective being to support privatization of Telmex and to promote the capacity and competitiveness of the trucking industry. Two loans of this type that were granted to Venezuela provided support to modernization of the financial system and reform of state-owned enterprises,

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Miguel A. Rivera

"Many winners"

"In 1990, several Bank officials felt frustrated at not being able to watch the World Cup Soccer championship, because games were to be played during office hours and could only be seen and heard in Spanish on one channel that we didn't get at the Bank. We mounted a campaign to change things. At the beginning of 1994, the Administrative Department told us that the signal could be picked up via satellite, which could come in through an antenna on the roof. When we inquired of the department managers whether time would be made available to the staff and employees to watch the tournament, there was some wavering. A survey of the Association of Employees determined that there was a lot of interest in watching the games, and the survey results were submitted to the administration. The Coordination Committee, especially President Iglesias, welcomed the plan. We installed screens in the cafeteria and in the Las Américas dining room. The turnout was huge and even people from organizations like the OAS and the World Bank came to watch. At times, as many as 300 or 400 people watched the games. The experience was repeated in 1998 and the audience was even larger. The great thing was that the productivity of the staff did not drop, thanks to the fact that people would stay late or work on weekends. This was a perfect project: sensitive to the culture of the region and the world, full of lessons learned, executed in stages, finished on time, duplicable, sustainable, and of interest to other multilateral organizations. I personally regret that I won't be there to help organize the 2002 World Cup."

Miguel A. Rivera is Deputy Manager of the Regional Operations Department III. He came to the Bank in 1974.

including some privatization. Colombia was granted a loan for restructuring the public sector and improving its efficiency. A loan was approved for Honduras for reforming its agricultural sector and macroeconomic policies pertaining to international trade. The Bank also approved a loan for reform of Jamaica's agricultural sector.

During that period, the organizational structure of the Bank was reformed in order to modernize and adapt the functions of its departments to new operations, needs, and guidelines. For this purpose, new units were created and others were merged. The new units included the following divisions: Sector Policies and Loans; Macroeconomic Policy, which was created to conduct policy talks with the borrowing countries; Environmental Protection; Education and Health; Microenterprise; Cofinancing and Export Promotion; and the Regional Cooperation subdepartment.

The Bank took over administration of the Multilateral Investment Fund (MIF), which was officially established on January 11, 1993, with an initial contribution of $1.2 billion that was provided by the signatory countries and was subsequently increased to $1.3 billion. The MIF, which was conceived within the framework of the Enterprise for the Americas Initiative, provides support for innovative mechanisms designed to improve the climate for private investment, promote training for the labor force, and foster the development of small businesses.

Lending, technical cooperation and policy dialog all contributed to improved economic performance in the borrowing countries, many of which made significant gains in price stabilization and economic growth. As a result of these accomplishments and of the easing of tensions brought about by renegotiation of the external debt, private international financial circles began to view the region's prospects in a favorable light. This sparked a reversal of capital flows into Latin America and net transfers of external resources

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Terry Powers

Financial Sector

"Shortly after the Seventh Replenishment, after I was named Chief of the new Sector Loans Division in the Plans and Programs Department (DPL), Vice President James Conrow called me in. He had heard that Ciro de Falco, Manager of DPL, and I wanted to include in our work a financial sector reform program, part of the new lending policy of the mandate given to the IDB. He was worried that such a complex issue might be beyond the technical capacity of the institution. I assured him that the DPL staff and Eleanor Howard's Finance Division staff were up to the challenge. Now, almost 10 years after that conversation, nobody doubts the capacity of the Bank in financial sector policy nor the need for the Bank to continue developing loans in support of financial reforms."

Terry Powers, Deputy Manager of Regional Department II, came to the Bank in 1971.

Below right: *Private meeting between George H.W. Bush and Iglesias in June 1990, after the U.S. president announced his Enterprise for the Americas Initiative.*

into the region posted positive and growing balances once again. The upswing of direct foreign investment was crucial. Over these past few years investors have been particularly enticed by privatization. At the same time, this investment helped to reactivate the buildup of fixed capital in the region.



Enrique Iglesias: *Challenge and Response*

As the period of the Seventh Replenishment came to a close, the institution had achieved a host of highly rewarding results.

Between 1990 and 1993, authorized Bank loans totaled $21.1 billion, reaching $6 billion in both 1992 and 1993. The amounts authorized enabled the Bank to regain its standing in 1991 as the main source of official external financing for the development of the region, especially for countries with smaller economies and lower income levels. The Bank had lost this position in prior years as a result of the scarcity of resources.

The breakdown of loans by sector highlights the wide range of activities that the Bank engaged in at this time; $3.053 billion, or 14.5 percent of the portfolio for the period, was targeted to the productive sectors (agriculture and fishing, industry and mining, tourism and microenterprise); $6.43 billion, or 31 percent, for physical infrastructure (energy, transportation and communications); and $5.152 billion, or 25 percent, for social development (public health and environment, education, science and technology, and urban development).

The Bank strengthened its advisory role in the formulation and execution of modernization

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1991

Below: *A $200 million loan granted to Mexico in 1991 financed the dredging and restoration of canal systems in 56 state irrigation districts. Subsequently, operation of most of the systems was transferred to user associations.*



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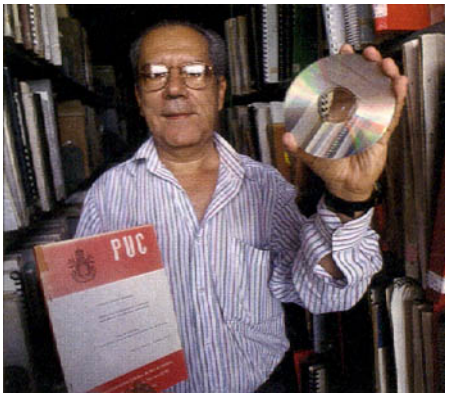
Right: *A project financed by the IDB to install 900 kilometers of transmission lines in Brazil from the Itaipú hydroelectric plant was completed in 1991.* ***Below right:*** *The support of $877,000 in IDB nonreimbursable technical cooperation helped to create an electronic index of all legal and scientific documents pertaining to the Amazon and published by the eight Amazonian countries.*



and reform policies, especially for the public sector. These policies included privatization and decentralization, as well as promotion of private business activities by helping to create the necessary climate for investment, to provide infrastructure, and to support small businesses.

Beginning in 1990, the IDB once again set about reinforcing its traditional support for social development. The Bank broadened its activities in social development and the fight against poverty, environmental protection, and participation of women in development. Within this context, in 1993 the Bank created the Social Agenda Policy Group, which was assigned the task of collaborating with the operational departments and the countries in the formulation of social strategies, based on clearly defined priorities in education, health, urban development, employment and human resources, and the coordination of these strategies with economic and financial reforms.

Lastly, the Bank increased its traditional support to economic integration.

The Eighth Replenishment and the Transition to the 21st Century

As the mandates of the Seventh Replenishment were fulfilled, the Bank faced new and greater challenges in 1994. During the first half of the decade, too few countries had made enough economic progress to keep the social gap from widening as a result of the increase in unemployment and inequality in the distribution of income, as well as the expansion of the informal economy. These

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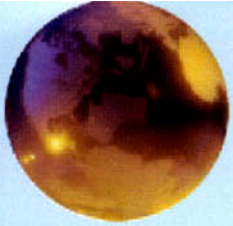

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Luis Rubio

Making History

"In 1991, I accompanied Iglesias to a meeting of Latin American and Caribbean presidents in Cartagena, to interview them on the role of the private sector in their respective policies. Together with the cameramen from the Pan-American Health Organization and under directions from Iglesias, I headed to offices that were inaccessible to the press to record the interviews. A very high-level man from Latin American television calls me over and says to me: 'Colleague: I heard that you're interviewing the presidents. We'll share the video and I guarantee you continentwide coverage tonight; if it isn't distributed now, your interviews are history.' We didn't share the videos, but the 'colleague' was right: the talks are part of the history of the establishment of the Private Sector Department (PRI) and of this Bank. Later, together with a small number of colleagues, I was fortunate enough to launch the operation of the PRI, which is proof of the Bank's capacity to be innovative and continue operations that dated back to the 1960s and had been suspended for a time. The PRI's focus on infrastructure has echoed the IDB's concern for collaboration in channeling financial, technical, and managerial resources toward Latin America and the Caribbean that would not have been available otherwise."

Luis Rubio is Senior Counsel to PRI. He came to the Bank in 1970.

circumstances made it necessary for the Bank to rethink its priorities and adapt its course of action to more effectively contribute to the development of the region during the second half of the decade and during the transition to the new millennium.

The Bank took the pulse of each individual borrowing country, assessed the international climate, and held talks with the governments, which brought about a collective effort to design a new agenda to face the challenges of the region. The following aspects were taken into consideration to draw up the strategic guidelines of the Bank's Action Plan for the period of the Eighth Replenishment:

- Modernization of production, technology and institutions, and strengthening of the key role that is now played by the private sector in achieving international competitiveness and sustainable growth that is compatible with environmental preservation.
- Social reform. The Bank would work toward alleviating extreme poverty, increasing economic productivity, and strengthening democratic institutions by promoting economic reforms together with institutional reforms. The idea behind the assault on poverty was not only motivated by a desire to bring about equity and political stability, but also because it made economic sense to take advantage of the business and labor potential of the informal sector. This also made it necessary to support the training and preparation of human capital. The new approach involved finding ways to bring disadvantaged or marginal sectors of the population into fields of higher productivity, and this would take place along with fiscal subsidy programs and the transfer of resources.
- Financial reform and national capital markets to improve the flow of savings into productive investments. Financing of small and medium-size businesses was to be a priority objective for joint action by the Bank, the Inter-American Investment Corporation and the MIF, whose contribution can

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Left: In April 1991, Abel Matutes, Commissioner of the European Economic Community, and Enrique V. Iglesias sign the agreements establishing a Special EEC Fund for Small Projects in Latin America.

only be a complement to and catalyst for the mobilization of internal and external resources.

- Modernization of the state. The main aspects would be the formulation of public policies and the relationship of these policies to civil society, personnel training and public sector employment, effective legal and court systems, fair and efficient administration of justice and accessibility to the courts for all social sectors, legislative bodies and decentralization. The functions of the state would not only encompass support for private initiatives and the preservation of stability, but also consumer protection and the well-being of low-income sectors.
- Strengthening of civil society and of a citizenry that is committed to economic and social development and democracy.

The Eighth General Increase in Resources was approved by the Board of Governors in Guadalajara, Mexico in April 1994 for $40 billion, which brought the ordinary capital to $101 billion. The governors authorized an increase of $1 billion for the Fund for Special Operations, bringing the total amount of resources in this fund to more than $10 billion. This was the largest increase in the life of the IDB and the largest that any regional multilateral development institution had ever received. Ratification of the replenishment agreement took place on July 31, 1995, including a cash contribution of $1 billion and $39 billion in callable resources for the ordinary capital, whose subscriptions had been pledged in six installments to be paid between 1995 and 2000.

The governors also agreed to modify the voting power of the countries. Participation of nonregional members more than doubled, rising from 7.132 percent to 15.996 percent. The United States' share decreased from 34.627 percent to 30 percent, while Canada's dropped from 4.374 percent to 4 percent. The portion of the Latin American and Caribbean countries fell from 53.867 percent to 50.004 percent,

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although they still held the majority. The representation of the countries also changed as two new seats on the Board of Executive Directors were added, one for the nonregional member countries and the other for the borrowing countries.

In 1994, the Board of Governors established several priority areas for upcoming Bank action emphasizing support for greater social equity and the struggle against poverty; modernization of physical and public and private institutional infrastructure; subregional and continental economic integration; strengthening countries' capacity to resolve environmental problems and make efficient use of natural resources; and direct lending, without public guarantee, for infrastructure projects undertaken by the private sector. Additionally, the Bank would continue to give priority to the main target areas of the Seventh Replenishment.

The mandates gave rise to the need to reorganize the Bank and a new structure was put into effect on September 1, 1994. In this reorganization changes were made in the operational departments to improve efficiency and capacity to innovate, take advantage of the potential of the country offices, and apply new programming systems.

The first key area is poverty reduction and improvement in equity. In order to bring this about, the mandate of the Eighth Replenishment made the Bank responsible for analyzing, together with its borrowers, the causes of poverty and of limitations on social progress. The Bank was to incorporate those findings in individual country programming, designing poverty reduction and social reform strategies, and evaluating the financial sustainability of social projects. In this mandate, the Bank was also assigned the task of strengthening country offices so they could take part in the identification, preparation and execution of operations and in the policy dialog with governments.

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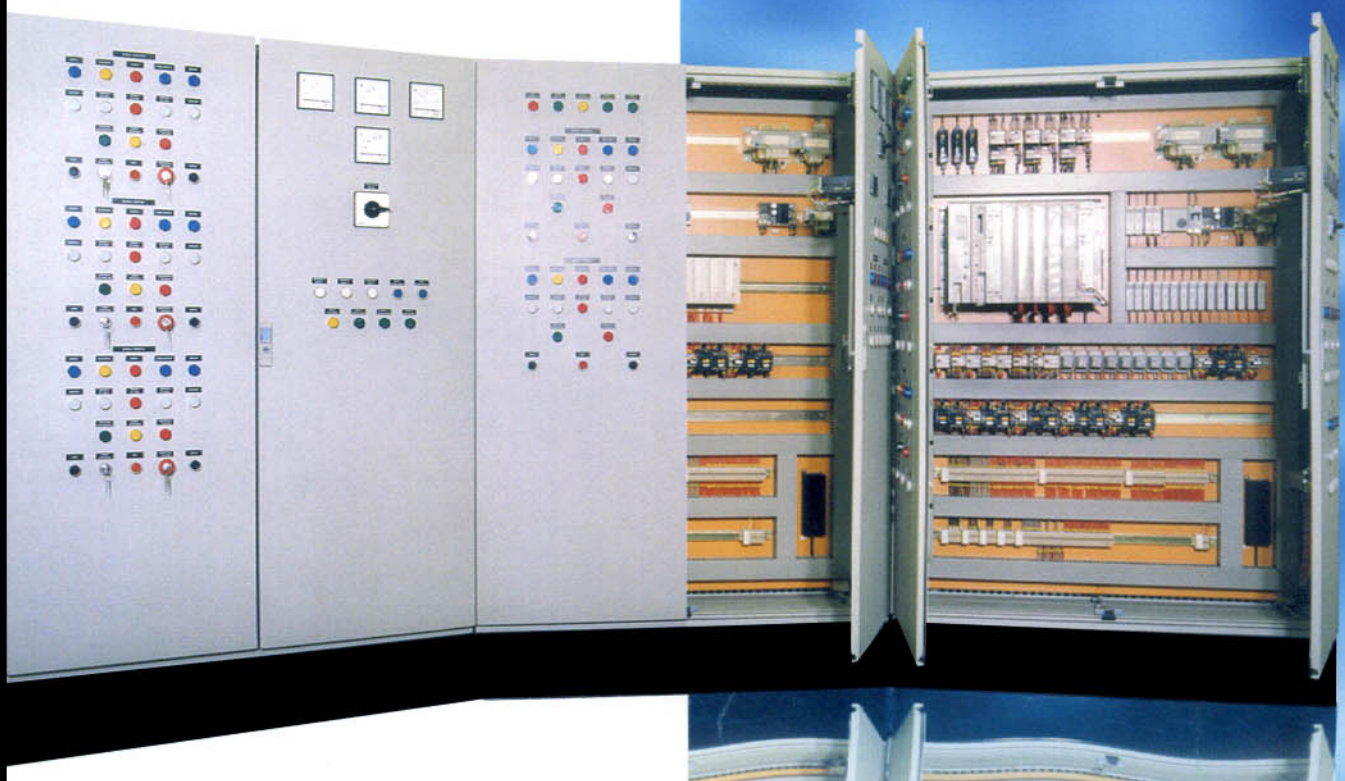

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The Multilateral Investment Fund Supports Change

Interview with F. Donald Terry, General Manager of the MIF



Donald Terry

What is the purpose of the Multilateral Investment Fund?

The mission of the MIF is to assist Latin America and the Caribbean in taking advantage of rapid changes in technology, production, capital markets, regulatory and legal frameworks and institutions that are generally associated with globalization. Its main tasks are to provide technical cooperation to foster and improve the climate for private investment, support job training, and promote small businesses.

How was the MIF started up and how did it secure large amounts of resources?

In an era of decreasing foreign aid, the MIF is absolutely unique. In 1991, President George H.W. Bush announced the Enterprise for the Americas Initiative, with the MIF as a key component in the administration of U.S. resources totaling $500 million. Japan pledged the same amount. Spain and Portugal also joined in, while the other European countries basically continued to pay more attention at that time to the countries emerging from years of socialism, which were geographically closer. President Iglesias suggested that the beneficiary countries also become donors, which brought the MIF's total resources up to $1.3 billion. Today almost all of the member countries of the IDB are members of the MIF, which is a remarkable achievement and can be taken as a vote of confidence.

What are some examples of the MIF's achievements?

Over the last six years it has approved almost 300 projects for a total of $500 million, with counterpart funds for the same amount from the region. The MIF has always worked in partnership with other organizations, which act as project executors. Financial participation in the MIF is generally 50 percent. There are no donations for second phases. In order for the projects to be sustainable, commitment and local ownership are fundamental. The projects have supported the needs of the region through the following actions, for example:

- Creation of a solid "intellectual infrastructure" by helping to set up 50 regulatory mechanisms for water, energy and transportation systems, among other sectors. This infrastructure also helps to make economies more competitive internationally.
- Improvement of bank supervision, transparency and harmonization of national financial regulations on the regional level, for example in the Caribbean and in Central America. Our 20 projects in this area also helped to increase efficiency and decrease volatility of financial markets.
- Rapid, effective and impartial solution of trade disputes. We have created mechanisms for trade arbitration and mediation centers in 15 countries.
- Development of microenterprises. We have approved 60 innovative projects, especially in the field of financing.
- Human resource training to meet the challenge of international competition. The MIF has fostered programs in fields such as the development of national guidelines for job training and certification of job skills.
- Promotion of investment as a tool for small business development. We have created 20 investment funds for sectors that range from agriculture to technology and environmental services.

Carlos V. Brezina

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1992

Below: *In 1992, the Bank approved a $450 million loan for the cleanup of the Tietê River in São Paulo, Brazil.*



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Right: *As a condition of a $350 million IDB loan granted to Argentina in 1992 for sector reforms, the state-owned port of Buenos Aires was transferred to private management.* ***Below right:*** *Representatives of an Argentine firm that received support from the Bolivar Program with samples of an insecticide that fights Chagas disease. The Program, which received $4.2 million in financing from the IDB, was created in 1992 to promote technological and financial partnerships between companies from different countries.*



The struggle against poverty involves a concerted effort. An important part of this struggle is the support that the Bank provides to governments for improvement of efficiency, effectiveness and equity in the appropriation of social expenditures, as well as promotion of supplemental resource contributions or cofinancing from other cooperation entities. Critical poverty should be met with emergency and short-term action programs that include social investment funds, assistance programs targeted toward the most vulnerable sectors, and employment programs. Another crucial area is investment in human resources - education, health care and job training - which play a decisive role in long-term distributive equity and productive modernization. One area that has become particularly significant has been decentralization of social programs to bring program management closer to the beneficiaries. Another high priority area is serving the basic needs of low-income groups, such as basic and preschool education, primary health care, maternal and child health care, nutrition, neighborhood improvement, and promotion of the productive capacity of small farmers and microenterprises.

The second key area for the Bank, as was mentioned above, is modernization and integration. Productive modernization of the public sector, financial systems, legal systems and business is absolutely essential for the region to be able to compete in international markets and to bring about social development. In keeping with this purpose, subregional, regional and continental economic integration

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Left: Chilean President Patricio Aylwin (middle left), and Iglesias inaugurate the Cultural Center of the IDB in May 1992 with an exhibition of paintings by Chilean artists.

agreements, and other agreements that have been entered into with other regions of the world, help pave the way for countries to become more competitive and successfully join the world economy in the framework of multilateral free trade agreements. Expansion of markets makes it possible to improve the productivity of businesses thanks to economies of scale, purchase of regionally produced inputs at a lower cost, better use of resources, and the adaptation of institutions to the demands of external competition.

The Bank offers technical and financial assistance in order to promote private investment and bring about a favorable climate for such investment, as well as to move forward on the political and social fronts. Improvement of this climate involves strengthening property rights, reforming financial systems, stabilizing prices, changing the tax structure, improving labor legislation, deregulating and adopting efficient supervision and control systems, and promoting competition and efficiency in markets.

Reform of the state is crucial to modernization. An efficient, effective, accountable, and transparent state is absolutely necessary for modernization. The state must represent the public interest and have legitimate authority vested in it by democracy. In the economic arena, the state's role has shifted toward maintaining macroeconomic stability and a legal and regulatory framework that is conducive to development of the productive infrastructure, delivery of efficient social services, and operation of a sound social security system and social safety nets that help bring about equity. Strengthening the state's role implies ongoing review and improvement of the formulation and execution of policies and programs and of the management of administration, budget, financial and tax systems. It also entails streamlining the state's role in production by transferring to the private sector any tasks that might be more efficiently performed by the private sector. And it involves decentralization; modernization of the executive, legislative

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Ana María
Coronel de Rodríguez

Culture at the IDB

"In 1965, the Board of Directors of the fledgling Staff Association launched a program to provide opportunities for artistic creations produced by artists of the region to be put on display, while the Bank administration took steps to adorn spaces and offices of the headquarters building with the first works to come into the Bank's art collection. Following the example of the Association's initiative, in 1992 the Bank created the Cultural Center in order to establish a platform to showcase the most outstanding intellectual and artistic creations of the hemisphere. After making it past the initial resistance to an unusual undertaking of this sort, the Center came to symbolize the Bank's recognition of the role of culture in development. After celebrating its seventh anniversary, it now boasts a prominent position among cultural institutions in Washington, D.C.. The Center first received recognition in 1993 while it was showing the Suite Vollard of Pablo Picasso. The National Gallery of Art of Washington called to inquire about the origin of the complete series of the 100 most famous prints of the master. Years before, the Gallery had to settle for presenting only half of the series, since it had been unable to locate the entire collection..."

Ana María Coronel de Rodríguez came to the Bank in 1967. She was Director of the Cultural Center from 1992 to 1999, and then retired.

and judicial branches of government, as well as of other state entities; and the establishment of regulatory functions, antitrust law enforcement, and control of other potentially market-distorting forces.

The third issue that was emphasized by the governors was the environment, which came into focus in the 1980s and was made a priority mandate of the Seventh Replenishment. In conjunction with the Eighth Replenishment, the governors reaffirmed and expanded the Bank's scope of action with regard to this sector. This decision was, for the most part, a response to the deterioration in urban and rural environmental conditions in the region over the course of the last few decades. Environmental degradation occurred partly as a result of increased poverty and, in some instances, because of overexploitation of natural resources. In addition to cooperating with the countries on environmental programs, the Bank must now make sure, whenever relevant, that all operations it finances are environmentally sustainable. Environmentally friendly components must be included in Bank projects in an effort to minimize negative impacts. The environmental dimensions were incorporated as well into Bank programming and into the dialog with the countries.

Environmental guidelines were established requiring that Bank actions fulfill certain criteria such as:

- Contribute to strengthening the regulatory and legal framework on the environment.
- Aid in the development of environmental institutions that improve coordination in the decision-making process and participation of local, public and private entities.
- Improve analysis and evaluation of the environmental effects of Bank operations, including specification of the measures needed for alleviation and control of environmental damage.
- Promote the conservation and efficient use of energy as well as sustainable development strategies for the sector.

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Edmundo Jarquín

Development and Democracy

"I came to the Bank at the beginning of 1992 for what I thought would be a short stay. At our first meeting Iglesias told me: 'Review everything there is on the topic of quality in government and prepare a document for me with ideas on how the Bank can work on what is going to be the big issue of the 1990s. We must be prepared.' This was two years before the Eighth Replenishment, which incorporated into the mandates of the Bank the issues of state reform, civil society and governance, and quite a while before the events that took place at the end of the decade, such as the Asian crisis and other examples in the region that revealed the need for democratic governance. A chronic deficiency in democratic practices explains why the Latin American economies grew for decades but did not solve the problems of poverty and inequality. Despite being well designed from a technical point of view, the public policies were not capable of processing the citizens' demands and providing adequate responses. This is why over the last few years, a consensus has been building with regard to democracy as a factor of equitable and sustainable development. The IDB promotes reform of the state as a political reform, geared toward an efficient and democratic state. That reform must be comprehensive, go beyond the executive branch and include the judiciary, supervision and oversight agencies and the institutions of citizen representation and participation, such as parliaments. We cannot have an efficient state with a weak civil society."

Edmundo Jarquín is Chief of the Division of State and Civil Society.

- Aid in the improvement of the environment and living conditions in cities, paying special attention to transportation, housing, urban development, industrial, vehicular and solid waste pollution control needs.
- Contribute to the improvement of the administration of natural resources, paying special attention to the degradation of water and soil resources, deforestation, desertification, and loss of biological diversity; administration of marine resources; and pollution and degradation caused by mining or drilling.
- Incorporate resettlement problems in environmental impact studies and prepare resettlement plans as constituent parts of projects.
- Improve and expand environmental information in order to stir community interest and participation in environmental aspects of Bank programs and projects.

Lending and Accomplishments since 1994

In the time that has elapsed since the Eighth Replenishment went into effect, the Bank has successfully fulfilled its mandates. Increased financial capacity has made it possible to maintain a lending and guarantee supply that averaged $7.047 billion per year between 1994 and 1998, representing a significant increase over the $5.275 billion per year average for 1990-93. The aggregate total for the period came to $35.235 billion.

The Bank authorized $14.93 billion, or 42.3 percent of its portfolio, for projects or programs targeted toward education, health and sanitation, urban development, social investment, the environment, microenterprise, citizen security, at-risk children and teenagers, and increased

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participation of women in development.

The Eighth General Increase in Resources reaffirmed the Bank's mission to increase its support for social development and the fight against poverty. In 1994, the first year of the period of the Eighth Replenishment, the Bank approved 39 operations aimed at accomplishing this mission. The operations amounted to $3.2 billion, or 61 percent of the total amount of loans authorized that year. Of the total, $1.161 billion went to urban development; $969 million to education; $748 million to sewerage, drinking water supply and sanitation; $266 million to social investment funds; and $85 million to the environment. The total for 1994 represented the highest amount in the history of the Bank; it was only surpassed in 1998, when the Bank authorized $3.331 billion for operations in these sectors.

One major focus of the Bank during this period was a wide variety of social development projects. These included several loans to Argentina authorized in 1994 for education, institutional development and municipal social investments, worker training, and water supply in the province of Mendoza. Mexico also benefited from loans for municipal development, education programs designed to combat low schooling rates and promote literacy, and water and sewerage projects in Guadalajara. Bolivia was the recipient of support for education reform, land use planning and environmental protection, and private sector participation in the provision of environmental services. A Bank-approved loan supported at-risk child assistance programs in Brazil. Another loan provided support for sustainable development on the Pacific Coast of Colombia, which included assistance to community groups and government agencies. The Bank also approved financing for basic social services in Ecuador targeted toward the most vulnerable segments of the population through a Social Fund; to El Salvador through contributions to a Social Investment Fund; to Peru for strengthening the legal system and increasing

Enrique Iglesias: Challenges and Opportunities
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Below: *A $3.5 million MIF investment in a venture capital fund in Peru made it possible to make a capital investment in Cerámica Perú, a small company located on the outskirts of Lima.*



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Below right: *Pórtico S.A., a Costa Rican door factory, received a $200,000 MIF-backed loan from a venture capital fund that invests in small environmental companies in Central America.* ***Right:*** *The Caja Los Andes provides small loans to microenterprises in La Paz, Bolivia. With the support of a capital investment of $400,000 from the MIF, Caja Los Andes became a commercial bank.*



the operational capacity of sanitation companies; and to Uruguay for strengthening the social sectors.

The Bank created the Inter-American Institute for Social Development (INDES) in 1994 to train executive level officers from Latin America and the Caribbean who were responsible for designing policies and decision-making pertaining to social projects or programs in the public sector, nongovernmental organizations and other entities of civil society. INDES also provides a forum for the exchange of knowledge and experience between professionals, legislators, journalists and leaders from various fields linked to social development programs. As of the end of 1998, the Institute had offered 104 training courses benefiting 4,272 participants from the 26 borrowing countries of the Bank and from seven other Caribbean countries.

A second major focus of the Bank's action during this period was reforming the state and strengthening civil society. The total amount of funds authorized for these areas was $9.53 billion, or 27 percent of the portfolio, which was mainly targeted toward public sector decentralization and reform as well as reform of the legislative and judicial branches of government, social security, the financial sector, tax systems and customs administration.

In the third key area, the environment, the Bank has increased lending and technical assistance and stepped up efforts to improve capacity for response to natural disasters. One main objective of the Bank is to promote sustainable development by integrating social, economic and environmental

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Left: Rigoberta Menchú, of Guatemala, winner of the Nobel Prize for Peace, with Iglesias during a visit to the Bank in 1993.

components into operations. Environmental improvement efforts are part of projects and programs that encompass a broad range of sectors benefiting from Bank loans. Over the course of the last five years, the Bank has authorized a total of $3.53 billion in loans for this sector, which represents 10 percent of its portfolio, mainly for drinking water, sanitation and pollution control. Additionally, the IDB has provided technical cooperation in a wide range of areas, including strengthening the regulatory framework for water use and the formulation of action plans for biodiversity and conservation of nature.

The IDB has stepped up its support for integration. In collaboration with INTAL, the Bank supported negotiations for the creation of the Free Trade Area of the Americas. The idea of such an area was hatched at the Summit of the Americas in Miami in December 1994. At this hemispheric gathering the IDB, the OAS and ECLAC were asked to take on an important role in the follow-up and execution of the decisions adopted at the meeting. Negotiations among the 34 countries of the hemisphere were to begin in 1998 and the working groups in charge of specific negotiations were to conclude their business in 2005. The IDB has supported the consolidation of the Common Market of the South (Mercosur) the Central American Common Market, the Caribbean Community, the Andean Group, and the free trade agreements between countries and groups of countries. This has greatly contributed to integration efforts as part of the general strategy of opening up channels of free trade from within the region to the rest of the world.

The Bank, the MIF and the Inter-American Investment Corporation have promoted a favorable climate for private investment. The contribution of the IDB Group has been a catalytic factor in the provision of long-term financing and guarantees for private investment in infrastructure, which generally involves large-scale projects and slow maturation. The Group has also supported the expansion

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Nancy Birdsall

A Shared Vision

"The Eighth Replenishment constituted a milestone for the Bank because both borrowers and nonborrowers agreed strongly that the Bank had to strengthen its support for the social programs undertaken by governments during the period that followed economic stabilization, and because of the courageous decision to launch a new lending program to the private sector. The 1994 reorganization of the Bank served to dramatically decentralize operations from headquarters to the countries, a responsibility of three new departments. The staff responded adeptly and professionally to the tough initial adjustments. Without decentralization, especially because staff size did not increase, I doubt that we would have been able to administer the increased quantity and quality of lending that ensued. The role of the country offices also changed as they became more integrated into regional department teams. The dividing line between loan preparation at headquarters and loan supervision in the country, at least in some instances, was blurred. But, in light of the opportunities that arose for the Bank to take full advantage of the institution's presence in the field, this change proved to be rather marginal in the end."

Nancy Birdsall was Executive Vice President of the IDB between 1993 and 1998.

of capital markets, and has given financial and technical support to small and medium enterprises.

Beginning in 1995, the Bank implemented a new policy of granting direct loans to the private sector without government guarantees, as it had done in the 1960s. The Bank acted as guarantor for the projects and as an intermediary between the state and private entities. Between 1995 and 1998, the Bank provided a total of $2.746 billion for infrastructure projects in energy, transportation, water and sanitation through loans and guarantees to the private sector and through cofinancing arrangements. Direct loans and guarantees totaled $1.241 million and cofinancing totaled $1.505 billion.

Support to the private sector also included authorizations of nearly $500 million and $482 million from the MIF and the IIC, respectively; $154 million of these amounts was equity investment. The IIC also mobilized $300 million in cofinancing, which was contributed by commercial banks. This accomplishment was the product of a restructuring that helped to downsize the Corporation, reduce its costs, and increase efficiency. The results obtained by the Corporation in 1995-98 won the approval of its governors, who in 1999 granted the IIC an increase of $500 million in its capital.

The Bank's ability to respond to external economic and financial shocks was tested in late 1994 and again in early 1998. The Bank exhibited flexibility and willingness to respond in a timely and efficient manner to the needs of its member borrowing countries in Latin America and the Caribbean, both in the face of financial crises as well as natural disasters that hit some of these countries in 1994-95 and 1998.

The devastating effects of the devaluation of the Mexican peso in December 1994, which initially threatened to spread throughout the region, as was the case when the external debt crisis broke out in 1982, were mainly confined to Argentina and Mexico. The Bank approved a loan to Argentina in 1995 for $750 million, cofinanced by the Eximbank of Japan and the World Bank. The loan was

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1994

Below: *A $41 million loan to Ecuador in 1994 for the restoration of historic downtown Quito was the first in a series of financing packages aimed at preserving and revitalizing the architectural heritage of the region.*



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Right: *An extension agent in Pacayal, Guatemala, distributes medications against river blindness as part of a campaign to eradicate that disease from Latin America and the Caribbean. The program was financed with nonreimbursable technical cooperation from the IDB for $4 million.*

for privatization of provincial banks, and made it possible to supply short-term liquidity to the banks. The Bank granted Argentina a second loan for $450 million, cofinanced by the World Bank, for the Social Sector Reform Program. In 1995, it approved a $750 million loan for Mexico, with cofinancing from the World Bank, for the Financial Sector Restructuring Program, and another complementary loan for $250 million for consolidation of financial institutions. Another loan to Mexico for $500 million, with cofinancing from the World Bank, helped to shore up the social insurance network and protect essential social services for the most vulnerable sectors of the population.

In 1998, the Bank responded rapidly to the needs of the region as a result of the impact that the Asian and Russian crises had in Latin America and the Caribbean. In 1998, the governors authorized a year-long emergency program for a total of $9 billion, which enabled the Bank to approve loans outside the usual limits for particular sectors to benefit all countries that borrowed from the Bank's ordinary capital. The purpose of this program was to back the economic reforms and social expenditures of the governments of the region and to protect the most vulnerable groups against the effects of the crises, particularly by making it easier to gain access to credit for small and medium-size businesses. Disbursements were paid out in shorter terms than they were with ordinary loans and the repayment schedule deadline was five years plus a three-year grace period. Within the framework of that 1998 emergency program, the Bank authorized a loan package of $2.5 billion for Argentina, which was earmarked for sector adjustments and safeguards of the banking system; $350 million for an electrical energy sector reform program in Colombia; and $200 million for public sector reform in Venezuela. The meteorological phenomenon of El Niño caused economic and social disturbances and great loss of lives, leading the Bank to react quickly in 1998 by offering financial and technical assistance to the

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Guillermo Rivera

The Bank Assists the Most Vulnerable Countries: Haiti

"The Bank has always given high priority to the special needs of smaller and poorer countries. Its presence in Haiti, since restoration of its constitutional government at the end of 1994, is illustrative of how it has supported the government in: (i) defining investment priorities and strengthening institutions to invest in infrastructure; (ii) solving social problems by increasing loans for agriculture, primary education, basic health care, and sanitation; (iii) facilitating privatization by financing the establishment of the legal and regulatory framework for the energy sector; and (iv) establishing the Emergency Implementation Unit, which has proven to be a valuable mechanism in the execution of operations such as the Emergency Economic Recovery Programs I and II. This support is a result of the team spirit demonstrated by the officials who worked separately from the ministries and were selected on the basis of professional merit by both the ministry in question and by the Unit, and whose salaries were made comparable to those in the private sector. The success of the Unit earned it an additional mission: to execute the World Bank Job Creation Program, which helped create 50,000 new jobs at a critical time for the country."

Guillermo Rivera, Coordinator for Haiti, came to the Bank in 1990.

many countries that had been adversely affected. The Bank authorized a loan to Argentina for $300 million to repair and restore public transportation systems, housing and infrastructure in six provinces. Additionally, a loan to Paraguay for $35 million was approved in 1998 for the Emergency and Infrastructure Restoration Program. Also, in response to the damage caused by El Niño, the Bank authorized a $150 million loan to Peru in 1997 for an emergency program and another $70.8 million to Ecuador, cofinanced by the World Bank and the Andean Development Corporation, for a similar program.

Hurricane Georges devastated Central America in September 1998 and Hurricane Mitch devastated the Caribbean in October 1998. The Bank immediately dispatched missions to evaluate the damages and organized the mobilization of resources to assist in reconstruction work. In December it organized and sponsored the first meeting of the Consultative Group for the Reconstruction and Transformation of Central America, with the participation of more than 50 cooperation agencies that pledged $6.3 billion to emergency financing, as well as debt relief for the countries affected by the storms. The Bank provided $3 billion dollars in financing and debt relief over the next five years to the countries hit by Mitch. In 1998, the Bank approved a total of $488 million in loans for aid and reconstruction to the Dominican Republic, Guatemala, Honduras and Nicaragua.

Challenges of the Transition into the 21st Century

Over the past decade, Latin America and the Caribbean have achieved valuable results in their efforts to modernize and have developed the political will to solidify and deepen these efforts. Nevertheless, their goals have become more complex as a result of greater social demands and the uncertainty caused

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Below rigth: *A class in Huayllamarca, Bolivia, uses a system of bilingual education financed with an $80 million IDB loan for education reform.* ***Right:*** *Nancy Birdsall, Executive Vice President of the IDB, gives the opening speech at an exposition of 17th and 18th century sculpture from Quito, Ecuador, at the Cultural Center. Jamil Mahuad, Mayor of Quito and later President of Ecuador, is standing on her right.*

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by global financial crises. Moreover, these countries must adapt their methods and policies to make maximum use of the experience gained both within the region and in other areas of the world that in recent years have suffered unexpected crises. These crises should help to delineate new development strategies for the consideration of the Latin American and Caribbean countries. In turn, the Bank must once again adjust its development role as set forth in the charter.

External and Internal Challenges

The Bank is currently in the process of developing basic ideas to help contribute to the debate on a new strategic vision for development in Latin America and the Caribbean during the transition into the 21st century in terms of both the external and internal challenges faced by the region and the Bank. Although each of these aspects is examined separately in this book, it should be understood that both external and internal challenges are part of broader complex circumstances, which can only be addressed with comprehensive solutions. The most significant external challenges to the region and to the Bank include:

- Globalization of finance and production, the building of conglomerates and the internationalization of businesses, and therefore of investment as well. These trends compel the



Waldemar Wirsig

Sustainable Development

"Development requires not only specific project financing, but also generation and transfer of information and expertise. In order to strengthen information transfer and succeed in efforts at disseminating information to the countries, in 1994 the Bank established the Sustainable Development Department (SDS). Its mandate is to focus on analysis of the major purposes of the Eighth Replenishment. SDS is made up of support units for each operational department: social sectors, environment, infrastructure and capital markets, indigenous peoples, women and microenterprise. Specialized technical groups focus on the issues of poverty and inequality, education, and small and medium-size businesses. These groups were created to provide support to lending and technical assistance programs. The structure of the SDS makes it possible to guide staff expertise toward areas of particular importance, such as violence and early childhood development. The SDS team has the capacity to carry out research on new practices, develop strategies and policies for the Bank, and provide training courses to professionals and officials from the region. In order to expand technical information dissemination, SDS has used computer science as well as other novel outreach methods."

Waldemar W. Wirsig, Manager of SDS, came to the Bank in 1990.

region to become more competitive, upgrade the capacity of its human resources, increase political stability, and build a legal and economic framework that makes the region appealing to foreign investment. Globalization offers opportunities for development that, on the one hand, are advantageous, but, on the other hand entail risks of exclusion, inequality, unemployment and poverty, and culture and lifestyle shock, as well as undermining of national sovereignty.

- The uncertainty and instability inherent in external capital. Moreover, private funding, which has been the predominant source of external resources in the region throughout the 1990s, has become focused on only a few countries and sectors, and it does not seem that this trend will be reversed in the near future.

- Building and strengthening trade and economic blocs, in the face of the passivity that characterizes current world trade liberalization efforts and of the symptoms of neoprotectionism, in addition to the progressive drop in the prices of raw materials. This requires reflecting on the prospects for regional economic integration, particularly in designing strategies for guiding relationships with other blocs at the continent and world levels.

- Transformation of world trade, in which information-intensive products and services have a growing participation and raw materials have a decreasing one. The Latin American and Caribbean countries face the challenge of expanding and improving exports on the basis of developing new and dynamic comparative advantages, together with strengthening traditional ones.

- The fatigue of the developed world in sustaining international cooperation, which became clear at the end of the cold war and the start of growth in the international flows of private capital. Adverse consequences are being increasingly felt in the developing countries that, due to

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Robert Daughters

Decentralization: an Unexpected Revolution

"At the start of the 1980s, when I came to the Bank, very few people could have imagined a project that was not in the hands of the central government, or a Latin America not governed from top to bottom. The paradigm was described in The Centralist Tradition of Latin America, *by Claudio Véliz. The book described a structure whose roots date back to the colonial regimes of Spain and Portugal, which organized the region on the basis of centralized bureaucracies that made it impossible for a local culture of initiative and self-sufficiency to develop. Over the last 15 years, a revolution has taken place. In almost all of the countries legislative reforms have been passed that empower or give back political and fiscal power to local and regional governments. In 1980, only three countries had local elected officials; today only three countries don't have any. These subnational governments now control more than 20 percent of total public expenditures and are responsible for most basic local services, such as water and sewerage, urban roads, transportation, education and health. And the Bank is dealing with local governments more and more as clients, which presents new challenges to the institution."*

Robert Daughters, who came to work at the Bank in 1982, is an Urban Planning Specialist.



Raúl Novoa

From Ashes to Cherries

"In 1993 the ash from the eruption of Chile's Hudson Volcano fell on Los Antiguos, in the Argentine Patagonian region, and on the small-scale cherry growers of the cooperative 'El Oasis,' who lacked modern means of communication, management, and proper equipment. The aid they received was uninstalled machinery, without technical assistance, and was a blow both to the cherries as well as to the spirits of the growers. The following season's crop was ruined and the cooperative found itself on the brink of dissolution. The Bank arrived in 1994 with a typical small project, putting development in the hands of the cooperative, facilitating the creation of a managerial team and access to technical assistance and a loan at market rates. The cooperative attained access to market information, contacted producers from neighboring countries, and learned about their technology and made objective decisions regarding investments that were prerequisites for opening new marketing channels. Four years later, training and increased capacity to maintain fruit in new cold chambers enabled the cooperative to avoid middlemen and negotiate better prices in more distant markets. A 150 percent increase in production made possible the first sales to Spain and Belgium. Purchases by England, Germany, France and Switzerland soon followed. When its president was asked whether the cooperative would be capable of paying back the loan to the IDB, he seemed to look around the room to gauge the achievements by naming the objects: the desk, the telephone, the fax machine, and the computer where accounting, the loan repayment schedule, inventory control, liquidations to producers and e-mail were all managed. He responded: 'So many bad things would have to happen to us first that for us to not pay back the loan, our whole life would have to have failed."

Raúl Novoa came to the IDB's country office in Argentina in 1993.

their small size and economic, social and institutional backwardness and political instability, are not appealing to foreign investment. Multilateral agencies have not been spared the consequences of that fatigue or of persistent questioning. This forces the agencies to improve efficiency and reinforces the importance of the role of the Bank in the development of member countries.

External challenges coexist with the particular internal demands and challenges of the Latin American and Caribbean region. The major internal demands include:

- The need to make market-based and private initiative-driven economic reforms economically, politically and socially sustainable. As a result of recent economic crises, weak recovery and little

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1 9 9 5

Below: *In 1995, repairs and repaving were completed for 2,633 kilometers of the Pan American Highway in Peru, financed with a $210 million IDB loan.*



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Right: *Street building and repair projects are part of an improvement program for poor neighborhoods in Rio de Janeiro, which was financed with a $180 million IDB loan to Brazil in 1995.* ***Below right:*** *Several IDB lending and technical assistance programs helped the Bolivian government to conduct an inventory and evaluate state-owned telecommunications, airline, and electrical enterprises before their sale in 1995.*



meaningful progress in the social arena, a climate of doubt and protest has taken hold among the population.

- The pressing need to attack inequality, poverty, social exclusion of ethnic minorities, and urban marginality and rural poverty.
- The need to reduce tensions resulting from regional integration, which reflects the protectionist impulses caused by recent international crises.
- The need to protect the environment and increase the capacity to act in the face of natural disasters.

Defense Against External Vulnerability

The lack of a domestic containment mechanism and of protection against volatility in the international market and the global economic cycle have proven to be the Achilles heel for regional development over the past decade.

The recent financial crises have shown that globalization of markets has been inherently unstable. Further complicating matters for the region, deregulation of national financial systems and of capital accounts has increased external vulnerability and the risk of being adversely affected by external crises. The growth rate and pace of transformation of the global financial system has surpassed the growth rate of production and trade. At the same time, the huge amounts of funds so readily

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transferred between countries and the increased complexity of the international financial system have made the line blurrier between the evolution of real economic conditions and the ephemeral, everyday ups and downs of financial variables.

Recent financial crises have caused worldwide concern. In light of the Asian crisis, many countries and international agencies, including the IDB, have stated their intent to find ways to prevent and do a better job at confronting such crises. Some progress has been made toward this end, such as the emergency program established by the IDB in 1998 and the creation, in April 1999, of a contingency line of credit at the IMF. In addition, the United Nations has put forth an initiative for international financial system reform, which focuses on six aspects: (i) coherent macroeconomic policies on the global level, (ii) adequate international liquidity in times of crisis, (iii) codes of financial conduct, reporting, supervision and regulation at national and international level, (iv) autonomy of developing economies in the capital account management, (v) an international consensus to suspend debt service, and (vi) a network of regional and subregional organizations to support international monetary and financial management.

Private financing, which in this day and age is the predominant part of overall financial flows to developing countries, is volatile. This problem is further compounded by the absence, in many of these countries, of solid financial structures and adequate regulations and regulatory and oversight agencies. Additionally, an oversupply of external capital during boom periods fuels macroeconomic imbalances and weakens prudence, especially in the financial and banking sectors; during depressed times, panic is infectious and hits both weak and flourishing economies alike. These realities demand the establishment of defense mechanisms, which shall be a priority task for the region and the Bank.

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Opposite page left: *Concert of the National Youth Symphonic Orchestra of Venezuela at IDB headquarters in 1995. In 1997, the Bank approved a loan for the National System of Youth and Children's Orchestras and Choirs of Venezuela.* ***Opposite page right:*** *The IDB inaugurates the Public Information Center in February 1995 for the public to have ready access to Bank documents and records. The photo shows Muni Figueres, External Relations Advisor, and Dan Martin, Chief of the Public Information Section.* ***Below:*** *A course at the IDB headquarters building for managerial staff of social agencies from 18 countries, taught by the coordinator of the Inter-American Institute for Social Development, Bernardo Kliksberg.*



The countries need to maintain sound macroeconomic policies, especially in the fiscal area, as well as wise monetary and exchange policies. They must also increase domestic savings, which must be bolstered by fiscal reform, modernization of capital markets, and promotion of individual savings through social security reform. Greater savings will decrease dependency on external capital, especially short-term capital.

The region needs to build up its monetary reserves and ensure effective and rapid access to supplementary external liquidity to help protect exchange rates at a reasonable cost and give countries the time they require to carry out economic and financial internal adjustments. Short-term investment is both the means of transmission of instability from one country to another as well as the most voluble component of international capital. This type of investment is usually carried out by investment banks, mutual funds and other institutions. These investors are willing to abandon even the markets of stable and prosperous countries when they face the need to maintain their portfolio positions or respond to deposit withdrawals because of losses on other, troubled markets. The experiences of some countries have shown that certain tax and control measures are relatively effective at discouraging the entry and penalizing the untimely withdrawal of those funds.

Other requirements for the consolidation of the stability of national economies and domestic financial systems are greater efficiency and transparency, creation of institutions and norms for supervision

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1 9 9 6

Below: *In 1996, completion of 192 kilometers of paved highway between Sajama, Bolivia and Chile for the first time provided Bolivia with all-weather access to a port on the Pacific. The IDB and Japan cofinanced the construction.*



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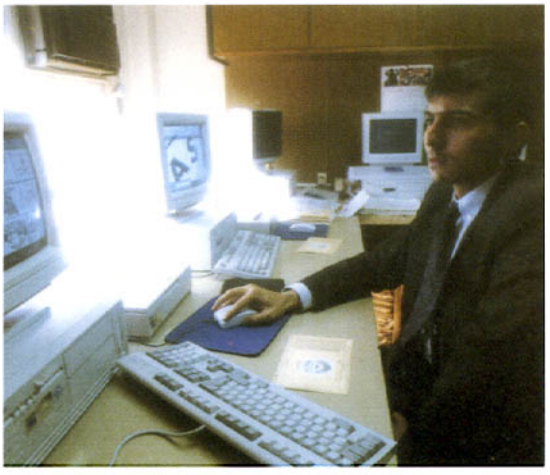

Right: *A digital database of logotypes and trademarks in Montevideo, Uruguay was completed in 1996, providing greater protection to businesses. The project was part of a reform program of the investment sector financed in 1992 with a $68 million IDB loan.*

and control by monetary authorities, and establishment of comprehensive, accurate and up-to-date statistical information and reporting systems. The IDB shall continue to support the accomplishment of these objectives.

The cornerstone of external stability is economic integration among Latin American countries, and this goal shall continue to be a priority area for the Bank. This process has become more deeply rooted and spread more widely throughout the region over the past decade. In so doing, it has contributed to an expansion of reciprocal trade and to the mitigation of the recessive effects of external crises. As the European experience has shown, regional and continental integration is an objective of far-reaching importance for development and stability. The countries of Latin America and the Caribbean must expand their trade ties and seek out imaginative and effective solutions to reinforce intraregional financial cooperation. The Bank shall also support any free trade agreements that create new opportunities for continental and hemispheric collaboration, as well as cooperation with Europe, Japan and other areas of the world.

Reform and Social Development

Today, there is a broad consensus that the quest for social progress ought to be the focal point of any development strategy and not simply an ethical concern. The lack of social progress is the most critical aspect for the development of the region and can be seen in several ways. Poverty is the end result of several factors. One of them is the inequality in the distribution of income and wealth, which for the most part is a result of the persistence of old economic and institutional policies and structures. This inequality became more acute during the 1980s and barely seems to have been alleviated during the 1990s.

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1 9 9 7

Below: *Completion in 1997 of a breakwater in the port of Haina, which is on the outskirts of Santo Domingo, Dominican Republic, increased protection against hurricanes. Studies financed by the IDB helped to design an investment program for the port.*



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Right: *An earthquake-proof bridge over the Otún River in Colombia, which connects the cities of Pereira and Dosquebradas. The project, completed in 1997, was financed with a $300 million IDB loan for highway construction.*

Another factor that weighs heavily on poverty is the speed of economic growth and the attendant income distribution framework, which determines how intensely marginal production will absorb employment. The experience of the 1990s has revealed a positive but limited effect on the recovery of economic growth in relation to poverty, being that neither the growth rate nor the rate of absorption of jobs into production have posted modest gains nor have real wages shown any sign of robust recovery. The open unemployment rate has remained at high levels, the highest since the crisis of the 1930s, decreasing from an average of 10.3 percent during the "lost decade" of the 1980s to 9.4 percent in 1991-96.

Absorption of labor has also been constrained by other factors. These factors include technology, incentives for more intensive use of capital - partly due to an abundance of external resources, low interest rates, and in some cases overvalued exchange rates - the need to become competitive with the outside world, and some structural reforms, especially privatization, streamlining of the state, and modernization of private enterprise.

In order for economic growth to alleviate poverty, its rate of growth must surpass a critical level, which many experts feel should be an average annual rate of 6 percent. The belief is that this would make it feasible to increase productivity, especially among sectors and income groups that have lagged the furthest behind, and at the same time create more employment. Additionally, price distortions that afflict capital and labor markets must be eliminated so that the adverse effects that reforms and technological modernization have on employment may be offset. This is the only way to turn around the growth trend in the informal sector.

Expansion of the informal economy, for the most part, can be attributed to fast-paced

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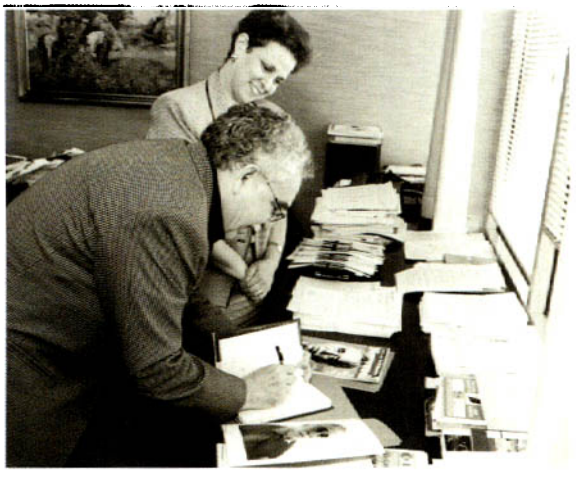

Left: *Gabriel García Márquez during a visit to the IDB in September 1997.* ***Opposite page:*** *Radio announcers report for listening audiences in Mexico and the United States from a seminar on domestic violence held at the IDB in October 1997.*

urbanization in Latin America and the Caribbean, where 75 percent of the population is currently concentrated in cities, compared with 65 percent in 1980. Shantytowns have sprouted up right beside the fenced houses of the socio-economic elite. This phenomenon has led to sharper differences in income and wealth levels, widening the gap between urban and rural standards of living, and between open and hidden unemployment, in turn generating a greater incidence of crime, drug trafficking, drug addiction, child neglect and abandonment, child labor and prostitution. It is paradoxical that the capacity of the so-called welfare state decreased as the social crisis became worse.

These circumstances make it essential to identify production patterns and locate productive activities that will make greater use of labor, provide fiscal incentives, financing, and infrastructure to spur on expansion and diversification of the private sector. Along with these measures, it is also necessary to create programs designed to increase productivity and introduce intermediate technology into the informal economy.

Such efforts would be unsuccessful without the proper amount of well-trained human resources. Improvement of quality and expansion of coverage of education are crucial for progress in modernizing economies and globalizing markets. Since the middle of the 20th century, it has been widely recognized that investment in human capital is a sine qua non condition for human dignity. It is absolutely essential for growth, as much as or more than investment in physical capital. In Latin America and the Caribbean, basic and secondary education are deficient and require emergency assistance. Moreover, technical, vocational and university education and research are important components for taking part in the race for knowledge. Preventive and curative health services are equally important for the well-being of a nation and are critical requisites for evening out the

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distribution of wealth, increasing productivity, and achieving steady growth. The Bank has been a pioneer in these areas, which shall continue to have a high priority for the institution. The Bank's efforts shall focus on strengthening its support of social policies. This goal shall be pursued in several ways, which include:

- Improving management and efficiency in public and private social expenditures.
- Promoting investment in social capital, particularly in education and health.
- Increasing productivity through skills building and training of the labor force, helping to make the labor market more flexible and supporting micro, small and medium-size enterprises.
- Improving living conditions in cities and rural areas through investment in economic and social infrastructure.
- Providing assistance targeted toward excluded groups, such as indigenous communities, ethnic minorities and children.
- Finding a solution to old and growing social problems, such as corruption, urban and domestic violence and drug trafficking, which afflict many countries in varying degrees.

In short, the Bank shall continue to contribute to the sustainability of development and to the steady mainstreaming of Latin America and the Caribbean into the world economy by providing support to economic, social and institutional reforms, particularly to state reforms. New and more complex dimensions are opening up in this field since reforms touch upon areas that are sensitive to public opinion and the values, traditions and ideologies of the nations affected by these changes.

Finally, social policies and productive processes shall benefit from the introduction and

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1998

Below: *A distance learning class in Coajomulco, Mexico. In 1998, approximately 800,000 students in remote areas of the country received education by means of a televised program that was backed by a $171 million loan by the IDB.*



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Right: *A community meeting in Agua Fria, Panama to help design the Darién area sustainable development project. A $70 million IDB loan approved in 1998 is supporting this project.*

dissemination of advanced technologies, particularly modern information and computer systems, an area in which the Bank is strengthening and expanding its support to the region.

Instruments of the Bank

The Bank's tools include both financial and nonfinancial instruments that, as they are brought up-to-date, can provide important support to the development of the region as it enters into the new century.

The types of assistance required by each borrowing country are becoming increasingly more varied over time. The more developed countries have access to capital markets and receive ample direct foreign investment. Their financial demands on the Bank are more geared toward decentralization of social investment and infrastructure, development of capital markets, and mobilization of private resources. Their demand for nonfinancial services is expected to involve a growing number of technical cooperation programs, in which the Bank takes on the role of instrument of social preinvestment and partnership building, institutional innovation and modernization, insertion of small and medium-size enterprises into global markets, and dissemination of knowledge and training. These countries' links to the Bank shall be a fundamental component for developing internal mechanisms for the promotion of regional cooperation.

Other countries, whose access to private capital markets is limited, shall come to the Bank and the institution will play the role of intermediary for the mobilization of long-term resources to fund priority programs and projects. In these instances, the Bank's loans are granted to finance

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Opposite page: *The devastation in Tegucigalpa, Honduras after Hurricane Mitch in 1998. The Bank approved loans and reallocated nonreimbursable funds from previously approved loans in emergency aid to the Central American countries battered by the catastrophe.*

public investment and also to serve as conveyor belts of economic policy expertise and, simultaneously, to support the modernization of the state. The Bank shall also serve as a catalyst for private investment in these countries.

The less developed countries will require the traditional financial support of the Bank, but on appropriate concessional terms in order to back reform and investment programs and solve social problems and alleviate poverty. The Bank shall continue to strengthen the capacity of these countries to formulate and execute investment programs, by bolstering the institutions responsible for their execution and mobilizing the management capacity of communities and governments.

In the future, some countries will be in a position to opt for not utilizing the Bank as a source of financing, but will continue their institutional link as part of an organization that requires the active participation of all of its members.

The relative importance of the main instruments of the Bank, lending and technical cooperation, will vary from country to country. It is expected that nonfinancial services will play an increasingly more important role as development in the region begins to solidify. The IDB has a variety of instruments at its disposal, which are listed below:

- A sustainable capacity for lending nearly $8.5 billion per year. In addition, concessional resources approved by the governors on December 9, 1998, will put about $6.5 billion at the disposal of the less developed countries through 2009.
- National technical cooperation, which is essential to the support of economic, social and institutional reforms. In addition to the Bank's own resources, a considerable amount of bilateral resources and the MIF's collaboration are available to the Bank.

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Enrique Iglesias: *The Bank and Its Mission*

- Regional technical cooperation, which shall continue to play an important role, particularly for less developed countries, in fields such as human resource training and collaboration with research centers.

- The Bank's contribution to the general debate on development and integration.

- The promotion of national dialogs on economic and social conditions. These dialogs have been helpful to the Bank and the governments, particularly at the beginning of a new term of government, in finding common ground on alternative approaches to face development problems. The Bank shall continue promoting dialog and cooperation with nongovernmental organizations and civil society, particularly with regard to social programs. It will also promote dialog between countries.

- Coordination of the instruments of the IDB group that are designed to serve the private sector, making it possible to complement the activities and operations financed by the Bank, the IIC and the MIF and identify new investment opportunities in infrastructure and in small and medium-size enterprises. The resources of the Bank fulfill a catalytic purpose and their impact is multiplied by a factor of four or five times with the participation of private sources of lending and investment. The greatest contribution of the IDB will be to evaluate the socio-economic and environmental dimensions of projects and increase the confidence of interested parties in the ensuing contractual agreements.

- Capacity of response to emergencies. The Bank shall assume a leading role in confronting the effects of natural disasters, supporting reconstruction of infrastructure and relief from their impact on vulnerable groups. The Bank's role with regard to financial crises shall be consistent with

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Below: *Construction of a 3,146 kilometer gas pipeline between Rio Grande, Bolivia and Porto Alegre, Brazil. The Bank lent $240 million to Brazil for this project, a loan that was cofinanced by several regional and international organizations.*



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Below: *Presidents Fernando Henrique Cardoso of Brazil (left) and Hugo Banzer of Bolivia in February 1999 at the ceremony inaugurating operations of the gas pipeline between their countries.*

its mandate to strengthen reform efforts, protect the most vulnerable sectors of the population and complement the actions of the Bretton Woods organizations.

- Support to regional and subregional integration schemes, as well as to efforts to bring about closer international ties between Latin America and the Caribbean and the United States, Europe and Asia. The Bank's contribution to the North American Free Trade Agreement, relations with the European Union, and the program initiated with the support of Japan to strengthen cooperation between Asia and Latin America and the Caribbean are living proof of this support.



Institutional Response

In the face of prevailing circumstances in the region and the world today, the Bank has been compelled to review the way in which it uses its instruments. The working groups of the Board of Executive Directors and of the administration have taken on this task, particularly the group charged with formulating the principles and guidelines that the administration must follow in drafting the institution's plan for the future. The governors shall set the course and establish priorities for the Banks' actions on the basis of an evaluation of performance, efficiency in the use of instruments,

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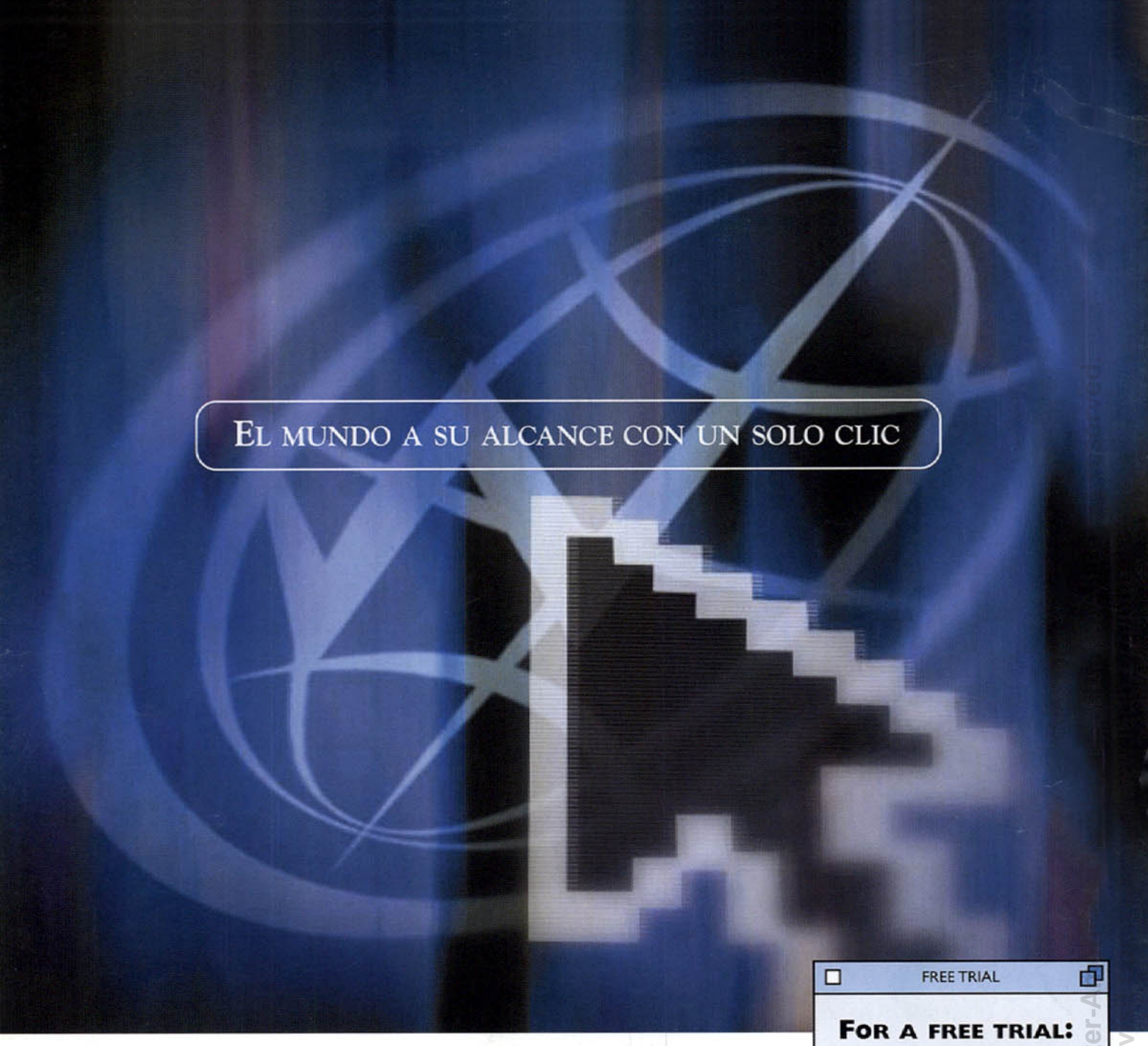

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Muni Figueres

The Image of the IDB

"Why has the IDB maintained over four decades such an unusually positive image among diverse audiences? I believe that the explanation lies in its staff, organization and objectives. The objectives are to support a region with which it identifies and which, in turn, considers the Bank its own. This is because most of the ordinary capital shares are in the hands of the borrowing countries and also because most of the officials, starting with the president, are from the region. This has smoothed the way for an ongoing, close dialog on economic policies, relations with the financial world, programs and projects. The staff has always felt an extraordinary commitment to the region and the Bank, not only because of the privilege of having common goals of the highest order, such as supporting the economic, social, political and cultural development of their own societies, but also because of the climate of collaboration, exchange of opinions and respect that prevails throughout the institution. The support of its member countries, which is an internal and not external support to the institution, and its own soundness have enabled the IDB to avoid misunderstandings and destructive criticism and become an open institution that is a friend to information and dialog."

Muni Figueres has been External Relations Advisor since July 1992. She came to the Bank in 1990.

and changes in the assistance needs of the governments. The institutional plan will establish the directives that shall be followed by the Bank over the next years.

It is fitting to ask what assurance there is that the Bank shall continue being an important and flexible institution throughout the 21st century.

The most effective institutions have a flexible structure that is made up of teams of people who are in charge of fulfilling mandates and objectives that fall squarely within the framework of the established rules of the institution, while dynamically interacting with each other. In order for institutions to be successful, it is essential that all of the members share the same values and objectives, which should be reflected in the decision-making process at all levels. In order to accomplish the institutional objectives adeptly and flexibly, institutions must also rely on clear policies that provide for the delegation of authority and the support of good internal communication. The IDB has traditionally emphasized and nurtured a pragmatic, institutional culture of service that has proven to be effective and has made it possible for Bank officials and employees to learn on the job or in the field.

Recently, great strides have been made with regard to delegation of authority, but the Bank still has a long way to go, both between the Board of Executive Directors and the administration, as well as within the administration's own structure. The administration is fully aware of the need to streamline the Bank to keep pace with change and, for this reason, is currently undergoing a review of the procedures currently in place.

Just as it is important to adopt procedures that help streamline the running of the Bank, another fundamental aspect is to ensure ongoing, frank and open dialog with the member country governments. Historically, the Bank has engaged in activities in which most member countries were inexperienced

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Right: *Cleaning up the Jones River, Municipality of Río Hondo. The bridge over the river was rebuilt as part of the emergency program financed by the Bank in 1998 for Guatemala in the wake of Hurricane Mitch.*

and it was only natural for the Bank to play a leading role in project negotiations. Today, however, many more countries and institutions possess the required skill and know-how for negotiations and project execution. The Bank can learn a lot from dialog with the countries in a relationship of cooperation.

The Bank must continue to refine its activity planning process by basing this exercise on country strategies so that the needs and priorities of each particular country may be aided by the Bank's services. Country programs are both a joint diagnostic study conducted by the Bank together with national authorities and, at the same time, an action plan for the Bank that combines loans, technical cooperation and nonfinancial services. This combination of instruments must be reviewed and adjusted periodically in order to ensure effectiveness. The foundations of country programs rest on the sector strategies, which are the product of technical discussion with the country about specific sector-related issues. Strategy formulation does not override the overall vision of the country, which may define cooperation actions of the Bank on its own. This has been the case, for example, when the Bank has supported discussions on economic policy with national authorities, or dialog and cooperation with civil society.

Although from the time of its founding the Bank has focused its activities on specific project financing, its charter, true to form as the visionary document that it was, provided that projects could be part of national or regional development programs. In the adjustment and structural reform programs that the Bank has been financing more and more over the last years, this approach has been used and can be adapted to the new needs of the borrowing countries.

It is clear that one overarching function of the IDB is to make sure that its resources contribute to the development of the region. This makes the task of evaluation all the more important because effective evaluation helps to put a system into place that motivates people to improve performance in

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Opposite Page: *The Bank is financing studies for a restoration project of the polluted Lake Amatitlán in Guatemala.*

the programs and projects approved by the Board of Executive Directors, while providing the Board with a mechanism of Bank performance oversight. The Board's job is usually more intense during the preparatory phase of projects than during execution, which is essentially the responsibility of the executing agencies. An effective evaluation system, elaborated with the collaboration of the administration, may also help to improve the effectiveness of country offices in collaborating with project executing agencies.

National and regional technical cooperation shall continue to be an essential component of the Bank's actions, and shall be at least as significant as it has been over the last 40 years. It will continue to help identify new priority financing areas; to help remove barriers to successful project execution; to take innovative approaches to economic and social problem solving that entail greater risk-taking; to improve the countries' capacity for investment identification, formulation and execution; to increase the capacity of external savings to be absorbed into productive activities; to support integration efforts; and to contribute to the capacity and initiative of the countries to confront common challenges pertaining to the environment and the sustainability of development.

Nevertheless, the problem of a shortage of soft resources for technical cooperation is looming over the region. National technical cooperation can be reinforced with bilateral resources; however, this is not done with regional technical cooperation, which must be open to all countries and is essential to the support of regional and continental integration and a broad range of regional and subregional synergistic endeavors. Regional technical cooperation has often served to expose a problem to public opinion and identify measures for its collective resolution. The experience that has been gained from discussions on programs and policies relating to public health, justice, education

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or violence is testimony of this capacity. For this reason, it is essential to make a special effort, perhaps by revitalizing the Technical Cooperation Fund (FONTEC) which was created under the Eighth Replenishment, and to make bilateral technical cooperation more flexible so that regional technical cooperation projects may become eligible for financing.

By adapting to the needs of its borrowing countries, the Bank shall continue, in the words of Felipe Herrera, "to make its way as it goes," in supporting the economic and social development and the integration of Latin America and the Caribbean.

Jorge Espinosa Carranza *was Special Advisor to the President of the IDB from 1981 to 1998, after serving in a variety of functions at the Bank beginning in 1967. He was Chief of the Monetary and Financial Planning Section of the Chilean Central Bank from 1965 to 1967; Assistant Director of the Center for Economic Planning at the University of Chile from 1962 to 1965; Professor of Economics at the School of Economic Sciences, University of Chile, from 1964 to 1968; and Professor of Economics at the Latin American Graduate School, School of Economic Sciences of the University of Chile, from 1964 to 1967. He has authored books, papers and articles on development financing.*

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Spanair S.A. was founded towards the end of 1986 and is owned today by Teinver S.A. 51% and SAS (Scandinavian Airlines System) 49%.

At the beginning of its activity as an airline, back in 1988, Spanair developed its international charter flights, carrying tourists to Spain from more than 100 European airports. Three years later, with the incorporation into its fleet of aircraft B-767-300ER, Spanair expanded its long-distance route flight operations. Although it wasn't until 1994 when the company began its scheduled operations in Spain, in a short time it extended this operation to Europe and various transatlantic destinations. The airline achieved an evolutionary growth thanks to the targets it set itself, which were obtained successfully. The last of these is based on the commitment to be punctual that Spanair has promised its clients, a boldness that demonstrates confidence and capabilities to position itself as the real alternative in the Spanish airline market.

At present, 74% of the company's flights are scheduled, while the remaining 26% are charter operations. The company has a fleet of 44 aircraft, an amount they intend to expand to 84, within a period of five years. The Spanair fleet, with a staff of 2,812, operates daily a total of 316 flights. This great navigation of people and goods has helped the company to increase its turnover by 35% last year thus increasing its production by over 110,000 million pesetas. Moreover, this contributed to boosting its confidence enabling the company to face one of its greatest challenges: the growth and commitment to its customers through its daring loyalty campaigns. In short, Spanair commits itself to be punctual and has decided to compensate its customers, if their flights don't leave at the scheduled time. An initiative without precedent in Spain.

At the same time, Spanair wishes to adapt itself to a wider range of users, to satisfy both cost conscious passengers and those who place more importance on comfort whilst travelling.



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Economic, Social and Democratic Efficiency: Challenges of Today and Tomorrow

An interview with Enrique V. Iglesias

What did the Latin America and Caribbean that you found when you took office as President look like?

The region was undergoing a period of much tribulation, a backslide in production, a violent external debt crisis that characterized that extremely rough and sad decade that we sometimes call the "lost decade." However, implementation of major reforms was getting under way that gave rise to the progress of the 1990s. The Bank had to accept that the great task ahead was to help Latin America emerge from the hole it was standing in with regard to the debt, inflation, and relative isolation from the world. It was our job to direct that task over these last years, during a decade of renovation, difficulties, and problems, but of great hope for the region.

What does the region look like now?

We have undertaken major reforms and have reaped net gains, even though we still may have some debts, especially the social debt. First we gained democracy, which is no small task, and which we should be proud of. Then we gained stability. Latin America today has an inflation rate of 10 percent, a real feat. We gained an opening to the outside; the region today is more closely linked to the outside world than ever before. We put an end to chronic isolation and opened up to the world and underwent a major process of economic integration and free trade. We have perhaps one of the most integrated regions in the world or, at least, we have become the region with the most integration projects. And we have won back the confidence of the international community.

Certainly, acute social problems persist, although there are signs of improvement. We are concerned about critical poverty, which is very serious. We are concerned about inequality, one of the most severe cases in the world. We are concerned about unemployment. We are concerned about excluded groups. All of that shows the contrast

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between the gains and the debts. To confront the major challenges of the future, we must, among other things, deepen the process of economic modernization, that is to say, achieve economic efficiency, otherwise no other achievement will be able to hold. At the same time, we need to achieve social efficiency, solving social problems much more quickly than we have done in the past. And we need political and democratic efficiency. We have to preserve and consolidate democracy so it becomes a fundamental ingredient of our development objectives. One way or another, these goals today motivate and concern us as well as all of the countries of the region.

Over the last 20 years the region has changed a lot. Nevertheless, in many respects it still remains behind. Why?

For several reasons which have to do with past experiences.

Poverty has a lot to do with phenomena that date back a long time ago, to colonial times; the cause of poverty does not just originate in recent years. It is true that crises, such as that of the 1980s, have aggravated poverty; but it is also true that there were many other problems before. Many times, even though social spending has not been low in many categories, it has been socially inefficient. We have spent but we have wasted; we have reached certain middle and upper-income sectors of society and not the broader base.

In other instances, problems of access to land, or access to credit, or access to education have persisted. This means that equal opportunity is still quite precarious in many countries of Latin America.

In other cases we have had macroeconomic disturbances that have led to high inflation. Inflation aggravated the problem of poverty and inequality. So there is a whole set of phenomena that are related to the causes of the social problems, not just one cause. There is, however, one unique problem: that one out of every three Latin

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Americans lives in poverty and that we have a bad distribution of income.

The gap between the people on top and the people at the bottom is the widest in the world. That is the main challenge that we face in the region.

Where do you see the region in 15 years? How will we get there?

The ability to make accurate projections nowadays has been seriously hampered by too many unpredictable events. Just look at what happened to us in 1998 and 1999, when unforeseen external phenomena, together with a few internal factors, provoked a recession in many countries of the region, along with a significant drop in gross domestic product. Unpredictability and uncertainty are something that we are going to live with over the coming years.

I believe that we will have a Latin America with a more modern economy that is internationally competitive. All of the steps are being taken for that to come about. The region will have to transform its institutions and reform the state in a comprehensive way: state, judiciary, legislature, relations between all of these branches, and civil society.

I see a more internally integrated region. Perhaps achieving hemispheric integration with the United States and Canada, perhaps also achieving greater integration with Europe. I see a region with a democracy that will have to be consolidated more and more as each day goes by. Democracy is not an event that ends tomorrow, nor a past event: it is a daily task. I believe that we shall see a strengthening of democratic tendencies, although risks are always present and dangers may always emerge as long as political systems are incapable of responding to the demands of society on time and appropriately. If they are not capable of responding, then democracies suffer and the credibility of political systems is adversely affected. I think that in some way all of that is in the back of the minds of political leaders.

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It is essential, in any case, to make a great effort to modernize political leadership in Latin America, which I believe is going to occur because the social demands and just the exercise of democracy show that it's not enough to just vote, that it is necessary as well to keep democratic institutions running, to make people feel that democracy touches them with concrete results. Therefore, in order to encourage democracy, it is necessary to solve the problems of poverty, exclusion and unemployment.

What can the IDB do?

We do not have the capacity to solve all of the problems of Latin America and the Caribbean. We never aspired to that nor would we be able to.

The IDB can enter into partnerships with the countries and try to help them solve their own problems. This can be done, of course, by providing resources, but that is not the most important thing. The most important thing about the IDB is that it is a friendly bank to Latin America, and that it is at its service. As well as resources, we provide technical cooperation, nonfinancial services, which means expertise that can aid governments in properly directing economic expenditures and social spending. And, what do we have at our disposal to do this? We have the experience that we have acquired everywhere we've worked; the Bank is fueled by its past and its present in all the countries of the region. We contribute development projects that contain a financial component, but also experience, optimal practices. When we prepare an education or health program, we are not just looking at hospitals or schools to build, we are trying to figure out the best thing to do so that what is spent on health is spent in the best possible way, or what is spent on education is spent in the best possible way. The Bank can continue accumulating experiences and transmit them to the countries, and forever add more and more items to its agenda.

One of our major concerns at the Bank is for the agenda to continue to grow. At times we

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are asked: "Aren't you diversifying the institution too much?" It is possible that there is danger in doing this, and I don't deny it, but I also believe that if this institution has anything, it is its capacity to mobilize public opinion and governments with regard to problems that are vital to Latin America. That is why our task is to continue to work with the concerns of the Latin American and Caribbean societies and their governments.

What have been your most rewarding experiences during your term in office as president?

The most rewarding experience has been, first, to have the group of countries that today make up the Bank, the 46 countries, united behind a common purpose. We have received great support from the governments. But also I believe that we are generating in these countries an image of being a friendly bank, a bank at the service of the best interests of the region. Without a doubt, the Bank is at the service of economic modernization, an objective that lies in the very essence of the Bank, but it also places great emphasis on social issues.

I believe that we must help achieve the fundamental objective of reducing poverty in Latin America, improving the distribution of employment, and attacking all pockets of inequality and exclusion that we have today in the region, especially in the indigenous communities and in ethnic exclusion.

Poverty, in our Latin America, is dark-skinned; it is a poverty of exclusion. That means that we have to specifically address the objective of improving the lives of people in groups that have been excluded over the centuries. We must help them to rise up.

So the greatest reward we have had has been that type of image, of a bank concerned about people, the bank of the people, of society. I see it when I tour neighborhood improvement projects, or when I look at education reform, or when I look at an anti-violence program or a program for street

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children. There, I see a Bank that is really taking on everyday problems and trying to help solve them.

What have been your most frustrating experiences?

The slow pace of social progress. We would have liked for social progress to have come about already, but experience shows us that it is not easy. It is simply not enough to grow, it is necessary to have high-quality growth. And in order to achieve better growth, there have to be better institutions.

Deep down, the institutional issue is behind it all. Economic advancement meets with resistance, is up against corporate interests, institutions that are not developed enough. It takes time to change this. It is much easier to move forward in the economic than in the social arena. We always feel that frustration. But I believe that we are learning.

A few years from now, what will be Enrique V. Iglesias' mark on the development of the region and on the development of the IDB Group?

Fundamentally, I would say to have left behind a relevant region. And a Bank that is relevant because of what it does, that is important because of its focus on social issues, that is important because of its strong conviction and its strong support for the processes of development and integration, that is important because of its adherence to the fundamental principles of democracy and human rights. In other words, an institution at the service of a better Latin America and Caribbean. Even though we know we cannot solve all of the problems on our own, we have the conviction that we can make a difference so that the problems begin to be solved with everyone's participation.

Carlos V. Brezina

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40 YEARS
MORE THAN A BANK

Forty Years of the IDB: Milestones

Carlos V. Brezina

1959

- Drafting of the Agreement Establishing the Bank by the Special Advisory Commission of the Inter-American Economic and Social Council of the OAS.
- Establishment of the IDB on December 30, after the Agreement is ratified by 18 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haití, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and the United States.
- Initial resources: $1 billion, $850 million of which is authorized for the ordinary capital ($400 million payable in cash), and $150 million for the Fund for Special Operations (FSO).

1960

- Uruguay and Venezuela ratify the Agreement Establishing the Bank.
- First Annual Meeting of the Board of Governors, in El Salvador. First Board of Executive Directors elected and Felipe Herrera named President of the IDB.
- Operations begin on October 1, with 87 officials and 101 administrative support and secretarial employees at Bank headquarters in Washington, D.C.
- First technical assistance: $61,500 for institutional strengthening of the mining sector in Bolivia.
- Library created, which shall eventually bear the name of Felipe Herrera.

1961

- In the framework of the Alliance for Progress, the United States puts the $394 million Social Progress Trust Fund (SPTF) under IDB administration.
- First loan: $3.9 million, from the ordinary capital, for water and sewerage in Arequipa, Peru. Other loans for this sector benefit Brazil, Chile, Colombia, El Salvador, Uruguay and Venezuela.
- First FSO funding: $10 million for a global agriculture, electrical energy and industrial credit program in Bolivia.
- First loans for agriculture (including agrarian reform), energy, transportation and housing.
- Pioneering technical assistance operations for 14 countries.
- The IDB supports establishment of the Central American Bank for Economic Integration (BCIE) by providing technical cooperation financing.
- Publication of the Annual Report of the Social Progress Trust Fund, later called Socio-Economic Progress in Latin America and finally called Economic and Social Progress in Latin America (IPES).
- Appointment of first Bank representatives in Bolivia and Europe, which occurred at the same time as appointment of resident country engineers and the creation of regional offices that became the system of country offices in each and every one of the borrowing member countries.

Carlos V. Brezina: Milestones
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1962

- First loans for higher education to benefit universities in Argentina, Chile, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Peru.
- First loans for science and technology, for the Mexican Institute of Technological Research.
- First bond issues in Italy for 15 billion lira, equivalent to $24 million.
- First bond issues in the United States, for $75 million.
- Felipe Herrera opens in Paris the Bank's Special Office in Europe.

1963

- Creation of a program to finance capital good exports between borrowing countries in order to promote the sector and foment integration.
- First loan for $6 million to a subregional development bank, the Central American Bank for Economic Integration.

1964

- First Increase in Resources[1]: $1.3 billion in the ordinary capital ($300 million of which is authorized for countries that will eventually become new members of the Bank with a cash contribution of $75 million), and $73 million in the FSO. A complementary increase is added in 1965 to the FSO for $900 million.
- The United States increases the resources of the SPTF by $131 million[1].
- The Canadian International Development Agency places a fund for concessional-term project financing under administration of the IDB.
- First lines of credit for export financing, benefiting Argentina, Brazil, Chile and Mexico.
- Release of a report for Colombia and Venezuela on border integration. Loan for an electrical project in Colombia that includes a connection with Venezuela.

1965

- First Increase in Resources, complement of $900 million to the FSO. Governors authorize to direct financing from the FSO toward social development, which had been coming out of the SPTF.
- Creation of the Institute for Latin American Integration (INTAL), headquartered in Buenos Aires.

[1] This was the year it was ratified by vote of the governors or, in the case of the SPTF, by the United States government. Such votes are preceded by the governors' recommendations, sometimes for more than a year. Voting can be completed on different dates for the OC and the FSO. Some of the increases were complemented at a later date, which is stated. Cash subscriptions and contributions can be made over a period of several years. All contributions to the FSO are payable in cash. Amounts listed in different Bank documents and records for the same replenishments vary depending on whether they include the authorized capital or just the capital subscribed up until a certain date, and depending on the exchange rate used in the valuation of the contributions. They also vary as a result of other factors. This chronology uses authorized amounts.

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• First loan to mitigate the effects of a natural disaster: $5.2 million to Costa Rica in the aftermath of the eruption of Irazú Volcano.

• First loan for a binational integration project: a highway from Paranaguá, Brazil to the Paraguayan border, and improvements to the port of Paranaguá, used for Paraguayan exports.

• Over the first five years of the IDB, 17 percent of loans from the ordinary capital go to private enterprises without government guarantee, 32 percent to private enterprises through development institutions, and 51 percent to governments and government entities.

1966

• First financing of telecommunications sector, for $250,000. Support targeted to studies for improvement of the sector and use of satellites for integration purposes.

• Pre-Investment Fund for Latin American Integration established.

• The IDB and the Inter-American Institute of Agricultural Science, which later became the Inter-American Institute for Cooperation on Agriculture (IICA), agree to coordinate agricultural credit and agrarian reform training efforts.

• The United Kingdom and Sweden each put trust funds under the administration of the IDB, representing $11.6 million and $5 million, respectively. These are the first trust funds created by nonregional countries.

• First short-term bond issues that are sold at face value to the central banks and public finance agencies of 15 Latin American member countries of the IDB, Spain and Israel totaling $65 million.

1967

• Second Increase in Resources: $1.2 billion in the FSO.

• Trinidad and Tobago joins the Bank.

• New policy adopted for mobilization of financial resources from nonmember countries for development in Latin America.

1968

• Second Increase in Resources: $1.005 billion in the ordinary capital (without cash contribution required).

• First financing, $9.5 million, for a national telecommunications project to interconnect the four major cities of Bolivia.

• Central American Bank for Economic Integration authorized to use $3 million from a prior loan to build a telecommunications system between the countries of Central America and Panama and Mexico.

• The IDB and the Pan American Health Organization support campaigns to combat bovine hoof and mouth disease in South America.

• The Bank increases it's Financial support of

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the science and technology sectors and starts to consider loan applications for projects in the tourist sector.

- First office created for the evaluation of successes and problems of Bank policies and operations, the Group of Controllers of the Review and Evaluation System.

1969

- Barbados and Jamaica become members of the Bank.
- The Vatican assigns the management of its Populorum Progressio Trust Fund to the Bank, with the initial contribution being earmarked for agrarian reform in Colombia.
- First financing for specific components of construction of tourist hotels, benefiting Ecuador and Paraguay.

1970

- Third Increase in Resources, for $3.5 billion: $2 billion for the ordinary capital (with $400 million payable in cash) and $1.5 billion for the FSO.
- Felipe Herrera resigns from the office of the president on October 11, effective March 1, 1971, to return to Chile.
- The governors elect Antonio Ortiz Mena President of the Bank on November 27, for a five-year term beginning on March 1, 1971.
- The research study paper commissioned to Raúl Prebisch to provide the IDB with a regional development outlook, *Transformación y desarrollo: la gran tarea de América Latina (Transformation and Development: the Great Task of Latin America)* is published.
- Norwegian Development Fund for the development of Latin America is created.
- Argentina becomes first borrowing member country to create a trust fund; to finance projects in Bolivia, Paraguay and Uruguay.
- $35 million loan to Peru for reconstruction after a devastating earthquake.
- Venezuela receives $75 million as the Bank's first financing for integrated rural development.
- First financing for the Andean Development Corporation (CAF), which was created in 1970; for project identification.
- First financing for the International Maize and Wheat Improvement Center (CIMMYT) and the International Center for Tropical Agriculture (CIAT) to support agricultural professional training.
- During its first 10 years of operations, the Bank approved $4.103 billion in loans benefiting the following sectors in descending order of size: agriculture, transportation and communications, manufacturing and mining, electrical energy, water and sanitation, urban development and housing, and education.
- One out of every four Latin Americans has directly benefited from IDB operations and an even

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higher proportion has benefited indirectly.

1971

- Infrastructure-related loans (transportation, communications and electrical energy) increase, surpassing agriculture as the main beneficiary of operations.
- Ortiz Mena takes office as President of the Bank.
- First large loan targeted toward tourism development: $22 million for infrastructure in Cancún, Mexico.

1972

- Bank charter amended to permit membership of Canada, IMF member countries from outside the Western Hemisphere, and Switzerland.
- Canada joins the Bank.
- Explicit policy adopted to grant preferential treatment to the less developed countries in operations with resources from the FSO.
- First binational project: $80 million loan for the Argentine-Uruguayan Salto Grande dam.
- Reorganization of the Bank, which entails the creation of the Office of the Controller and the Project Analysis Department and strengthening of the country offices.
- Volume of ordinary capital loans surpasses volume of FSO loans.

1973

- Governors discuss accession to the Bank of Caribbean countries, which recently became independent, at their first Annual Meeting in an English-speaking Caribbean country, in Kingston, Jamaica.
- First loan for the fishing sector: $1.6 million to the Dominican Republic.
- Creation of the Swiss Fund for Technical Cooperation and Small Projects.
- Multisector loan for $16.7 million for the rebuilding of Managua after a devastating earthquake.

1974

- Twelve nonregional countries sign the Declaration of Madrid, announcing their decision to become members of the Bank.
- First loans specifically earmarked for public health: $15 million to El Salvador and $5.3 million to Trinidad and Tobago for the construction and expansion of hospitals and other health care facilities.
- First large loan for fishing industry development: $43 million to Mexico and $3.5 million to Panama.
- First loan with significant components for preservation of cultural heritage and historical monuments: $29.8 million to Peru for tourist development in Cuzco and Puno.
- First loan, $1.5 million, for reforestation and forest protection, on more than 320,000 hectares in Nicaragua.

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• Total annual amount of loans approved by the Bank reaches $1.111 billion, surpassing the $1 billion mark for the first time.

• Nonreimbursable technical cooperation comes to $22 million, its highest annual level to date.

1975

• Venezuela places a trust fund for $500 million under the administration of the IDB for the development and integration of Latin America.

• First complementary financings from international private banks as part of a program to mobilize private resources for Latin America and the Caribbean. They benefit a private Argentine steel mill, Acindar, and the hydroelectric project over the Chixoy river in Guatemala; this project receives $105 million in total financing, an unprecedented amount for Bank operations up until that time.

• Financing totaling $30 million for forest management and large-scale reforestation in Argentina.

• First financing for alternative energy sources: $500,000 for studies on geothermal energy in Costa Rica revealed that the source was feasible.

• Sharp increase in support to cooperatives in the region.

1976

• Belgium, Denmark, Germany, Israel, Japan, Spain, Switzerland, the United Kingdom and Yugoslavia become members of the Bank. With their contributions the interregional capital is created adding these resources to the ordinary capital to form the total authorized capital.

• Guyana joins the Bank.

• Fourth Increase in Resources, for $4 billion to the authorized capital ($344 million payable in cash), interregional capital created with $502 million ($84 million payable in cash) as part of authorized capital, and $1.552 billion is added to the FSO. It is complemented in 1978 with the addition of $1.304 billion to the authorized capital.

• A $59.5 million loan for the largest industrial project in Central America to date, in the extensive pine forest in Olancho, Honduras.

• A $20 million loan and technical assistance provided to Guatemala for reconstruction after an earthquake.

• Technical cooperation for feasibility studies that support the creation in 1977 of the Latin American Export Bank (BLADEX), in Panama.

• Support to new Intraregional Technical Cooperation program.

• The Bank's aggregate lending exceeds $10 billion, with total project cost exceeding $43 billion.

1977

• Austria, Finland, France, Italy, the Netherlands, Sweden and the Bahamas become members of the Bank.

• Bank charter amended to permit loans to the Caribbean Development Bank (CDB) for operations with member countries of the CDB, whether they belong

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to the IDB or not.

- First loan and nonreimbursable technical cooperation to the CDB.
- First loan from the interregional capital, for the equivalent of $13.9 million.
- First bond issues on the Japanese market, for the equivalent of $56.2 million.

1978

- Fourth Increase in Resources, adding $1.304 billion to the authorized capital (ordinary capital plus interregional capital), without any contribution being payable in cash.
- Governors decide that 50 percent of operations must benefit low-income groups, 20-25 percent must be for energy, including unconventional sources, 20-25 percent must go to external debt service reduction, and 5-10 percent must benefit projects designed to eliminate bottlenecks in economies.
- Startup of small projects program to benefit low-income farmers, artisans and small-scale businesses. First financing is for Manos del Uruguay, a women's wool-knitting cooperative.
- Largest loan to date, $210 million, for the binational hydroelectric plant Yacyretá, built by Argentina and Paraguay.
- Agreement with the International fund for Agricultural Development (IFAD) to channel resources to agricultural development projects.
- Disbursements reach $1.062 billion, surpassing for the first time the $1 billion mark in a single year. Accumulated disbursements reach $8.094 billion.

1979

- Emergency financings: $61.5 million to Nicaragua for agriculture and industry, which were at a virtual standstill in the wake of the civil conflict, as well as $87.5 million in assistance to the Dominican Republic for agriculture, industry and infrastructure, which were sectors severely damaged by hurricanes, plus a disbursement of $50 million from a prior loan.
- Environmental protection policy adopted.
- Amount of loans approved reaches $2.051 billion, surpassing for the first time the $2 billion mark during a single fiscal year.

1980

- Fifth Increase in Resources, $9.750 billion: $8 billion in the authorized capital (ordinary plus interregional), $600 million of which is payable in cash, and $1.750 billion in the FSO.
- Suriname and Portugal join the Bank.
- The governors decide that at least 50 percent of Bank loans must benefit low-income people.
- Cooperation agreement to support the Financial Fund for the Development of the Plata River Basin (FONPLATA).
- After 20 years of operations, Bank financing totals almost $18 billion and supports the following sectors by volume of lending: energy, agriculture and fishing, industry and mining, transportation and communications,

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public health and environment; education, science and technology; and urban development.

1981

- The IDB warns about deterioration in external accounts of the region, the increase in external debt, and the growing cost of debt servicing in an unfavorable international climate.
- Annual Meeting of the Board of Governors in Madrid, first one held outside the Americas.
- First-of-a-kind loan for soil conservation, for $4.4 million to the Scotland district of Barbados.
- Financing, which totals $32 million, provided to the BCIE for electric integration between Costa Rica and Nicaragua, and between Guatemala and El Salvador.
- Total accumulated Bank loans exceed $20 billion, which finance projects whose cost totals $80 billion.

1982

- The Bank launches support program for industrial recovery, placing special emphasis on countries with limited markets. Loans to Bolivia, Costa Rica and El Salvador.
- Global loans totaling $180 million to Chile for a multisector credit program, and a loan for $120.5 million for a global urban infrastructure program. The country was facing a financial crisis.
- The Bank sets up a working group to coordinate technical and financial assistance and support to five Central American countries and Panama.

1983

- Sixth Increase in Resources, $15.703 billion: $15 billion in the authorized capital (ordinary and interregional), with $675 million payable in cash, and $703 in the FSO.
- Intermediate Finance Facility created to defray some of the interest cost on ordinary capital loans granted to less developed countries.
- Special program adopted to speed up influx of resources into more economically troubled countries.
- $130 million loan to Brazil for export industry development.
- First financing, for tax reform, $4.4 million, benefiting Central American countries, Panama and the Dominican Republic.
- Environmental Committee created.
- Total loans approved for $3.045 billion, exceeding for the first time the $3 billion mark in one fiscal year, and bringing total aggregate lending to $25 billion.

1984

- Loans for industrial recovery grow to $580 million, out of a total of $695 million earmarked for industry and mining.
- A $350 million loan to Venezuela approved to complete the Guri dam and its transmission system, as well as $64 million for agricultural credits, and $34.3

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million for large-scale forestry development.

- Central American countries ask the Bank to look into forming a consultative group to coordinate technical assistance to the subregion.

- Thirty-four member countries of the IDB complete negotiations to establish the Inter-American Investment Corporation (IIC).

1985

- A $58.5 million loan to Brazil for a highway linking Porto Velho, Rondônia, and Rio Branco, Acre, which eventually would lead to the adoption of important measures for the protection of the environment and the indigenous peoples who were affected, as well as consultations with these peoples.

- First loans for higher education distance learning: to Colombia for $37.5 million.

- First public issue of bonds in the European monetary unit (Ecu).

- After its first 25 years of operations, the IDB approved more than $31 billion worth of loans for projects whose cost totaled more than $106 billion. In descending order of size, the sectors that benefited were energy; agriculture; industry and mining; transportation and communications; sanitation and health; education, science and technology; and urban development.

- Accumulated disbursements over the first 25 years surpassed $20 billion

1986

- Norway joins the Bank.

- A $319.3 million loan is approved for a hydroelectric plant and transmission lines in Pehuenche, Chile. The project includes important environmental protection components.

- The Bank moves into its new headquarters at 1300 New York Avenue, NW Washington, D.C., two blocks away from the White House.

- The charter of the IIC takes legal effect. The governors of the IIC elect the members of the first Board of Executive Directors.

1987

- Ortiz Mena is called back to Mexico and tenders his resignation on December 17, effective on February 29, 1988, but which takes effect on March 15, 1988.

- The first loan for purely environmental purposes: $6.3 million to Ecuador for reforestation in the Sierra Central, with components that benefit indigenous groups.

- Agreement with the Export-Import Bank of Japan that will provide parallel financing for IDB projects that are not linked to the procurement of goods and services from Japan.

- Merger of ordinary capital and interregional capital.

- Policy adopted to promote the role of women in development.

Carlos V. Brezina: *Mi Gente*

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1988

- Enrique V. Iglesias is elected president. He takes office on April 1.
- Japanese institutions approve $377.4 million in cofinancing for IDB projects in Chile, Colombia and Venezuela.
- Japan Special Fund created to provide nonreimbursable technical assistance.
- Bonds in Japanese yen for the equivalent of $478.1 million are sold, more than half of the total amount of bond issues for the year.
- Spain establishes the Quincentennial Fund with $500 million to commemorate the encounter between America and Europe.
- Emergency assistance to the many countries that were affected by natural disasters.
- Gunther H. Muller is appointed General Manager of the IIC.

1989

- Governors recommend an increase in resources and give the Bank the mandate to grant sector loans, allocate 50 percent of the lending program to low-income sectors, protect the environment, strengthen the role of women in development, and provide stronger backing to microenterprise.
- First financing for the environmental management of a river basin. The $14.9 million benefits the Paute River basin in Ecuador.
- The Board of Executive Directors approves a reorganization of the Bank.
- Special Project Preparation Facility established.
- New methodology for interest rates on loans from ordinary capital.
- IIC begins operations. Loans and investments to Argentine, Brazilian and Uruguayan firms.

1990

- Seventh Increase in Resources: $26.5 billion in the ordinary capital (with $663 million payable in cash) and $200 million in the FSO.
- First six sector loans, totaling $1.3 billion. The first one is for communications and transportation in Mexico.
- Private Sector Development Program created.
- Global loan programs for microenterprise are set up and the first three loans are approved for Colombia, Ecuador and Uruguay.
- Ten environmental projects are approved.
- Overseas Economic Cooperation Fund of Japan agrees to contribute to a new cofinancing mechanism, the Small Projects Fund.
- Regional Network for Research on Economic Policy is created with the financial support of the Bank, to study key development issues.
- After 30 years of operations, total Bank financing exceeds $47 billion. This supports the following sectors in descending order of lending volume:

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energy, agriculture and fishing, transportation and communications, industry and mining, public health and sanitation, urban development, and education, science and technology.

1991

- Twelve sector loans are approved for a total of $2 billion. One of these loans supports economic stabilization in Peru and the normalization of its relations with the international financial community.
- Loans granted to help establish and put into operation investment funds in El Salvador, Haiti, Nicaragua and Peru. Also, loans are granted to Uruguayan and Venezuelan social investment funds.
- Annual meeting of the Board of Governors in Nagoya, Japan is the first held in Asia.
- Japan-IDB Scholarship program set up.
- First financing for a regional assistance program to benefit underprivileged children and teens in Central America and Panama.
- Technical Cooperation Fund Program created.

1992

- Belize joins the Bank.
- $56 million of financing approved to expand science and technology programs at the University of the West Indies in Barbados, Jamaica and Trinidad and Tobago.
- Indigenous Peoples' Fund created, based in La Paz.
- The Bank grants its largest loan yet: $450 million for cleaning up the polluted Tietê River in São Paulo, Brazil.
- $23 million in financing approved for grassroots and nongovernmental organizations, municipalities, and universities, and for natural resource management, health, education and agricultural activities on natural resource extractive reserves in the State of Acre.
- IDB Cultural Center created.

1993

- Croatia and Slovenia become members of the IDB as successor states of Yugoslavia.
- Multilateral Investment Fund (MIF) established in the framework of U.S. President George H.W. Bush's Enterprise for the Americas Initiative.
- MIF's first operations.
- Medium-term bond program (MTN) established in several currencies with an authorization of $1.25 billion. By the end of the year, $226.8 million worth of (MTN) bonds had been issued.
- First financing for coastal ecosystem protection, to Ecuador, totaling $14.9 million.
- First financing for a primary education reform program that includes development programs for monolingual students in indigenous languages (Guarani). Provided to Paraguay for $52.8 million.

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• A $200 million loan for the Andean Development Corporation that marks a change in policy toward this type of institution, in that it allows for broader and more discretional use of the resources and greater emphasis on the private sector.

• A $500 million loan for the Caruachi hydroelectric dam in Venezuela. It is the largest loan for infrastructure approved by the IDB to date.

• First loan to a national environmental program: $58 million to Colombia.

1994

• The governors recommend an increase in resources and give the Bank the mandate to strengthen the fight against poverty and to support modernization of the private and public physical infrastructure, integration, the environment, and the private sector.

• Reorganization of the Bank. Creation of the Office of the Chief Economist, and of the Regional Departments (I, II, III), Social Programs and Sustainable Development Department, Strategic Planning and Operational Policies Department, Private Sector Department, Integration and Regional Programs Department.

• Dollar window created for lending to the private sector. It provides for more options in terms of exchange risks.

• Inter-American Institute for Social Development (INDES) created.

• Policy on information disclosure adopted.

• Independent Investigative Mechanism established.

1995

• Eighth Increase in Resources: $40 billion in the authorized ordinary capital (with $1 billion payable in cash) which brings the total amount to $101 billion, and $1 billion in the FSO, which would increase it to a total exceeding $10 billion.

• Financial support totaling $3.2 billion for Argentina and Mexico, which were severely hit by the effects of the Mexican devaluation in 1994.

• Several loans in new fields of state reform, such as modernization of the judiciary in Colombia and Costa Rica and strengthening of democratic institutions in Paraguay.

• First operations of the new dollar window for direct loans to the private sector without government guarantee. Cofinancing of these operations begins (A and B loans). Partial guarantee policy adopted, without state counterguarantee, for private sector projects.

• For the first time, the Bank heads a consultative group. The group will provide support for bringing Nicaragua back into international finance channels and reducing its external debt.

• New and reformulated old financing for recovery in Haiti totaling $315 million.

• A $180 million loan to Brazil for an innovative

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slum improvement program.

- The IDB's Office in Japan opened.
- Public Information Center opened.

1996

- Most of the $7.3 billion in lending for the year is used for poverty reduction and social sector reform ($2.7 billion) and modernization of the state ($2.4 billion).
- The Bank supports the peace process in Guatemala and recovery in Nicaragua.
- Loans for reform of state and local government in Argentina, Brazil and Colombia.
- Single Currency Facility created to give options to borrowers vis-à-vis exchange risks, enabling them to choose to receive loans in one of four different currencies or in a basket of currencies.
- First issue of global bonds for $1 billion.
- First operations to prevent domestic violence and to assist women.

1997

- The Bank proposes the Informatics 2000 Initiative to collaborate with borrowing countries in planning and coordinating investments in this sector.
- The IDB organizes a meeting where 25 countries and 22 international organizations pledge $2 billion for the peace process in Guatemala.
- $250.5 million for financing of electrical interconnection in Central America.
- A $240 million loan for a gas pipeline between Bolivia and Brazil.
- Emergency loans to Ecuador and Peru in response to damages caused by El Niño.
- IPES states that economic reforms over the last 10 years were positive but were inadequate to achieve accelerated growth and improve the distribution of income, and recommends a greater effort to improve governance and education.
- First partial risk guarantee, without state counter guarantee, for a private sector venture capital project in Colombia.
- Six member countries of the IDB pledge $20 million to the Fund for the Development of Indigenous Peoples of Latin America and the Caribbean, also known as the Indigenous Peoples' Fund, to be administered by the IDB, which supported the first years of the Fund's operations.

1998

- The more developed borrowing countries agree to convert $2.4 billion from their resources in their national currencies into hard currency in the FSO to benefit the less developed countries.
- Loans and disbursements hit annual records of $10 billion and $6.48 billion, respectively.
- A $9 billion one-year plan outside of normal lending is approved to aid in confronting external financial turbulence. First loan of the program, $2.5 billion to safeguard the financial system of Argentina.

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- The IDB chairs a meeting of the Consultative Group for the Reconstruction and Transformation of Central America, which pledges $6.3 billion for the subregion, which had been devastated by Hurricane Mitch. It also chairs a meeting of the Consultative Group in Support of Drug Control in Peru, which pledges $277 million to that country.
- $488 million loan for aid and reconstruction of the Dominican Republic, Guatemala, Honduras and Nicaragua after severe hurricanes, and a total of $600 million in loans to Argentina, Chile, Ecuador, Paraguay and Peru, which were affected by El Niño.
- A $70.4 million loan to Panama for sustainable development in Darién, the largest protected area in the Central American isthmus, after holding intense consultations with the local population.
- First citizen security operations. They benefit Colombia and Uruguay.

1999

- The IDB holds a meeting in Stockholm of the Consultative Group for the Reconstruction and Transformation of Central America, which serves to increase to more than $9 billion the amount of resources pledged to the subregion. The IDB pledges $3 billion.
- A record financial package for Brazil: $3.4 billion for reform of the social sector, social protection, and small and medium enterprises.
- Vice President's Office for Planning and Administration created as part of a realignment of the organization of the Bank.
- A $200 million emergency line of credit for countries that need to prepare their computer systems for the transition to the year 2000.
- Short-term note issue program begins.
- Governors of the IIC approve an increase of $500 million in the capital of the Corporation.

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