



2002 Annual Report

Inter-American Development Bank



THE INTER-AMERICAN DEVELOPMENT BANK

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

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

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

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

In carrying out its mission, the Bank has approved \$118 billion for projects that represent a total investment of \$282 billion.

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

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

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

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

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

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

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

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

Annual Report 2002

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MEMBER COUNTRIES

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

Inter-American Development Bank
Washington, D.C.

January 31, 2003

Mr. Chairman:

Pursuant to Section 2 of the By-Laws of the Inter-American Development Bank, I transmit to you the Annual Report of the Bank for 2002, which the Board of Executive Directors submits to the Board of Governors.

The Report contains a brief summary of the economic situation of Latin America and the Caribbean and a review of the Bank's operations in 2002.

In addition, the Report contains a description on a country-by-country basis and a regional basis of the Bank's various operations—loans, guarantees, financings for small projects and technical cooperation—on behalf of Latin America's development; a summary statement of the loans approved in 2002; the financial statements of the Bank, and its general appendices.

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

Sincerely yours,

E. H. H. H.

Enrique V. Iglesias

Chairman, Board of Governors
Inter-American Development Bank

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TABLE I. TEN YEARS OF OPERATIONS, 1993–2002*(In millions of U.S. dollars)*

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
CAPITAL										
Subscriptions (End of Year)										
Ordinary Capital	54,198	60,864	66,399	80,895	87,557	94,219	100,881	100,959	100,959	100,951
Fund for Special Operations	8,649	8,675	9,751	9,679	9,572	9,643	9,646	9,559	9,480	9,584
Other Funds	1,256	1,324	1,313	1,352	1,329	1,406	1,468	1,455	1,530	1,640
Total	64,103	70,863	77,463	91,926	98,458	105,268	111,995	111,973	111,969	112,175
BORROWINGS¹										
Outstanding (End of Year)	23,424	25,198	26,338	26,629	27,331	32,511	38,784	41,394	42,186	47,471
Gross Annual Borrowings	3,941	955	2,746	4,250	5,569	5,761	8,865	8,139	7,097	9,140
OPERATIONS										
Loans and Guarantees Authorized (Cumulative)²										
Ordinary Capital ³	49,608	56,242	63,512	66,088	68,739	79,742	88,226	89,959	93,518	100,834
Fund for Special Operations	11,756	12,269	13,011	13,363	13,580	14,273	14,663	14,924	15,328	15,774
Other Funds	1,607	1,621	1,636	1,648	1,722	1,735	1,726	1,724	1,719	1,736
Total	62,971	70,132	78,159	81,099	84,041	95,750	104,615	106,607	110,565	118,344
Loans and Guarantees Authorized (Annual)⁴										
Ordinary Capital ³	5,492	4,698	6,437	6,376	5,680	9,364	9,061	4,969	7,411	4,143
Fund for Special Operations	423	543	795	374	283	686	417	297	443	406
Other Funds	48	14	16	16	85	13	8	–	–	–
Total	5,963	5,255	7,248	6,766	6,048	10,063	9,486	5,266	7,854	4,549
Loan Disbursements (Annual)⁴										
Ordinary Capital ³	3,336	2,626	4,255	3,696	4,958	6,085	7,947	6,683	6,037	5,522
Fund for Special Operations	381	400	541	600	493	535	430	386	422	313
Other Funds	15	14	23	20	17	15	10	–	–	2
Total	3,732	3,040	4,819	4,316	5,468	6,635	8,387	7,069	6,459	5,837
Loan Repayments (Annual)⁴										
Ordinary Capital	1,788	2,099	2,852	2,287	2,244	1,946	1,988	2,312	1,926	4,106
Fund for Special Operations	270	301	288	289	285	283	289	289	268	256
Other Funds	43	35	38	36	40	29	29	15	14	13
Total	2,101	2,435	3,178	2,612	2,569	2,258	2,306	2,616	2,208	4,375
Loans Outstanding										
Ordinary Capital	22,179	24,478	26,581	26,028	27,301	32,635	38,552	41,872	44,951	47,958
Fund for Special Operations	5,932	6,043	6,284	6,547	6,734	6,827	6,955	7,025	6,637	6,730
Other Funds	337	303	271	241	209	189	164	146	133	118
Total	28,448	30,824	33,136	32,816	34,244	39,651	45,671	49,043	51,721	54,806
Nonreimbursable Technical Cooperation Authorized (Annual)⁵										
Fund for Special Operations	87	77	90	87	88	64	47	36	39	36
Other Funds	17	34	25	26	21	53	44	34	46	45
Total	104	111	115	113	109	117	91	70	85	81
FINANCIAL HIGHLIGHTS										
Income										
Loans										
Ordinary Capital	1,864	1,916	1,977	2,012	2,044	2,085	2,582	3,061	3,191	2,639
Fund for Special Operations	126	138	131	135	135	135	133	137	135	116
Investments										
Ordinary Capital	482	337	654	431	455	520	576	765	541	319
Fund for Special Operations	54	37	49	31	27	27	23	43	41	23
Net Income										
Ordinary Capital ⁹	395	369	521	364	415	393	568	846	1,009	728
Fund for Special Operations ⁶	88	89	84	82	77	95	103	135	129	81
Reserves (End of Period)										
Ordinary Capital ⁷	4,758	5,303	5,969	6,072	6,307	6,867	7,436	8,103	8,913	9,924
Fund for Special Operations ⁸	534	534	531	628	598	424	445	488	9	(64)
ADMINISTRATION										
Administrative Expenses										
Total - All Funds	275	295	333	334	348	341	335	342	355	376

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

² Net of cancellations. Includes currency translation adjustments.

³ Net of Private Sector participations.

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

⁵ Includes Small Project financing.

⁶ Income before Technical Cooperation expense and HIPC debt relief.

⁷ Includes accumulated other comprehensive income.

⁸ Includes accumulated translation adjustments.

⁹ Net income before the effects of Financial Accounting Standard No. 133 effective in 2001.



*Latin America
and the Caribbean
in 2002*





Economic performance in Latin America and the Caribbean remained sluggish in 2002. Although the United States emerged from its recession, fear of risk dominated the international environment. The region continued to be affected by the severe crisis in Argentina, which had repercussions on trade and financial stability in neighboring countries and contributed to weakening capital inflows to the region.

Latin America is now experiencing one of its most critical periods in several decades. While some economies experienced modest growth, not a single country has escaped the downturn, and at least five economies are in the midst of an outright recession. Per capita income in Latin America is now less than it was five years ago, consumption is stagnant, and investment has slid back to its lowest point in the past decade. After almost half a

TABLE II. THE EXTERNAL ENVIRONMENT

<i>(In percent)</i>		
	2001	2002e
Output growth		
Developed countries	0.7	1.5
Developing countries	2.9	2.8
Growth — World trade volume	-0.5	2.9
Short-term interest rates		
U.S. Dollar	3.6	1.8
Euro	4.2	3.4
Commodity prices		
(% change)		
Petroleum	-13.8	2.7
Agricultural Products	-9.1	8.5
Minerals and Metals	-9.5	-3.6
Developed country (G-7) manufactured goods	-1.4	0.5

e = Estimates

Source: World Bank, *Global Economic Prospects*, 2003.

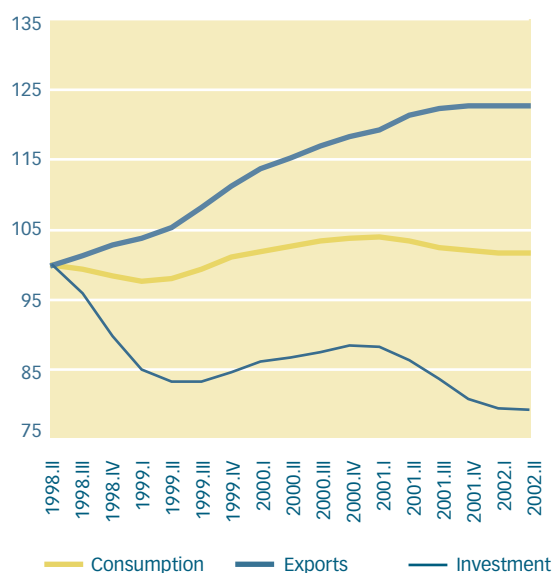
decade of external financial constraints and low domestic growth, any maneuvering room to offset the effects of the cycle has all but disappeared in most countries.

Many factors are contributing to the uncertainty about the future of the region. The international economic scenario continues to be clouded by the fragile recovery of growth in the United States. Argentina has not yet found a way out of its protracted economic crisis. In Brazil, fears of macroeconomic instability have not fully dissipated, due to the fiscal pressure exerted by the heavy debt burden. In several countries, economic uncertainty is compounded by social unrest.

Nevertheless, in the midst of the current problems the region has shown its commitment to macroeconomic stability, international economic integration and democracy. These foundations, absent from the scene two

COMPONENTS OF DEMAND

(Index: 1998.II = 100)



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

decades ago, must now be strengthened in order to foster sustained recovery throughout the region.

International Scenario

The international environment for Latin American economies was highly adverse in 2002, due to slow growth in developed countries, deterioration in the terms of trade for the region as a whole, greater aversion to risk on the part of international investors, and the reverberations from the severe crisis in Argentina.

Thanks to interest rate reductions by the Federal Reserve and an expansionary fiscal policy, the recession in the United States proved less pronounced and more short-lived than was initially feared after the events of September 11, 2001. The U.S. economy grew 2.3 percent in 2002. However, growth in the European Union was a mere 0.8 percent and in Japan was completely stagnant. The recovery in the United States had a healthy effect on world trade, as the country's imports rose 4.4 percent. As a result, world trade, which had fallen slightly in 2001, rose 2.9 percent in 2002.

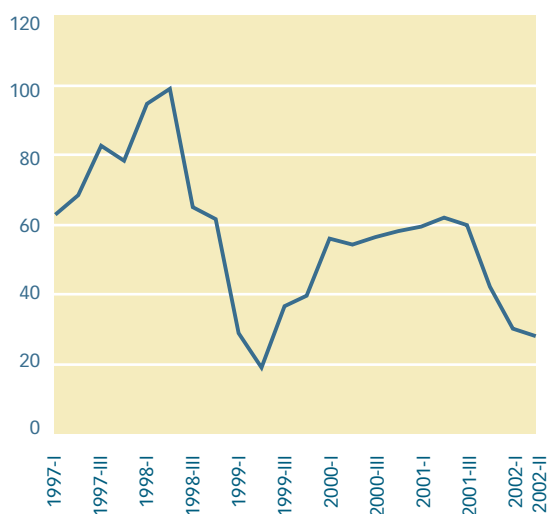
Raw material and commodity prices around the world recovered somewhat, after declining for several years. Agricultural product prices rose by over 8 percent on average, although metals and minerals fell by 3.6 percent while the price of petroleum rose 2.7 percent. Nevertheless, several major Latin American commodities declined significantly: sugar dropped 26.5 percent, coffee 8.8 percent, bananas 7.4 percent, aluminum 6.5 percent and copper 0.2 percent. Hence, the terms of trade for the region as a whole were once again weakened. Various factors also weakened trade for some groups of countries. The crisis in Argentina had adverse effects on trade within the MERCOSUR countries, and also affected the tourism industry in Uruguay and Paraguay, as well as family remittances to Bolivia and Paraguay. The tourism industry in Caribbean countries remained depressed as a result of the events of September 11.

However, contrary to what had been feared, family remittances from the United States to Mexico, Central America and other countries did not decline.

Despite the return of positive growth rates in the United States, the risk-averse climate in 2002 deterred capital inflows to Latin America and the Caribbean, especially after the second quarter of the year, due in large part to domestic factors in the United States. The accounting fraud scandals sharpened the perception of risk in the capital market to proportions even greater than those noted in the weeks following September 11. The spread on U.S. high-yield corporate bonds jumped from 650 basis points (above the yield on U.S. Treasury bonds) at the end of April to over 1,000 basis points in October, when it peaked (a year earlier, just after the terrorist attacks, it had reached 950 basis points). This increase in perceived risk was reflected in investments in emerging markets, compounded in certain cases by domestic or regional situations. This was the case in Brazil, affected by the uncertainty surrounding the presidential election, and by the crisis in neighboring Argentina: the cost of international debt issues rose from 700

CAPITAL FLOWS

(In billions of U.S. dollars)



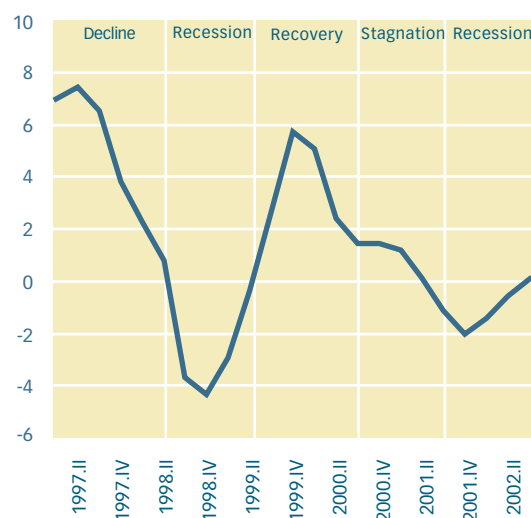
Note: Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Data refer to the cumulative value for the last 12 months.

basis points in the first quarter of 2002 to over 2,000 basis points in October before beginning to decline. There were also sharp increases in the cost of securities in Uruguay, because of its close ties to Argentina. The cost of international financial resources rose for other countries as well, although to a lesser degree. In Argentina, the spreads remained above 4,000 basis points after the country defaulted on its debt at the end of 2001.

The adverse international financial environment for Latin America has translated into a substantial decrease in capital inflows. In the seven largest economies in Latin America (representing 90 percent of regional GDP), capital inflows in mid-2002 plummeted to one-third of the amount recorded four years earlier. For the full year, total capital inflows to the region totaled an estimated \$50 billion, well below the annual average of \$74 billion posted from 1996 to 1998. Discounting the emergency funding disbursed to alleviate crisis situations, independent capital inflows added up to less than \$40 billion. Since 1999, foreign direct investment has been the only source of net inflows to the region. The figure for 2002 represents a

GDP GROWTH IN LATIN AMERICA

(In percent)



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

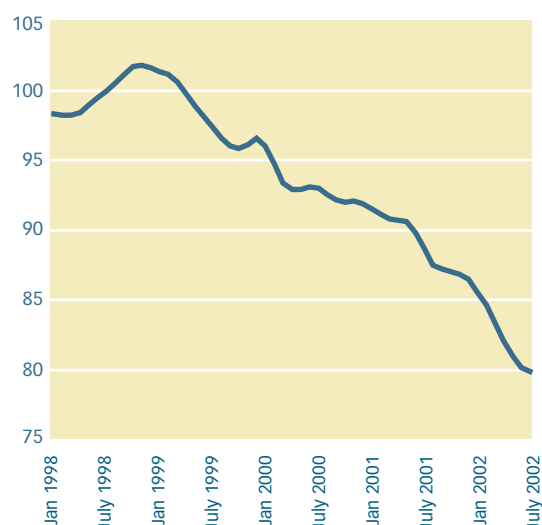
sharp decline, from over \$60 billion in 2001 and a peak of \$72 billion in 1999. Foreign direct investment concentrated in only two countries, Mexico and Brazil, which are receiving over 80 percent of such funds.

Capital other than foreign investment has been fleeing the region since the Russian crisis in mid-1998, and the situation worsened during some months in 2002. The outflow of funds from the region has now exceeded the capital flight that occurred from 1983 to 1989 during the debt crisis (in amounts adjusted for inflation). In the past two years alone, the region has foregone funds amounting to roughly 5 percent of its GDP.

The reduction in capital inflows has spread to virtually all the countries in the region that had gained access to the international financial markets in the second half of the 1990s. Mexico and some of the Central American countries have been the least affected. In the final months of the year, Colombia and Peru were able to return to the market with successful bond offerings at rates that were relatively moderate, given the general conditions of the market. While various inter-

CREDIT TO THE PRIVATE SECTOR

(Index: June 1998 = 100)



Note: Loans in constant value, three-month moving average. Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

national events have influenced the behavior of investors, the bond market has shown great ability to distinguish between countries. In fact, there have never been such differences in the debt margins of the various countries in the region, from the extremely high level of Argentina to the very low levels of Chile and Mexico, with Brazil and Uruguay occupying positions in between.

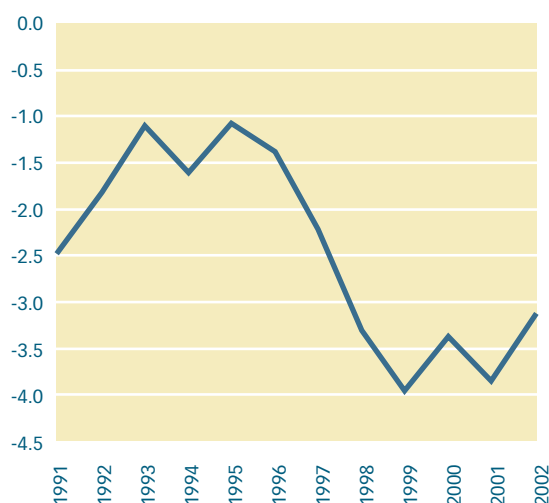
In short, despite a measured recovery in the United States and lower U.S. interest rates, external conditions for Latin America became more difficult in 2002, thereby aggravating a trend that began in 1998. The terms of trade have been unfavorable since then, and on the whole changed little in 2002. Aversion to risk on the part of international investors increased due to domestic factors in the United States, and when combined with the crisis in Argentina and political uncertainty in Brazil, caused a new reduction in net capital inflows in the region.

Macroeconomic Results and Adjustment Policies

Economic growth in the region over the past few years has been closely associated with the

PUBLIC SECTOR BALANCE

(Percent of GDP)



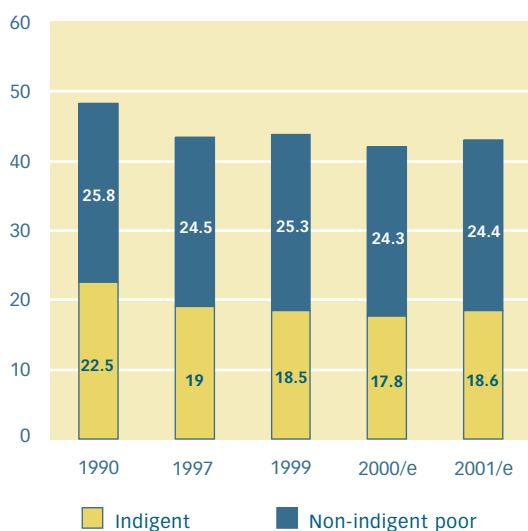
Source: International Monetary Fund, *World Economic Outlook*. Note: Includes 33 Latin American and Caribbean countries.

behavior of external capital inflows other than foreign investment, which, as noted above, has been very unstable. As a result of the Asian crisis in mid-1997 and the Russian debt moratorium a year later, capital inflows to the region became negative. A partial recovery of inflows in mid-1999 coincided with a period of robust but very short-lived growth, which ended a year later. Since then growth rates in the region have been modest and in 2002 were negative. Overall GDP for the region is estimated to have fallen by 0.5 percent, thereby canceling out the modest 0.4 percent increase that had been achieved in 2001. As ECLAC has reported, the region has now accrued half a decade of lost growth, inasmuch as per capita income has fallen 0.3 percent per year since 1998.

The decrease in GDP in 2002 was due in particular to the collapse of production in Argentina. Although in mid-2002 there were some signs of a modest recovery in demand and certain sectors of production, the year was expected to close with a 12 percent drop in the country's GDP. Haiti, Paraguay, Uruguay and Venezuela also saw declines in their GDP. Although Peru and Ecuador achieved the highest growth rates in South America, those rates were only around 4 percent. Growth

POVERTY

(Percent of the population)



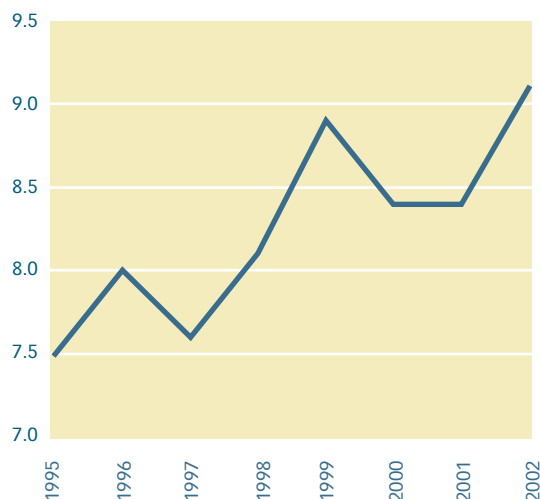
Source: ECLAC.

rates in Bolivia, Chile and Colombia, although positive, were even more modest. Spurred by the United States, Mexico emerged from recession, but grew less than 2 percent. The growth rate of the Central American countries as a whole was slightly higher than 2 percent, while Caribbean economies, despite problems in tourism, grew by an estimated 3.6 percent. Given that virtually no country experienced high growth, it can be said for the first time in over a decade that the region was in a situation of widespread stagnation.

Investment has been the component of aggregate demand that has been most sensitive to the fluctuations in capital inflows and the downturn in productive activity. In 2002 it dropped again, to at least 20 percent below its peak in 1997, representing the lowest point in the past ten years. Mexico is the only one of the larger countries in the region to escape these tendencies. Over the past four years, investment is estimated to have fallen 60 percent in Argentina, 15 percent in Chile, and 10 percent in Brazil. Consumption has been much more stable, but without any upward trend, entailing gradual erosion of per capita consumption over the past few years for the region as a whole. There was a sudden drop in

UNEMPLOYMENT

(In percent)



Source: ECLAC.

consumption in Argentina. Decreases were also noted in the other countries in recession.

Exports have been the only component of aggregate demand consistently contributing to growth in the region in recent years. This trend was reversed in 2002, as the region's exports as a whole fell 3 percent. Exports from the MERCOSUR countries fell 4 percent, particularly due to the crisis in Argentina, whose imports from neighboring countries fell to a third of their 2001 level. Uruguay is estimated to have suffered a two percentage point drop in its growth rate for this reason. Exports from the Andean countries as a group are estimated to have fallen by 4 percent. Mexico and the Central American countries were helped by the recovery in the United States, but likewise did not make great gains in export growth. The lack of growth in exports is one of the most worrisome features of the region's current situation, especially in view of the fact that several countries received the stimulus of significant exchange rate devaluations, described below.

Given the protracted deterioration of the international economic environment for Latin America, governments have had less and less latitude for domestic policy measures. Fiscal

deficits increased, especially between 1997 and 1999, leading to major increases in public sector debt ratios. For example, in six of the largest economies of Latin America, the average fiscal deficit rose from 0.9 percent of GDP in the second quarter of 1997 to 3.7 percent in the last quarter of 1999, and public debt increased from 27 percent to 35 percent of GDP. Since then, despite slow economic growth, governments have tightened fiscal policies in an effort to limit the fiscal deficit. However, two factors have worked against them. First, fiscal income suffered from the stagnation or recession, and was in some instances weakened by the very same austerity measures. Argentina and Uruguay have both experienced this problem. Second, the cost of public debt increased, due to both the increase in domestic interest rates and the devaluation of the local currencies. Brazil was particularly hard hit by this problem, which was exacerbated by the fact that the cost of a large part of its domestic debt is also directly or indirectly linked to the exchange rate. Despite the implementation of fiscal austerity measures, the average fiscal deficit in the region as a whole fell from 3.9 percent of GDP in 2001 to 3.1 percent in 2002, still well above the levels of around 2 percent that were the norm until 1997.

Because fiscal policy has not been sufficient to reduce the excess of spending over revenue (or to compensate for the lessened availability of external savings since the 1998 Russian crisis), the burden of adjustment has fallen on the private sector. In the seven largest economies in the region, the average current account deficit (external savings) fell from 5 percent of GDP in 1998 to less than 1 percent four years later. However, the average fiscal deficit in these economies fell only around 1 percent on average. Thus, the adjustment was made through a reduction in net private sector spending of around 3 percent of GDP, which occurred essentially through a sharp drop in investment. Within this average, however, the modalities of adjustment have differed sharply from country to country.

Brazil and Venezuela have sharply reduced their fiscal deficits, making room for the private sector (which in Venezuela has translated into capital outflow and a massive surplus in the current account, given the depression of private investment for reasons other than the availability of external savings). In Argentina and Colombia, attempts at fiscal adjustment have ultimately not succeeded in reducing the fiscal deficit, and so sharp reductions in the availability of external savings have been completely absorbed by cutbacks in private sector spending. In Chile and Peru, initially more favorable fiscal positions have allowed for relaxation of the fiscal deficit, thereby moderating the social cost of the adjustment. However, the private sectors in these countries have experienced significant changes in their investment and financing patterns in order to adjust to the change in external conditions.

Exchange rates have been a central variable in recent adjustment processes in a number of economies in the region. Faced with reduced external financing, a number of countries have loosened the exchange rate as a tool for strengthening the current account position abroad. Argentina and Venezuela in particular have allowed a (managed) float of their currencies. In Argentina, the convertibility that had been in place for almost ten years was dropped, and in Venezuela, the system of controlled devaluation was abandoned. Brazil, Colombia and Uruguay also devalued their currency by over 20 percent over the past 12 months. Increasingly since mid-1998, when restrictions on foreign financing began, real exchange rates have risen on average by around 70 percent in the seven largest countries in the region. In Argentina and Brazil, rates had risen by the end of 2002 by over 150 percent; in Chile and Colombia by close to 50 percent, and in Venezuela and Peru by around 25 percent. Mexico is the only one of the large economies whose currency has appreciated in real terms since 1998.

The devaluations have been a necessary step, although in many cases not a trouble-free one. While devaluing the currency is a com-

mon response to externally-generated disruptions, such as those experienced by most countries in the region in recent years, it can also have a painful impact when the government, the financial sector or private firms have major mismatches between their assets and liabilities in foreign exchange. Several countries initially sought to avoid adjustments in the exchange rate, only to be forced to yield to persistent, deepening external turbulence. In some cases, the devaluations have had devastating effects on the financial sector and the sustainability of the fiscal situation. The countries that have been best able to address these problems, such as Chile, are the ones that are more open to international trade, with lower ratios of public sector debt and smaller foreign exchange mismatches in the balances of the public sector, the financial sector and private firms.

The desire to retain international reserves has been among the reasons for loosening exchange rates. Contrary to what happened in periods of external constraints in previous decades, virtually all countries have avoided significant reductions of their international reserves. With the exception of Paraguay, international reserves in South American countries at the end of 2002 in all instances are greater than six months' worth of imports, and not substantially less than in 1998, when the constraints on external financing began.

Given the limited latitude for fiscal policy measures, several countries have turned more actively to monetary policy to stimulate domestic demand. This was the case in the first few months of 2002, when international financial conditions were less unfavorable and the risks of losing international reserves were consequently lower. Several central banks in the region substantially increased the basic money supply, at least until May, and some reduced their intervention rates. However, these trends were later reversed. For example, in Brazil, after a period of decline, the reference rate rose to 24 percent by the end of 2002, over eight points higher than the rate of a year earlier. Although the rate also increased in Mexico, the level remained far below where

it had stood until 2000. On the other hand, Colombia, Chile and Peru achieved more lasting reductions in interest rates in comparison with the previous two years. These recent differences in behavior notwithstanding, when interest rates for 2002 are compared with those immediately after the Russian crisis, it is clear that recent levels are substantially lower in most countries, with the notable exceptions of Argentina and Uruguay.

Attempts to stimulate aggregate demand through monetary policy were limited by the cautious attitude on the part of the financial sector and investors in general. Domestic credit grew at very modest rates in most countries, in many cases at rates below the basic money supply. In the seven largest countries in the region, bank credit for the private sector has fallen by 20 percent in real terms since mid-1998. Rather than a situation of tight credit, which would be reflected in pressures for raising bank lending rates, most countries are in a state of financial paralysis, in which demand for credit has fallen and banks are hesitant to lend due to slow economic growth and the increased risk associated with possible devaluations and other macroeconomic adjustment policies.

For the first time since 1991, average inflation in the region increased in 2002, from 6 percent in 2001 to 8 percent. Although a number of countries implemented expansionary monetary policies at some point in 2002, higher inflation was actually due to the sharp devaluations in the exchange rates of a few countries, particularly Argentina and Venezuela, and to a lesser extent, Brazil and Uruguay. By contrast, inflation declined considerably in Ecuador, and also in Colombia, Costa Rica and Nicaragua. Higher inflation rates are not yet a threat to macroeconomic stability in any country in the region. Nevertheless, rising inflation does reflect the limitations of monetary policies, because fiscal problems are so great that they limit the maneuvering room of monetary authorities. In a number of countries the level and structure of government debt limits the room for

raising interest rates and creates a precondition for inflation.

Social Situation

Due to the stagnation and recession in Latin America, the labor market has weakened. The average unemployment rate is estimated to have risen to 9.1 percent in 2002, almost one percentage point higher than in the past two years and the highest on record. Argentina, Colombia, the Dominican Republic, Panama, Uruguay and Venezuela had unemployment rates of over 15 percent. In addition, there is evidence that real wages have deteriorated in Argentina, Brazil, Paraguay, Uruguay and Venezuela. In Chile and Colombia, real wages tended to increase despite unemployment, sustained by the effectiveness of the minimum wage. Real wages also rose in Bolivia, Mexico, Nicaragua and Peru.

The weakening of the labor market in the last few years has had a worrisome effect on trends in poverty. During the 1990s, the poverty rate (defined as the number of persons living on less than \$2 daily income) had fallen from 48.3 percent to around 42 percent, and extreme poverty (less than \$1 a day) had declined from 22.6 percent to 17.8 percent. Because of slow growth in the past two years, these trends have reversed. According to ECLAC calculations, the poverty rate rose to 43 percent in 2001, and extreme poverty rose to 18.6 percent. Thus, by 2001 the total number of poor people had risen from 207 million to 214 million (and those in extreme poverty from 88 million in 2000 to 93 million).

Although estimates for 2002 are provisional, the poverty index is believed to have risen to 44 percent and the figure for extreme poverty may have reached 20 percent. Argentina, Paraguay, Uruguay and Venezuela suffered an increase in poverty, whereas rates may have fallen slightly in Peru and the Dominican Republic. ECLAC projections for 2002 indicate a rise in poverty by around seven million people, six million of whom are in dire need.

ECLAC has reconsidered the feasibility of

Latin America and the Caribbean meeting the objective proposed in the United Nations' Millennium Development Goals of reducing extreme poverty by half between 1990 and 2015. The progress achieved thus far by the various countries in the region is uneven, inasmuch as some have already reached the goal, while others have receded from it. The situation is best in Chile and Panama, which in 2000 achieved the goal of lowering extreme poverty by half. Brazil, the Dominican Republic and Uruguay have advanced partially but significantly toward the goal: 95 percent in the first two countries and 82 percent in the third. Costa Rica, El Salvador, Guatemala, Mexico and Nicaragua have advanced by about 40 percent. Bolivia, Honduras and Peru also showed advances toward meeting the goal, although at their current pace, they would not be able to reach it. A more critical picture can be seen in Colombia, Ecuador, Paraguay and Venezuela, where levels of extreme poverty in 2000 were higher than they were in 1990.

According to ECLAC calculations, if extreme poverty is to be cut in half by 2015, total GDP would have to grow by 2.7 percent a year for 15 years: 5.7 percent for countries with the greatest poverty, 2.7 percent for countries in the middle and 2.5 percent for countries with the least poverty. With regard to cutting total poverty by half, a goal that is in principle more in tune with the region's level of development, some of poorest countries have practically no chance of doing so, because they would have to reach levels of growth considerably higher than their historic performance.

Prospects for 2003 and Policy Challenges

The prospects for the region in 2003 are uncertain. In the international environment, perceived risk remains very high, particularly because of various fears about the U.S. economy. Although growth recovered in the third quarter of 2002, there are still doubts about various parts of the corporate sector, and the high current account deficit of the United

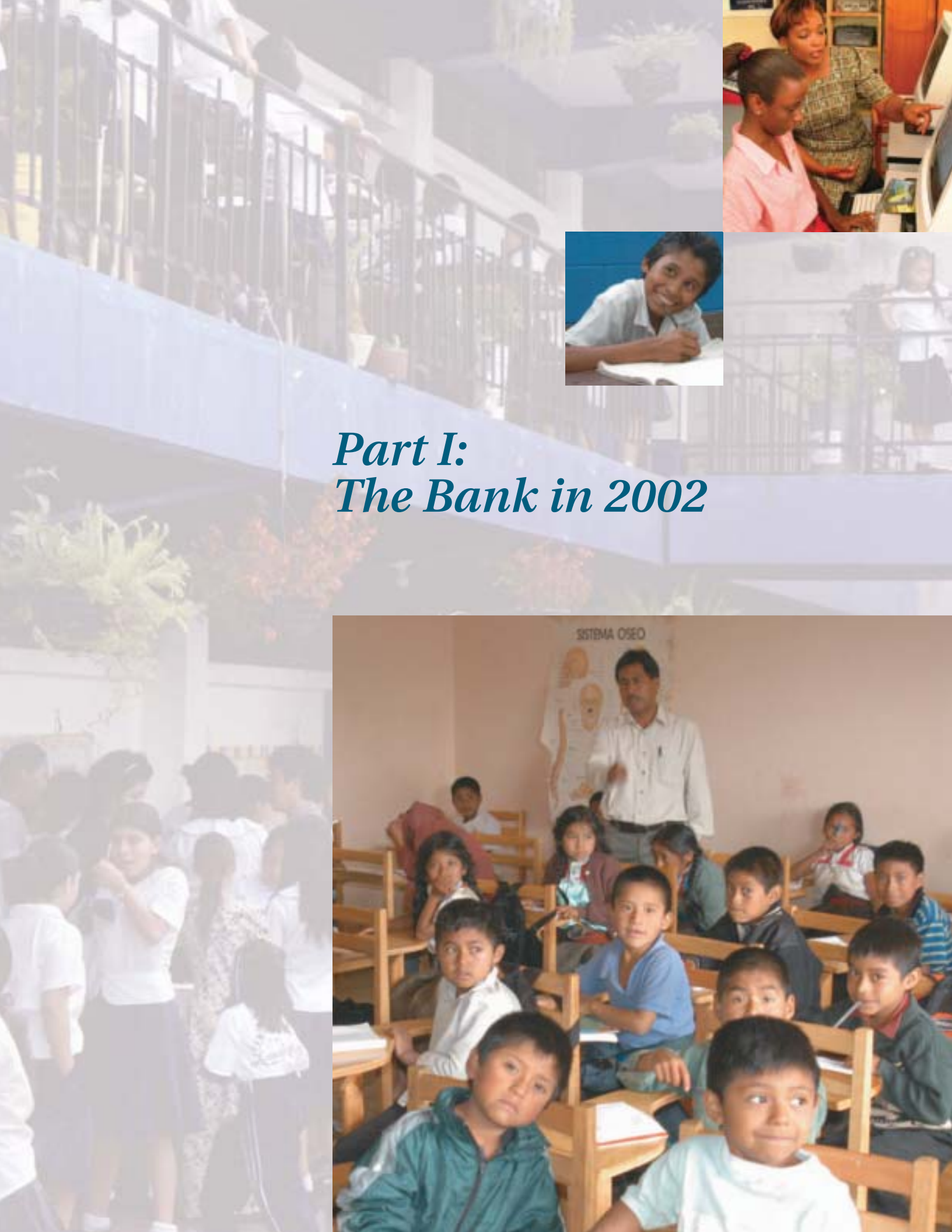
States with the rest of the world may be a source of instability for the world economy. The implications of a possible armed conflict add to uncertainty, and in certain circles, there is speculation about possible deflation, which could mire the U.S. economy in more permanent problems, similar to what Japan experienced in the 1990s.

There are also serious causes for concern in Latin America. The Argentine crisis remains unresolved, despite signs of recovering production and a gradual renewal of financial confidence. The goal of reaching a full agreement with the International Monetary Fund, which is crucial for reestablishing relations with the international financial markets, has proven to be particularly troublesome. Brazil also emerged as a focus of concern in 2002, due to the increase in the spread on its public debt, increased domestic interest rates, and devaluation of the currency. However, these concerns have subsided, improving prospects for debt sustainability.

Against this difficult political and economic backdrop, the region has nonetheless reaffirmed its commitments to democracy and international integration. Democracy is the region's best asset in terms of responding to

the current crisis, together with participatory and inclusive policies aimed at resolving not only macroeconomic problems, but also the large-scale social challenges.

The new processes of international integration are the region's best opportunity for improving its medium-range prospects for growth. The challenge facing Latin America and the Caribbean is to combine the various subregional integration initiatives with the more ambitious objective of achieving integration with other groups of countries, especially from the developed world. The countries of Central America and the Caribbean have recently revitalized their subregional integration programs, and are now aiming at the U.S. market. Chile has opted for a strategy of bilateral agreements and signed a free trade agreement with the United States in late 2002. The Andean countries and the members of MERCOSUR are exploring what their best options may be. The experiences of the region and of other regions of the world show that there is no single path for advancing toward international integration. In any case, the region now has a range of possibilities that must be seized in order to open up new possibilities for investment, trade and international cooperation.



Part I: The Bank in 2002





Key Areas

Overview

For the ninth year in a row, the Inter-American Development Bank was the largest source of multilateral financing for Latin America and the Caribbean in 2002. Included in the lending program were loans and guarantees to finance public and private sector investment programs, an emergency operation, and sector loans supporting policy reform programs.

The Bank's operational program for the year responded to the needs of the borrowing member countries and reflected the use of a greater variety of instruments and products than ever before. These included innovation loans, multi-phase loans and sector facility

loans—three product lines that, taken together, make up the flexible lending instruments established by the Bank's Board of Governors in 2001.

Over the course of 2002, the IDB committed \$4.55 billion in 86 loan operations to fund projects totaling an estimated \$7.6 billion. Of these, seven loans and guarantees to the private sector without government guarantees totaled \$316.4 million. The Bank also financed 336 technical cooperation projects totaling \$65.4 million. In addition, the Multilateral Investment Fund approved 67 projects, most of them technical assistance operations, for a total of \$98.6 million.

Distributed among the principal areas of concentration of activity as defined in the Bank's Institutional Strategy, social sector projects accounted for \$2.13 billion, or 46.8 percent of the year's non-emergency loan approvals; projects for modernization of the state and reform totaled \$667.2 million, or 14.7 percent of new commitments; and projects to improve the competitiveness of the region's economies reached \$1.26 billion, or 27.6 percent of the portfolio. A single emergency loan of \$500 million, not included in the distribution above, was approved for Uruguay to shore up social expenditures at a time of severe fiscal constraint. When this operation is included as a social sector program, the total of the year's lending in that sphere rises to 57.6 percent of 2002 approvals.

The Bank's Board of Governors stipulated in the Eighth General Replenishment of Resources in 1994 that lending for poverty reduction and social equity should reach 40 percent in terms of volume of resources and 50 percent in terms of the number of operations in succeeding years. Investments in poverty reduction and social equity are cross-sectoral and include financings in the social sectors as

well as other sectors. In 2002, 69 percent of the total lending volume (\$2.8 billion) and 58 percent of the number of operations (42) were classified under these headings.

Sorted by country group, the Bank approved \$2.52 billion for Group I countries, whose 1997 per capita income was above \$3,200 (Argentina, Bahamas, Barbados, Brazil, Chile, Mexico, Trinidad and Tobago, Uruguay and Venezuela) and \$2.01 billion for Group II countries, with incomes below \$3,200 per capita (Belize, Bolivia, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru and Suriname).

As part of the Heavily Indebted Poor Countries (HIPC) Initiative, the Bank in 2002 delivered debt relief to each of the four eligible member countries: Bolivia, \$47 million; Guyana, \$10 million; Honduras, \$20 million; and Nicaragua, \$46 million, for a total of approximately \$123 million.

The Bank provided financing for policy-based reform programs in 2002 in Guatemala, Peru and Nicaragua, with funding of \$500 million from the ordinary capital and \$30 million from the Fund for Special Operations. The total of \$530 million was well below the Bank's lending authority for policy-based lending. It is expected that total approvals for this instrument will be higher in the coming year.

In the social sectors taken as a whole, the leading areas of concentration were *social investment* (10 projects representing over 13 percent of the total number of approvals and 42 percent of all loan commitments) and the *environment and natural disaster prevention and mitigation* (11 projects totaling over \$146 million). *Oportunidades* in Mexico was a particularly noteworthy social investment project. By targeting resources to indigent families and implementing measures to continuously monitor key project components—incentives to encourage children to remain in school and for parents to make better use of health care and nutrition services—the operation will build on success already achieved by the government of

Mexico in the social sectors, while looking for ways to strengthen the replicability and evaluability of expenditures in these vital sectors.

In the area of the environment and natural disasters, projects in Bolivia and Peru will minimize, control and compensate for the direct and indirect social and environmental impacts of construction and operation of major infrastructure investments. In Barbados, Ecuador, Guatemala, Honduras and Panama, the Bank helped underwrite programs for the management and conservation of ecologically fragile areas.

Seven *urban development* projects were financed during the year. One key effort was to modernize local governments to make them better able to mobilize investment, more agile and transparent in the administration of public funds, and more attractive as future investment destinations. In terms of meeting more immediate needs, the Bank financed housing and settlement projects in Ecuador, Nicaragua and Trinidad and Tobago.

Five projects were approved in the *water supply and sanitation* sector, including one for the city of Goiânia in Brazil that will contribute directly to achieving the Millennium Development Goal of halving by 2015 the number of people lacking access to safe drinking water or an adequate wastewater disposal system.

In *education*, the Bank supported three projects, including an \$80 million loan to improve the achievement of primary school students in rural and marginal urban areas in the Dominican Republic. A \$30 million loan to the Ministry of Education in Guyana will improve literacy and numeracy at the primary school level while improving attendance rates for pupils and training for teachers. In *health*, the Bank approved another project for Guyana that will improve nutrition for infants by using the flexible sector facility instrument.

A global microenterprise credit program for the northeast of Brazil will add 120,000 new clients to CrediAmigo, tripling the number of participants in this program initiated by the *Banco do Nordeste do Brasil* in 1997.

In the second major category of lending, modernization of the state, there was an emphasis on projects for *reform and decentralization* of public sector administration. In all, eight such projects were approved in 2002 for a total of \$105 million. Examples included an operation in Chile to modernize the Comptroller's Office and a program in Colombia to decentralize government service administration. In terms of lending volume, an even greater amount of resources was directed toward projects in the realm of *fiscal policy and the management of fiscal institutions*. The single largest operation in the modernization of the state category was for fiscal reform in Peru, to be disbursed in two tranches totaling \$300 million. The project focuses on revenue enhancement and improved budget management; social expenditure policy (gearing programs to serve the country's poorest populations); and curbing public pension costs. Stand-alone projects included programs to strengthen national foreign trade departments in Bolivia, Nicaragua and Peru; a fiscal reform program in Guatemala that will institute key benchmarks for measuring the efficacy and pace of legal reforms and new regulations; and an innovative project to modernize the administration of justice in Honduras.

In the third and final area of major activity for the year—competitiveness—projects include the subsectors of energy and transportation (including loans to both public and private sector borrowers), telecommunications (one loan to a private sector borrower in Bolivia), agriculture and rural development, science and technology, tourism, industry and credit and capital markets. In addition, a project approved for Panama addresses “competitiveness development” in general by financing diagnostic studies that include inputs from civil society organizations, the public sector and businesses, as well as preinvestment activities for projects in the productive sectors. There were six *transportation* projects approved for highways, ports and airports in Bolivia, Brazil, Colombia, the Dominican Republic, Honduras and Uruguay. *Energy* sec-

tor projects included electricity transmission and distribution in Guatemala and Guyana, and partial financing by the Bank's Private Sector Department for the Transredes, S.A. gas pipeline project in Bolivia, a major initiative to expand the country's capacity to export gas to Brazil.

In 2002, the Bank provided \$242 million in support for *multisector credit* programs. A loan of \$42 million to El Salvador's *Banco Multisectorial de Inversiones* (BMI) will channel resources to start-up businesses as well as existing firms in manufacturing, trade and services. A \$180 million loan for the third phase of a program administered by the Central Bank of Uruguay will make up part of the shortfall in the domestic market of both short- and long-term savings needed by Uruguayan businesses to invest in the productive sectors. A particularly innovative project in *local capital market development* was the Colpatria partial credit guarantee on a mortgage-based bond issue by a Colombian financial institution (see Box 1). The Colpatria project will address a serious impediment to growth for the entire region: the lack of a deep and efficient financial intermediation system that can stimulate private savings to enable smaller and medium-sized businesses, in particular, to make the investments they need to compete with their counterparts in other parts of the world.

Projects in the productive sectors of *agriculture* and agribusiness totaled \$156 million, roughly 4 percent of the total lending volume for the year. Resources were provided for programs in Costa Rica, the Dominican Republic, Nicaragua and Panama. In addition to concentrating on efforts to integrate national and international markets, increase productivity and combat rural poverty, each project contained a component to make more effective use of technology in the area of plant and animal health and food safety. The Bank financed *tourism* projects in Bolivia and Brazil. A relatively small but significant flexible-instrument credit of \$500,000 was provided for Jamaica to use information and communications technol-

COLPATRIA: FIRST PRIVATE SECTOR MORTGAGE BOND GUARANTEE

In November 2002, the Bank backed the introduction of a new securitization instrument into the Colombian capital market by approving its first private sector mortgage bond guarantee in support of the equivalent of \$50 million in mortgage bonds to be issued by Banco Colpatria to local institutional investors.

The IDB partial credit guarantee will backstop up to \$5 million, or 10 percent of the total face value, of the mortgage bond obligation, thereby leveraging the Bank's participation tenfold.

The guarantee is designed to support Colombia's pioneering effort to establish the mortgage bond as a new instrument in the country's capital markets, with Colpatria as the first issuer of such a security, as permitted by new financial regulations in 1999. This transaction may provide a demonstration effect for other private issuers as well as for

investors in Colombia, increasing the volume of securitization instruments locally and benefiting the depth and diversity of the Colombian capital market. The guarantee operation advances the IDB strategy for Colombia of promoting private sector growth, modernizing capital markets and developing housing for less advantaged segments of the population.

Colombia's once flourishing mortgage sector suffered a setback in 1998 due to the unfavorable macroeconomic climate and increasing interest rates. The IDB support for a mortgage-backed bond issue in national currency will improve Colpatria's capacity to provide residential mortgages, especially for the low-income sector, and thus help resume housing finance activity and raise the level of home ownership in Colombia.

ogy to foster greater competitiveness by local businesses.

A credit to the Caribbean Development Bank (CDB) will continue the IDB's ongoing efforts, as outlined in the Bank's Charter, to assist non-IDB member countries from the Caribbean. The IDB and the CDB have enjoyed a close and constructive relationship. The current loan, building upon the achievements of past credits, will make concessional resources available to qualifying countries (Dominica, Grenada, St. Lucia and St. Vincent) at a time when these countries have been forced to undertake broad and deep economic reconstruction programs in the aftermath of September 11.

The Bank's *private sector* operations in 2002 amounted to \$316.4 million. Six of the seven operations approved were for projects in the region's relatively poorer and smaller countries, including the first private sector loan to Guatemala. Despite an unfavorable international context, the Bank was able through use of direct loan resources and an additional \$63 million in syndicated cofinancing through B loans, to marshal a total of more than

\$1.15 billion for infrastructure investment. This is the equivalent of roughly three dollars for each dollar of funding approved by the Board of Executive Directors.

The IDB's 336 national and regional *technical cooperation* programs totaled \$65.4 million. National technical cooperation accounted for the lion's share (278 operations for \$49.1 million), but regional projects (58 operations for \$16.3 million) were also significant. The portfolio includes projects to collect census data on the ethnic composition of national populations so as to combat social exclusion; promote corporate social responsibility; prevent the transmission of HIV/AIDS; improve educational opportunities for girls in primary and secondary school; and reduce child labor.

The Bank's **Social Entrepreneurship Program** continued to provide financing for small productive and commercial enterprises and to support community-based projects aimed at the poor and the excluded throughout Latin America and the Caribbean. In 2002, 18 projects were approved totaling \$8.1 million. They ranged from efforts to

develop sheep farms in Nicaragua to support for growers of sugar cane in the province of Tucumán in Argentina, honey producers in San Bernardino, Guatemala and cashew farmers in El Salvador.

In October 2002, the Bank and the Government of Italy established the Italian Trust Fund for Microenterprise Development with an initial endowment of 5 million euros to promote microcredit and social entrepreneurship in the region.

The Multilateral Investment Fund (MIF), administered by the Bank, continued as the major source of technical assistance grants for microenterprise and small business development, testing new approaches to development and reaching out to involve a broader spectrum of populations. MIF approvals in 2002 amounted to \$98.6 million. Since its inception in 1993, the MIF has provided almost \$800 million to finance more than 500 projects to strengthen workforce capabilities, skills and standards, broaden the economic participation of smaller enterprises, and bolster the overall environment for entrepreneurial activities in the region.

The Inter-American Investment Corporation (IIC) approved 20 projects totaling \$123.3 million in 2002. An autonomous affiliate of the Bank, the IIC promotes the establishment, expansion and modernization of the region's small and medium-sized enterprises.

In terms of financial performance, the Bank showed continued profitability during the year, with strong financial ratios. Amid a turbulent and uncertain climate, the Bank delivered its borrowing program for 2002 and again received a AAA credit rating from the major credit-rating agencies, as it has every year since the founding of the institution. The Bank's bond issues for the year totaled a face amount of \$9.1 billion equivalent, with an average maturity of six years (two years longer than the comparable figure for 2001) and average adjustable-rate cost of 22 basis points below U.S. dollar LIBOR (five basis points below the previous year).

As described in greater detail in ensuing sections, the Bank's Board of Governors adopted on the occasion of the Bank's Annual Meeting in March a resolution implementing an Agreement of Measures for Enhancing the Response Capacity of the Bank, thereby creating a new lending framework for 2002-2004. The framework consists of three permanent lending categories: investment loans, policy-based loans (PBL) and emergency loans. In addition, the Governors established several parameters for the lending program including: a) a numerical cap of \$4.5 billion (an average of \$1.5 billion per annum) on policy-based loans for 2002-2004 and subsequent three-year periods; b) minimum disbursement periods of 36 months for investment loans and 18 months for policy-based loans; c) an increase in the maximum percentage of IDB financing for investment loans of 10 percent for all country groups; and d) creation of a permanent window for emergency loans with amounts and disbursement profiles of operations to be considered in any given year subject to maintaining the financial soundness of the Bank and with floors to ensure availability of these emergency resources for the smaller and lesser developed countries.

Efforts to implement the Bank's Institutional Strategy continued on several fronts, including:

- Adoption of the Millennium Development Goals, within the context of the particular circumstances and priorities of IDB member countries;

- Presentation by the Board of Executive Directors to the Board of Governors of a Progress Report on the New Lending Instruments;

- Completion of a risk-assessment study for private sector operations; and

- Preparation of a work plan for a review of the entire set of the Bank's operational policies.

The backdrop for the definition of the new lending framework and the follow-up on recommendations contained in the Institutional Strategy—in fact for virtually all areas of Bank

activity during 2002—was the focus on *development effectiveness*. Together with the Governors' instructions to Management to adopt a series of measures to improve both the quality at entry and quality of the portfolio, the focus on this broad topic engendered a variety of concrete alternatives for improving the design, monitoring and evaluation of Bank interventions.

In its second full year of operations following a substantial overhaul, the Bank's Office of Evaluation and Oversight (OVE) produced a major report on the broad topic of effectiveness and issued a number of Country Program Evaluations (CPEs). The CPEs were intended to serve as important inputs for the Bank's Country Strategy documents, themselves a product reformulated according to new guidelines adopted during the year. For the first time, performance-based criteria were established for the allocation of the concessional resources of the Fund for Special Operations and Intermediate Financing Facility.

As reported in the Annual Report on Projects in Execution prepared in 2002 based on the portfolio as of the end of 2001, 91 percent of projects were classified as likely to achieve their development objectives as defined in the Bank's Portfolio Performance Monitoring and Reporting (PPMR) system. This compared with the figure of 88 percent estimated for the portfolio as of December 31, 2000. The full deployment of a new Project Alert Identification System (PAIS) and the launching of a Lessons Learned Retrieval Network (LERN), both part of the ongoing redesign of the Project and Operations Information System (POIS), were evidence of the Bank's efforts to improve accountability throughout the project cycle and in all of the Bank's line departments.

The need to increase *transparency* in all aspects of Bank operations was felt keenly in 2002. The Oversight Committee on Fraud and Corruption (OCFC) began its first full year of operations and instituted a toll-free hotline for the anonymous reporting of allegations to a

permanent secretariat of the high-level body chaired by the Executive Vice President. In addition, Management initiated a series of actions aimed at making available to the public a greatly expanded amount of information about the Bank and its activities, including procurement, projects in implementation, and, in particular, areas of finance and institutional procedures and structure. A draft of a broad revision of the Bank's seven year-old information disclosure policy was prepared and distributed to the Board of Executive Directors for consideration early in the new year.

Mechanisms to enhance *consultation with civil society* groups and other stakeholders involved in Bank operations continued to be developed and used throughout the year. A Strategy for Promoting Citizen Participation in Bank Activities was prepared and sent to the Board for consideration. Numerous consultations were held by Civil Society Advisory Councils (CASC) in the IDB Country Offices, many of them focused on discussions of the Bank's draft strategies on poverty, sustainable growth, social sector reform, competitiveness, integration and modernization of the state. The Bank's Office of Learning concluded a two-year program of 20 workshops on *Incorporating Civil Society Participation in IDB Activities*. Throughout the year, the Bank continued its dialogue with the Inter-American Regional Organization of Workers (ORIT).

Board of Governors

The highest authority of the Bank is vested in the Board of Governors, composed of one Governor and an Alternate Governor appointed by each member country. Governors are usually Ministers of Finance, Presidents of Central Banks or officials in positions of comparable rank in their respective governments.

The Forty-third Annual Meeting of the Board of Governors took place in Fortaleza, Brazil from March 11-13, 2002. On that occasion, the Board approved the financial statements of the ordinary capital, the Fund for Special Operations (FSO), and the

Intermediate Financing Facility (IFF) account for 2001. The Board also approved the transfer of \$70,200,000 equivalent in convertible currencies to the IFF account, drawn from the FSO.

During its deliberations, the Board of Governors considered a range of topics including matters related to the international financial scenario, the impact of external agents on the stability of the region's economies, the fight against poverty, and the role of the private sector in the development of the region.

The Board approved a resolution to reinforce the Bank's ability to offer new products and improve some of its current instruments; to respond more efficiently and effectively to crisis; and to pay special attention to specific aspects such as mitigating social impacts and reducing poverty. By passing this resolution, the Board approved a new financing framework consisting of three types of loans: investment, support of policy reform, and emergency. The Board of Executive Directors was instructed to analyze the outcome of implementing this financing framework, and to submit a report to the Governors during the 2005 Annual Meeting.

In addition, the Governors stressed the need to combat corruption and money laundering in the region, reinforce judicial systems, and foster private sector development. The Board emphasized the need to increase private sector operations for the smaller countries in the region, and to draft and implement a plan of action to tend to the needs of the smaller and less developed countries. The Governors requested that the Bank assist in drafting national strategies and planning for increasing competitiveness, take an active role in formulating strategies to reduce poverty, and provide support to improve efficiency and transparency in public expenditures. Lastly, the Board recommended improving supervision and evaluation systems in order to assess the effectiveness of Bank operations.

In addition to the Fortaleza meeting, the Committee of the Board of Governors also met in Washington, on January 17-18. During

this meeting, the Committee worked on the proposals submitted by Management to increase the Bank's ability to respond to the new requirements of the borrowing countries and to engage in financing in foreign exchange. At its second meeting, the Committee examined the report submitted to the President entitled "The Challenge of Being Relevant: The Future Role of the IDB," prepared by the External Advisory Group, and analyzed the topic of effectiveness in development.

As for effectiveness in development, the Committee acknowledged the inherent difficulty in questions of measurement, particularly in social sector projects, and suggested that efforts be made to develop an assessment system that would take into account the specific situation in each country. The Committee underscored the importance of reinforcing the sense of project ownership in each country in order to strengthen sustainability. In addition, it stressed that Millennium Development Goals should be considered during the process of approving operations. Lastly, the Committee agreed to the creation of a unit that will report to the Executive Vice President and be in charge of assessing the impact of development and the "evaluability" of all Bank operations.

On November 8, 2002, the Board held an extraordinary meeting to elect the President of the Bank. On that occasion, it approved a resolution electing Mr. Enrique V. Iglesias for a five-year term, starting April 1, 2003.

Board of Executive Directors

The IDB has 14 Executive Directors who represent the Bank's 46 member countries. Directors serve full-time for a period of three years. In the absence of a Director, the Bank's Alternate Executive Directors, appointed by their respective Directors, have full authority to represent their constituencies.

During 2002, the Board of Executive Directors approved loan and technical cooperation operations as detailed below in the section on the year's lending. The principal corpo-

rate issues resolved by the Board are described in the following section detailing the activities of Board Committees.

During early 2002, the Board, in an Ad Hoc Committee created for this purpose, held intensive discussions on means for increasing the Bank's capacity to respond to evolving regional needs.

Permanent Committees of the Board of Executive Directors

Steering Committee

The Steering Committee of the Board coordinates the work of the Board Standing Committees and deals with administrative issues related to Board management. The Committee is made up of the Chairs of the four Standing Committees, Dean and Vice Dean. In 2002, the Board approved expanding its membership to include the Director representing the Bank's largest shareholder, the United States.

Throughout 2002, the Steering Committee worked closely with the Office of the Executive Vice President to coordinate the management of the Board's work program. To shape the development of the 2003 work program, the Committee coordinated a series of meetings to review Management's proposals and allow Directors to set priorities for the coming year. To that same end, the Committee helped set the agenda for a Board retreat in November that focused on equipping the Bank with the instruments needed to respond efficiently to the challenges facing its borrowing members. In addition, the Committee considered issues concerning management of the Board budget and the travel program of Board visits to borrowing countries.

Organization, Human Resources and Board Matters Committee

This Committee deals with Bank organizational issues such as adjustments to the structure of the institution, human resources topics

including those related to the new human resources strategy, and matters related to Board functioning and efficiency.

During the course of the year, the Committee reviewed Management's progress in implementing the human resources strategy as well as Management's progress in using the contingency reserve for mutually agreed separations.

In the area of personnel policy, the Committee recommended approval of a new secondment policy for the Bank.

The Committee also initiated discussions of the first case under the Independent Investigation Mechanism since new procedures were approved in 2000. This case highlighted a need to modify some of these procedures.

The Committee reviewed a report on the new staffing plan and received documentation from Management that will assist in the establishment of a new headcount for the Bank for 2004.

Finally, late in the year the Committee discussed the organizational aspects for the 2003 annual meeting of the Board of Governors and recommended to the Board a series of measures to simplify the meeting by increasing its efficiency and reducing its scale.

Budget, Financial Policies and Audit Committee

This Committee oversees the Bank's administrative and capital budgets, reviews the Bank's financial policies, and supervises the external and internal auditing of the Bank's affairs.

Responding to heightened concerns in the corporate world, the Committee gave priority throughout the year to ensuring that the Bank's control environment and auditing functions continue to meet the most rigorous standards. Working in close coordination with Management, the Committee supervised the selection of Ernst & Young LLP as external auditor, in place of Arthur Andersen LLP, without any disruption of the Bank's financial activities or of the timetable for auditing its

annual financial statements. The Committee has worked closely with the Office of the Auditor General (AUG) to review how the Office defines its work program and reports its results. The Committee has supervised the startup of Management's Oversight Committee on Fraud and Corruption, approved in 2001. In response to a report from the AUG, the Committee has agreed on an action plan to improve compliance with auditing requirements of disbursements and procurement in lending projects that adopted an ex-post modality for these transactions.

The Committee also adopted an action plan to further simplify the Bank's procurement procedures and to ensure their responsiveness to client needs. Finally, in consultation with the Finance Department, the AUG and the new external auditors, the Committee began to develop a work program to review, and if necessary modify, the way it performs its oversight of auditing and financial management functions.

In the area of financial policies, the Committee began consideration of a new framework for the calculation of the Bank's loan loss provisioning and economic capital. The adoption of this new framework would require a review of financial policies related to capital adequacy, in particular the net income target policy and the loan loss provisioning policy. After an initial discussion, the Committee requested additional information and analysis to help Directors evaluate the model's parameters and assumptions. The Committee hopes to conclude its analysis of these issues during the first semester of 2003.

The procedures used to determine the Bank's annual budgets and salary increases have been progressively standardized over the past four years. To conclude this process, the Committee adopted documents that formalize these new procedures. After an extended period of appraising the costs and benefits of different alternatives, the Committee recommended approval of a plan to equip the Bank with additional conference and auditorium facilities. For the Bank's administrative expen-

ditures, the Committee recommended approval of a 2003 budget that supports a work program responsive to the needs of the region, with a nominal increase of 3.2 percent. In 2003, the Committee plans to discuss further the adoption of a system of "management by results" that would allow closer tracking of the link between resources and institutional priorities and a multiyear budget.

Programming Committee

This Committee considers country and regional programming documents, reviews reports on the loan and technical cooperation pipelines, evaluates proposals for the allocation of concessional resources, oversees the activities of the Office of Evaluation and Oversight in areas related to country programming, and considers new initiatives that relate to the Bank's programming function.

In the area of country programming for 2002, the Committee reviewed and recommended for Board approval the country strategies for Mexico, Peru, Guyana and Honduras. After substantial discussions on both content and procedures, the Committee also took note of country program evaluations for Mexico, Peru, Guyana and Honduras. The Committee noted an improvement in the quality of country strategies over previous years, in part attributable to the new guidelines approved during the year. The Committee also observed that lessons learned from the evaluations were being increasingly included in the new country strategies.

For the first time, the Committee met to consider country strategy updates. These updates, which are required under the new country strategy guidelines, are less formal presentations that afford Directors a current look at the status of each of the Bank's country programs. The Committee considered the innovation successful and will continue with the practice next year.

In the area of concessional financing, the Committee recommended approval of a new performance-based formula for the annual

allocation of resources from the Fund for Special Operations (FSO) and the Intermediate Financing Facility (IFF). Discussions on this issue had been underway in the Committee since early 2001.

Policy and Evaluation Committee

This Committee considers the policies and strategies that guide the Bank's operations in the region, reviews the instruments and reports that assess their success in promoting social and economic development, and oversees the work of the Office of Evaluation and Oversight (OVE).

Following a mandate from the Governors, the Committee devoted considerable attention to proposals designed to strengthen the Bank's ability to measure, and hence enhance, the development effectiveness of its activities. The Committee began with a detailed discussion of OVE's assessment of the Bank's current arrangements. Subsequent consultations between Management and members of the Committee led to Board approval of a set of actions, including immediate initiation of a pilot program to assess the quality at entry of Bank loans, and the hiring of a high-level expert on development effectiveness. As a result, the Board will deliver a progress report on strengthening the Bank's self-evaluation capacity to the Governors at the 2003 Annual Meeting. After considering the annual report on the performance of the Bank's portfolio of loans in execution, the Committee recommended that Management prepare an action plan to improve portfolio quality. The Committee also considered reports from OVE that analyzed the effectiveness of Bank operations in specific fields such as potable water and reconstruction in the wake of natural disasters.

The Committee made substantial progress in supporting the redrafting of the Bank's development strategies. The Committee reviewed an integrated set of profiles for strategies covering the Bank's two overarching goals—the reduction of poverty and the pro-

motion of sustainable economic growth—and its four areas of operational priority—competitiveness, regional integration, social development and modernization of the state. In developing these strategies, Management was to conduct extensive consultations with government officials, technical experts and civil society. Consideration of the resulting strategies, including one for the environment, began in the fall and will continue into the new year.

The Committee was active in reviewing Bank policies and instruments promoting and protecting financial development in the region. Responding to a mandate from the Board of Governors, the Committee recommended approval of guidelines for Bank lending in response to financial crises. It discussed proposals for a new policy on operations with financial intermediaries in borrowing countries. To diversify the instruments available to the Bank's private sector operations, the Committee recommended approval of a proposal to expand the scope of partial credit guarantees to allow Bank support of bond issues in local currencies and establishment of a Trade Finance Reactivation program.

Poverty Reduction and Social Equity

The reduction of poverty and the promotion of social equity in Latin America and the Caribbean is one of the Bank's overarching objectives. During 2002, the Bank undertook numerous lending and non-lending activities in pursuit of this goal.

In the course of the year, the Bank's new Poverty Reduction and Social Equity Promotion Strategy was developed and delivered to the Policy and Evaluation Committee of the Board. This strategy provides guidelines to be followed in this area, highlights the need for specific goals and targets for poverty reduction and equity promotion in the region in line with the Millennium Development Goals, and underscores specific policy actions

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

in the areas of income generation for the poor, human development, social protection and inclusion.

In its lending operations, the Bank continued to support the implementation of national poverty reduction strategies in 2002 through loans and technical assistance. Among its financial products, the Bank approved an innovative performance-based loan for \$30 million to support implementation of Nicaragua's poverty reduction strategy. The loan conditions disbursements on the achievement of results in keeping with targets

and indicators on education, health and social welfare.

The Bank continued to support programs that provide incentives to develop the human capital of low-income populations, with one of the largest loans ever to Mexico (\$1 billion) for the *Oportunidades* program (formerly known as PROGRESA) and a \$20 million loan for the second phase of the Social Protection Network in Nicaragua. (See also Box 2 on Poverty Reduction in Belize).

The Bank also provided a \$100 million loan to Brazil for land titling regularization,

BOX 2

POVERTY REDUCTION INITIATIVES IN BELIZE

Despite significant improvements in Belize's social and economic indicators, large segments of the population live in poverty and extreme poverty. The Country Poverty Assessment (CPA) conducted in 1995-96 revealed that 25 percent of households or 33 percent of the total population lived below the poverty line. Of the population defined as poor, 13 percent are "indigent" or "extremely poor." Poverty is more severe in rural areas, affecting 42 percent of the population. Rural poverty is extensive in the southern part of the country, specifically in the Toledo district. In urban areas, 21 percent of households fall below the poverty line. Pockets of poverty and extreme poverty abound on the south side of Belize City. Segments of the population that are especially vulnerable are youth, children, the elderly, the disabled, female-headed households and indigenous groups. The incidence of poverty among Maya populations is twice the national average. The causes of poverty are unemployment, low productivity and low earnings. Other contributing factors include education levels, size of household, high dependency ratios and female-headed households.

The key instrument for combating poverty in Belize is the National Poverty Elimination Strategy and Action Plan (NPESAP). Important inputs aimed at completing and updating the NPESAP in Belize will be provided with resources from a technical cooperation operation currently being prepared by the IDB with financial support from the Japanese government. The technical support incorporates a result-oriented approach, developing specific targets for

Belize based on the Millennium Development Goals, including the reduction of extreme poverty by one half by the year 2015. Strict linkages will be established between targets and programs and actions.

Poverty reduction is not just a priority of the government, but is also crucial to the Bank's future work in Belize. An updated and complete NPESAP will represent the umbrella policy instrument under which the Bank will center its programming strategy. The NPESAP will also be the strategy that guides government policies and actions aimed at economic growth, increased competitiveness and poverty elimination. The proposed technical cooperation operation complements current Bank efforts in the country, in particular: (a) the Hurricane Keith Emergency Program; (b) the Land Management Project; (c) Health Sector Reform; (d) Rehabilitation of the Southern Highway; and (e) Tourism Development.

In the process of preparing the technical cooperation operation, the Bank established a strong partnership with the government entity responsible for the program, the National Human Development Advisory Committee (NHDAC). Also, UK DFID continues to be an important partner in supporting efforts by the Bank and Belize geared towards poverty reduction. In view of Belize's strong commitment to poverty reduction and its efforts to strengthen and complete the poverty strategy, sizable debt relief on the part of the British government has come about through the Commonwealth Debt Initiative (CDI). Debt relief proceeds will support projects and initiatives prioritized by the updated NPESAP.

basic infrastructure, training, and support for indigenous communities in the state of Acre. A \$21 million loan to Bolivia will address the socioeconomic impact of the Santa Cruz-Puerto Suárez corridor highway and support land titling, development of human capital (including indigenous groups), and repayment of resettlement losses. The Bank also approved a \$27.4 million loan to provide electricity to poor segments of the population in Guyana.

Among its non-financial services, the Bank continued activities geared toward generating knowledge on poverty and inequality. Three technical cooperation operations aimed at identifying financial products for the poor were initiated, generating outcome indicators for monitoring of the Millennium Development Goals, and supporting the evaluation of poverty reduction programs. The Bank published a study on poverty reduction and economic growth and produced studies on social investment funds and institutional development for the delivery of social services.

The Bank also contributed to the dissemination of experiences, best practices and knowledge through workshops and seminars. The Bank held international seminars on social protection and the challenges of meeting the Millennium Development Goals in Latin America and the Caribbean. Also held were the third and fourth meetings of the Regional Policy Dialogue on Poverty and Inequality, discussing issues such as micro-finance programs targeted to the poor and experiences in implementing national poverty reduction strategies. The final report and evaluation of the Social Equity Forum was completed, and plans are underway to launch its second phase. The Bank also continued to support the Network on Inequality and Poverty (see Box 3 on MECOVI).

Sustainable Economic Growth

During the past five decades, the region has shown disappointing growth rates. All other regions in the world, with the exception of Africa, achieved stronger growth and develop-

ment. While per capita income recovered throughout the 1990s following the previous “lost decade,” the average annual growth rate only reached 1.5 percent during the ten years ending in 1999. The reasons for this slow growth are mainly poor quality services provided by public institutions, inadequate macroeconomic policies, a weak financial system, poor quality physical infrastructure, poorly trained human capital, and an adverse international environment.

The main goal of the draft IDB Strategy for Sustainable Economic Growth is to increase income and per capita output in the region, fostering an environment for a better quality of life for the population, thus reducing poverty rates and preserving or improving the management of natural resources.

Governments and international organizations have geared efforts towards increasing economic growth in the region. These efforts have generated valuable lessons. The most notable and important lesson is to understand that there is no given recipe for guaranteed growth. Even during periods of macroeconomic stability and properly functioning markets, the growth rate may be disappointing for reasons varying from the quality of the political and social environment to the ability of the population to sort out mixed signals regarding opportunities for investing.

The Bank recognizes that the countries in the region face significant barriers for sustainable growth. Consequently, it has developed a strategy—flexible yet containing a series of common core elements—to be adapted to the needs and priorities of each country. This strategy aims to make full use of the advantages and possibilities offered by the institution. Activities are organized based on the following priorities, which are fully detailed in individual sector strategies:

- To improve the competitiveness of productive activities, especially in the institutional and economic spheres, in order to

For further information, see

<http://www.iadb.org/goto.cfm?econgrowth>

MECOVI PROGRAM

One important restriction faced by policymakers and researchers working on poverty reduction has been the lack or poor quality of information at the micro level. The development of good quality household surveys and the institutional strengthening associated with data collection and processing are essential for enhancing the potential of public policies to reduce poverty.

The Program for the Improvement of Surveys and Measurement of Living Conditions in Latin America and the Caribbean (better known by its Spanish acronym MECOVI) was established in 1996 by the IDB, the World Bank and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). The objective of the program is to support countries' efforts to develop prompt, comparable and easily accessible micro data, and to improve the quality of those data and their geographic and thematic coverage. To this end, the program focuses on strengthening the institutional and technical capacity of statistics offices and institutions throughout the region.

The program operates at different levels, concentrating on the survey design side, improvement of questionnaires, fieldwork logistics, data entry, and the inclusion of original modules that explore important developmental themes such as ethnicity, family remittances, access to social programs, and household response to adverse shocks.

At the country level, the program strengthens institutional capacity to train and educate technical staff on the execution, analysis and research of household surveys, provide financing for technical studies, and support institutional reforms. The focus is on the producers and the users of statistical data,

in order to contribute to the generation of a statistical culture that values the importance of information for policymaking. MECOVI has country-specific programs in Argentina, Bolivia, El Salvador, Guatemala, Nicaragua, Paraguay and Peru. Ecuador, the Dominican Republic and Honduras are in the process of joining the program. Funding for country-specific activities has come from the IDB's Fund for Special Operations (FSO), the World Bank's Institutional Development Fund (IDF) and Trust Fund for Statistical Capacity Building (TFSCB), and from bilateral donors (Canada, Denmark, Germany, Japan, Norway and Sweden). In some recently incorporated countries, resources have been part of IDB lending operations.

At the regional level, activities provide a mechanism to disseminate research and information on best practices on issues such as measurement, methodologies and data collection and organization. These activities also stimulate country-to-country cooperation. In cooperation with the *Instituto Nacional de Estadística, Geografía e Informática de México (INEGI)*, and the *Instituto Nacional de Estadística y Censos de Argentina (INDEC)*, MECOVI has organized ten regional workshops and eight regional training courses for producers and users of household surveys. To date, more than 400 technical staff from most countries in the region have participated in these activities. Resources to fund these activities have come from the FSO.

The program has been successful on many fronts, such as improving the quality of household survey data, promoting the use of data for policymaking, playing a role in the creation of a statistical culture in the region, and underlining the importance of data production.

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

upgrade the operations of financial markets, human resources, infrastructure services, knowledge, and technology;

- To increase the quality and coverage of education and health services within a development and social integration framework;

- To strengthen public institutions and foster a conducive political environment

within a framework for modernization of the state;

- To promote regional integration to better position the countries of the region to compete internationally; and

- To strengthen environmental management and natural resource management, to ensure sustainable economic growth.

Concerning the final priority, Management in 2002 prepared an environmental strategy designed to establish systemic links with each of the other four areas of emphasis. The strategy thereby seeks to embed environmental concerns and sound natural resource management as goals underlying the fundamental objectives of poverty reduction and sustainable economic growth.

Modernization of the State

In 2002, 16 projects were categorized as having primary components of reform and modernization, totaling \$667.2 million. These projects encompass a broad range of categories, including reform of the judicial system, public management, decentralization and fiscal reform. They were financed using traditional, sector-based and flexible lending instruments and covered most of the countries in Latin America and the Caribbean.

The Bank concentrated during the year on the lines of activity identified within the area of democratic governance. This focus is consistent with the Eighth Capital Replenishment, the Institutional Strategy of the Bank, and the countries' demand for support to economic, social and institutional development. The emphasis on democratic governance stems from the recognition that it is a fundamental condition for countries of the region to develop in an equitable and environmentally sustainable way.

The attention the Bank and member countries have given to modernization of the state continued in 2002. The three new State and Civil Society Divisions established in each Regional Department in 2001 permit the Bank to accommodate the rising demand from borrowing countries to modernize the state and strengthen ties with civil society organizations. An updated modernization of the state strategy, as well as a strategy for citizen participation in Bank activities, were delivered to the Policy and Evaluation Committee of the Board in 2002. These strategies were formulated to identify current priorities for Bank action and provide

For further information, see

<http://www.iadb.org/goto.cfm?modstate>

the basis for new operations, technical work and resource allocation. Input for the strategies came from a range of sources, including academics, government officials, civil society organizations and international development agencies. The strategies were adjusted to fit with the requirements of the sustainable economic growth and poverty reduction framework strategies described above, and were drawn up as complements to the sector strategies related to social development, competitiveness, regional integration, and the environment.

Projects approved in this area in 2002 included a \$28 million Modernization of the State and Decentralization Program in Peru that will redefine key institutional rules that regulate national and subnational government activities. During project preparation, the Bank assisted the Peruvian government in designing a constitutional amendment and other legal reforms that will enable the country to launch the decentralization process. A far smaller project, a \$100,000 grant from the Fund for Special Operations, will support the design of an integrated system of data collection and processing that will generate justice statistics and indicators in Latin America and the Caribbean. The operation will be carried out by the Justice Studies Center of the Americas (JSCA).

In 2002, the Bank approved 97 technical cooperation projects for reform and modernization of the state, totaling \$27.3 million. Through these projects, which include national as well as regional programs, the Bank is introducing innovative issues into its loan pipeline. The issues include public safety, civil society participation, electronic government and decentralization. These technical cooperation projects financed workshops, seminars, training sessions, publications, and other activities designed to build consensus among all relevant parties.

The year was a difficult one for the region, with the weak economy in the industrialized nations, the economic crises in South

REGIONAL SECURITY

International experts analyzed the economic, social and political impact of security issues on the development of Latin America and the Caribbean at a seminar held by the IDB and the Organization of American States in September 2002.

The seminar, entitled "Security and Development: Challenges for Latin America and the Caribbean," brought together more than 150 delegates from government, academia and civil society. Speakers underscored the need to strengthen regional cooperation in order to reduce the vulnerability of countries to risks ranging from economic crises to natural disasters, crime and terrorism. IDB President Enrique Iglesias pointed out that security, an issue with deep and complex roots, has become a key concern among citizens, and a "tax on progress" for many countries in the region. Security must be based both on democracy and development.

Countries of the region have come to recognize that security threats are a shared burden. Nonetheless, there is also a domestic dimension to the issue. Speakers agreed, for instance, that individual nations should strive to improve their justice systems in order to deal with the problems caused by crime. Many critical instruments needed to confront the challenges represented by drug trafficking, terrorism and corruption are lacking or need improvement in many countries. There was a consensus that the effort to meet these challenges must not be left solely to the armed forces or the police, but that they demand greater participation from civil society.

The seminar consisted of panel discussions on economic, social, political and diplomatic aspects of security. The first panel analyzed the volatility of Latin American economies as a source of insecurity, and proposed policies to address the problem. The panel on social issues discussed the importance of social safety networks for stability and development in the

region. The panel on political issues highlighted the role played by democratic institutions, while the panel on hemispheric security examined lessons learned from the terrorist attacks of September 11, 2001.

Towards the end of 2001, the Bank approved a MIF line of activity for \$10 million for security and safety upgrades at airports in Latin America and the Caribbean. The goal of the financing is to enhance civil aviation policies and regulatory frameworks, improve administrative services, and train personnel in charge of surveillance and enforcement of new regulations, and therefore strengthen airport security. By the end of 2002, almost all the countries of the region had applied or were in the process of applying for MIF support in this area.

In addition, the Bank convened an inter-institutional working group whose members reviewed questions related to the design and utility of terrorism insurance and its impact on infrastructure finance. Representatives of the private sector (such as insurance underwriters and contractors) as well as officials of other international and bilateral organizations (including the International Finance Corporation and the U.S. Overseas Private Investment Corporation) will continue to confer periodically on this and related topics.

In the area of natural disasters, the Bank has continued to work on various fronts, including the issue of risk management and risk transfer. A study is under way to review the impact of natural disasters on infrastructure and the incentives to mitigate that risk and obtain coverage. In mid-2002, the Bank concluded a Memorandum of Understanding with FIDES (*Federación Interamericana de Empresas de Seguros*), the Latin American association of insurance companies, to strengthen work in the industry in many countries in the region, including, in particular, transfer of risk associated with natural disasters.

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

America, and concern over regional security issues (see Box 4). However, the demand for more effective, efficient and transparent government systems has not lessened, and the Bank has continued to offer its support to its members' efforts in this task.

Competitiveness

Differences in productivity constitute the main reason for the enormous differences in per capita income throughout the world. Thus, the low productivity levels of the Latin American

countries imply a potential for growth that must be activated. The main goal of the Bank's Competitiveness Strategy, prepared during 2002, is to help improve the economic and institutional environment for private sector development and enhanced productivity. The main activities included in the strategy focus on correcting or counterbalancing defects in market activities regarding private sector competitiveness, and involve the following:

1. Policies and institutions for the efficient mobilization and use of financial and capital resources. The biggest obstacle to stronger competitiveness by private sector firms in the region is the scarcity of financial resources and the difficulty in accessing credit. This is especially true for small enterprises and independent producers. Given the Bank's experience in this area, the Competitiveness Strategy stresses that the IDB support national efforts to:

- Modernize legislation and regulations governing financial systems in order to foster competitiveness within the sector, improve efficiency in intermediation procedures, reduce and manage risks that may arise from financial service activities, and adopt non-distorting regulation and control mechanisms;

- Develop capital markets and complementary regulatory and supervisory institutions;

- Strengthen investors' property rights, especially those of small and institutional investors;

- Improve property rights related to assets such as land and housing, particularly for low-income individuals;

- Make sustainable and productive use of natural resource capital;

- Develop micro-credit systems and other alternative institutions that broaden access to credit; and

- Transform pension regimes into financially sustainable systems, including those based on individual financial capitalization schemes.

2. Policies and institutions for more efficient use of human resources. This includes education and training, hiring of labor, and negotiation.

For further information, see

<http://www.iadb.org/goto.cfm?competitiveness>

The Bank has a longstanding tradition of supporting the education and training sectors, including:

- Reforming the education sector to increase effectiveness, broaden coverage, and improve the equality of basic education systems, taking training methodologies into account;

- Reforming labor training systems to increase competitiveness, foster private sector participation, and increase the relevance of training;

- Formulating mechanisms for the training of entrepreneurs and the workforce, in order to strengthen microenterprise and small- and medium-size businesses and increase their productivity and trade opportunities; and

- Modernizing labor and collective negotiation legislation to facilitate hiring practices in the formal sectors, reduce labor costs due to unnecessary regulation, facilitate dialogue between industry and the workforce, and enforce legislation and measures protecting the workforce.

3. Policies and institutions for the supply of infrastructure services, including electricity, telecommunications, water and sanitation, roads, ports and airports. The Bank has consistently been at the forefront of efforts to support the modernization and privatization of these sectors. Thus, the Competitiveness Strategy focuses on:

- Consolidating the reform processes in privatized sectors;

- Adjusting regulatory frameworks to foster competitiveness in delivering services, promoting efficiency and modernization, and broadening both the quality and coverage of services, especially in rural and low-income areas; and

- Financing infrastructure investments, including the design and implementation of new modalities to access national and international capital markets.

4. *Policies and institutions for the assimilation and development of knowledge and new productive technologies.* In this area, essential to the competitiveness of the countries, the Bank has consistently attempted to benefit the least developed nations in particular, as well as medium-sized and small enterprise. The Strategy proposes Bank support for:

- The forecast and identification of possible deficiencies in science and technology systems;
- Strengthening science and technology institutions;
- Technical training and scientific research in those areas critical for sectors with known potential; and
- Fostering technological advances within small enterprises and low-income producers.

Social Sectors

A new Social Development Strategy was developed and delivered to the Policy and Evaluation Committee of the Board to guide the Bank's actions in social development for the next five to 10 years. The objective of the strategy is to help countries accelerate social progress by fostering human and social environments conducive to the well being of all, with special emphasis on poverty reduction and equal opportunity. The preparation of the strategy included research, consultation and consensus building. Background studies and surveys were commissioned on the region's social indicators, trends in social expenditures, and challenges for crafting sustainable social contracts.

To stress the importance of *social policy dialogue and civil participation*, a seminar led by former Chilean President Patricio Aylwin was held during the Bank's Annual Meeting in Fortaleza. The seminar emphasized the importance of identifying principal social priorities and fostering national consensus on the most effective policies for addressing them. In particular, it examined the successful 20-year experience of the Environmental Councils in Brazil. A follow-up seminar in Santiago, hosted

by ECLAC, expanded this review to include experiences from national governments (e.g., Bolivia, Honduras and Peru) and international agencies (UNDP, the World Bank and the International Institute for Democracy and Electoral Assistance, among others).

The Millennium Development Goals constitute a commitment made by all countries to achieve specific levels of human and social development by 2015 in the areas of poverty, health, education, gender, environment and trade. In cooperation with UNDP, ECLAC and the World Bank, the IDB is exploring ways to help countries in the region achieve these development targets. A joint international seminar was held in June at IDB headquarters to review the best practices of interventions aimed at reaching these goals.

The Bank approved a program focused on improving the quality of life of the *elderly* poor in Latin America and the Caribbean. A \$750,000 grant from the Japan Special Fund will strengthen organizations that support the elderly in Argentina, Chile, Peru and Uruguay, as well as improve the capability of a regional network and seven national networks to support these organizations. The resources will finance leadership courses for 2,380 elderly persons and strengthen more than 3,000 organizations that benefit older people. The Bank also published the book *Más vale por viejo*, which analyzes regional statistics and possible policy interventions.

Following the approval of the Subnational Development Strategy the year before, the Bank in 2002 approved loans totaling \$276 million in the area of *urban development*. In addition, the Bank supported the establishment of two Social Investment Funds, important tools for supporting local development, totaling \$178.4 million. The Bank continued to assist borrowing countries in reforming the housing sector to enhance efficiency and target public sector expenditures to low-income families. Loans totaling \$79.5 million benefited

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

Ecuador, Trinidad and Tobago and Nicaragua.

Sustained demand for Bank support for integrated settlement upgrading programs led to the publication of *Cities for All*, describing lessons learned from Bank-sponsored projects. The book responds to the need to transfer knowledge from successful experiences to countries in the early stages of implementing programs that are increasingly complex and decentralized. A loan to Guatemala for \$46.8 million for settlement upgrading was approved in 2002, the first of several operations being prepared for Central America.

The Bank expanded its technical cooperation activities that support rehabilitation programs for deteriorated areas and the preservation of urban heritage areas. Operations funded by the Italian, French and Spanish Trust Funds benefited projects in Brazil, Colombia, Panama and Peru. Responding to the growing interest in heritage preservation, an Italian Trust Fund grant of 2.5 million euros was established to assist local governments in preserving their cultural heritage, supporting the preservation and development of heritage assets, new heritage-based economic activities, cultural tourism, and community development.

The Bank continued to mainstream issues concerning indigenous peoples into its regular lending program. Several highway and energy infrastructure programs included comprehensive measures to mitigate and compensate indigenous communities for possible negative impacts on their lands, resources and socio-cultural conditions. Examples included the Santa Cruz-Puerto Suárez Highway project in Bolivia and the Camisea energy project in Peru. Operations involving tourism and natural resource management incorporated specific components, targeting mechanisms or design measures to ensure the participation of indigenous groups. Examples included FONCODES III in Peru, the Guatemala Upper Watershed Natural Resource Management Program, the Ecuador Northern Amazon Program, the Bolivia Sustainable Tourism Program, the Nicaragua Social Protection Program II, and

the Panama Employment and Training Program. Several of these projects that benefit ethnic minority groups are adopting an integrated participatory community development focus.

To prepare the guidelines for 2003 regarding support for indigenous groups, studies were undertaken during the year on bilingual and intercultural education at the primary level, technical and vocational and tertiary education, and the incorporation of traditional medicine in public health programs and policies. Reflecting the Bank's new strategy for the participatory and integral development of rural areas, lessons learned were systematized and incorporated into new projects designed especially for the indigenous and African-descendant populations. Progress has been made in developing an application for incorporating the interests of native populations into geographical information systems (GIS), and for land use planning, taking into consideration the different categories used by the different cultural or ethnic groups (see Box 5).

Continuing with its work on *violence prevention*, the Bank approved a \$27.9 million loan to support El Salvador's Social Peace Program, which aims to improve public safety through the prevention of crime and violence, and by involving national agencies, local governments and civil society groups. This project broadens the IDB's involvement in the field of public safety, building on previous experiences in Colombia, Jamaica and Uruguay. A \$63 million loan to Colombia will support the building and rehabilitation of social infrastructure and services in small, low-income communities that have suffered from violence and civil strife. The resources will support investments to enhance community management capacity, build public works, and improve health, education and social development in 252 municipalities of less than 10,000 inhabitants.

Technical cooperation operations were approved to support violence prevention programs in Guatemala, Honduras, Nicaragua and Chile. Other innovative programs included a

ADVANCING SOCIAL INCLUSION

Social exclusion is defined as the chronic scarcity of opportunities and lack of access to basic services, labor markets and credit; exposure to unhealthful physical conditions; and lack of recourse to adequate infrastructure and judicial and political systems.

The Bank adopted its first Action Plan for Combating Social Exclusion Due to Race or Ethnic Background in May 2001. The aim of the plan is to promote and govern Bank activities that advance the social inclusion of racial and ethnic populations in the region in Bank policies, projects and practices.

Race and ethnicity are among the most important factors in such exclusion in Latin America and the Caribbean. Because specific racial and ethnic populations are over-represented among the poor, attacking the dynamics of social exclusion in the region is critical to achieving the key Bank goals of reducing poverty and inequality and implementing sustainable development in socio-culturally appropriate ways.

The 2001 Action Plan has been an important tool in organizing and targeting the Bank's activities to address social inclusion. Accomplishments include:

- Exceeding the goal of having two new social inclusion operations in each of the Bank's Regional Departments approved in 2001;
- New and expanded technical support to national statistics institutes for data gathering and data analysis on ethnic groups;
- Development of new INDES training courses for indigenous peoples and afro-descendents, the results of which will be incorporated into the broader Bank training program and offered to all regional leaders trained by the IDB;
- Approval of an internal plan to promote diversity among Bank staff.

In June 2002, based on the results of the plan, a follow-on Action Plan was adopted, constituting a "second phase" of the IDB's efforts to advance social inclusion. The extended action plan sets specific goals to cover the June 2002-December 2003 period, and defines activities and commitments in this next phase. Identified priorities under this second plan are: (i) capacity-building, both within the Bank and in the region; (ii) knowledge-building and research to better identify and understand how to address social inclusion; and (iii) an expanded project pipeline that

tests new approaches to addressing social inclusion. New and ongoing Bank social inclusion activities include the following:

- Targeted operations. More than 15 operations directed toward afro-descendents have been approved since May 2001. More than 10 percent of IDB operations in the social sectors have had indigenous peoples as direct or indirect beneficiaries. An Inter-Departmental Technical Group on Social Inclusion has continued to work toward greater mainstreaming of social inclusion in Bank operations.
- Internal Diversity Plan. The Action Plan to Promote Diversity at the IDB was endorsed by the Board of Executive Directors in November 2001. As part of this plan, the Bank's Human Resources Department will conduct an internal census on staff demographics, including race and ethnicity, and a survey of the organizational climate for promoting, valuing and working with diversity.
- Technical Support, Research and Dissemination. A seminar entitled *Todos Contamos II*, during which mechanisms to accelerate processing and dissemination of data on ethnic groups were discussed, was held in Lima, Peru with the World Bank and the National Institute of Statistics of Peru. The Bank has also given technical support to statistics authorities in Honduras for the analysis of household survey data on afro-descendents and indigenous peoples. A book compiling key findings from diagnostic studies and data-gathering efforts carried out to identify the causes and consequences of social exclusion due to race or ethnic background will be published next year.
- New tools for project development. The Bank has developed rosters of potential consultants for work on development programs involving afro-descendents and indigenous peoples, and databases that monitor and record the development of new projects benefiting these populations. Operational guidelines on sociocultural analysis have been prepared, as has a GIS-based software tool for including sociocultural factors in land use planning, project design and targeting. Research on socioculturally appropriate indicators, which measure indigenous poverty and other aspects of human development based on local values, was commissioned and will be ready in 2003.

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

\$750,000 regional TC from the Japanese Special Fund to strengthen and evaluate school-based violence prevention programs, and a grant of \$150,000 from the United Kingdom Fund for Strengthening Local Institutions in Central America (CABILICA), which will improve local capacity for domestic violence prevention in Panama.

The Bank published *Domestic Violence: Interventions for its Prevention and Treatment*. In collaboration with ICRW and UNIFEM, the IDB produced a background study, *Making the Law Work: Analysis of Budget Allocations for Implementing Domestic Violence Law*, with data, policy suggestions and budgetary implications for the implementation of domestic violence laws approved in the region since the United Nations' Fourth World Conference on Women.

The Bank is promoting an extensive consultation process to obtain feedback from key stakeholders on *labor market issues*. This is important input for the preparation of the Social Development Strategy. Two seminars were held on labor market and employment policies, one for the Andean Region in Peru and one for the Southern Cone in Argentina. In 2002, the Bank approved an \$8.4 million loan to Panama to implement a job training and placement system that will improve employment prospects for youth and enhance worker skills in the microenterprise and small and medium-sized business sector. Child labor prevention initiatives advanced in 2002 with the support of Special Funds for European Technical Assistance in Latin America, which will raise awareness on child labor issues, with an emphasis on eliminating the worst forms of child labor, and financing and disseminating best prevention practices.

In the *health* sector, the expansion of the *Oportunidades* anti-poverty program in Mexico will improve access to basic health services and nutritional services. The program provides free food supplements to expectant and breast-feeding mothers and to infants up to two years old in order to prevent undernourishment. The program also awards cash grants to families to help them improve the quantity,

quality and variety of their diet, as long as beneficiaries go for medical consultations and attend courses on health and nutrition. The Bank also approved an urban development project for the state of Pará, in Brazil, that includes strong support to enhance health systems at the municipal level.

One of the challenges in health is to achieve an equitable, efficient and sustainable health system in federative countries like Brazil. In response to this challenge, the Bank published *El Desafío de la Descentralización: Financiamiento Público de la Salud en Brasil*, which details an agenda to improve the organization and financing of the Brazilian health system. To help Argentina in the health sector, the Bank approved a reformulation of projects in execution, to include new components that provide free generic pharmaceuticals for the poorest population. The REMEDIAR program, supported by the Bank, is a key element in the effort to provide services to Argentines living in poverty.

The Bank paid special attention to raising awareness on HIV/AIDS. A high-level seminar at the IDB Annual Meeting in Fortaleza gave policymakers an opportunity to discuss the best approaches for HIV/AIDS prevention and treatment. Norway, Finland, Denmark and Sweden supported Bank-led HIV initiatives aimed at raising awareness and implementing innovative pilot programs to prevent AIDS.

Over the course of 2002, the Bank's portfolio in *education* continued to expand into new areas. Loans were approved to enhance cultural awareness in Brazil and for sectoral reforms in the Dominican Republic and Guyana. In addition, several efforts were undertaken to increase understanding of pre-school, accreditation, certification at the university level, diversification of options at the tertiary, non-university level, and the use of technology and distance education. Other activities were launched to raise the profile of education as a regional issue. The Bank sponsored several international technical meetings to discuss the Millennium Development Goals in education across the region, the promotion

of regional public goods in education (such as educational software), and the use of educational assessment and evaluation. Best practice papers were prepared and disseminated on the topics of private education and public policy, preschool, and the state of education reforms throughout the region. Five books were published on topics ranging from teachers' careers and incentives, to the applicability of the community college model to the region, private education, secondary education, and a comparison between innovation and performance in Asia and Latin America.

A technical cooperation was approved to carry out studies on the education of girls in Argentina, Bolivia, Guatemala and Peru. The studies will produce information to assist policymakers in developing new policies and strategies to improve girls' education at the primary level, as well as to improve the relevance of secondary education to the labor markets.

In 2002, the **Inter-American Institute for Social Development (INDES)** expanded and diversified its training activities in social policy design and social program management for professionals from diverse governmental and nongovernmental organizations.

Some 300 persons were trained in 16 regional events, including the four-week core INDES courses, seminars for parliamentarians, youth leaders, journalists, and directors of social investment funds, as well as training for Latin Americans of Asian and African descent. A distance training course on hospital management and a seminar in Japan on citizen participation were also held. National programs in Nicaragua, the Dominican Republic, and Honduras trained almost 1,000 participants in a variety of social management skills.

INDES also strengthened a network with Latin American university centers engaged in training social managers to discuss technical issues and course content and coordinate activities to ensure the sustainability of training programs. The Institute is also implementing innovative technology-based strategies for training, such as web-based video transmission and communication via Internet.

In activities related to *gender*, studies were coordinated as part of the preparation of the Social Development Strategy to identify challenges for afro-descendent and indigenous women. To support the strengthening of competencies to analyze gender issues both internally and externally, the *Gender Analysis Training Facilitator's Manual* was published. The manual draws on Bank experience with gender training and will be disseminated throughout the region. Follow-up activities with the participants of the "training of trainers" course provided technical support to trainers replicating courses nationally. Courses were given in Ecuador, Bolivia and Nicaragua.

Within the Program to Support Women's Leadership and Representation (PROLEAD), the Sustainable Development Department met with the Indigenous Initiative for Peace and the Rigoberta Menchú Foundation to develop a plan of action for the *Summit of Indigenous Women of the Americas*, held in Oaxaca. INDES offered a course in Managua on "Democratic Values for Central American Young Women Leaders" in collaboration with the OAS. Technical cooperation funds were used to support civil society initiatives geared to strengthen women's political leadership and contributions to democratic governance in the Andean Region.

Integration

Support for integration, one of the four pillars of the Bank's Institutional Strategy, was evident in the preparation of a strategy document, in participation in various subregional, hemispheric and extra-regional initiatives, and in a concerted program of technical assistance operations.

The momentum of regional integration remained strong throughout 2002 as subregional, hemispheric and extra-regional initiatives advanced steadily. Negotiations for the Free Trade Area of the Americas (FTAA), the

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

THE NEW REGIONALISM IN THE AMERICAS

Since independence, regional integration has repeatedly emerged in one form or another on the agendas of Latin American and Caribbean countries. Initiatives have varied in terms of their objectives, ranging from monumental political unions to simple agreements for the free trade of goods. However, regional initiatives have repeatedly fallen victim to factors such as political and military conflict, skewed distribution of benefits among partners, inappropriate design and implementation, macroeconomic instability and economic crisis, or the physical obstacles of nature.

After the disappointing performance of the early post-war economic integration initiatives, the near collapse of regional trade during the crisis of the 1980s, and the shift to a more open market-based development strategy, regional economic integration appeared to have become a relic of the past. To the surprise of many, however, integration initiatives reappeared in the 1990s and in new robust forms.

The "new regionalism" of the 1990s emerged as an integral component of the structural reform process in Latin America, complementing and reinforcing the modernizing policies pursued unilaterally and adopted as part of the region's participation in the multilateral liberalization emerging from the Uruguay Round. It has emerged as a result of more favorable conditions on different fronts. The move to more external openness and market-based activity has unleashed new trade and investment opportunities with the world and provided incentives for new regional approaches to commercial relations. Democracy has helped to pacify borders and

increased the disposition to cooperate and integrate with other countries, including the industrialized democracies of the North that also are increasingly looking South for regional partners. Meanwhile, the launch in Doha of new World Trade Organization (WTO) negotiations promises that regional initiatives will be accompanied by stronger multilateral rules. In this new setting, regional integration can create an enabling environment for furthering reforms, encouraging productive transformations and fostering the cooperation that will more readily generate net benefits for all countries.

During the 1990s, regional integration made progress on several fronts. Market access for goods traded within the subregions has been substantially liberalized. Functional cooperation in areas such as regional infrastructure, security and protection of democracy are also without historical precedent. Moreover, regional economic integration and cooperation with Northern industrialized countries—politically inconceivable only 15 years ago—is now advancing on multiple fronts that encompass the major regional markets of the world.

Yet many challenges remain. Parallel initiatives for deepening integration in the subregions, widening the scope of subregional accords to include integration with industrialized countries, and creating synergies with the multilateral negotiations in Geneva raise important strategic issues for the countries of Latin America and their potential industrialized country partners. Efforts will be redoubled to move existing subregional agreements that enjoy political lead-

most ambitious integration project ever undertaken in the Western Hemisphere, are on course for completion by the end of 2004. The seventh meeting of hemispheric trade ministers in Ecuador in November was an important step forward. A second draft treaty was agreed upon and the United States and Brazil assumed the joint chair of the negotiations. All 34 participating countries approved a timetable for completion of the talks by the deadline and decided that initial offers of proposed tariff reductions should be presented by

mid-February 2003. They also agreed to set up a Hemispheric Cooperation Program to support capacity-building that will help Latin American and Caribbean countries engage in negotiations, implement the agreement, and confront the adjustments that will be required (see Box 6).

The **Andean Community** continued to complete its free trade area as Peru made further progress on its tariff liberalization program for trading with the other members of the group. Peru's full integration into the free

ership and economic relevance toward their common market objectives. In the absence of these conditions, other more limited but still valuable alternatives, such as preserving and perfecting free trade areas, should be considered. At the same time, the region should exploit new opportunities to support structural reform and development by integrating with major industrialized regions, and with the world as a whole under the umbrella of the Doha Development Agenda. In pursuing these goals, countries need to take into account the increased demand for participation on the part of civil society, and develop mechanisms to ensure that the fruits of regionalism, and the globalization of which it is part, are more equally distributed. Meanwhile, industrialized countries have a responsibility to provide market access to overly protected sectors where Latin American producers have a comparative advantage, facilitate sustainable agreements by supporting trade-related capacity-building, and recognize the special problems that smaller economies encounter in regional and multilateral liberalization.

Since its founding, the Inter-American Development Bank has been, in the words of its first President Felipe Herrera, the "Integration Bank." That vocation remains strong today. It is expressed in the Bank's Institutional Strategy, where regional integration is one of the four central pillars for achieving the goals of sustainable economic growth and poverty reduction. Integration clearly can contribute to the overarching objective of development.

Beyond Borders, the 2002 edition of the Economic and Social Progress Report, explores the emergence of this "new regionalism." It examines the advances and shortcomings of the process of regional integration and proposes an agenda for the region by focusing on the interaction between current sub-regional integration schemes, the new agenda launched in Doha for multilateral trade talks, North-South initiatives such as the FTAA, and inter-regional agreements with the European Union or Asia.

The first part of the report focuses on different dimensions of regional integration. While integration in trade and related market access issues have been the object of much attention, the report looks at other dimensions that may be equally important: the institutional requirements that are crucial for the smooth functioning of regional integration agreements, financial integration, and the integration of physical infrastructure. In each of these dimensions, the focus is on how much has been achieved, what are the main effects, and what remains to be done. Part Two of the report discusses issues of macroeconomic coordination, with particular emphasis on the coordination of exchange rate policies and the scope for the formation of currency unions. Special attention is given to the problems that may arise among partners in regional trade agreements when they follow divergent exchange rate policies.

Part Three focuses on the effects of regional integration on productivity, inequality and foreign direct investment.

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

trade area is envisaged for 2005, when the member states have agreed to establish a common market. A Presidential Summit in January 2002 marked an advance in that direction when the heads of state agreed to adopt a common agricultural policy, further harmonize macroeconomic policies, and fully apply the Community's new common external tariff (CET) by the end of December 2003.

The integration process in the **Caribbean Community (CARICOM)** widened and deepened in 2002. Haiti became the

Community's fifteenth full member in July, while Bermuda and the Cayman Islands acceded as associate members. The member states are modifying CARICOM's constitutive treaty with a view to completing the Caribbean Single Market and Economy (CSME), which entails the removal of all obstacles to intra-regional trade, the free movement of skilled workers and capital, a CET and common trade policy, and greater coordination in other areas of economic policy. Intra-regional goods trade is virtually free: all tariff restric-

tions and most unauthorized quantitative restrictions have been removed, and the CET is being applied in 10 member states. The CSME process advanced substantially at a meeting of the heads of government in February, when the member states agreed on programs for the elimination of restrictions on the right of establishment, services supply and capital flows. The programs became effective in March 2002.

In February 2002 the presidents of the countries of Central America met with the express purpose of reinforcing integration in the **Central American Common Market (CACM)**. They instructed their ministers to make further efforts to establish the free trade area and complete the customs union, and agreed to create a flexible dispute settlement mechanism. They also decided to negotiate a free trade accord with the United States. It is envisaged that the agreement, which the Central American countries will negotiate as a group, will be concluded during 2003. In March, the presidents adopted an Action Plan for Economic Integration, which fixed a series of deadlines for completing negotiations on issues such as common standards, tariff harmonization, removal of the remaining obstacles to intra-subregional trade, and streamlining customs procedures. The customs union should be completed by 2003. Much progress has been made at border crossings, with El Salvador, Honduras and Guatemala having already set up joint customs facilities.

The integration process in **MERCOSUR** has faced substantial difficulties in recent years. Economic conditions in Argentina have spurred a contraction in trade among member countries, while the greater competitiveness of Argentine exports—the result of the sharp devaluation of the currency—has prompted other members to introduce protective measures. Convergence of the CET has stalled and in some cases reversed. Nonetheless, some positive developments have been evident. Despite the current difficulties, at the Presidential Summit in July the heads of state called for further work on macroeconomic policy coordi-

nation and decided to begin transforming **MERCOSUR's** Administrative Secretariat into a full Technical Secretariat. Later, a decision was made to facilitate immigration among **MERCOSUR** partners, including associate members Chile and Bolivia.

In terms of Bank operations, regional technical cooperation in the Andean Community during 2002 centered on the possible harmonization of customs regimes and indirect taxation. One project will support the Andean countries in their efforts to promote exports and attract investment by evaluating the effectiveness of special customs regimes in each country, and by proposing a means of harmonizing those regimes among all member states. Another operation analyzes the Andean countries' policies on taxation, including the value-added tax, and defines policy options. The aim is to harmonize and improve the climate for business and investment in the context of greater trade liberalization.

IDB support for the **CARICOM** integration process advanced throughout the year on various fronts. One operation approved in 2002 will provide further backing for **CARICOM's** Regional Negotiating Machinery (RNM) in preparing for and conducting the subregion's external trade negotiations. The program will assist regional negotiators in specific areas of trade negotiations and facilitate the deliberations of the Technical Working Groups. This operation complements a number of current projects designed to support the completion of the CSME and the deepening of integration in areas such as the harmonization of investment and government procurement frameworks, finalizing the subregional CET, compliance with WTO commitments, and the creation of the Caribbean Court of Justice.

Tax reform was also an important part of the Bank's regional technical cooperation for Central America. One program supports the countries of the subregion, Belize, and the Dominican Republic in assessing their tax policy regimes in the light of greater trade liberalization, and in defining tax policy options to maintain and increase public revenue. The

THE FOLLOW-UP TO THE SUMMIT OF THE AMERICAS

During 2002, many activities, programs and projects contributed to meeting the goals of the Action Plan of the 2001 Summit of the Americas. In particular, a series of strategic programs that the Bank presented at the Quebec Summit in public governance and political development, integration and economic development, ecology and sustainable development, equity and social development, and connectivity and technological development were advanced during the year. The Bank presented two reports to the Summit Implementation Review Group (SIRG) describing the many activities to fulfill the mandates.

As an example, to fulfill the mandates that fall under the headings "Making Democracy Work Better" and "Justice, Rule of Law and Security of the Individual," the Bank approved several major loans and technical cooperation operations. Activities have also been initiated to combat money laundering, for

electoral and political reform, and to promote a civic democratic culture. Strategic programs underway in 2002 included support for the Hemispheric Network of Legislative Information, which assists the countries of the region in connecting to the Global Legislative Information Network; the Program for the Support of Democratic Governance, which includes national and regional actions to promote institutional and democratic development; the Program to Train Young Democratic Leaders, whose aim is to instill democratic values and respect for human rights in the region's youth; the Program to Support the Justice Studies Center for the Americas, a regional network for the exchange of experiences in judicial reform; and the Violence Prevention Program, which provides financing and technical assistance for activities to reduce and prevent violence.

Multilateral Investment Fund (MIF) is also supporting integration in Central America. One MIF project will facilitate trade in agricultural goods in the isthmus by contributing to the design and implementation of a regional system for applying sanitary and phytosanitary measures, strengthening coordination between the agencies active in this field, and promoting food safety. Another MIF operation aims to boost trade in Central America and reduce the costs of transporting goods by creating a computerized systems for monitoring international goods transit and a common procedure for border posts. Additionally, the Bank remained active in providing technical and logistical support to the Puebla-Panama Plan, which involves the Central American countries, Mexico, Panama and Belize. In this endeavor, the IDB is collaborating with the Central American Bank for Economic Integration (CABEI) and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), with a view to coordinating and financing regional projects in sustain-

able development, human development, energy inter-connection, trade facilitation, the prevention and mitigation of disasters, and the integration of roads and telecommunications systems.

Regarding MERCOSUR, the Bank is aiming to deepen integration with a project that will complete the norms for a regulation on protection against dumping from non-MERCOSUR countries, and which will transfer expertise from the North American Free Trade Agreement (NAFTA) on the application of such instruments. In South America generally, work continued on the Initiative for the Integration of Regional Infrastructure in South America (IIRSA). In collaboration with the Andean Development Corporation (CAF) and the Financial Fund for the Development of the River Plate Basin (FONPLATA), the IDB is providing technical and logistical support to this 12-country initiative to coordinate and finance regional infrastructure projects in transport, telecommunications and energy. The IDB's Institute for the Integration of Latin

America and the Caribbean (INTAL) serves as the site for the IIRSA Secretariat.

As a member of the Tripartite Committee, along with ECLAC and the OAS, the Bank provides substantial technical support to FTAA negotiating groups and committees in the areas of market access, agriculture, government procurement, investment, institutional issues, smaller economies, civil society, and the administrative budget committee. The Bank is also supporting the development of a Hemispheric Cooperation Program and the exploration of more efficient hemispheric mechanisms to deliver trade-related technical assistance. Additionally, the IDB provides technical and financial support to the FTAA Secretariat, and has designed and maintains the Hemispheric Database on Trade and Tariffs.

Trade and integration is one of the seven areas in which the Bank has established a Regional Policy Dialogue among vice-ministers to promote best practices, facilitate regional cooperation, and support integration processes. Meetings are held twice a year; five have been held thus far, including two in 2002. The last meeting, in September, addressed the implications for the FTAA of the WTO negotiations on agriculture and services, consultation with civil society in trade negotiations, and the fiscal implications of trade liberalization.

Finally, in 2002 the Bank instituted a three-year Special Initiative on Trade and Integration. This is designed to help countries prepare for deepening subregional integration, as well as to negotiate and implement trade agreements, including those being pursued in the FTAA process, and with the European Union and the WTO. In 2002, the special initiative gave rise to a wide range of projects offering direct support to governments in trade-related capacity-building, as well as a series of conferences, workshops, official meetings and studies to support integration in Latin America and the Caribbean.

In 2002, the Bank's **Institute for the Integration of Latin America and the**

Caribbean (INTAL) intensified its efforts to strengthen the institutional capacity of governments in the region to meet challenges in the negotiation of trade and integration agreements at the bilateral, subregional, hemispheric, interregional and multilateral levels.

Under an expanded Memorandum of Understanding signed in 2002 by the IDB and WTO, INTAL increased the number and variety of training workshops for trade negotiators addressing specific issues of the Doha Development Agenda and their relevance for ongoing subregional and hemispheric integration processes. These capacity-building efforts are serving as a potential model for other regional and multilateral organizations in other parts of the world.

Policy research supported by INTAL in 2002 focused on trade and direct foreign investment. A second round of the REDINT integration research network directed at foreign direct investment was initiated with research centers in Latin America and the Caribbean. Toward the end of the year, the Bank launched a new Euro-Latin American Research Network on Integration and Trade with the incorporation of three European Research Centers into the network's Steering Committee. Public outreach activities included numerous publications, databases, the INTAL Documentation Center, policy fora, and special events. INTAL also supported a joint project between the IDB, the Inter-American Dialogue, and the University of Toronto to help strengthen governments' capacity to consult with civil society in the formulation and execution of trade policy. At the end of the year, INTAL sponsored a conference with Harvard University on the impacts and policy implications of the FTAA.

The Environment

Bank activities in 2002 in the area of the environment and natural resources management included the development of strategic and policy initiatives, the Bank's participation in the World Summit on Sustainable Development,

and several innovative loan operations prepared by the Regional Operations Departments. Throughout the year, efforts were made to prepare the Bank's Environment Strategy, including a broad consultation process and policy dialogues. The strategy will be presented to the Board in 2003. The Bank's role during the past ten years, as well as the strategic vision for the future, are reflected in the document *Facing the Challenges of Sustainable Development: The IDB and the Environment 1992-2002*, which was distributed at the Johannesburg World Summit on Sustainable Development. The Bank committed to continuing to support the principles of sustainable development set forth at the summit.

Among the innovative operations in natural resources management, environmental protection and regional sustainable development were the Sustainable Development Program of the Northern Amazon Border Zone of Ecuador, an especially fragile and conflicted area of the country; the Sustainable Development Program of Bocas del Toro Province in Panama, which focuses on strengthening local governance to promote proper management of natural resources; and the Bay Islands Environmental Management Program in Honduras, a loan that will integrate environmental objectives directly into local economic policy for this critical area. A statewide approach to the sustainable development of the state of Acre was initiated with a loan to Brazil. In Bolivia, the Program for Sustainable Tourism Development seeks new approaches to eco-tourism. In the critical area of water and sanitation, the Bank has moved forward with a poverty-targeted program to provide services to small rural population centers in Venezuela. The Bank's capacity to innovate in the water sector has been greatly enhanced by the newly established IDB/Netherlands Water Partnership.

In addition, the Bank continued advancing in the area of regional policy dialogues on the environment and on risk management for natural disasters. Several risk management instruments were analyzed as a response to a

For further information, see

<http://www.iadb.org/goto.cfm?environment>

mandate given to the Bank at the Quebec Summit of 2001. Important regional technical cooperation projects with funding from the Japanese government were approved to improve disaster-related information and indicators, and to reduce desertification. The first IDB loans were approved through the new Disaster Prevention Sector Facility. The Bank carried out an evaluation and initiated a redesign of the Emergency Reconstruction Facility to include "non-natural, non-market related" disasters, based on the recommendations of the Board of Governors (see Box 8).

The Bank continued to strengthen its internal environmental and social review process through the Committee on Environment and Social Impact (CESI). The year marked a significant turning point for CESI, with the revision of the requirements and procedures to facilitate improved environmental mainstreaming.

Private Sector

The Bank's private sector activities in 2002 were affected by the general decline in investments by foreign sponsors in the region due to the Argentina debt default and other factors that slowed economic growth in many countries. In addition to continuing its support for basic infrastructure projects in the region, the Private Sector Department also increased its commitment to the development of local capital markets. The Bank also approved its first local currency mortgage-backed security (Colpatria, in Colombia, see Box 1) and undertook a number of initiatives that should pay off in the coming years by expanding access to financial instruments, increasing liquidity, and creating new financing tools in Ecuador, Peru and Venezuela, in the relatively stable and developed market of Chile, and in the large economies of Brazil and Mexico. The Bank is committed to enhancing the capacity of local capital markets to finance developmental needs

RECONSTRUCTION OF THE COFFEE-GROWING REGION IN COLOMBIA

It was the most destructive natural disaster in Colombia's history. On January 25, 1999, two earthquakes, measuring 6.2 and 5.8 on the Richter Scale, destroyed more than 100,000 buildings in 28 municipalities in the heart of Colombia's economically strategic coffee-producing region, killing 1,185 persons and leaving more than 550,000 homeless in a 1,360-square-kilometer mountainous region that lies between the Pacific Ocean and Bogota.

The shock of the disaster, which had an economic cost estimated at 2.2 percent of Colombia's gross domestic product, was made even worse by the fact that it came during a period of economic recession.

Thanks to the extraordinary efforts of the government and people of Colombia, and aided in part by the redirection of several prior IDB loans in a new package channeled to the *Fondo para la Reconstrucción y Desarrollo Social del Eje Cafetero*, FOREC (Fund for the Reconstruction and Social Development of the Coffee-Growing Region), recovery has been better than it otherwise might have been.

Homes belonging to some 130,000 families have been repaired or rebuilt. Another 16,700 new homes have been built for persons who had previously rented property in areas at high risk of seismic damage. These families were relocated and given permanent titles to new homes, creating a new class of low-income homeowners. Some 649 schools and 52 health centers were repaired or rebuilt in the 28 affected municipalities.

Although the official goal of reconstruction was to rebuild infrastructure that was damaged or destroyed, in some instances the region ended up better off after the earthquake than before. Armenia, a city of 300,000 inhabitants that was 60 percent destroyed in the quake, now has a gleaming new sky-

line, a new airport, a new police station, a new administrative center, and new hotels. Several new schools were concentrated in one area called the *Ciudadela Educativa del Sur*, as part of an administrative reorganization that had been previously contemplated but was suddenly made a reality during the reconstruction process. Perhaps most remarkably, all this was accomplished in just three-and-a-half years.

How did the government do it? Ironically, the answer is that the government did not directly do it. Convinced that traditional bureaucratic channels would be too slow and inefficient, Colombian authorities devised a plan to mobilize nongovernmental organizations and put them in charge of the relief and reconstruction efforts.

The government selected 28 universities, cooperatives, civic groups and professional associations to administer the 32 operational zones set up for the reconstruction program. These NGOs were responsible for identifying recovery projects and families that needed relocation and new homes. They were also in charge of applying proper administrative practices, mechanisms for participation of the affected population in the reconstruction process, and environmental safeguards. Finally, the NGOs called for competitive bids from construction firms that were subsequently awarded contracts to do the actual construction.

The government's role was confined to providing overall supervision to the process and assigning resources from FOREC. Only 120 government officials were permanently assigned to the reconstruction program. In keeping with the goal of limiting bureaucratic intervention, the government officially dissolved FOREC in July 2002, declaring that it had completed its mission.

with local currency, thereby eliminating one of the greatest risk factors faced by lenders and investors in long-term projects in the region, that of foreign currency devaluation.

The current downturn in economic activity has resulted in a substantial drop in interna-

tional trade in the region, as traditional sources of trade finance have withdrawn. In response, Management in 2002 proposed the creation of an International Trade Finance Reactivation program. The initiative would expand the Bank's mandate to finance international trade-

related activities through the private sector, without government guarantees, for a period of two years. At year's end, the measure was forwarded by the Board of Executive Directors to the Board of Governors for the latter's consideration in early 2003. Under the initiative, the Bank would be able to provide A/B loans to financial institutions for the financing of imports and exports and to apply its various guarantee capabilities to confirm letters of credit and back the issuance of other instruments supporting trade finance.

In 2002, the Bank approved five loans and two guarantees to the private sector to provide basic infrastructure and to support other activities. Loans in Bolivia will help finance construction of a state-of-the-art nationwide telecommunications network and expansion of the country's natural gas pipeline network. In Uruguay, a private sector loan will facilitate construction of a port to serve the forest industry, servicing bulk cargo and agricultural exports aimed primarily at European markets. In Honduras, an expansion of the potable water supply and improved sewerage service in San Pedro Sula will be financed through an investment program to a privately owned concessionaire. Participation in an investment program for two electricity distribution companies in Guatemala will improve the quality and reliability of electricity service. A political risk guarantee in the Dominican Republic will enhance the issuance of project bonds to finance six airports. For Colombia, the Bank approved a partial risk guarantee for the issuance of five-, seven- and ten-year bonds to fund mortgage lending in the local housing market.

Throughout the year the Bank continued to support private sector development through publications, workshops and conferences aimed at disseminating best practices and policies and strategies to guide Bank action in the sector. Four major research projects were completed, leading to the publication of *Capital Market Development: A New Focus; Competition Policy in Regulated Industries: Approaches for Emerging Economies*; and *Entrepreneurship in*

For further information, see

<http://www.iadb.org/goto.cfm?privatesect>

Emerging Economies: The Creation and Development of New Firms in Latin America and East Asia. The Sustainable Development Department also coordinated preparation of three handbooks on regulation and supervision of microfinance institutions; reduction of the impact of natural disasters on microfinance institutions; and guidelines for analysis of housing markets.

Two major conferences for the private sector were organized by the Bank, the "Americas Conference on Corporate Social Responsibility" (see Box 9) and the "Fifth Forum on Microenterprise" (see Box 10).

The conferences and workshops held during 2002 included programs on Sustainability of Reform in the Electric Sector; a Program of Transnational Projects, organized to establish criteria for screening, governance and financing of cross-border projects; a workshop on the development of bond markets in Latin America and the Caribbean; a meeting on Access to Financing by Small and Medium-size Enterprises (SMEs) to discuss obstacles these companies face in accessing long-term finance; and an event focused on a Line of Activity for the Strengthening of Microfinance Institutions to discuss lessons learned and the impact evaluation of projects funded by the Multilateral Investment Fund in this area since 1998.

A financial intermediation policy was prepared and sent forward to the Board of Executive Directors for review. Also during 2002, the Private Sector Coordination Committee was formalized as a permanent committee of the IDB Group (including the IDB, IIC and MIF) in order to enhance its effectiveness as a tool to support concerted actions in support of the private sector.

Multilateral Investment Fund

The Multilateral Investment Fund (MIF) is the major source of technical assistance grants

CORPORATE SOCIAL RESPONSIBILITY

The Americas Conference on Corporate Social Responsibility (CSR Americas) took place in September 2002 in Miami. The conference was organized by the IDB with the support of the World Bank and the Organization of American States, and with sponsorship by the Government of Canada and the Inter-American Foundation.

The conference brought together some 500 professionals from 30 countries, including representatives from governments, civil society and the business community, to engage in a dialogue on corporate social responsibility in the Western Hemisphere. The aim was to raise awareness of key issues and discuss ways to promote the development, adoption and implementation by the business community of principles of good conduct that will advance corporate social and environmental responsibility.

The overall theme for the conference—"alliances for development"—emphasized the need for the three sectors (business, government and civil society) to work together towards the integrated improvement of communities and the environment, and to complement each other's capacities to address and overcome societal challenges. CSR Americas sought to involve medium-sized companies, in particular, by creating a forum in which they could

interact, exchange views, share experiences and build trust with representatives of the other sectors.

Participants had the opportunity to listen to representatives from large and medium-sized companies, governments, academia, multilateral organizations and civil society organizations from throughout the Americas. The conference showcased CSR business practices of multinational and local companies and highlighted successful cases of how larger businesses have incorporated CSR strategies and reached the "triple bottom line" by obtaining business and social benefits and addressing environmental concerns. Session themes included Examples of Successful Partnerships; Demand Side: Investors and Consumers; Creating an Enabling Environment for CSR; Role of the Media; Role of Accountability Institutions; and the Role of Supranational Institutions.

CSR Americas was the first hemispheric initiative to bring together leaders from throughout the Americas, as well as a diverse audience from the three sectors, to discuss corporate social responsibility in a single event. Bank officials hope that the concept of CSR is something that they will be able to explore and formally incorporate into Bank Group activities in the near future.

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

for micro and small business development in Latin America and the Caribbean and has become a key mechanism of the IDB Group in promoting inclusive economic growth. It was established in 1993 as a special mechanism to help countries of Latin America and the Caribbean bridge the gap between the theory and the realities of transition to a global market economy.

The MIF's technical assistance and investment projects test new development approaches and reach out to involve a broader spectrum of populations in the development process. Over 75 percent of its grant initiatives, which average between \$1 million and \$1.5 million, are with partners new to the

IDB. The MIF's goal is to improve economic prospects for those less equipped to benefit from market reforms, focusing on micro and small businesses, building worker skills, and helping markets work better. The significant majority of MIF grant financing has been targeted to the smaller and less developed countries in the region.

In addition, through its investment program, (one quarter of the total portfolio), the MIF is pioneering the use of equity as a development tool for micro and small business.

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

MICROENTERPRISE FORUM

The IDB's Fifth Inter-American Forum on Microenterprise focused on how countries in the region can create favorable political, economic and financial environments to foster the development of microenterprise and micro-finance. The microenterprise sector generates nearly half the jobs in Latin America and the Caribbean.

The three-day meeting, held in September 2002 in Rio de Janeiro, was organized by the Bank and co-sponsored by Brazil's *Banco Nacional de Desenvolvimento Econômico e Social (BNDES)*, *Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (SEBRAE)* and *Banco do Nordeste*.

The forum brought together more than 1,000 delegates from nongovernmental organizations, commercial banks, credit cooperatives, community groups, consulting firms, philanthropic foundations, investment funds, bilateral and multilateral institutions and government agencies from Latin America and the Caribbean as well as other parts of the world. As in past years, the gathering provided an opportunity for public and private sector organizations that are interested and active in the development of the microenterprise sector to share experiences and gather information on the latest developments in financial and nonfinancial services. The event also afforded an occasion to share best practices in policy and regulatory and institutional

frameworks conducive to microenterprise and small business development in the region.

The event had three plenary sessions and 30 workshops. Topics included New Developments in Microfinance Regulation; Savings Alternatives for Microfinance; Assessing Government Programs for Micro and Small Enterprises; Simplified Business Tax Regimes; Linking Microfinance to Capital Markets; Incorporating Microenterprises in Local Development Initiatives; E-business; Facing Globalization: How Micro and Small Enterprises Can Begin to Export; and Stages and Challenges of Microfinance Development.

As part of the forum, IDB President Enrique V. Iglesias awarded the Bank's annual prizes to institutions and people who stood out for their support for the region's microenterprise and community development. Peru's *Caja Municipal de Ahorro y Crédito de Arequipa* won the Award for Excellence in Microfinance for Regulated Institutions. Nicaragua's *Fundación para el Apoyo a la Microempresa (FAMA)* won the Award for Excellence in Microfinance for Non-Regulated Institutions. The Brazilian NGO *Visão Mundial* won the Award for Excellence in Business Development Services. Oded Grajew, president and founder of the *Instituto Ethos de Responsabilidade Social do Brasil*, won the Social Entrepreneurship Award.

The next Inter-American Forum on Microenterprise will be held in 2003 in Guatemala.

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

By the end of 2002, the MIF had approved over 500 projects with a commitment of almost \$800 million. Combined with the counterpart financing from its partners, this has directed over \$1.5 billion in technical assistance and investment projects to develop the private sector throughout the region. Projects are building the capabilities and skills standards of the workforce, broadening the economic participation of smaller enterprises, and strengthening the business environment.

During 2002, 65 projects and two special programs were approved by the MIF Donors

Committee, for a total of \$98.6 million. Of these approvals, 22 were via short procedure (financing under \$500,000). This increase is mainly due to a greater volume of projects under the MIF Lines of Activity facility.

The year's approvals included seven new investment funds totaling \$36.5 million. As in recent years, investment projects comprise about one-third of the total approved amount of MIF resources.

Excluding the investment funds and the Lines of Activity, MIF financing per project averaged \$1.3 million in 2002. Local counter-

parts during the year accounted for \$102 million, meaning that on average, MIF partners are contributing 53 percent of the total project cost.

The MIF's "project cluster" approach to project development and implementation helps ensure a strategic focus in an operational sense for promising development approaches. Projects are launched according to a strategy that is presented to the Donors Committee for information and discussion, and then specific projects are developed for Donors Committee approval. The special feature of this approach is that these projects are treated as members of a group throughout the project cycle—from identification to evaluation—enabling better support during implementation and increasing the effectiveness of lessons learned.

During 2002, five new clusters were launched, bringing the total number of project clusters to eight. Cluster topics are identified based on demand from the region, and on the experience gained with promising pilot initiatives. Clusters currently in implementation are quality and environmental management; clean production standards for small business; remittances as a development tool; reduction of regulatory burdens on small business; facilitating international trade and investment; small business networks and supply chains; accounting and auditing standards; and information and communications technology.

Remittances play a key social and economic role in many countries of the region, with the total amount transferred over the next decade projected to reach \$300 billion, an amount far outstripping the flows of official development assistance. Remittances equal one-third of the region's foreign direct investment and account for at least 10 percent of GDP in five countries. Over the past year, the MIF held a series of conferences in Washington, DC, El Salvador, the Dominican Republic, Jamaica, and Japan to raise awareness of the development potential of these flows. The MIF also supported research to deepen understanding of the dynamics of this important issue, and approved three projects to test

innovative models to reduce transmittal costs and explore alternatives for channeling a portion of these flows into productive investments.

Learning from project experience is a central MIF objective. Every project has funds allocated for evaluation, and there is an active program of ongoing information exchange. Each project cluster has a specific plan to facilitate the exchange of ongoing experiences among executing agencies, and as projects move through implementation, events are organized to support information sharing and identify good practices. Over the past year, the IDB Office of Oversight and Evaluation undertook a special independent evaluation of over 130 MIF projects in financial reform, capital market development, alternative dispute resolution (ADR) and microfinance. The study found that MIF projects have addressed important private sector development issues, introducing new concepts and enabling reforms that otherwise would not have happened. In the area of microfinance and ADR, the findings make it clear that MIF interventions were central to the progress achieved in the region.

Inter-American Investment Corporation

The Inter-American Investment Corporation (IIC) began operations in 1989. As an affiliate of the IDB, the IIC promotes the economic development of its 26 Latin American and Caribbean member countries by providing financing for small and medium-size private enterprises in the region. In all, the IIC has 41 member countries.

The IIC is unique among development finance organizations in its exclusive focus on small and medium-size companies. The IIC provides financing to companies that lack access to other suitable sources of equity capital or long-term loans. It lends to and invests

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

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

In 2002, the IIC approved \$123.3 million for 20 direct loan and equity transactions. Indirect transactions totaled \$28.8 million. Exemplary projects included a loan to *Exportadora Subsole, S. A.*, a Chilean company, to achieve a multiplier effect by providing 100 small fruit growers with new technology, advice on agricultural and business matters, and, for some, financing for planting or harvesting their crops. A second operation, a loan to UNIVA (the *Instituto Superior Autónomo de Occidente, A. C.*) a Mexican educational institution, underscores the IIC's role as lender of last resort. By providing long-term funding on appropriate terms to a sector—education—in which private banking in the region has historically shown little interest, the Corporation is filling an important niche and helping to bring needed services and infrastructure to students in the cities of Puerto Vallarta, Lagos and León.

Portfolio Management

The Bank intensified efforts in 2002 to respond to the difficult challenges faced by borrowing member countries. Factors beyond the project level, including worsening macroeconomic and fiscal environments, coupled with elections and shifts in governments in many countries, often resulted in changes in national priorities. Some countries experienced a reduction in the availability of counterpart resources needed to execute projects, as they tightened fiscal and monetary policies to maintain macroeconomic stability. Weaknesses

For further information, see

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

in legal and regulatory frameworks also affected the timely enactment of reforms in key sectors. Limitations in institutional capacity throughout the region continued to be a major bottleneck in project implementation. These weaknesses were manifested in limited absorptive capacity of borrowers, high levels of staff turnover, and overload in executing agencies.

Against this backdrop, the Bank heightened actions to enhance the quality of its interventions by further refining products and applying lessons learned from operational experiences. Support to borrowers in the achievement of better results was given priority in efforts to improve the effectiveness of both lending and non-financial activities. While substantial progress has been made in the area of portfolio management, the Bank has identified a number of areas that require greater attention by Management, and will be addressed in a corporate Portfolio Improvement Action Plan aimed at consolidating and achieving further gains in portfolio quality.

The Bank's Annual Report on Projects in Execution (ARPE) summarizes information on the performance of the Bank's lending portfolio, discusses trends and challenges in the region, reports on activities carried out by the Bank to address issues affecting the portfolio, and provides recommendations for future actions. Key issues, initiatives and recommendations of the report are placed within the context of the Bank's overall efforts to strengthen a results-based focus in its strategies, products and systems to enhance the development effectiveness of its interventions. As of December 31, 2001, the Bank's active portfolio included 537 projects representing a total commitment of \$40.9 billion. Investment projects continued to represent the Bank's primary lending modality with 86 percent of commitments, followed by policy-based loans and private sector operations with 10 and 4 percent, respectively.

In terms of sector composition of the portfolio, the report noted that 49 percent of commitments as of the end of 2001 were dedicated to the social sectors, in keeping with Eighth Replenishment mandates, followed by projects in the infrastructure, reform and modernization of the state and productive sectors. Private sector lending continued to increase as spending in public sector infrastructure declined due to the privatization of state enterprises. Reform and modernization of the state projects continued to make up around one-fifth of the number of projects, but declined to 16 percent in terms of commitments by volume. The smaller Group II countries continued to account for the largest share of projects in the portfolio (63 percent), representing more than 36 percent of commitments.

The performance of the public sector portfolio is reported in the ARPE and based on project ratings assigned by each Country Office. Projects are rated on the extent to which they are making progress in their implementation, and the likelihood that they will achieve their development objectives in the future. Despite a difficult year in the region, the ARPE reported that 91 percent of projects in the reporting portfolio and 93 percent of commitments were judged to be on track to achieve their development objectives. Nine percent of reported projects were classified as problem projects, those judged unlikely to achieve their development objectives. Overall, 81 percent of projects were reported as being implemented without any significant delays, a slight improvement over 2000 levels.

While the report noted an improvement in 2001 in the number and volume of projects in problem-project status from the year before, the ARPE reported a slight increase in alert status projects in terms of number and commitment values. The Bank's Project Alert Identification System (PAIS) placed 28 percent of the reported portfolio on alert status, compared to 26 percent in 2000. Alert status projects are classified as being expected to achieve their development objectives, but having attributes that signal the possibility of

developing problems in the future. These include projects with poor implementation progress and those whose key assumptions are rated as having a low probability of holding true. Projects placed on alert status may not necessarily become problem projects. However, they have a greater propensity toward becoming problematic in the future if timely measures are not taken to address difficulties through more rigorous project monitoring.

In this regard, the Bank heightened efforts to proactively address bottlenecks in project execution and to close operations showing little progress toward improvement. As a result of actions taken in close collaboration with borrowers, the number of problem projects reported at the end of 2000 was reduced through upgrading or cancellations. However, concentrations of problem projects and key areas of concern for Management were noted in social sector investment loans located primarily in Argentina, Brazil and Venezuela, with smaller clusters in the Dominican Republic and Paraguay. The report also highlighted clusters of multi-year problem projects in Argentina, Colombia, the Dominican Republic and Trinidad and Tobago. These areas will continue to be closely monitored through Management's Portfolio Improvement Action Plan.

The ARPE also identified a number of internal IDB-specific areas that need to be addressed to improve the effectiveness of the Bank's portfolio management activities and its proactive approach in supporting borrowers and executing agencies. These include enhancements in project design, the need for better stakeholder analysis at early stages of project preparation, improvements in performance indicators to measure and monitor progress, more realistic dimensioning of projects and execution periods, more streamlined project management procedures, and a more proactive approach in portfolio monitoring. (For an example of participatory project design, see Box 11).

The report also emphasizes that continued efforts to tackle the pervasive institutional

weaknesses that erode potential gains in development interventions must be sustained. In addition to specific interventions to strengthen the institutional capacity of borrowing institutions, further measures are also needed to promote more effective donor coordination by the Bank and borrowers, particularly in a number of smaller countries that have received significant amounts of international assistance due to emergency situations and natural disasters. In these countries, special attention should be geared towards not overloading already weakened or incipient executing agencies. While the Bank can continue to provide support for longer-term institutional capacity building, these efforts cannot substitute for far-reaching reforms that must be undertaken by countries in the region.

The report highlighted the need for the Bank to focus more on enhancing the monitoring and evaluation capacity of borrowers, in tandem with initiatives to revamp its own monitoring and evaluation systems. In this regard, Management has continued to hone its monitoring and reporting systems in an effort to improve portfolio quality and reporting. The project alert system has been fully deployed, and the on-line project performance monitoring system (PPMR) was fully revamped in 2002 to capture recommendations of mid-term evaluations, report on financial issues, institutional development and sustainability issues, and record lessons learned. Projects financed with resources from the Multilateral Investment Fund were incorporated in the system, and final preparations were undertaken to expand coverage to selected non-reimbursable technical cooperation operations.

Headway has also been made in the revamping of the Project Completion Report (PCR), which will be more focused on measuring results. The new report will facilitate the analysis of project results vis-à-vis original expectations and performance indicators, focus on difficulties in project execution and the effectiveness of corrective measures, and emphasize lessons learned in the process that can be fed back into the design and execution

of future projects. The new, streamlined PCR will comply with OECD/DAC guidelines for MDBs and include an evaluation of both Bank and borrower performance, an assessment of the project's contribution to institutional development, and an outlook on expectations regarding the project's ability to continue to deliver benefits in the medium and long term. To make the PCR process more participatory and results-oriented, a "project exit meeting" with borrowers will be organized by the Country Offices to discuss the report and to jointly prepare an action plan for any operational follow-up as needed. This plan, along with the borrower's contribution, will henceforth represent an integral part of the final PCR to be considered by Management. Full deployment of the revamped PCR format and content is expected by mid-2003.

Efforts within the Bank have also advanced in terms of developing an on-line monitoring and reporting system for private sector projects. This system will complement the Bank's existing reporting system for public sector projects, and will address the unique and confidential aspects of private sector operations and incorporate OECD/DAC standards for evaluations for such operations. Performance reporting of private sector operations is conducted through semi-annual reviews (SARs), and quarterly portfolio status reports are presented to the Board. The Private Sector Department has already completed the first phase of its project management information system (PRIS). A second phase will include the SARs and eventual PCRs, as well as a report based on the analysis of the achievement of key performance indicators and lessons learned.

Two additional operational tools were launched during the year: a new help desk facility to assist project teams in the preparation of logical frameworks and related indicators, and a centralized on-line lessons learned retrieval network. The latter will provide support to staff in the storage and retrieval of operational lessons learned classified by sector, country or particular theme. It is expected that

PARTICIPATORY PROJECT DESIGN: BRAZIL'S FAVELA/BAIRRO

For decades, Rio de Janeiro's *favelas*, the teeming slums that house nearly one-fifth of the city's inhabitants, appeared as blank areas on city maps. At best, these communities clinging to the city's steep hillsides, crowding its riverbanks and tidal basins and strewn around its suburbs, were ignored by their richer neighbors and abandoned by local authorities. At worst, *favelas* were vilified as social pockmarks marring one of the world's most beautiful urban settings.

However, after Brazil returned to democratic rule in the mid-1980s, a new attitude towards the *favelas* began to take shape in Rio de Janeiro, blending the hopes of its poorest citizens and the ideals of architects, urban planners, engineers, anthropologists, sociologists, economists and grassroots activists. Starting with a pilot program of small self-help community projects, the municipal government crafted an innovative strategy by the end of the decade to deal with *favelas*. Rather than razing these settlements and cramming their inhabitants into public housing, the city would seek to improve the living standards in poor neighborhoods by upgrading their basic infrastructure and providing much-needed social services.

In 1995, with the support of the Bank, Rio de Janeiro launched *Programa Favela/Bairro*, an initiative that seeks to turn forlorn shantytowns, home to more than one million people, into proud neighborhoods, and knit them into the formal city's fabric. Under the

program, the municipal government and the IDB have committed more than \$600 million to this project, the bulk of which will be spent on public works in some 120 of the city's 600 *favelas*. These investments include opening streets and creating parks, playgrounds and other public spaces, as well as bringing essential services such as potable water, sewerage systems, storm drainage, garbage removal and public lighting to places lacking even mail delivery.

The second of the Bank's two loans for *Favela/Bairro* will benefit up to 230,000 residents, 14,000 of them children. Execution of the program was classified in the Bank's monitoring as "satisfactory" during 2002. In addition to working with their counterparts in the city's Housing Secretariat on the infrastructure, nutrition and income-generation aspects of the project, IDB Country Office personnel focused on the establishment of an ongoing monitoring and evaluation program.

In addition to public works, *Favela/Bairro* also offers beneficiary communities a menu of social services, which are supplied by civil society organizations. During the program's first phase, Bank financing was used to build daycare centers, which are indispensable to accommodate working mothers. In response to demand from residents, the second phase added other services such as school retention and reinforcement programs, youth leadership activities, and counseling on domestic violence, sexual abuse,

both of these tools will contribute to improving the design of new projects.

Finally, the report noted the importance of strengthening the Bank's entire results framework, beginning with the programming process and continuing throughout the project cycle. The articulation of the linkages between national, sectoral and project-level interventions is key to this process. Management has taken on this challenge by developing new country strategy guidelines that emphasize country-level performance indicators to better measure results obtained during a specific pro-

gramming period. In addition, future sector strategies will contain sector performance indicators, which will enhance the consistency of monitoring and measuring results across lending instruments and Regional Departments. At the project level, the report indicated that improvements are also warranted in performance reporting systems and in improving portfolio monitoring and management practices to enable corrective action and better tracking of progress towards outcomes.

A key challenge for Management is to promote a results-oriented operational frame-

teenage pregnancy and drug and alcohol addiction. An income-generation component offering adult education and job training was also included in the menu of options.

From the start, *Favela/Bairro* shunned one-size-fits-all solutions. During the first phase, the city held design competitions for proposals to upgrade *favelas* containing between 500 and 2,500 homes. The contests drew creative entries from established architectural firms as well as from young professionals eager to make a difference. In subsequent stages, competitions were replaced with public tenders.

Under the program's participative methodology, proposals are discussed in detail with each community's residents, who decide on the location of infrastructure projects and what social services will be provided, based on the program's limits for how much can be spent per beneficiary family. Community involvement helps administrators to make tough decisions, such as relocating families to make room for wider roads or removing homes from high-risk areas.

In Ana Gonzaga, a low-income subdivision with some 3,700 residents in Rio de Janeiro's western zone, *Favela/Bairro* helped turn around a neighborhood that had no water service, paved streets, public lighting or sewers. By providing the infrastructure that the original developers failed to build, the program

will allow Ana Gonzaga residents to apply for legal title to their properties.

As *Favela/Bairro* matures, the program faces increasing challenges. It began in settlements where it was most likely to succeed, in order to gain experience and build momentum. As it goes forward, every new community presents more complex problems than the previous ones. Plus, neighborhoods that have been upgraded require maintenance. Physical infrastructure can deteriorate, community-based programs can bog down, high-risk areas can be resettled. And then there is crime, a major and growing concern for citizens across Rio de Janeiro.

Favela/Bairro officials place great hope in the program's income-generation component, which is aimed at raising productivity levels and creating more economic opportunities for the poor. While most adults in these communities work, their income levels are far short of those of their wealthier neighbors. According to data from Brazil's 2000 census, the average monthly income for a head of household in Barra de Tijuca, one of Rio de Janeiro's better-off districts, was 5,175 *reais*. In the nearby Favela do Angu Duro, it was just 382 *reais*. In contrast, drug gangs reportedly pay youngsters around 600 *reais* a month to act as lookouts at their sales points.

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

work in a holistic manner throughout the Bank. It will also be crucial for the Bank to engage the borrowers in dialogue and partnership on these matters. Throughout the process of improving portfolio quality, the Bank will continue to maintain contact with borrowers, MDBs, bilateral agencies and cofinancing partners to exchange experiences on portfolio management, results-tracking methodologies, and practices to gauge outcomes.

Development Effectiveness

The Bank's response to the changing and pressing needs of borrowers and beneficiaries has been shaped by both internal mandates and the development challenges in the region in which the Bank operates. To maintain its competitiveness as a regional development institution, the Bank has continuously adapted and fine-tuned its organizational strategy, as well as its financial and non-financial instruments, with the goal of becoming better positioned to provide relevant, timely and effective

assistance to its borrowing member countries in their social and economic development.

The past year marked a turning point in the history of the Bank, as the internal debate on development effectiveness stimulated Management and the Board to rethink the way they operate, and to find a better balance between the traditional approvals culture and a culture of results. A major report prepared by the Office of Evaluation and Oversight (OVE) and a note prepared by Management on the same topic sparked discussion and proposed concrete alternatives for improving the design, monitoring and evaluation of Bank interventions to sharpen focus on achieving measurable results.

The following sections highlight major advancements made during the year to address development effectiveness in five key areas.

Country and Sectoral Programming

Given the importance of the country environment for the effectiveness of the Bank's interventions, country programming and country strategies are central to helping partners achieve development gains. The new country strategy guidelines adopted in 2002 require precise monitoring and results indicators. When considered together with the conclusions arising from the outcome-based Country Program Evaluations (CPE) performed by OVE, these two activities represent an important step towards promoting evaluation capacity building within and outside the Bank, and improving the measurement and quality of country-level interventions. The Bank's Research Department is complementing such efforts through its periodic policy seminars with counterparts and a macroeconomic country watch system to enhance and help track long-term effectiveness of the Bank's policy and sectoral work.

Performance-based criteria for the allocation of concessional resources were approved in 2002, and the Bank is developing new performance-based instruments that would focus on establishing and monitoring predetermined

goals. Finally, the new guidelines for emergency lending approved by the Board of Directors in 2002 and objectives for policy-based loans (PBL) both require the introduction of measurable indicators.

Project Preparation and Execution

The Bank is placing heightened attention on overall project quality during project preparation and execution. Focus in Management committees is on project quality at entry, including a clear definition of program or specific project goals; the relevance and strategic context of interventions; and the building in of solid performance indicators at the outset that are conducive to measuring outputs associated with ongoing project implementation, outcomes at project completion and eventual impacts. Central to this effort is the establishment and maintenance of an appropriate monitoring and evaluation system for the project.

In-house skills-building at the Bank has increased, complementing its regular training courses. The Bank has already employed the use of Internet technology to establish web-based training modules on use of the logical framework, available to all Bank staff and borrowers. Increased participation of Country Offices in project design and in the review process, and the increased involvement of staff in real-time monitoring and assessment of results, is leading to a better understanding of the evaluability and implementability issues of project design. There is increased emphasis on upgrading the skills of Country Office staff in portfolio management, including the provision of methodologies to enhance performance and dialogue with borrowers. Activities such as the organization of project start-up workshops and the execution of mid-term project reviews with borrowers have contributed favorably to this process.

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

At the request of the Board, Management developed a Portfolio Improvement Action Plan to respond to portfolio quality issues highlighted in the 2001 ARPE, and to propose, among other things, measures to improve development effectiveness in the Bank's portfolio. These measures include new portfolio quality indices; actions to address specific portfolio problem areas; and studies related to the benchmarking of IDB performance against that of comparable institutions.

An example of the Bank's actions to strengthen results-based monitoring and evaluation systems is evident in the governance projects prepared during the year. Of the seven modernization of the state operations approved during 2002, three proposed the preparation of ex-post evaluations, and another three included explicit components aimed at strengthening monitoring and evaluation capacity. It is anticipated that these evaluations will provide rich operational lessons learned that could contribute to the improvement of new project designs in this sector.

Internal Organization and Approval Procedures for Operations

The Bank is committed to move the development effectiveness agenda forward and has taken specific actions in this direction, including the decision to contract a Chief Development Effectiveness Officer who will report directly to the Executive Vice President; the formation of an internal working group to conduct a study on quality at entry of projects; and the creation of a task force comprised of representatives from Management and the Board to develop an action plan for development effectiveness to be presented to the Board of Governors at the Annual Meeting in 2003.

In addition, under the direction of the Executive Vice President, a proposal aimed at streamlining the Bank's loan approval process was prepared and has been reviewed by Management. The Regional Departments have convened a task force to prepare a detailed

action plan to implement the recommendations of the proposal, including the preparation of a model project conceptual paper; the selection of a small group of project teams for both public and private sector operations to pilot the problem-solving and institutional learning exercise beginning in January 2003; and the development of a methodology for tracking problems encountered by the project teams during the process of implementing the pilot initiative.

Monitoring and Evaluation Systems

Management and the Board are explicitly attempting to correct the imbalance that currently prevails within the Bank that privileges an intervention focus, as opposed to the results-focus required by development effectiveness. This is being done through the promotion of evaluation capacity building inside the Bank and in the region. As described above, the Bank has completed a major step in enhancing project monitoring and reporting tools with the complete revamping of the project performance monitoring system and the full deployment of a Project Alert Identification System (PAIS). To complement this new performance reporting system, Management is also working on a prototype to revise the Bank's project completion reporting system.

Coordination and Harmonization with Other Bilateral and Multilateral Financial Institutions

The global agenda on development effectiveness was further consolidated this year at the International Conference on Financing for Development held in Monterrey, Mexico. The Bank and other multilateral development banks issued a joint note of commitment to measure, monitor and manage for development results. This collaboration continued in Washington at the International Roundtable of MDBs on Better Measuring, Monitoring and Managing for Results, which highlighted the need to focus on country-specific results man-

agement, knowledge management and dissemination, inter-agency coordination, and capacity building at the country level. The harmonization of definitions used by the MDBs should help improve development effectiveness.

Within this context, Management will carry out a study on cofinanced and parallel-

financed projects in the IDB and World Bank/LAC portfolios, including the identification of portfolio similarities (in terms of composition of subsectors, project types, lending instruments, etc.) and of common issues and methodologies.

The Year's Lending

Summary

This chapter includes summaries by country with brief descriptions of loans, technical cooperation operations (\$1 million and above), small projects, and Multilateral Investment Fund (MIF) operations (\$1 million and above) authorized by the Bank in 2002. The introductory paragraph for each country includes the number of TCs and MIF operations approved by the Bank in 2002 for \$500,000 and above, but only those operations over \$1 million are subsequently described. The chapter concludes with information related to the Bank's lending and technical cooperation program and the Statement of Approved Loans and Guarantees.

The loans and guarantees authorized by the Bank in 2002 came from the following sources:

■ **Ordinary capital resources:** 60 loans for \$3,988 million and two guarantees for \$155 million brought the cumulative total of loans, less cancellations, to 1,590 for \$100,834 million and the cumulative numbers of guarantees to seven totaling \$611 million as of December 31, 2002.

■ **Fund for Special Operations:** 24 loans totaling \$406 million brought the cumulative total of loans, less cancellations, to 1,110 for \$15,774 million as of December 31, 2002.

■ **Other funds:** There were no loans approved in 2002. Cumulative total loans, less cancellations, were 209 for \$1,736 million as of December 31, 2002.

The Bank agreed to partially defray up to five percentage points of the interest on five loans approved in 2002 from the ordinary capital resources for \$81.6 million, with funds from the Intermediate Financing Facility (IFF) created under the Sixth Replenishment.

TABLE III. DISTRIBUTION OF LOANS BY SECTOR OF ACTIVITY

(In millions of U.S. dollars)

Sector	2002 ¹	%	1961-02	%
Productive Sectors				
Agriculture and Fisheries	\$ 156.9	3.4	\$12,950.4	10.9
Industry, Mining and Tourism	497.6	10.9	12,336.9	10.4
Science and Technology	18.0	0.4	1,688.4	1.4
Physical Infrastructure				
Energy	127.6	2.8	16,912.2	14.3
Transportation and Communications	451.8	10.0	13,665.6	11.6
Social Sectors				
Sanitation	133.8	2.9	9,218.5	7.8
Urban Development	284.1	6.2	7,086.4	6.0
Education	115.0	2.5	5,108.7	4.3
Social Investment	1,912.5	42.0	10,971.0	9.3
Health	5.0	0.1	2,157.7	1.8
Environment	146.4	3.2	1,669.0	1.4
Microenterprise	30.0	0.7	418.6	0.4
Others				
Reform and Modernization of the State	667.2	14.7	20,296.3	17.2
Export Financing	0.0	0.0	1,564.1	1.3
Preinvestment and Other	7.0	0.2	2,299.8	1.9
TOTAL	\$4,552.9		\$118,343.7	

¹ Includes increase to 997/SF-HO of \$4.5 million.

TABLE IV. YEARLY (2002) AND CUMULATIVE LOANS AND GUARANTEES (1961–2002) ¹*(In millions of U.S. dollars)*

Country	Detail by Funds							
	Total Amount		Ordinary Capital ²		Fund for Special Operations		Funds in Administration	
	2002	1961–02	2002	1961–02	2002	1961–02	2002	1961–02
Argentina	\$ -	\$ 17,098.6	\$ -	\$ 16,404.7	\$ -	\$ 644.9	-	\$ 49.0
Bahamas	-	344.2	-	342.2	-	-	-	2.0
Barbados	17.0	407.3	17.0	345.5	-	42.8	-	19.0
Belize	-	92.2	-	92.2	-	-	-	-
Bolivia	229.2	3,138.4	112.0	1,148.0	117.2	1,918.7	-	71.7
Brazil	690.4	25,050.9	690.4	23,362.8	-	1,558.5	-	129.6
Chile	15.4	4,872.7	15.4	4,627.5	-	203.3	-	41.9
Colombia	105.9	8,864.3	105.9	8,049.3	-	754.7	-	60.3
Costa Rica	14.4	2,196.3	14.4	1,704.7	-	351.8	-	139.8
Dominican Republic	290.0	2,564.5	290.0	1,773.8	-	705.3	-	85.4
Ecuador	75.0	3,791.5	75.0	2,770.9	-	933.3	-	87.3
El Salvador	70.3	2,908.9	70.3	2,015.2	-	747.8	-	145.9
Guatemala	321.8	2,539.3	321.8	1,838.0	-	629.4	-	71.9
Guyana	62.9	819.9	-	109.5	62.9	703.5	-	6.9
Haiti	-	749.4	-	-	-	743.1	-	6.3
Honduras	76.3	2,300.5	13.7	530.4	62.6	1,702.0	-	68.1
Jamaica	34.0	1,704.0	34.0	1,341.3	-	163.8	-	198.9
Mexico	1,000.0	16,015.0	1,000.0	15,403.0	-	559.0	-	53.0
Nicaragua	142.9	2,009.5	-	259.3	142.9	1,682.1	-	68.1
Panama	67.6	1,988.0	67.6	1,663.6	-	280.0	-	44.4
Paraguay	29.4	1,769.9	29.4	1,181.7	-	576.1	-	12.1
Peru	488.8	6,045.7	488.8	5,406.6	-	418.1	-	221.0
Suriname	3.4	76.6	3.4	74.6	-	2.0	-	-
Trinidad and Tobago	32.0	1,018.0	32.0	962.2	-	30.6	-	25.2
Uruguay	733.7	3,391.2	733.7	3,245.3	-	104.1	-	41.8
Venezuela	28.0	3,854.7	28.0	3,680.4	-	101.4	-	72.9
Regional	20.0	2,731.7	-	2,501.4	20.0	217.2	-	13.1
TOTAL	\$4,548.3	\$118,343.7	\$4,142.7	\$100,834.2	\$405.6	\$15,773.6		\$1,735.9

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

Total Cost of Projects

The \$4.5 billion in Bank loans and guarantees helps finance projects involving a total investment of more than \$7.6 billion. The Bank's loans cover only a part of the total cost of the projects being carried out by the borrowing countries. The balance over and above the Bank's contributions comes principally from the Latin American and Caribbean countries.

Disbursements

The Bank's disbursements on authorized loans amounted to \$5,837 million in 2002, compared with \$6,459 million in 2001. As of December 31, 2002, cumulative disbursements, including exchange adjustments, totaled \$97,160 million, or 82 percent of the loans authorized by the Bank. The 2002 disbursements and cumulative totals by funds include:

TABLE V. YEARLY (2002) AND CUMULATIVE DISBURSEMENTS (1961–2002)¹*(In millions of U.S. dollars)*

Country	Detail by Funds							
	Total Amount		Ordinary Capital ²		Fund for Special Operations		Funds in Administration	
	2002	1961–02	2002	1961–02	2002	1961–02	2002	1961–02
Argentina	\$ 413.0	\$13,757.6	\$ 408.0	\$13,075.0	\$ 5.0	\$ 633.6	-	\$ 49.0
Bahamas	13.8	276.0	13.8	274.0	-	-	-	2.0
Barbados	15.8	284.5	15.8	222.7	-	42.8	-	19.0
Belize	14.3	48.6	14.3	48.6	-	-	-	-
Bolivia	99.5	2,530.9	4.9	1,031.1	94.7	1,428.1	-	71.7
Brazil	1,792.1	20,244.4	1,782.7	18,583.5	9.5	1,531.3	-	129.6
Chile	100.3	4,381.7	100.3	4,136.5	-	203.3	-	41.9
Colombia	159.2	7,906.9	151.9	7,108.3	7.3	738.3	-	60.3
Costa Rica	45.1	1,813.6	45.1	1,333.8	-	351.8	-	128.0
Dominican Republic	184.1	1,698.0	184.1	907.3	-	705.3	-	85.4
Ecuador	94.5	3,560.8	85.5	2,542.6	9.0	930.9	-	87.3
El Salvador	144.0	2,362.5	143.6	1,481.4	0.4	747.0	-	134.1
Guatemala	195.3	1,982.6	187.5	1,295.7	7.9	626.8	-	60.1
Guyana	24.6	583.5	-	109.5	24.6	467.1	-	6.9
Haiti	2.6	548.9	-	-	2.6	542.6	-	6.3
Honduras	47.6	1,859.3	0.1	516.7	47.5	1,292.2	-	50.4
Jamaica	133.0	1,447.6	133.0	1,084.9	-	163.8	-	198.9
Mexico	993.2	13,222.7	991.4	12,610.7	-	559.0	\$1.8	53.0
Nicaragua	104.2	1,489.9	-	259.3	104.2	1,180.2	-	50.4
Panama	72.6	1,512.5	72.6	1,199.9	-	280.0	-	32.6
Paraguay	52.0	1,364.7	52.0	776.5	-	576.1	-	12.1
Peru	307.8	5,210.5	307.8	4,571.4	-	418.1	-	221.0
Suriname	0.8	37.3	0.8	35.3	-	2.0	-	-
Trinidad and Tobago	24.5	702.9	24.5	647.1	-	30.6	-	25.2
Uruguay	558.6	2,712.3	558.6	2,566.4	-	104.1	-	41.8
Venezuela	176.9	3,419.7	176.9	3,245.4	-	101.4	-	72.9
Regional	67.1	2,199.8	66.8	1,989.5	0.3	197.2	-	13.1
TOTAL	\$5,836.5	\$97,160.1	\$5,521.8	\$81,653.1	\$312.9	\$13,853.7	\$1.8	\$1,653.3

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

■ Ordinary capital resources: \$5,522 million, bringing the cumulative total to \$81,653 million as of December 31, 2002.

■ Fund for Special Operations: \$313 million, bringing the cumulative total to \$13,854 million as of December 31, 2002.

■ Other funds: \$1.8 million, bringing the cumulative total from funds administered by the Bank to \$1,653 million as of December 31, 2002.

Repayments

Loan repayments amounted to \$4,375 million in 2002. Cumulative payments as of December 31, 2002, were \$41,558 million. Repayments received by the Bank during the year, and cumulative as of December 31, 2002 were:

■ Ordinary capital resources: \$4,106 million, bringing the cumulative total, before

TABLE VI. YEARLY (2002) AND CUMULATIVE (1961–2002) TOTAL COST OF PROJECTS¹*(In millions of U.S. dollars)*

Country	Total Cost		Bank Loans and Guarantees ²		Latin America's Contributions	
	2002	1961–02	2002 ³	1961–02	2002	1961–02
Argentina	\$ 0.0	\$ 40,105.0	\$ 0.0	\$ 17,098.5	\$ 0.0	\$ 23,006.5
Bahamas	0.0	555.7	0.0	344.3	0.0	211.5
Barbados	24.2	717.6	17.0	407.3	7.2	310.2
Belize	0.0	139.9	0.0	92.2	0.0	47.7
Bolivia	680.9	5,381.8	229.2	3,138.4	451.7	2,243.4
Brazil	1,228.9	71,185.5	690.4	25,050.9	538.5	46,134.6
Chile	25.4	12,281.6	15.4	4,872.8	10.0	7,408.9
Colombia	199.7	20,517.6	105.9	8,864.2	93.8	11,653.3
Costa Rica	17.6	3,709.7	14.4	2,196.3	3.2	1,513.3
Dominican Republic	494.8	3,812.0	290.0	2,564.5	204.8	1,247.5
Ecuador	102.5	6,979.0	75.0	3,791.6	27.5	3,187.4
El Salvador	88.4	4,366.0	70.3	2,909.0	18.1	1,457.1
Guatemala	401.7	4,190.6	321.8	2,539.3	79.9	1,651.3
Guyana	74.8	1,018.6	62.9	819.9	11.9	198.7
Haiti	0.0	1,055.7	0.0	749.5	0.0	306.2
Honduras	125.1	4,085.7	80.8	2,300.5	44.3	1,785.2
Jamaica	44.0	2,516.5	34.0	1,704.0	10.0	812.5
Mexico	2,377.0	44,447.5	1,000.0	16,015.0	1,377.0	28,432.5
Nicaragua	156.8	3,148.4	142.9	2,009.5	13.9	1,138.9
Panama	82.8	3,821.6	67.6	1,988.0	15.2	1,833.6
Paraguay	34.0	2,591.4	29.4	1,769.9	4.6	821.5
Peru	505.1	10,572.5	488.8	6,045.7	16.4	4,526.8
Suriname	4.5	97.4	3.4	76.7	1.1	20.7
Trinidad and Tobago	40.0	1,591.8	32.0	1,018.0	8.0	573.8
Uruguay	809.1	5,049.8	733.7	3,391.3	75.4	1,658.5
Venezuela	40.0	13,257.0	28.0	3,854.6	12.0	9,402.4
Regional	22.2	14,521.7	20.0	2,731.8	2.2	11,789.9
TOTAL	\$7,579.4	\$281,717.6	\$4,552.9	\$118,343.7	\$3,026.6	\$163,373.9

¹ Cumulative loans after cancellations and exchange adjustments. Totals may not add up due to rounding.² Excludes private sector participations.³ Includes increase to 997/SF-HO of \$4.5 million.

repayments to participants, to \$33,683 million as of December 31, 2002.

■ Fund for Special Operations: \$256 million, for a cumulative total of \$6,311 million as of December 31, 2002.

■ Other funds: \$13 million, bringing the cumulative total to \$1,587 million as of December 31, 2002.

Project Descriptions

For further information on the projects approved by the IDB in 2002, please refer to the Inter-American Development Bank's Internet site at www.iadb.org/goto.cfm?projects

ARGENTINA

In 2002, the Bank approved two MIF financings to Argentina. On a cumulative basis, the Bank has made 218 loans totaling \$17,099 million and disbursements have totaled \$13,758 million.

Small Business Competitiveness (\$1.9 million MIF grant)

This program will generate new job opportunities by promoting entrepreneurial development projects in three localities: Olavarría in Buenos Aires Province, Esquel and the northwest of Chubut Province, and the San Justo-San Javier microregion in Santa Fe Province. Each subprogram features specific activities to promote the development of productive sectors with competitive advantages, such as strengthening production chains in Olavarría, diversifying regional products in Esquel, and developing agro industry and ethnic crafts in San Justo-San Javier.

Supply Chain Development in the Province of Cordoba (\$1 million MIF grant)

This project will support the competitiveness and growth of strategic small and medium-sized businesses. The focus will be on supporting business clusters in information and communications technology, furniture and other wood products, and regional agricultural prod-

ucts, particularly organic agriculture and livestock production. The program will strengthen cooperation among businesses and institutions, improve access to technology for production and organization, and improve access to markets.

BAHAMAS

In 2002, no new loans were approved to the Bahamas. On a cumulative basis, the Bank has made 17 loans totaling \$344 million and disbursements have totaled \$276 million.

The Bank's focus in the Bahamas during 2002 was on reviewing the current portfolio of loan and technical cooperation operations, mapping out a program to support the government that took office in May, and setting the stage for the preparation of a new country strategy for 2003-2005. In close collaboration with national authorities, this effort involved the early identification of implementation issues and corrective actions, and follow-up to ensure that projects meet their intended development objectives.

There are demonstrable benefits from the Bank's support for a variety of projects in the Bahamas in recent years. A loan to increase the generation, transmission and distribution of power in New Providence has helped increase efficiency and lower production costs. Other Bank interventions in infrastructure have repaired roads, docks and seawalls in the Family Islands and upgraded roads in New Providence. In the social sectors, Bank projects have expanded access to potable water and improved primary and secondary education.

A notable initiative during 2002 was the

establishment by the IDB Country Office in Nassau of a Civil Society Advisory Group. Representatives of such organizations as trade unions, youth groups and environmental and social advocacy groups were brought together on a regular basis to provide the Bank and its government counterparts with input on IDB activity throughout the country. An effort was also made during the year to refine the quality of data obtained from the Bahamas Living Conditions Survey, estimating the cost of a food basket and examining indices of poverty and inequality.

BARBADOS

In 2002, the Bank approved one loan to Barbados. On a cumulative basis, the Bank has made 39 loans totaling \$407 million and disbursements have totaled \$285 million.

Coastal Infrastructure Program (\$17 million loan from the OC)

Coastline beaches are central to the Barbadian tourism economy, but encroaching development increasingly has limited access to beach areas and damaged the environment. This operation will support coastal management and sustainable development by financing projects for shoreline stabilization, erosion control, restoration of coastal habitats, and better beach access for both local and tourism use. The works include waterfront improvements from Rockley Beach to Drill Hall; headland protection between Little Bay and Women's Bay; restoration of Crane Beach; improvements to the Welch and Holetown Beaches and installation of a lagoon aeration system along the latter; dune restoration at Walker's Savannah; and improvements in waterfront access at the Bay Street Old Hospital Jetty and the Tent Bay boat launch.

BELIZE

In 2002, the Bank approved one technical cooperation operation and one MIF financing to Belize. On a cumulative basis, the Bank has made nine loans totaling \$92 million and disbursements have totaled \$49 million.

Preservation of Garifuna Culture (\$140,000 TC grant from the Danish Fund for Consulting Services)

This financing will develop income-generating projects for Garifuna communities that take into account their unique culture and history. The Garifuna incorporate elements of populations of African origin as well as indigenous Caribbean groups. A business plan will be designed to promote community development initiatives and a study will identify viable productive projects as well as potential investors. Area communities will receive training in how to implement and sustain those projects. Training will also be provided to the National Garifuna Council in planning, negotiation skills, organizational expertise and institutional analysis. The program will also establish network contacts and alliances with Afro descendent groups in other countries and promote culturally appropriate investments.

Trade and Investment Promotion (\$490,000 TC grant from the MIF)

This operation aims to increase foreign investment in Belizean firms as well as promote exports of the country's products and services. Technical assistance and consultants will be provided to identify priority exports and destination markets, develop a marketing campaign for ecological food products, strengthen Belizean participation in international export promotion events, and develop the capability to supply market information. To attract investment, particularly in small and medium-sized firms, an investment plan will target foreign

corporations in priority sectors. Support to the Belize Trade and Development Service will create a consultative export and investment promotion forum, strengthen information technologies, and train staff in the application of international trade and investment regulations to Belizean industry, agriculture and services.

BOLIVIA

In 2002, the Bank approved eight loans to Bolivia. On a cumulative basis, the Bank has made 160 loans totaling \$3,138 million and disbursements have totaled \$2,531 million.

Santa Cruz-Puerto Suárez Corridor Project (Phase One) (*\$75 million loan from the FSO*)

The Santa Cruz-Puerto Suárez Corridor extends some 632 kms from Bolivia's fastest growing area to the Brazilian border. The highway is a critical link to large consumer centers and export markets. This operation will pave the 346 km Paraíso-San José de Chiquitos-Roboré section, repair the 139 km section from Roboré to El Carmen, and carry out maintenance work on another 88 kms of various gravel sections of the highway. The improvements will reduce transport costs and travel times, improve highway conditions and traffic safety, and promote integration with regional and international markets. An accompanying loan (see next page) will address the socio-environmental impacts of the highway construction by supporting conservation and social and economic development projects in affected areas.

Transredes S.A. (*\$75 million loan from the OC and a "B" loan of \$57 million, with \$88 million in cofinancing from the Andean Development Corporation*)

This private sector operation will expand Transredes' natural gas and liquids pipeline network in order to meet growing national

demand and increase exports to Brazil. Transredes is Bolivia's main gas transportation company. The gas expansion—which will increase gas transport capacity from 670 to 1,060 million cubic feet per day—will add parallel looped pipe sections and expand and refurbish compression stations between the production fields in the south and Río Grande, where the system connects to the Bolivia-Brazil pipeline. The liquids expansion will extend to Santa Cruz and Cochabamba as well as Arica, Chile, and will take the system from 55,000 to 71,000 barrels per day. To improve the safety and reliability of the transport network, the program will replace pipelines, put lines underground, overhaul equipment, and install station protection systems, shutdowns and alarms, fire systems, cathodic protections, liquid measurement systems, pluvial and industrial drainage systems, fuel tanks and control rooms.

REDIBOL Project (*\$37 million loan from the OC and a "B" loan of \$3 million*)

This operation will finance installation and operation of a state-of-the-art telecommunications network across Bolivia that will improve the quality and coverage of telephone service, including better national and international long distance service, and open access to the Internet and other data transmission services. The project will be carried out by the AES Corporation, a private firm that is one of the world's leading independent power producers. AES has already completed about 70 percent of its capital expenditure program. This operation will partially finance the rollout of the company's fiber optic network and related infrastructure across the country. Network architecture will be based on new generation multi-service technology that fully supports voice, data, Internet and video on transmission equipment.

***Environmental and Social Protection
in the Santa Cruz-Puerto Suárez Corridor***
*(\$21 million loan from the FSO with cofinancing
from the Nordic Development Fund)*

Improvements to the Santa Cruz-Puerto Suárez corridor are critical to link Bolivia to export markets, but completion of a modern highway will have an environmental and social impact on surrounding areas. This operation will mitigate those effects by creating a land titling program for some 8,800 families that live near the highway; providing technical assistance, training and financing to strengthen indigenous organizations; developing microcredit projects; improving regulation and management of protected areas; and establishing a compensation fund for families displaced or otherwise affected by the construction. Funding will also be used to protect and preserve cultural and archeological sites. Technical assistance to municipalities in urban planning and zoning will help local governments cope with the social and environmental demands likely to result from development of the corridor.

Sustainable Tourism Development Program
(\$10 million loan from the FSO)

Bolivia enjoys a wealth of natural and cultural resources with potential to attract increased tourism. This program will enhance the country's image as a tourist destination by improving the quality of tourism services and by financing joint public-private pilot projects in sustainable tourism. Technical assistance and training will help establish an accreditation and certification system to ensure that tourism providers meet international quality standards; develop regulations regarding conservation of cultural heritage, safety and environmental protection; and design promotional campaigns. The program will finance at least a dozen pilot projects for environmental infrastructure such as educational trails, clean energy systems and sewage treatment. Small-scale community projects will improve tourist attractions by

building overlooks, on-site museums and information booths.

Strengthening the Foreign Trade Sector Facility
(\$5 million loan from the FSO)

This operation will modernize and strengthen the government's capacity to formulate and implement effective trade policy and attract investment. An International Trade Negotiation Unit will be created and training provided for trade officials. Technical assistance to the Ministry of Foreign Trade and Investment will support reforms that facilitate implementation and monitoring of trade agreements. Specific objectives will include consolidating the Single Export Window Facility by including ISO 9000 certification and other technical requirements, establishing export business clusters, and developing export products with competitive advantages and promoting their access to international markets. An information system component will develop a master technology plan, implement e-trade for export firms, and establish networks to ensure timely access to information on trade flows.

Disaster Prevention Program
(\$2.7 million loan from the FSO)

By strengthening disaster prevention and assistance capabilities, this program will lay the groundwork for an effective national risk management system. Technical assistance and training will help several key ministries implement and coordinate emergency assistance and risk management plans. A disaster prevention plan developed for the La Paz area will serve as a pilot for subsequent municipal risk management plans, and an information management model for the government's disaster prevention and risk reduction agency will facilitate the sharing of information essential to decision-making. The program will also design and disseminate a public information campaign to heighten awareness of the dangers

of natural disasters and the mechanisms available to prevent them or mitigate their effects.

Water Production at the Sama Mountain Biological Reserve

(\$2.5 million loan from the FSO)

A fire in the Sama reserve in the department of Tarija in August 2002 destroyed some 30,000 hectares of forest and grasslands, causing millions of dollars in damage. Runoff and erosion caused by the deforestation have severely reduced water levels in areas that serve as a reservoir for neighboring communities, including the city of Tarija. This emergency operation will restore the potable water supply through construction of an infiltration galley, ditches and dikes, and soil stabilization barriers. Chemicals and equipment will be provided to control and treat ash-polluted water. Planting of forage and issuance of feed vouchers for livestock will help local farmers who suffered heavy losses from the blaze. The program will also finance studies to further assess the environmental damage, as well as preparation of a disaster prevention plan for the area.

BRAZIL

In 2002, the Bank approved nine loans and six MIF financings to Brazil. On a cumulative basis, the Bank has made 296 loans totaling \$25,051 million and disbursements have totaled \$20,244 million.

Northeast Tourism Development (Stage 2)

(\$240 million loan from the OC)

This program will help states and municipalities implement integrated tourism development plans that provide basic infrastructure, promote private investment, and ensure sustainable tourism that benefits local residents. Building on lessons learned from the first stage of the program, this operation will emphasize a participatory planning process

and adequate environmental, administrative and fiscal management at local levels.

Technical assistance and training will strengthen state and municipal capacity in tourism planning and management, protection of natural and cultural resources, and solid waste management. Consulting services will help prepare marketing plans and publicity campaigns to promote area tourist attractions. The program will finance investments in transportation infrastructure such as roads and airports, water and sewerage facilities, job training services, and the development of tourism areas such as waterfronts, coastlines and boardwalks.

Santa Catarina State Highway Program (Phase Four)

(\$150 million loan from the OC)

A series of transportation investments through this program will improve road conditions by paving or repairing heavily traveled highways, installing traffic safety features, and strengthening the state highway patrol. Some 450 kms of dirt or gravel roads will be paved and another 700 kms of already paved highways will be repaired. Other works will include road widening and construction or improvements of shoulders and drainage systems. To offset an increase in traffic accidents in the state in recent years, the program will place particular emphasis on safety features, such as civil works involving intersections and urban access routes and construction of pedestrian and bicycle paths. The program will also finance construction of 10 new patrol stations and procurement of patrol and rescue vehicles. Finally, a master plan will be developed for transportation of hazardous materials.

Paraná Urbano II Program

(\$100 million loan from the OC)

This program will improve the coverage and quality of municipal services in the state of Paraná by financing economically viable proj-

ects to repair and expand social infrastructure. The operation will also strengthen municipal management, financing, and auditing capacity. Works to be funded include roads, water supply and sewerage systems, solid waste management, street lighting, markets, terminals, parks, cultural and recreational facilities, and erosion and flood control structures. The program will also fund social services in health and education, and support small business development as well as a number of cultural initiatives. Technical assistance will examine ways to attract private capital for municipal funding, implement a results-based management approach for the state's municipal reporting system, and promote civil society participation in prioritizing municipal investments.

Acre Sustainable Development Program
(\$64.8 million loan from the OC)

Per capita GDP has steadily declined over the past decade in the western Brazilian state of Acre, due in part to less demand for natural rubber. Deforestation has increased as inhabitants increasingly turn to low productivity agricultural activities. This loan will support more sustainable development through investments in conservation, infrastructure and productive projects. The program includes a property titling component, and technical assistance, training, infrastructure and equipment will be provided to rehabilitate degraded land, foster organic livestock production, promote sustainable extraction of forest resources, improve marketing of local products, upgrade river transportation, and preserve indigenous cultures. Protected areas will be established covering 220,000 hectares around the Serra do Divisor National Park. To facilitate the marketing of certified forest products, 70 kms of the Rio Liberdade-Rio Tauri-Iguarapé Sante Fe subsection of Highway BR-364 will be paved.

Pará Urbe Support Program (Phase One)
(\$48 million loan from the OC)

This operation will expand and improve the quality of services that local governments deliver to their communities in the state of Pará. The program will finance construction or repair of social infrastructure under municipal jurisdiction, including roads, water supply and sewerage systems, solid waste management, street lighting, markets, terminals, parks and recreational facilities, and erosion and flood control structures. To support small businesses, the program will build and equip basic commercial and industrial premises and provide technical assistance to foster business alliances and promote better marketing and export operations. Technical assistance will support more efficient and transparent use of municipal resources by revising the state tax distribution formula, using cost recovery methods, developing a more rational state transfer system, promoting private investment, strengthening municipal management capacity, and promoting civil society participation in investment decisions.

Goiânia Water and Sanitation Program
(\$47.6 million loan from the OC)

Only a third of households in this state capital have sewerage connections, and although most households have potable water, the city's rapid growth has led to serious water shortages. This operation will ensure a more reliable and sustainable water supply system, expand sewerage coverage and in so doing improve the quality of local rivers, and make service delivery more efficient. To boost water supply, a storage dam will be built along the João Leite River with a water intake and conveyance system. Plants, pumping stations and storage tanks for treated water will be upgraded along with the city's distribution network. In all, 268 kms of sewage collection networks and 21 kms of sewer interceptors will be built, allowing for expansion of the sewerage system to nearly 20,000 primarily

low-income households. Consulting services will help the state water and sanitation company improve efficiency by adopting a modern management model with the participation of a private sector operator.

Northeast Global Microenterprise Credit Program

(\$30 million loan from the OC with parallel financing from the World Bank)

An estimated 90 percent of businesses in Northeast Brazil are microenterprises, yet only 2 percent of these small firms has access to bank credit. This financing will expand the supply of formal microcredit in this low-income region by enabling CrediAmigo, the microenterprise arm of the *Banco do Nordeste do Brasil*, to extend credit to 120,000 new customers for working and fixed capital. This will triple the number of borrowers compared with year-end 2000. CrediAmigo uses a solidarity lending approach in which groups of borrowers cross-guarantee each other's loans, which average \$500. Technical assistance will be provided to train CrediAmigo loan officers, develop promotional strategies and a risk rating unit, identify new savings and loan products, and review loan management procedures.

Modernization of the Federal Court of Accounts
(\$5 million loan from the OC)

The Federal Court of Accounts is the legislative agency responsible for carrying out the nation's accounting, financial, budgetary, operational and accrual accounting audits. This operation will support modernization and institutional strengthening of the agency in order to make it more effective and efficient in monitoring the use of public resources. Technical assistance will improve the timeliness and quality of control processes by modernizing auditing methods, tools and techniques. The agency's functions will be expanded to include control of utilities regulations and to ensure compliance with Brazil's

new Fiscal Responsibility Act. The program will implement a management-outcomes model based on the principles of total quality management, strategic planning and results-based management. Investments will be made in staff development and in initiatives designed to improve coordination and dialogue between the auditing agency and the National Congress and civil society.

Diversity in Access to Higher Education
(\$5 million loan from the OC)

As in most Latin American countries, educational indicators for Afro-Brazilians and indigenous peoples are low compared to the rest of the population. This program will promote access to higher education and improve secondary school performance by black and indigenous students. Aimed specifically at improving minority student results in the national secondary school examination, the program will provide entrance grants, living allowances, and special courses of study and training, as well as arrange visits to universities and establish networks. Studies, workshops and curricular and media materials will be directed towards building a consensus on policies and strategies that promote social inclusion and cultural diversity and combat racial and ethnic discrimination in secondary and higher education. The program will be carried out in nine states selected on the basis of representative socioeconomic status of Afro-Brazilian and indigenous peoples nationwide.

LatinTech Investment Fund for Emerging Technology-based Companies
(\$4 million MIF investment and \$60,000 grant)

This project will help capitalize approximately a dozen newly or recently created small and medium-sized companies with high growth potential that provide software solution services in finance and banking, business intelligence and productivity enhancement. Emphasis will be placed on supporting companies that

adhere to disclosure requisites and other corporate governance standards necessary to become listed on the Novo Mercado, a stock exchange listing firms that voluntarily accept high standards. The project will contribute to the development of the venture capital industry in Brazil and support the improvement of the regulatory environment.

Investment Fund for Emerging Technology-Based Companies (Rio Bravo-Investech II)
(*\$3 million MIF investment and \$60,000 grant*)

This fund will invest in 12 to 15 small and medium-sized companies in south and south-east Brazil in sectors related to biotechnology and bio-informatics (representing a maximum of 30 percent of the portfolio), and in solution providers in software and hardware for telecommunications and information technology, including software (representing up to 80 percent of the portfolio). Up to a third of the portfolio is expected to comprise companies in early stages of development, while the rest of the funds will be invested in companies already established.

Development of Industrial Districts
(*\$2.1 million MIF grant*)

Small and medium-sized enterprises account for approximately 98 percent of total domestic business activity in Brazil. This program will target small enterprises that produce goods and services in selected industrial districts, helping strengthen their competitive capacity. The project will establish incentives for industrial cooperation and increase the efficiency and productivity of the enterprises, applying lessons derived from international experience.

Modernization of the Securities Exchange Commission (CVM)
(*\$2 million MIF grant*)

This project will help the Securities Exchange Commission improve market transparency and

the legal framework covering regulated financial entities. The program will finance studies to provide the commission with a road map to deepen its knowledge of international best practices to achieve competitiveness. The objective is to strengthen the country's capital markets, which are operating below potential and are in the process of being modernized. The project will streamline and develop regulatory frameworks, design data management information systems, and train brokers and other agents in security exchange practices.

Sustainable Tourism Certification System
(*\$1.7 million MIF grant*)

This project will establish a certification system to improve the quality and competitiveness of small and medium-sized enterprises in the tourism sector. The first phase of the project aims to certify 400 enterprises. Some 400 professionals will be trained to carry out certification and provide technical assistance to participating companies. By 2010, more than 5,000 small firms in the tourism sector are expected to pursue certification. The project will develop a system of internationally recognized quality standards, evaluations and audits, and certifications. Other productive sectors will also benefit from the project, since it will promote start-ups in goods and services in the environmental, social and economic sustainability areas.

CHILE

In 2002, the Bank approved one loan to Chile. On a cumulative basis, the Bank has made 126 loans totaling \$4,873 million and disbursements have totaled \$4,382 million.

Modernization of the Comptroller General's Office
(*\$15 million loan from the OC*)

The Comptroller General's Office (CGR) monitors the legality of state administration,

maintains the nation's general accounts, and audits the revenue and investment flows of public funds. By supporting CGR modernization and reform, this project will improve the financial management, transparency and protection of state assets. A new results-based organizational structure will help the institution better adapt to its mission and objectives, break down outputs and performance indicators by functional area, and calculate the cost-benefit ratio of activities. Improved information systems and technologies will allow for a more efficient communications network both with external actors as well as between CGR headquarters and its 12 regional offices. Innovative audit, control and monitoring initiatives will include development of a comprehensive audit manual, new audit techniques, and a financial information system.

Hydrological Modeling and Pollution Control Study of the Concepción and San Vicente Bays
(*\$1.2 million grant from the Japanese Trust Fund for Consultancy Services*)

This program will develop operational tools to control water pollution in two key Chilean ports that have long been subjected to runoff from heavy industries, discharges from ship-building and fisheries, and domestic sewage. The studies will use mathematical models to define the load capacity of the two bays and evaluate the environmental changes that result when different measures for controlling wastewater are applied. Among the factors measured will be hydrodynamics, currents and dispersion, and water quality. Using these data as a foundation, a pollution control plan will be developed in accordance with Chilean environmental regulations. The program will also transfer technology and expertise in the fields of hydrodynamics, water quality modeling, and clean-up of industrial and domestic wastewater disposal facilities.

COLOMBIA

In 2002, the Bank approved four loans and four MIF financings to Colombia. On a cumulative basis, the Bank has made 192 loans totaling \$8,864 million and disbursements have totaled \$7,907 million.

Social Infrastructure and Community Management for Peace
(*\$63 million loan from the OC*)

This program will repair, equip and build new schools, health clinics and recreational and other community facilities in impoverished areas affected by Colombia's ongoing armed conflict. An estimated 1,260 social infrastructure works will be financed in 252 small municipalities. To qualify for assistance, communities must comply with fiscal reform legislation and have democratically elected leaders. Nearly a third of the beneficiaries will be black or indigenous. Technical assistance and training provided to municipal governments and community organizations will ensure local participation in project identification, management and maintenance. The aim is not only to improve living conditions, but also to restore the social fabric through community participation, and to strengthen local government as well as the presence of the state.

Highway Development and Institutional Strengthening in Cundinamarca
(*\$21.7 million loan from the OC*)

Cundinamarca surrounds the Capital District of Bogota and is the third largest producer among the country's 32 departments. This operation will lay the groundwork for a comprehensive departmental development plan by improving the road system and strengthening the department's management capacity. The financing will be used to upgrade and pave 240 kms of highways that will complete a beltway around the capital, an external highway ring around the

department, and seven regional trunk lines. In terms of institutional strengthening, the program will provide training, technical assistance and equipment to bolster planning, financial administration and information systems. Management support systems will be implemented to inventory departmental documents, update and value property records, evaluate personnel performance and carry out internal auditing. Finally, the program will strengthen municipal fiscal, financial and land use planning by providing advisory services and modernizing technical and administrative functions.

Institutional Strengthening of the Bogota District

(\$16 million loan from the OC)

This program will improve the delivery of public services by strengthening management of district level planning and budgeting, property registration and land use planning, and by improving management efficiency in capital area municipalities. The program will reorganize key district institutions using a sectoral approach; implement a performance-based budget methodology and information systems to support it; develop 10-year plans and training systems for land use planning; and update property registration systems. Technical assistance and training will improve municipal management skills by better defining the division of services and functions between central and local administrations, and by examining resource allocation measures. The program will promote more public participation in budgetary decisions of local government by strengthening community action groups and improving public access to information. Three public service centers will be built and an interactive on-line services system will be installed.

Colpatria Mortgage Bond Project
(\$5.2 million guarantee from the OC)

Colombia's mortgage market historically has been among the most successful in Latin

America, but an unfavorable macroeconomic climate and rising interest rates have set the sector back in recent years. This operation—the IDB's first private sector mortgage bond guarantee—will strengthen the capacity of *Banco Colpatria*, one of the country's leading mortgage banks, to provide residential mortgages, especially for low-income households. The guarantee is issued in support of \$50 million in mortgage bonds to be issued by Colpatria to local institutional investors. This pioneering effort to establish the mortgage bond as a new instrument in Colombia's capital markets is permitted by new financial regulations passed in 1999.

Business Linkages in the Garment Industry
(\$1.1 million MIF grant)

This program will encourage investments in the clothing industry, particularly in the departments of Caldas, Risaralda and Quindío, areas severely affected by the earthquake of January 1999. The program will establish a coordinated and sustainable process for providing training and technical assistance for garment firms and workers. Approximately 3,000 workers and 1,000 trainers will receive training, and smaller firms will be encouraged to link with larger companies to standardize productive processes, increase productivity, and strengthen the industry's ability to compete internationally.

Information and Communications Technologies to Support Business Performance
(\$1 million MIF grant)

In the past five years, Internet use in Colombia has tripled, from less than 500,000 users to more than 1.5 million. All companies in Colombia with more than 100 employees are now connected to the Internet, and nine out of ten have a website. This project will make small and medium-sized companies more competitive through the use of information and communications technology (ICT),

and will also stimulate the national market for ICT. The firms will be encouraged to form and strengthen business communities through the use of information technologies and electronic commerce, particularly business-to-business electronic commerce (B2B) on the Internet, which reduces transaction costs and increases efficiency.

Strengthening Capital Markets
(*\$1 million MIF grant*)

This project will help strengthen Colombian capital markets in order to bring them up to the country's level of economic development. Funds will be used to create a data warehouse containing financial and individual firm data for the use of investors. It will also support the efforts of the *Bolsa de Valores de Colombia (BVC)* to protect investor interests, particularly minority investors, by disseminating corporate governance requirements based on international standards. The data warehouse will include historical information from the three stock exchanges that merged to form the BVC, as well as current information regarding traded instruments.

Promoting Cooperative Business Ventures
(*\$1 million MIF grant*)

This project will enhance the competitiveness of small and medium-sized enterprises by encouraging and strengthening cooperative ventures among firms linked either horizontally in industrial clusters or vertically in production chains. The project will demonstrate the effectiveness of such ventures in terms of sharing technology, building economies of scale, and training. It will also encourage shared ventures and build greater trust and confidence among firms. International experience has shown that by working together, firms in one industry (preferably located in the same geographical area) can pool assets to obtain economies of scale and lower costs.

COSTA RICA

In 2002, the Bank approved one loan to Costa Rica. On a cumulative basis, the Bank has made 98 loans totaling \$2,196 million and disbursements have totaled \$1,814 million.

Sustainable Agricultural Production
(*\$14.4 million loan from the OC*)

This program will help small and medium-scale farmers increase production using environmentally sustainable agricultural practices. The operation will finance technical assistance and investment projects that apply new technologies, adapt productive systems to changes in local or international markets, make more efficient use of soil resources to free up surplus land for forestry or conservation, reduce the use of agrochemicals by applying natural resource management techniques, and implement product grading and certification. Activities will focus on Chorotega, Brunca and Huetar Norte, where rural poverty is most severe. Training will strengthen the business skills of producer organizations as well as women's and youth groups. The InfoAgro network will be expanded to include all agricultural service agencies, and extension agents will be trained to help improve competitiveness in nontraditional areas.

DOMINICAN REPUBLIC

In 2002, the Bank approved four loans to the Dominican Republic. On a cumulative basis, the Bank has made 80 loans totaling \$2,565 million and disbursements have totaled \$1,698 million.

AERODOM Airports
(*\$150 million guarantee from the OC*)

Tourists represent 75 percent of passenger arrivals in the Dominican Republic, so

improving airport infrastructure is vital to the nation's economy. This operation will finance construction of two new airports and repairs and expansion of two others. The project is being carried out by a private firm, *Aeropuertos Dominicanos Siglo XXI (AERODOM)*, under a 20-year concession awarded by the government to build and operate the airports. The financing will be used to complete construction of the La Isabela Airport north of Santo Domingo and build a new airport in Catey on the Samana peninsula. Upgrades to the Gregorio Lupón Airport in Puerto Plata and Las Américas Airport in Santo Domingo will include construction of new buildings, repairs to runways and aprons, expansion of parking lots, and improvements to utilities and service-related infrastructure. The financing will take the form of project bonds for which the IDB will provide a guarantee of certain AERODOM obligations.

Multiphase Program for Equity in Basic Education

(\$80 million loan from the OC with an IFF interest rate subsidy)

This program will raise educational achievement in rural and marginal urban areas by expanding access to primary schools and improving students' basic skills. Training and educational equipment and materials will support implementation of a pedagogical model tailored to the needs of disadvantaged students in multigrade rural schools. The program will also refurbish classrooms and build water and sanitation facilities for schools in need. In schools in low-income areas of Santo Domingo, Santiago and La Vega, the focus will be on reducing dropout rates by providing special remedial courses for students falling behind, training teachers, implementing specific measures for over-age students, and expanding libraries and other school facilities. The program will also extend an educational management system to networks of rural schools, install

information systems, and establish a competitive fund for innovative educational initiatives.

Support for Competitive Agriculture

(\$55 million loan from the OC)

Although agriculture is a key productive sector in the Dominican Republic, its share of GDP has declined steadily over the past decade, in part because small farmers have not adopted modern technologies to boost efficiency. The project will provide partial cash rebates to producers who purchase new technologies that sustainably reduce production costs through ground leveling, irrigation, zero or minimal tilling, vitroplants, greenhouses, rehabilitation or conservation of pastures, and forestation or agro-forestry. The project will also promote food and health safety regulations and upgrade laboratories and quarantine stations. Consulting services and other technical assistance will support commercial and institutional reforms, including design of a consolidated customs tariff and a direct compensatory support system, and organizational improvements in agri-food regulation and credit.

Disaster Prevention and Risk Management Program

(\$5 million loan from the OC)

The overall goal of this program is to help the government implement key elements of its national risk management strategy and to provide the technical analysis to eventually expand public investment in risk reduction. A pilot risk management program in eight municipalities will train local environmental units, conduct a public awareness campaign, prepare risk reduction action plans, upgrade information systems, and provide emergency preparedness equipment. To protect schools and students from natural disasters, the program will work in 540 schools to train 5,000 teachers in risk reduction and management techniques, develop school emergency plans, and provide equipment. Technical teams, stud-

ies and instruments will strengthen national risk management policy and administration by the executing agency, the Technical Secretariat of the Presidency.

ECUADOR

In 2002, the Bank approved three loans and one technical cooperation operation to Ecuador. On a cumulative basis, the Bank has made 167 loans totaling \$3,792 million and disbursements have totaled \$3,561 million.

Metropolitan Quito Environmental Sanitation Program (Phase I) (*\$40 million loan from the OC*)

As Quito has expanded onto the steep slopes that surround it, those areas have been deforested, increasing surface water and erosion, overloading the sewer system, and putting lives at risk. This operation will reduce the danger of flooding, landslides and mudslides by building slope stabilization works and repairs and expanding the sewer system in the central and southern parts of the city. Water conveyance systems, distribution lines and residential connections will also be installed to expand the water supply to low-income areas. Green areas will be built in slope management intervention zones, and community enterprises will be established for trash collection. To improve efficiency, consulting services will be used to help privatize part of the local water utility, and measures will be put in place to control unbilled water and expand hydro-meteorological monitoring.

Housing Sector Support Program II (*\$25 million loan from the OC with an IFF interest rate subsidy*)

The formal housing sector currently can meet only half of Ecuador's growing demand for urban housing, which often results in low-income families turning to the informal sector

to solve their housing needs. This program will provide subsidies in the form of vouchers that will enable poor households to afford a new home or improve their current dwelling. Financing extended to municipalities will encourage them to target low-income areas for improvements in basic infrastructure and services, including water supply, day care, property titling, parks and community centers. The subsidy portion of the program also aims to stimulate the private financial and construction sectors, since the vouchers will enable households to qualify for a mortgage. Subsidies for home improvements will give priority to connections to basic utilities and construction or expansion of kitchens, bathrooms and roofs. In all, an estimated 136,000 people will benefit from the program.

Sustainable Development of the Northern Amazon Border Zone (*\$10 million loan from the OC and \$500,000 technical cooperation grant from the FSO*)

The Northern Amazon Region accounts for 80 percent of Ecuador's biodiversity, but extractive industries and growing settlements are causing damage to the environment. This program will strengthen protection of the Cuyabeno Wildlife Preserve and its buffer areas while also supporting sustainable productive projects for impoverished farmers in the area. An estimated 4,000 cacao and coffee producers in the border provinces of Sucumbíos, Orellana and Napo will receive technical assistance, training and equipment that promote agri-ecological practices. Surveying and titling will delineate protected areas and regularize indigenous ancestral lands and property belonging to settlers. A control and supervision program will be established for the preserve, and pilot projects will explore the market potential for biodiversity products such as medicinal plants, ecotourism and natural foods.

EL SALVADOR

In 2002, the Bank approved two loans and one MIF financing to El Salvador. On a cumulative basis, the Bank has made 105 loans totaling \$2,909 million and disbursements have totaled \$2,363 million.

Global Multisector Credit Program *(\$42.4 million loan from the OC)*

The ability of El Salvador's financial system to meet growing demand from small and medium-sized firms for loans is constrained by the limited availability of long-term resources. This operation will provide a stable supply of such financing in order to help these private firms boost productivity and competitiveness. Funds extended to the country's Multisector Investment Bank (BMI) will finance lending by eligible intermediary financial institutions (IFIs). The subloans will be available to start-up and existing manufacturing, trade and services companies that need credit for procurement of fixed assets, working capital for expansion, restructuring or modernization of production, and hiring of technical and managerial services. Technical assistance will strengthen the institutional capacity of the BMI to access domestic and international capital markets and help IFIs conduct risk analysis and expand financial services in rural areas.

Support for the Social Peace Program *(\$27.9 million loan from the OC)*

This program will improve public safety by supporting social services for young people in areas with high levels of crime and violence. To build safer neighborhoods and address the factors underlying delinquency, the program will promote community-based social organizations, upgrade recreational facilities such as sports fields and meeting halls, establish employment and job training programs, and support interventions in schools such as lead-

ership training, dispute settlement and anti-drug programs. The financing will also support projects to improve police-community relations, prevent and treat domestic violence, and rehabilitate young offenders. New information technology will be brought in to systemize crime statistics data, expand the childhood information system to protect minors, and implement a computerized prison registry.

Financial and Family Remittance Services for Low-income Groups *(\$1.5 million MIF grant)*

This project will improve access to financial services for low-income groups, especially in rural areas. It will help strengthen the management and financial capacity of the 29 members of the Federation of Credit Unions of El Salvador (FEDECACES), which operate in 13 of the country's 14 departments. FEDECACES and the credit unions will receive support to integrate their remittances services and automate their information and operational systems in order to cut costs and increase efficiency. FEDECACES and credit union staff will receive training in managing and promoting these services.

GUATEMALA

In 2002, the Bank approved five loans and one MIF financing to Guatemala. On a cumulative basis, the Bank has made 109 loans totaling \$2,539 million and disbursements have totaled \$1,983 million.

Financial Sector Reform Program II *(\$200 million loan from the OC with an IFF interest rate subsidy)*

This program will modernize the legal framework of the banking sector and strengthen the agencies that regulate it. Legal reforms will enable the Central Bank and the Superintendency of Banks to fully exercise

their functions in implementing monetary, exchange and credit policies and supervising and regulating financial institutions. The loan will be released in tranches based on adoption of a macroeconomic stabilization program and implementation of a series of legal reforms, including measures that clarify the functions of the Central Bank, ensure its independence and restore its capital; eliminate restrictions on ownership of foreign exchange; implement a new system of risk management; consolidate supervision of financial groups; and establish new accounting and auditing norms.

Urban Poverty Reduction Program
(\$46.8 million loan from the OC)

This program will provide basic infrastructure and social services for slum settlements in and around Guatemala City. Living conditions will be improved for an estimated 85,000 people living in 32 shantytowns in the metropolitan area. The operation will finance construction of water supply and sewerage works, markets and recreational facilities, road improvements, street lighting, and waste disposal services. Land titling will legalize family properties, and slope stabilization, reforestation and construction of retention walls will protect residents from natural disasters. Social services will focus on at-risk groups and will include provision of community daycare, school enrichment programs, preventive health, family counseling, and job training and placement.

*Natural Resource Management in
Upper Watersheds
(\$40 million loan from the OC)*

This project will promote environmentally and financially sustainable productive activities as a way to reconcile the need to preserve soil and water resources with the economic needs of people who live in upper watershed areas. Financial and technical assistance will be provided for initiatives that transform land use patterns and convert productive systems that

degrade the natural resource base into ones that are environmentally friendly. Projects eligible for support will include agroforestry, construction of basic infrastructure such as irrigation systems and warehouses, small-scale processing of forest products, and production of organic coffee. Small and medium-size producer organizations in 94 municipalities in impoverished areas of central and western Guatemala with largely indigenous populations will be eligible to participate in the program.

Capital Expenditures for Electricity Distribution
(\$25 million loan from the OC)

This program will expand electricity coverage and improve the reliability and efficiency of service delivery. New connections will be installed in rural areas where most customers live below the poverty line. The program will reduce service interruptions, technical and nontechnical losses, and operating maintenance costs. Investments will upgrade technical installations and add safety devices and digital protection to the distribution network; bring energy control, quality and environmental requirements up to international standards; and upgrade the commercial network. The operation will be carried out by two private electricity distribution firms operating under the direction of *Unión Fenosa Internacional*, a Spanish company that was awarded an electricity distribution concession in Guatemala.

Labor Market Program
(\$10 million loan from the OC)

The dual objectives of Guatemala's labor policies are to get more of the working-age population gainfully employed and improve the productivity of those who are working or underemployed. This program will enhance labor market participation by providing training for vulnerable rural populations and by better matching training with employment needs. Training programs targeted to impover-

ished areas as well as at-risk groups such as female heads of households will benefit an estimated 25,000 unemployed or underemployed rural residents. In urban areas, on-the-job training and special courses to develop core job skills will help the job search or performance of 4,000 young people between the ages of 18 and 29. The program also will create an electronic job bank and employment services network, sponsor job fairs, and strengthen the national labor statistics system.

Banking Regulation and Supervision
(\$1 million MIF grant)

This project will improve the solvency, efficiency and transparency of the Guatemalan banking system. A major objective is to strengthen the Superintendency of Banks to enable it to implement and enforce the new legal framework as well as consolidate its supervision of all entities in the financial system. Project components include drafting regulations for new laws, upgrading inspection and account manuals, and improving information systems.

GUYANA

In 2002, the Bank approved three loans to Guyana. On a cumulative basis, the Bank has made 44 loans totaling \$820 million and disbursements have totaled \$584 million.

Basic Education Access and Management Support Program (Phase One)
(\$30 million loan from the FSO)

This program will finance construction and repairs of secondary schools in underserved areas and strengthen primary education through a series of curricular and pedagogical reforms in literacy and numeracy. To expand educational access, five new secondary schools will be built and seven others expanded or repaired in targeted low-income areas.

Equipment, supplies and furnishings will be provided for five schools in remote areas. To improve student performance in primary schools, the program will finance results-oriented literacy programs, core numeracy instruction via interactive radio, community-based initiatives to increase attendance, introduction of modern technologies into teaching, learning and school administration, teacher training, and a comprehensive student assessment system.

Electrification Program for Unserved Areas
(\$27.4 million loan from the FSO)

An estimated 40,000 new households in Georgetown and other coastal regions will get electricity connections through this operation. Many of the new customers will be low-income families in township developments and squatter settlements in the process of being repaired or regularized. The connections will be made possible by extension of 13.8kV distribution lines totaling about 200 kms and their linkage to the 69kV transmission system. The program will also finance pilot projects to test the viability of applying representative technologies and locally available energy sources in isolated areas where extension of existing grids is not feasible. Finally, training and technical assistance will support ongoing structural reforms of the electricity sector by strengthening the legal, regulatory and institutional framework, particularly in support of efforts to extend service to remote areas.

Basic Nutrition Program
(\$5 million loan from the FSO)

This program will reduce malnutrition among mothers and young children through a series of health, nutrition and education interventions. Food vouchers for children up to 24 months old will be issued in poor districts contingent on family participation in health education programs at local clinics. Iron supplements also will be available at the clinics for children and

lactating and pregnant mothers in order to combat anemia. A national information, education and communication strategy will be developed to promote breastfeeding and child nutrition, and health workers will receive training on those topics. An evaluation will assess the project's impact on children's nutritional status.

HAITI

In 2002, the Bank approved one technical cooperation operation to Haiti. On a cumulative basis, the Bank has made 47 loans totaling \$750 million and disbursements have totaled \$549 million.

Institutional Strengthening Initiatives (\$950,000 TC grant from the FSO)

This program will improve public financial management by strengthening the Ministry of Economy and Finance (MEF) as well as other central government agencies. Training and technical assistance will bolster MEF capacity to undertake strategic planning for economic policies, expenditures, investment, aid and debt; prepare and execute the national budget; collect and analyze information on resource flows; manage internal and external debt; and verify accounting information and consolidate financial statements. Support for other agencies will focus on introducing a centrally managed institutional strengthening program to improve efficiency and effectiveness in all aspects of managing public resources. The program will also provide consultancy services and install computer hardware and software.

HONDURAS

In 2002, the Bank approved seven loans to Honduras. On a cumulative basis, the Bank has made 135 loans totaling \$2,300 million and disbursements have totaled \$1,859 million.

Modernization of the Administration of Justice (Stage II) (\$30 million loan from the FSO)

Honduras is strengthening its legal and judicial institutions in order to consolidate the rule of law and ensure the transparency and ethical standards of its justice system. This program will finance construction of 10 new judicial facilities across the country that will house sectional lower courts, specialized courts, and justices of the peace. Existing facilities will be modernized to include new special criminal courts and sentencing tribunals. The program will provide technical assistance, training and equipment for penal reforms, clearing up case backlogs, and strengthening Public Defender Offices. To promote professionalism in criminal procedures, the investigative capacity of the Public Prosecutor's Office and law enforcement will be strengthened. Information system networks will be installed to improve inter-agency coordination, and the program will support legislation, as well as enforcement of a new Code of Criminal Procedure, to institutionalize an ongoing and participative legal reform process.

Aguas de San Pedro Sula Water and Sewerage Project (\$13.7 million loan from the OC)

This loan will finance a comprehensive five-year investment program to expand and upgrade water and sewerage services in San Pedro Sula, an industrial center and the second largest city in Honduras. The program will be carried out by a private firm, *Aguas de San Pedro Sula de C. V.*, which was awarded the concession by the city to provide these services. The loan will finance construction of four water treatment plants and improvements to existing plants; construction of a collector network and storage tanks; installation of water meters, pumping equipment and fire hydrants; laying of pipelines to incorporate isolated systems and in future growth areas; and repairs or

replacement of equipment throughout the system. The project company includes investors from a number of leading Italian water and sewerage firms.

Bay Islands Environmental Management Program II

(\$12 million loan from the FSO)

The Bay Islands include three main islands and more than 60 smaller keys about 50 kms east of the Honduran mainland. The archipelago provides a base for the country's industrial fishing fleet, and its surrounding coral reefs are a major tourist attraction. This operation will strengthen management of coastal and marine resources, expand environmental sanitation services, and improve local land use planning. A fee system will be established to finance the protection and restoration of critical ecosystems. Potable water supply, wastewater treatment and solid waste management services will be expanded for 20,000 residents on the islands of Utila, Guanaja and Roatán. Technical assistance will strengthen municipal capacity to operate and maintain the services. The program will also secure property rights for 5,800 low-income households and establish a modern property registry linked to four municipal cadastres.

San Pedro Sula Municipal Development Program (Phase II)

(\$9 million loan from the FSO)

This ongoing reform program will restructure municipal financial management to improve efficiency and modernize service delivery. Covering an array of municipal services, the program will build on institutional reforms implemented during the first phase. Technical assistance will help plan transportation investments and develop road maintenance and traffic management programs. A sanitary landfill will be built and a private firm hired for solid waste management. Housing will be built for some 2,000 low-income beneficiaries and resettlement

models will be developed for at-risk populations. To improve administration, an integrated financial management system will be implemented along with electronic services. Finally, environmental reforms include developing a management plan for the Merendón watershed and intensifying efforts to manage growth, with an emphasis on public participation.

Sustainable Institutional Strengthening of the Road Sector

(\$7.6 million loan from the FSO)

This operation will implement a pilot road safety project and support improvements in road planning, design, construction and maintenance. The pilot project involves installing road safety measures and building 10 pedestrian bridges along the Northern Highway (CA-5) between Tegucigalpa and San Pedro Sula. Training and equipment will be provided for traffic officers. Road safety management entities such as a national Road Safety Council, safety units and an accident information system will be institutionalized. The program will create a new agency to specifically manage and execute road projects, develop a multiyear transportation investment plan, and provide training in planning, engineering, and environmental, legal and procedural issues. Finally, a road concession feasibility study will be carried out and the performance of road maintenance firms monitored through a new evaluation system.

Puerto Cortés Sewerage Project

(\$4.5 million loan from the FSO)

This operation will finance completion of a comprehensive sanitation program that the municipality has been working on since 1997. The operation is in the form of amendment to an earlier IDB loan that financed the development of sustainable potable water and wastewater disposal services. That operation supported construction of a sewage collection network and implemented a series of institu-

tional changes that improved the efficiency of sanitation services. But increased construction costs require the loan amendment to complete construction of the treatment plant, which is critical to reducing pollution in the receiving waters from the collection network.

Modernization of the National Statistics System
(*\$4 million loan from the FSO*)

This project will support the collection, processing and analysis of timely and reliable survey information that is vital to government decision-making. Technical assistance will support the design and implementation of social and economic surveys to provide primary statistical data in such areas as employment, living standards and business and agricultural activity. A permanent training program will be established for staff at the National Statistics Institute (INE), with courses covering basic analysis of statistical data, fieldwork organization and logistics, data capturing and purging, and sample design and updating. The program will strengthen the INE by upgrading statistical tools, technologies and procedures, and by improving supervision, coordination, regulation and auditing of data throughout the national statistics system.

JAMAICA

In 2002, the Bank approved two loans to Jamaica. On a cumulative basis, the Bank has made 86 loans totaling \$1,704 million and disbursements have totaled \$1,448 million.

Information and Communications Technology
(*\$17 million loan from the OC with an IFF interest rate subsidy*)

This program will enhance Jamaica's "e-readiness" by promoting the use of information communications technology (ICT) in the public and private sectors and throughout society. Technical assistance will help put a number of

government fiscal and trade agencies on line, enabling citizens to pay taxes and obtain import and export permits electronically. The program will also strengthen the legal and regulatory framework for telecommunications and lay the groundwork for installation of an e-procurement system. To reach out to low-income areas without Internet access, training, equipment and software will be provided to set up 60 "community access points" where citizens can access online information and services about employment, markets, distance learning and other topics. Scholarships for ICT training will also be provided.

Emergency Reconstruction Facility
(*\$16 million loan from the OC*)

Two weeks of torrential rains across Jamaica in the spring of 2002 brought heavy flooding, landslides and mudslides that caused extensive damage. This emergency operation will support immediate repairs to basic infrastructure in five parishes that were declared disaster areas: Clarendon, Manchester, St. Catherine, St. Elizabeth, and St. Thomas. The program will finance removal of debris from roads, clean-up of blocked canals and flooded well fields and stations, and repairs of roads, drainage systems, water supply and health care facilities, and electrical equipment. To prevent disease outbreaks in the aftermath of the disaster, the program will support water quality monitoring, vector control and health education. Technical assistance will also be provided to strengthen institutions involved with emergency preparedness.

MEXICO

In 2002, the Bank approved one loan and four MIF financings to Mexico. On a cumulative basis, the Bank has made 174 loans totaling \$16,015 million and disbursements have totaled \$13,223 million.

Consolidation and Expansion of the Health, Education and Nutrition Program (Oportunidades)
(*\$1 billion loan from the OC*)

Created in 1997, *Oportunidades* (originally named *Progresá*) is the centerpiece of Mexico's efforts to help those living in extreme poverty. The program is often cited as one of the region's most innovative anti-poverty initiatives because of its targeting and design, and because it elicits co-responsibility from beneficiaries. *Oportunidades* provides families with educational grants and basic health and nutritional services, but beneficiaries must meet such counterpart obligations as school attendance and participation in health education programs. This operation—the largest IDB loan ever made to Mexico—will provide technical assistance, training, materials and equipment to assist *Oportunidades* in selecting localities, identifying and incorporating new families, and strengthening processes that recertify current beneficiaries. Initially focused on rural areas, *Oportunidades* will be expanded to semi-urban and urban locales, where an estimated one million new families are expected to benefit from this first program phase. Educational support will be expanded to include students in upper secondary school. To ensure efficiency and long-term project impact, this operation will strengthen monitoring, auditing, social communications, and coordination with other social programs.

Tourism Sector Ancillary Industry Fund
(*\$7 million MIF investment and \$45,000 grant*)

This fund will provide small and medium-sized enterprises with resources for financial or business restructuring, expansion, development of new products and technologies, and management improvement. The fund will invest in up to 18 Mexican businesses with strong growth potential and skilled management. To qualify, firms must have sales and assets of under \$5 million and less than 100

employees. The firms will have access to medium- and long-term financing, as well as support for their management and productivity.

Chihuahua Venture Fund
(*\$4 million MIF investment and \$110,000 grant*)

This project will help finance a venture capital fund in the state of Chihuahua that promotes small business start-ups, new technologies, and expansion projects for existing businesses to enhance competitiveness. The fund will invest in approximately 20 small and medium-sized firms, all with sales and assets under \$5 million and fewer than 100 employees. Priority will be given to investments made by means of quasi-equity instruments such as convertible loans and debt with a share of profit or sales. By introducing a risk capital instrument to the market, the fund aims to help build a more entrepreneurial culture.

Strengthening Institutions in the Low-income Savings and Loan Sector
(*\$3.5 million MIF grant*)

This project will promote orderly development of Mexico's savings and loans institutions, protect domestic savings, and foster the introduction of new financial services for small and medium-sized enterprises. The grant will be used to upgrade the technological capabilities of the National Bank of Savings and Financial Services (BANSEFI), which has a network of 1,000 branches throughout the country. These improvements will help BANSEFI adapt to a new legal framework and compete in the remittance market, offering services to nationals living abroad who regularly send money back to their family members in Mexico.

Water Sector Reform and Establishment of a Regulatory Agency in Veracruz
(*\$1 million MIF grant*)

This project will support efforts by the government of Veracruz to modernize the potable

water and sanitation sector. Private sector participation will be encouraged in the administration of services and the financing of required investments. The project will revise and reform the regulatory framework, establish a strategic development plan, and create and strengthen an autonomous regulatory agency.

NICARAGUA

In 2002, the Bank approved six loans and one MIF financing to Nicaragua. On a cumulative basis, the Bank has made 120 loans totaling \$2,010 million and disbursements have totaled \$1,490 million.

Rural Production Revitalization Program (\$60 million loan from the FSO)

This financing will increase productivity in rural areas by providing grants for projects that improve competitiveness and upgrade productive infrastructure. Resources and other support will be provided to an estimated 35,000 low-income farmers in 120 municipalities nationwide to convert toward higher-value crops. Technical assistance will introduce specialized technologies to diversify production, and management training will help producer organizations with marketing, environmentally sustainable productive practices, and drought reduction techniques. Investment projects will finance construction and repairs of roads and civil works for irrigation, electrification, erosion, flood and slope control, and marketing, storage and other productive infrastructure. The program will strengthen environmental and accounting management by the Rural Development Institute and help the Ministry of Agriculture and Forestry prepare an action plan for rural productive development.

Social Policy Reforms for the Poverty Reduction Strategy

(\$30 million loan from the FSO)

This operation will support social policy reforms aimed at reducing poverty. Funds will be disbursed in tranches based on progress in implementing key social sector reforms and meeting poverty reduction targets related to health, education and social welfare. Priority budget expenditures will be monitored to ensure that they are consistent with the country's poverty reduction strategy. Education reforms will address school autonomy, educational incentives and adult education, while health priorities will include funding for drugs and pharmaceuticals, hospital equipment and repairs, strengthening rural primary health care, and providing surgical instruments to health units. Social welfare reforms will ensure sufficient resources for programs to help the country's most vulnerable groups, such as high-risk children and adolescents. The reforms supported through this program will enable Nicaragua to secure the full benefits of debt relief under the Heavily Indebted Poor Countries (HIPC) initiative.

Low-income Housing Program (Phase One) (\$22.5 million loan from the FSO and a \$300,000 grant from the Austrian Hurricane Mitch Trust Fund)

Nicaragua has the fastest urbanization rate in Latin America, and the country's incipient housing industry has been unable to meet the needs of these new urban households, the vast majority of which are poor. Destruction of some 41,000 homes by Hurricane Mitch exacerbated the housing shortage. This program will provide subsidies to help 17,500 households build a home or repair or expand an existing dwelling. Most of the financing will be in the form of group subsidies provided to poor communities that apply collectively to a newly established housing entity, the Institute for Urban and Rural Housing (INVUR).

Technical assistance and training will help install the management information system needed to connect INVUR with the NGOs and municipalities through which it will provide the subsidies. The program will also provide assistance and incentives for mortgages and land titling aimed at stimulating development of a private sector housing microfinance industry.

Social Safety Net Program (Phase II)

(\$20 million loan from the FSO)

This comprehensive program provides families living in extreme poverty with subsidies for food, health and education. Beneficiaries are selected based on rigorous targeting procedures and must meet certain counterpart obligations, such as regular visits to health clinics, participation in health education programs, and consistent school attendance. Phase II will expand the program to 12,500 new households while providing ongoing support for the 10,000 households already enrolled. An evaluation of Phase I found significant improvements in participating households in terms of school enrollment, attendance and retention, child growth and development, immunization coverage and nutrition. Implementation of the poverty reduction strategy supported by this program has enabled Nicaragua to benefit from the Heavily Indebted Poor Countries (HIPC) initiative supported by the IDB and other multilateral institutions.

Modernization of the Comptroller General's Office

(\$5.4 million loan from the FSO)

This operation will ensure timely, efficient and transparent oversight of state resources by modernizing and strengthening the organization, management and technical capacity of the country's supreme audit institution. Technical assistance will help the Comptroller General's Office establish a new organizational structure, prepare strategic and management plans,

design and implement guidelines and procedures, and formulate a human resources policy. Technology infrastructure will be developed to expand networks, implement a data management reporting system, and establish an agency-wide communications network. A training program will be put in place to help staff upgrade technical skills in the use of information systems for management procedures, control systems and office tasks.

Strengthening Foreign Trade Management

(\$5 million loan from the FSO)

This operation will strengthen Nicaragua's position in international trade negotiations as a prelude to opening new business opportunities for its goods and services. Technical assistance will boost administrative and management capacity to carry out existing trade agreements and take part in negotiations on a free trade agreement between Central America and the United States, the Doha Development Round, and the Free Trade Area of the Americas. To strengthen export promotion, the program will draft a national export development plan, develop a trade information system, and finance studies on exportable supply, product market profiles, and participation in trade fairs. Technical training plans will be developed on export facilitation for entrepreneurs and public sector officials and on trade promotion for foreign service personnel. Finally, consultative mechanisms will be established to facilitate dialogue between the public and private sectors and civil society on the full range of trade issues.

Support to the Superintendency of Banks

(\$1.2 million MIF grant)

This project will support the development of an efficient capital market in Nicaragua by strengthening the Superintendency of Banks and Financial Institutions (SBIF). The capacity of the SBIF to regulate, supervise, and inspect bank and nonbank financial intermedi-

aries will be improved, leading to greater technical and administrative efficiency. The project aims to reduce the vulnerability of the country's financial system and give a broad segment of the population access to credit without jeopardizing public deposits.

PANAMA

In 2002, the Bank approved five loans to Panama. On a cumulative basis, the Bank has made 119 loans totaling \$1,988 million and disbursements have totaled \$1,513 million.

Land Administration and Regularization (\$27 million loan from the OC)

This program, which also has received financial support from the World Bank, will provide the technical and legal support necessary for a comprehensive land regularization program in the provinces of Herrera, Los Santos, Veraguas, Coclé and Colón. An estimated 120,000 new titles will be issued through the operation, in turn facilitating access by homeowners to credit and promoting community investments. Regularization services will include legal cadastre, titling or certification, registry of properties, and dispute resolution programs. Technical assistance will strengthen and modernize the institutional and technical capacity of the entities responsible for land titling and administration at the municipal, provincial and national levels. To bolster the long-term economic impact of land regularization, the program will strengthen land use management and promote measures to improve local access to information, services and infrastructure.

Sustainable Development of Bocas del Toro (\$15.2 million loan from the OC)

The Bocas del Toro region along Panama's northwest Atlantic coast includes extensive forests, farming and fishing resources, as well as scenic areas with potential for tourism.

However, settlement patterns and uncontrolled resource exploitation pose a growing threat to the region. This multiphase program will strengthen natural resource management, encourage economic diversification and provide basic infrastructure. The operation will finance construction of a bridge over the Changuinola River, wastewater treatment for Chiriquí Grande, and solid waste collection and disposal for Isla Colón. Technical assistance will improve the delivery of utility and transport services and promote civil society participation in decision making. Studies will examine coastal management, ecotourism and land use planning, and advisory services will help reduce the risk of natural disasters and strengthen business management by small farmers and fishermen.

Strengthening and Modernization of Economic and Fiscal Management (Phase II) (\$10 million loan from the OC)

This program will improve public sector fiscal management by streamlining and modernizing expenditure, investment and borrowing processes, making the tax system more efficient, and strengthening customs and land use procedures. Budget planning, programming and control will be reviewed to ensure that investment options yield the highest return while conforming to public macroeconomic targets. A series of reforms will better integrate and consolidate financial management components of the budget, general treasury, public debt and national accounting directorates. Measures to modernize and professionalize tax administration will combat evasion and increase revenues. Training and technical assistance for the customs administration will reduce transaction costs for international business by upgrading human resources and technology and by streamlining regulatory, administrative and management procedures. The property registry system will be strengthened through property tax reforms and support for new information technology.

Training and Employment System
(\$8.4 million loan from the OC)

This operation will strengthen training and employment programs for youth, small business workers and disadvantaged groups. An estimated 7,000 unemployed low-income youths will benefit from demand-driven training and job counseling and placement services provided by private firms contracted through the program. School-to work transition assistance will provide career path counseling and job hunting tools for another 4,400 young people. An in-service training program will provide matching funds to small businesses that invest in workforce training, and specialized training will meet the employment needs of disadvantaged groups such as indigenous peoples, blacks, female heads of households, and the disabled. At the institutional level, technical assistance will establish a Consultative Job and Workforce Development Council and strengthen employment intermediation services.

Program to Foster Competitiveness
(\$7 million loan from the OC)

This program looks to build a public and private sector consensus on policies and programs to enhance business competitiveness in agroindustry, logistics, technology services and tourism. The program will fund national and sector-specific diagnostic assessments that identify barriers to competitiveness. It will also support the start-up of a national team to lead a participatory planning process that decides on the objectives, instruments and actions to best meet the challenge of making businesses more competitive. A national competitiveness strategy will be developed to improve the business climate and provide matching grants to firms for projects that advance productivity in terms of better products, services and production chains.

PARAGUAY

In 2002, the Bank approved one loan to Paraguay. On a cumulative basis, the Bank has made 110 loans totaling \$1,770 million and disbursements have totaled \$1,365 million.

Social Investment Program (PROPAIS II)
(\$28.4 million loan from the OC)

This operation will fund social investments to improve the living conditions of the poor, particularly vulnerable groups such as children, female heads of households, indigenous communities, street children, the disabled and the elderly. Beneficiaries will design comprehensive social development plans in cooperation with local authorities for projects for water and sanitation facilities, food production, job training, income generation, health and nutrition services, and construction of community, daycare and special education centers. Neighborhood improvement projects for marginalized urban areas will focus on titling of property as well as building social infrastructure, including road repairs and waste disposal and environmental protection works. An estimated 12,500 families will benefit from these projects, while another 25,000 will benefit from a separate portion of the operation that will specifically target vulnerable groups living in poverty.

PERU

In 2002, the Bank approved five loans to Peru. On a cumulative basis, the Bank has made 161 loans totaling \$6,046 million and disbursements have totaled \$5,211 million.

Fiscal Reform Program
(\$300 million loan from the OC)

This operation will support reforms in the management of tax, pension and social programs in order to make them more efficient

and equitable. The resources from this policy-based loan will be released in tranches based on progress in increasing tax collection by reducing exemptions and consolidating recent reforms; improving coordination between budgetary, treasury, debt management, public investment and accounting systems; enhancing fiscal decentralization; improving the targeting of social programs to ensure that they benefit those most in need; and reducing the fiscal cost of the public pension system by implementing legislation to limit payments to heavily subsidized pensioners while increasing benefits for low-income pensioners.

Compensation and Social Development Fund (FONCODES III)

(\$150 million loan from the OC)

Since it was created in 1991 under a national initiative to mitigate the impact of macroeconomic adjustments, FONCODES has financed thousands of poverty alleviation projects across the country. This loan will enable FONCODES to expand basic social infrastructure, develop productive projects, and strengthen project participation by local governments. The program will finance construction or repairs of schools, health centers, water and sanitation facilities, roads, electrical systems, irrigation works, and marketing facilities, as well as land improvements and reforestation. Credit and technical assistance will help small businesses diversify production and incorporate new technologies. Rural communities and the regional and local entities linked to their development will be trained in project planning and execution. FONCODES staff will be trained in such areas as social management, and the institution's information systems will be upgraded as part of an equipment modernization plan.

State Modernization and Decentralization

(\$28 million loan from the OC)

This operation will support efforts to build a modern, efficient and decentralized state that

can deliver quality services and is accessible and accountable to all citizens. The program will promote the policies and regulations needed to develop e-government and will implement online services—including an electronic procurement and contracting system—as well as a state intranet. Reforms to human resource management—including changes to the legal framework, unification of payrolls and design of new remuneration policies—will improve the efficiency of public service delivery. The program will help set up 25 regional governments scheduled to begin operations in 2003 according to Peru's decentralization law. Technical assistance, training and equipment will be provided to establish regional administrative and management systems and to transfer the competencies needed to make those systems functional. A nationwide system will also be put in place to strengthen municipal institutions impacted by the decentralization process.

Foreign Trade Policy Development Program

(\$5 million loan from the OC)

This program will support institutional reforms that improve trade policy management as a means to increase and diversify the country's exports and markets. The financing will be used to establish an integrated foreign trade information system and to update a technical and analytical database for designing strategies for trade negotiations and export development. Training will strengthen the capacity of institutions involved in policy formulation, trade promotion and the administration of trade agreements. The program will support restructuring of the Vice Ministry of Trade in order to strengthen the interagency external trade system, and will work to develop an institutional network to better coordinate trade promotion and national foreign trade policies. Finally, consultative mechanisms will be put in place to ensure dialogue on trade issues between government, the private sector and civil society.

Institutional Strengthening and Environmental and Social Management for the Camisea Gas Project

(\$5 million loan from the OC)

The Peruvian government's Camisea gas project will drill natural gas fields in the department of Cuzco and then build a 700 km pipeline to transport the gas for eventual distribution in Lima and Callao. This operation will support measures to monitor the gas project's environmental and social impact to ensure that any resulting development is sustainable and balanced. Technical assistance, staff training and laboratory and computer equipment will be provided to strengthen the agencies involved in monitoring project impact. Specialists will be enlisted to examine project effects in terms of hydrocarbons, forestry, ecology, anthropology and sociology. Preinvestment studies will explore projects that might be eligible for financing from an environmental and social development fund. The program will also prepare final management plans and provide basic infrastructure for national parks, sanctuaries and tribal reserves in the gas project's area of influence.

SURINAME

In 2002, the Bank approved one loan to Suriname. On a cumulative basis, the Bank has made 12 loans totaling \$77 million and disbursements have totaled \$37 million.

National Population and Housing Census *(\$3.4 million loan from the OC with an IFF interest rate subsidy)*

This operation will help carry out a comprehensive census that will provide up-to-date and accurate demographic, social and economic data for national and regional planning. To lay the technical and organizational groundwork for the census, the program will finance staffing, equipment and supplies and provide

technical support and training. For the census period itself, scheduled for April 2003, support will include printing census forms and providing transport and stipends for enumerators. Computer hardware and software as well as consulting services will support post-census activities such as data processing, evaluation and analysis, and publication and dissemination of results. The program will help establish a permanent Census Office and introduce technological advances such as geographical positioning and information system techniques that will build national capacity for future censuses.

TRINIDAD AND TOBAGO

In 2002, the Bank approved one loan to Trinidad and Tobago. On a cumulative basis, the Bank has made 33 loans totaling \$1,018 million and disbursements have totaled \$703 million.

National Settlements Program (Second Stage) *(\$32 million loan from the OC)*

Despite Trinidad and Tobago's growing economy, the number of informal settlements has increased in recent years because many poor families cannot afford formal housing construction or a lot on which to incrementally build a home. This financing will support a more equitable, transparent, sustainable and affordable national housing program by providing demand-side subsidies for families, improving targeting mechanisms, and extending basic services and titling to families living in informal settlements. An estimated 4,100 families will benefit from the housing subsidy program, which will stimulate private housing markets and foster competition, mobilize private resources such as family savings and commercial bank loans, and improve the cost effectiveness of public investments. Another 5,400 families living in informal settlements will benefit from land regularization or

upgraded sewerage, waste disposal and electricity services.

URUGUAY

In 2002, the Bank approved five loans and one MIF financing to Uruguay. On a cumulative basis, the Bank has made 117 loans totaling \$3,391 million and disbursements have totaled \$2,712 million.

Social Protection and Sustainability Program *(\$500 million loan from the OC)*

This emergency loan will mitigate the effects of Uruguay's economic crisis on the poor by protecting priority health and education spending and by ensuring that programs to modernize and improve the efficiency of social programs are not scaled back. The fast-disbursing loan forms part of a global financial support package, in conjunction with the International Monetary Fund and the World Bank, designed to maintain the country's macroeconomic stability. The financing will be released in tranches over a period of 12 months based on compliance with budgeting targets for social protection, including social security, as well as with benchmarks for modernization efforts. The latter include a range of programs aimed at improving the targeting of social programs through such initiatives as establishing standards for the identification and classification of users and authorizing a national height-for-weight census for children.

Multisector Global Financing Program III *(\$180 million loan from the OC)*

This program will promote private investment by Uruguayan businesses by expanding the supply of credit on market terms and providing the liquid resources needed to spur the use of available financial products. The objective is to make up the shortfall in the domestic financial market, which is not mobilizing sufficient

savings to fund private sector productive investments. The operation will provide funding to enlarge the Central Bank's medium- and long-term loan discount window supported through previous IDB-financed multisector credit programs. This will bolster the Central Bank's efforts to provide intermediary financial institutions (IFIs) with lines of credit for subloans to finance capital investments, term mismatch insurance cover for IFI lending portfolios, medium-term financial and operating leasing, securitization of bank loans for productive investments, and export credit operations.

Comprehensive Program for At-Risk Children, Adolescents and Families *(\$40 million loan from the OC)*

Nearly half of children under five and a third of adolescents in Uruguay live in poor households. This program will expand and improve the quality of social services for vulnerable children and their families in order to strengthen academic performance and mitigate such problems as malnutrition, juvenile delinquency, school attrition, child labor, teenage pregnancy, drug abuse and violence. The program will target intervention zones identified as having the greatest unmet needs, and the program design will include participation by government, civil society organizations and educational institutions. Training and equipment will be provided for early education centers, and counseling services will strengthen links between schools and families. Other services will include recreational and sports activities, job training, and a learning accreditation program to enable dropouts to continue their education. Public information campaigns on sexual and reproductive health will aim to prevent teen pregnancy, and services for street children will strengthen their ties with their families, schools and communities.

Port of M'Bopicua

(\$10.5 million loan from the OC with a "B" loan of \$10.5 million)

This financing will support construction and operation of a privately owned port facility to export sustainable forestry and agricultural products as well as other bulk cargoes. Located on the Uruguay River east of Fray Bentos, the port will have separate receiving, processing and loading facilities. The terminal will include a docking area and berth with loading equipment to service large ocean vessels; storage and receiving areas; a wood processing facility; conveyor belt systems to transport products within the port; and maintenance and administrative facilities, including a control tower and customs area. A seven km access road will be built to connect the port with a nearby national highway. Bank participation is expected to attract participation by commercial financial institutions in support of the investment program of the project sponsor, *Grupo Empresarial ENCE* of Spain, operating under a concession from the Uruguayan government.

Montevideo Municipal Modernization Program *(\$3 million loan from the OC)*

This program will improve the quality and efficiency of municipal services by modernizing administrative, fiscal and technological processes. Strategic management systems and performance indicators will be put in place, information technology upgraded, and administrative processes and service delivery decentralized. New technologies will be introduced for key municipal sanitation services such as trash collection, and regulations for land use will be reformed. Training will be provided in managerial leadership, application of a performance-based pay system, and in opening dialogues with social actors such as organized labor. Staff retraining will prepare personnel for new tasks. The program will create and restructure systems for management and control of municipal revenues. To strengthen the

financial area, the program will support adjustments in the accrual accounting system, control of fixed assets, and installation of an import-based procurement system.

Venture Capital Fund for Small Enterprises *(\$5 million MIF grant)*

This project will introduce a new tool into Uruguay's capital market—a risk capital fund—to support the expansion and development strategies of small and medium-sized businesses. The fund will invest in firms selected on the basis of anticipated growth prospects. Resources will facilitate management improvements, capital upgrades, and strengthening of financial structures.

VENEZUELA

In 2002, the Bank approved one loan to Venezuela. On a cumulative basis, the Bank has made 74 loans totaling \$3,855 million and disbursements have totaled \$3,420 million.

Rural and Small Town Water Supply Systems *(\$28 million loan from the OC)*

By decentralizing rural water supply to the local level, this operation aims to improve service delivery and water quality, in turn reducing the incidence of water-borne diseases. Water and sanitation projects will be financed in poor rural communities willing to form a local organization to manage, operate and maintain the system. Loan resources will be used to carry out engineering works, procure and install equipment, and provide assistance during start-up of the system, which will then operate on a payment-for-service basis. Training and technical assistance will also strengthen the communities and the autonomous management units that they establish to run the water and sanitation systems. Some 100,000 rural inhabitants in 50 different communities are expected to benefit

from the operation. Studies on the projects carried out will be used to measure effectiveness and to prepare designs for system repairs or expansion.

REGIONAL

In 2002, the Bank approved one loan, three technical cooperation operations and six MIF financings at the regional level. On a cumulative basis, the Bank has made 61 loans totaling \$2,732 million and disbursements have totaled \$2,200 million.

Global Credit for Small Caribbean States (\$20 million loan from the FSO)

The IDB charter enables the Bank to foster economic and social development in non-member Caribbean states by providing loans to the Caribbean Development Bank (CDB) to be onlent to small and lower-income nations. A sharp decline in tourism in these countries since the events of September 11, 2001 has had a particularly negative impact on their economies. This loan will be used to finance no less than four CDB operations for social and infrastructure projects, poverty reduction, mitigation of the effects of natural disasters, and economic policy and institutional strengthening measures. CDB countries currently eligible for such FSO funding include Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines.

Consolidating the Integration Process (\$2 million TC grant from the FSO)

This program will finance training, policy research and technical assistance to promote regional integration. The Institute for the Integration of Latin America and the Caribbean (INTAL) will carry out the program in collaboration with the World Trade Organization. Government officials will be trained in negotiating skills in such areas as

market access, competition policy, anti-dumping and customs valuation. Research will help decision-makers formulate policies on such key trade and integration issues as agriculture, government procurement and investment. Technical assistance will support greater participation by civil society in formulating and implementing trade and integration policies.

Research Network (\$1.3 million TC grant from the FSO)

The Research Network has provided grants since 1995 to Latin American and Caribbean research centers to carry out studies on development issues. This new network round will focus on priority issues for both the IDB and the region. In the process, it will strengthen regional research capacity and generate useful policy lessons for the structural reform agenda, in particular. Studies are expected to focus on such issues as economic growth and competitiveness of the productive sectors, the social impact of unemployment, poverty, macroeconomic stability, financial systems, and global economic integration. The operation also finances seminars, publication and dissemination of the studies, and meetings with national authorities on policy lessons.

Program to Combat Desertification in South America (\$1 million grant from the Japan Special Fund)

This program will provide technical assistance and training to address the environmental and socioeconomic problems caused by the deterioration of arid and drought-ridden areas. The six participating nations—Argentina, Bolivia, Brazil, Chile, Ecuador and Peru—have ratified the United Nations Agreement to Combat Desertification. Most of the degradation of arid areas is caused by poor land use practices that turn useful soil into marginal and eventually sterile land. This program will refine a methodology to identify and evaluate desertification processes and recommend policies to

control and monitor them. Public officials will be trained in analysis of the data so that they can develop appropriate programs and policies. Specialized university and post-graduate programs on desertification will be developed and a public awareness campaign will be directed at farmers, NGOs, regional and local officials and the media.

Innovation Program for E-Business and SME Development

(\$5 million MIF grant)

Through a competitive selection process, this program will support between 10 and 15 projects that present innovative applications of information and communication technologies for targeted users. Non-profit organizations, small and medium-sized enterprises (SMEs) and networks all qualify for participation. Using selected pilot initiatives, the program aims to demonstrate the technical feasibility and commercial viability of proposed applications and services.

Modernization of Customs and Border Crossings

(\$2 million MIF grant)

This project will promote greater trade and higher productivity in Mesoamerica by streamlining border control procedures for goods in transit. The goal is to reduce the operating costs of international freight transportation in the region. The project will design and implement a standard computerized procedure for international transit of goods in the form of a single declaration for all control agencies and a common operating procedure at the borders of the eight countries involved: Mexico, Guatemala, Belize, El Salvador, Honduras, Nicaragua, Costa Rica and Panama.

Improving Competitiveness of SMEs in the Forestry Sector

(\$1.7 million MIF grant)

This project will improve the efficiency and competitiveness of small and medium-sized (SME) forestry enterprises in Guatemala, Honduras and Nicaragua. The aim is to strengthen the firms' administrative and technical skills as well as increase long-term opportunities for marketing forestry products. The project will develop training modules, establish a website for SME forestry services, identify products with potential, and develop innovative marketing strategies. Local communities will benefit from enhanced cooperation between government, private producers, and the general public.

Application of Sanitary and Phytosanitary Measures

(\$1.5 million MIF grant)

This program will improve trade in agricultural products in the countries of the Pueblo-Panama Plan by coordinating and improving a regional system to apply sanitary and phytosanitary measures and strengthen regional coordination of each country's agrosanitary operating structures.

Labor Market and Training Information Systems

(\$1.4 million MIF grant)

Part of the Pueblo-Panama Plan, this project will create a network for information exchange that facilitates market demand for and supply of training services and best practices and training models. The information system will be Internet-accessible to the private sector and other interested parties. The system will identify private sector demand for job training as well as appropriate training services. Entrepreneurs will be helped in identifying their training needs and then connected with the service providers most qualified to respond

to those needs. Because system coverage will be regional, service alternatives for entrepreneurs will be broader and more varied.

Creation and Development of Financial Intelligence Units in South America
(\$1.3 million MIF grant)

This program will create, develop and consolidate Financial Intelligence Units in order to minimize money-laundering practices in eight countries: Argentina, Bolivia, Brazil, Chile, Ecuador, Peru, Uruguay and Venezuela. The

program will support development of legal and regulatory frameworks; organization, management and human resource development; and information and communication technology, including interagency information systems, data banks, and programs for analysis of data. The ability to detect suspicious transactions will allow the countries to increase banking transparency, decrease market volatility associated with sudden capital inflows and outflows, and improve conditions for successful private sector participation.

Technical Cooperation

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

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

In 2002, the Bank approved 336 technical cooperation projects totaling \$65.4 million. National technical cooperation operations accounted for 278 of these projects totaling \$49.1 million. Examples include programs to support environmental management of Kingston harbor in Jamaica, improve the management of public finance in Haiti, promote opportunities for women living in rural parts of Mexico, and prepare environmental risk maps in Nicaragua.

The regional technical cooperation program financed 58 operations for a total of \$16.3 million. Throughout 2002, and consistent with the priorities determined within the Bank's institutional strategy, regional technical cooperation activities centered on programs supporting the generation of public goods, as

TABLE VII. NONREIMBURSABLE AND CONTINGENT-RECOVERY TECHNICAL COOPERATION¹

(In thousands of U.S. dollars)

Country	2002	1961-02
Argentina	\$ 323	\$ 68,372
Bahamas	22	18,036
Barbados	33	20,907
Belize	334	6,563
Bolivia	1,367	74,363
Brazil	1,307	158,086
Chile	3,121	13,156
Colombia	1,221	54,624
Costa Rica	665	42,984
Dominican Republic	2,295	52,307
Ecuador	2,842	63,618
El Salvador	2,950	49,992
Guatemala	3,409	52,173
Guyana	1,400	50,107
Haiti	1,580	50,433
Honduras	3,704	58,326
Jamaica	2,100	36,388
Mexico	4,063	21,810
Nicaragua	2,481	70,214
Panama	575	34,187
Paraguay	2,395	58,962
Peru	1,691	82,004
Suriname	1,245	23,549
Trinidad and Tobago	59	19,533
Uruguay	57	31,222
Venezuela	58	11,954
Regional	24,092	665,373
TOTAL	\$65,391	\$1,889,245

¹ Does not include Small Project financings.

well as the dissemination of topics newly incorporated in the agendas of the Bank and its borrowing member countries. By means of the regional technical cooperation grant program, the Bank contributes to the transfer of knowledge to the countries of the region and pilots strategic operations at a regional level that complement activities carried out in each country.

In the area of social sector reform, support was provided for updating census data showing ethnic groups, with the intention of providing accurate information to formulate public policies to ameliorate poverty and foster social equity. Financing was provided for public officials and civil society groups to attend courses, seminars and workshops offered by the Bank's Inter-American Institute for Social Development (INDES), as well as

For further information, see

<http://www.iadb.org/goto.cfm?rtc>

for activities for reducing child labor; for compliance with international mandates and agreements on the rights of immigrants; and for nutrition programs in Central America.

Additional financing went to activities to improve the quality of education, including training in distance learning; expand child and youth education programs in low-income communities; develop quality standards for tertiary distance education; analyze unequal access to education in the region; and develop new policies and strategies to strengthen basic and secondary education for girls.

Throughout 2002, financing was also provided for activities to reduce vulnerability to HIV/AIDS, and to promote social inclusion of segments of the population traditionally excluded because of race, ethnic background, gender or disability.

To support modernization of the state, initiatives helped to implement a program on ethics in development, promote good corporate citizenship in the region (see Box 9), train decision-makers in public finance, and improve the quality of statistical data on poverty and social equity. Other grants funded an examination of the new challenges in regional security arising from the events of September 11, 2001, and alternatives for increasing leadership effectiveness for women.

Under the heading of competitiveness, financing was provided for services and training for microentrepreneurs, and for implementation of a macroeconomic and financial policy framework that promotes private sector activities.

In the area of regional integration, funds will help promote and consolidate the integration process at the subregional and hemispheric levels. Grants will support both the internal integration process and external trade negotiations of the Andean Community; assist CARICOM member countries in participating in and negotiating multilateral, regional and bilateral trade agreements; and set up a human resource development and training program in regional integration, strengthening the technical negotiating skills of civil society profession-

als in the Bank's borrowing member countries. Financing was also approved for improving a foreign trade information system in order to better the quality and accuracy of the statistical information available to Latin American and Caribbean governments, and for strengthening the statistical systems of the MERCOSUR member countries in particular. Regional technical cooperation funds will help a number of countries develop subregional physical infrastructure for the transportation, telecommunications and energy sectors, enabling them to improve and harmonize their regulatory frameworks through the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).

Cofinancing

Cofinancing of IDB-supported projects reached \$990.6 million through 19 operations by 20 partners, representing approximately 22 percent of the Bank's \$4.5 billion total lending program for the year. Of this amount, four bilateral agencies contributed \$29.5 million and four multilateral organizations funded \$946 million, respectively, for nine operations. The World Bank participated in four of these programs for a total of \$843 million. Eight cofinancing grants administered by the Bank (COFABs) were approved for a total of \$1.05 million. This instrument, officially introduced in October 2001, has proven to be an effective and flexible mechanism, opening doors to innovative operations and nontraditional cofinanciers.

The IDB continues to strengthen its relationships with donors by more closely adhering to the partnership approach. Throughout the year, it emphasized the importance of strategic partnerships and new cooperative agreements. As such, it finalized Memoranda of Understanding (MOU) with the Federal Republic of Germany and the European Commission and signed other arrangements

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

TABLE VIII. COFINANCING IN 2002
(In millions of U.S. dollars)

Cofinancier	Recipient country	Project	IDB financing ¹	Cofinanced amount
Andean Development Corporation	Bolivia	Integration Corridor Santa Cruz - Puerto Suárez Program	\$ 75.00	\$ 100.00
Austrian Fund	Nicaragua	Low-Income Housing Sector Program	25.00	0.30
AVINA Foundation (Costa Rica)	Regional	Conference on Corporate Social Responsibility "Alliances for Development"	0.30	0.01
Consejo Empresarial de América Latina (CEAL, Costa Rica)	Regional	Conference on Corporate Social Responsibility "Alliances for Development"	0.30	0.04
Citigroup Foundation	Regional	Conference on Corporate Social Responsibility "Alliances for Development"	0.30	0.02
Ministry of Foreign Affairs, Denmark	Regional	HIV/AIDS Resource Allocation Analysis	–	0.10
Department of Foreign Affairs and International Trade (DFAIT) of Canada	Regional	Conference on Corporate Social Responsibility "Alliances for Development"	0.30	0.06
Economic Development and Cooperation Fund (EDCF) of Korea	Bolivia	Integration Corridor Santa Cruz - Puerto Suárez Program	75.00	23.00
Grupo Nueva (Costa Rica)	Regional	Conference on Corporate Social Responsibility "Alliances for Development"	0.30	0.01
International Cooperation and Development Fund (ICDF) of Taiwan	Nicaragua	Rural Production Revitalization Program	60.00	5.00
International Finance Corporation (IFC)	Regional	Conference on Corporate Social Responsibility "Alliances for Development"	0.30	0.02
Ministry of Foreign Affairs (MOFA), Finland	Regional	HIV/AIDS: Annual Meeting Seminar 2002	–	0.10
Ministry of Foreign Affairs (MOFA), Norway	Regional	Guidelines for HIV/AIDS Projects	–	0.10
Ministry of Foreign Affairs, Netherlands	Regional	Women Leaders: Toward Good Governance in Latin America	1.05	0.10
Nordic Development Fund	Bolivia	Environmental and Social Protection Santa Cruz - Puerto Suárez Program	21.00	3.00
Norwegian Agency for Development Cooperation (NORAD)	El Salvador Guatemala Honduras	Trinational Program for Sustainable Development in the Upper Lempa River Basin	21.80	1.20
Organization of Petroleum Exporting Countries (OPEC)	Bolivia	Integration Corridor Santa Cruz - Puerto Suárez Program	75.00	10.00
Swedish International Development Agency (SIDA)	Honduras	Road and Water Infrastructure Emergency Program	18.80	1.7
	Honduras	Statistics System Modernization	4.0	2.3
	Regional	HIV/AIDS Research Studies	–	0.10
U.S. Agency for International Development (USAID)	Regional	Second Phase of the Social Equity Forum	0.25	0.25
	Regional	Development of Sustainable Energy Projects	–	0.04
	Regional			
World Bank	Colombia	Social Reform Program	390.00	150.00
	Colombia	Territorial Fiscal Reform Sector Loan	400.00	400.00
	El Salvador	Emergency Project El Salvador II	25.00	143.00
	Guatemala	Financial Sector Reform Program II	200.00	150.00
	Regional	Conference on Corporate Social Responsibility "Alliances for Development"	0.30	0.10
TOTAL			\$1,342.20	\$990.60

¹ This list represents those projects for which cofinancing was approved in 2002 by the cofinanciers, although IDB approvals may have been in previous years.

such as the Canadian Framework Agreement. In addition, the Bank organized 20 coordination and consultation meetings with various cofinanciers and hosted technical meetings between donors and Bank staff such as the workshop on water and sanitation with the Japan Bank for International Cooperation (JBIC). Through this collaboration, the IDB promotes understanding of the Bank's strategies, policies, priorities and procedures with its partners while encouraging more effective project design, execution and evaluation.

The Bank successfully rekindled relations with former contributors while incorporating new multilateral, bilateral and private sector organizations into its donor corps. The mobilization of external funds extended IDB resources, allowing for participation in new areas such as HIV/AIDS, corporate social responsibility and women's leadership in good governance. Furthermore, through use of a comprehensive donor matrix for selected beneficiary countries, the Bank continues to fortify donor coordination.

In support of private sector operations, the Bank continued to act as a catalyst for the involvement of private sector commercial lenders through its successful B loan program. In recognition of the growing difficulty in market conditions for Latin America as a whole, the Bank also teamed up with other co-lenders to ensure that projects had sufficient financial resources to meet their objectives. Co-lenders include other official agencies as well as domestic financial institutions. The total number of participants in the program grew to 73 financial institutions (commercial and investment banks, insurance companies, and other institutional investors) in 13 countries.

Funds in Administration

The Bank currently administers 44 trust funds for technical cooperation activities. This number includes the Fund for Agriculture Technology (FONTAGRO), the Indigenous Peoples Fund, three trust funds for microenterprise, eleven independent funds established

by Austria, Canada, Korea, Spain, the United States and Venezuela, and 28 funds of the Program for Development of Technical Cooperation among Member Countries of the Bank (TC/Funds Program).

The TC/Funds Program was established to finance short- and medium-term consultancies and training activities. Since 1991, 37 funds have been established under the TC/Funds umbrella, with total contributions of \$167.2 million, as well as five agreements in-kind for the provision of services.

Contributions have been donated by all but three of the nonborrowing member countries of the Bank. Funds have been established by Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Israel, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

Contributions by these donor countries in 2002 amounted to \$16.4 million.

In 2002, the Italian Ministry of Foreign Affairs established three new trust funds at the Bank for Cultural Heritage and Sustainable Development, the Sustainable Development of Argentina, and Microenterprise Development, with total commitments equivalent to \$18.2 million.

The Netherlands Ministry for Development Cooperation and the Bank established the IDB-Netherlands Water Partnership Program with a pledge of \$10 million. Another new fund, outside the TC/Funds Program, was established by the Government of Korea and the Bank: the Korean Trust Fund for Technical Cooperation for the Republic of Colombia.

In 2002, resources from the trust funds constituted the largest source of financing of the Bank's nonreimbursable technical cooperation program. Of the total of \$65.4 million approved by the Bank's non-reimbursable technical cooperation program, \$38 million was financed with resources from the trust funds.

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

TABLE IX. FUNDS IN ADMINISTRATION

Name	Date Established	Entrusted by	Currency	Contributions ¹ (US\$ millions equivalent)	Sector Concentration or Purpose
Social Progress Trust Fund	1961	USA	USD	525	Agriculture, sanitation, education, social
Canadian Fund	1964	Canada	CAD	47.2	Physical infrastructure and other sectors
Venezuelan Trust Fund	1975	Venezuela	USD VBO	400 100	Integration, natural resources, industry, exports
Norwegian Development Fund for Latin America	1987	Norway	USD	2.0	Low-income groups, health, education, agriculture, small-scale industry
Japan Special Fund	1988	Japan	JPY	204	Technical assistance, small projects, emergency assistance
Spanish Quincentennial Fund	1990	Spain	EUR	83.8	Technical education, agriculture, health, communications, urban development
Trust Fund for Belgian Consultants	1991	Belgium	EUR	3.1	Technical assistance for the preparation of projects
IDB Graduate Scholarship Program	1991	Japan	JPY	21.2	Scholarship for advanced studies
Portuguese Technical Cooperation Fund	1991	Portugal	EUR	2.7	Technical assistance, scholarships and training
Swedish Fund for Small Projects and Technical Assistance for Latin America	1991	Sweden	USD	5.3	Small projects financing for low-income groups
Austrian Technical Cooperation Trust Fund	1992	Austria	USD	0.6	Preparation, execution and supervision of projects
Israeli Consultant Trust Fund (Bank of Israel)	1992	Israel	USD	0.7	Preparation and appraisal of economic and social development projects
Italian Consulting Firms and Specialized Institutions	1992	Italy	USD	9.0	Sector studies and special programs
Italian Individual Consultant Trust Fund	1992	Italy	USD	3.5	Short-term consultancy for development projects
Norwegian Fund for Women in Development	1993	Norway	USD	7.5	Technical assistance, studies, training and seminars under the Women in Development Program
Danish Consultants Fund	1994	Denmark	USD	10.0	Prefeasibility and feasibility studies in infrastructure, environment, health and education
Norwegian Technical Cooperation Trust Fund for Consulting Services	1994	Norway	USD	7.7	Prefeasibility and feasibility studies in infrastructure, environment, health and education
Spanish Fund for Consultants (ICEX)	1994	Spain	EUR	13.8	All sectors, preferably in agroindustry and industrial restructuring
Swiss Consultants Fund	1994	Switzerland	USD	4.6	Activities sponsored by the Bank and the Bolívar Program
United Kingdom Fund for Consulting Services	1994	United Kingdom	GBP	0.8	All sectors of activities, particularly for project assessment and technical support studies
Japanese Trust Fund for Consultancy Services	1995	Japan	JPY	26.1	All sectors of activities for project preparation and implementation
USTDA-IDB Evergreen Fund for Technical Assistance	1995	USA	USD	4.6	All sectors, preferably in support of infrastructure and industrial projects
European Special Fund for Technical Assistance in Latin America	1997	European Union	EUR	3.9	Improve preparation of projects, transfer of technology and development of human resources

Name	Date Established	Entrusted by	Currency	Contributions ¹ (US\$ millions equivalent)	Sector Concentration or Purpose
European Special Fund for the Financing of Small Productive Projects	1997	European Union	EUR	12.5	Small projects and technical assistance
Finnish Technical Cooperation Trust Fund for Consulting Services	1997	Finland	USD	2.0	Project identification, preparation and implementation, training, sector studies
French Technical Cooperation Fund for Consultancy and Training Activities	1997	France	EUR	10.1	Consultancy services and training activities
Norwegian Fund for Innovation in Social Programs	1997	Norway	USD	4.8	Technical cooperation for social sector programs in the poorest countries of IDB Region 2
Indigenous Peoples Fund	1998	Regional	USD	11.8	Endowment fund for assistance to indigenous peoples
Norwegian Fund for Microenterprise Development	1998	Norway	USD	1.6	Technical cooperation for microenterprise projects in the poorest countries
Regional Fund for Agricultural Technology (FONTAGRO)	1998	Regional	USD	31.9	Endowment fund for assistance in agricultural projects
United Kingdom Capacity Building Fund for Local Institutions in Central America	1999	United Kingdom	USD	3.1	Capacity building of local institutions in Central America
IDB Disaster Assistance and Reconstruction Fund	1999	Austria	USD	4.1	Disaster assistance and reconstruction of countries affected by Hurricane Mitch
Italian Trust Fund for MIF Project Preparation	2000	Italy	USD	1.6	Support the preparation of MIF projects
Swedish Framework-SIDA IDB Partnership Program	2000	Sweden	USD	1.5	Social sectors of the poorest countries in Central America affected by Hurricane Mitch
U.S. Department of Energy-Hemispheric Sustainable Energy Fund	2000	USA	USD	1.3	Support clean energy technology projects in all energy-consuming sectors
Partnership Program in Environment	2000	The Netherlands	USD	3.0	Support environmental projects
The Netherlands Framework-Program for Women's Leadership for Good Governance	2000	The Netherlands	USD	0.7	Support women's leadership in civic and public life
Korean Trust Fund	2000	Korea	USD	0.6	Assistance to Central American countries and social projects in Colombia
Global Environment Facility Trust Fund	2000	GEF/World Bank	USD	1.9	Project development facility for the environment
Spanish Framework-General Cooperation Fund	2001	Spain	EUR	44.4	Support projects in modernization of the state and governance, regional integration and competitiveness
Canadian Technical Cooperation Program	2001	Canada	CAD	11.6	Consultancy services in all sectors with emphasis on social reform
Swedish Trust Fund for Consulting Services and Training Activities	2001	Sweden	USD	1.2	Consulting and training in areas of social and economic development
Korean Trust Fund for the Republic of Colombia	2002	Korea	USD	0.4	Assistance for social projects in Colombia
Netherlands Water Management Partnership	2002	The Netherlands	USD	2.7	Preparation of projects in water management

¹ Amounts reflect historical exchange rates.

The TC/Funds financed 33 percent of the total approvals and the Japan Special Fund financed 19 percent. In 2002, the TC/Funds financed 143 operations for \$21.7 million, in addition to \$1 million from the Austria Mitch Fund for the rehabilitation of bridges damaged by Hurricane Mitch.

Japanese Funds

Since its establishment in 1988, the Japan Special Fund (JSF) has acquired major importance in providing untied resources for the Bank's technical cooperation activities. One of the oldest and largest funds administered by the Bank, the JSF approved 17 projects in 2002 totaling \$9.2 million, of which 56 percent was directed toward the environment and social sectors. New contributions from the Government of Japan to the JSF in 2002 were approximately \$3.6 million, raising the aggregate contribution to approximately \$204 million.

In 2001, the Government of Japan set aside \$30 million from JSF for the Poverty Reduction Program (JPO). The program was established for a period of five years (2001-2005) to finance activities related to poverty reduction. During 2002, the JPO approved seven projects for \$3.5 million.

In 2002, the Japan Program approved technical cooperation projects for a total of \$2.9 million. The Japan Program was created in 1999 with funds mainly from the Government of Japan to facilitate knowledge transfer and exchange of best practices between the region and Asia.

The largest of the Bank's TC/Funds, the Japanese Trust Fund for Consultancy Services (JCF), was created in 1995. In 2002, the JCF approved nine projects for \$3.7 million. Fifty percent of the JCF funding is tied to the financing of Japanese consultants or consulting firms. Any Bank sectors in which there is recognized Japanese expertise—such as infrastructure, the environment and information technology—are eligible for financing. In 2002, Japan contributed approximately \$1.6

million, bringing cumulative contributions to approximately \$26.1 million.

Procurement

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

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

The Procurement Policy and Coordination Office at IDB headquarters is responsible for drafting procurement policies and overseeing their application in Bank-financed projects. The office also provides assistance, training and dissemination of information regarding interpretation and application of regulations and procedures. The office periodically offers seminars and workshops on procurement procedures for staff from the executing agencies.

During the year, the Bank continued efforts to harmonize its procurement regulations and procedures with those of the other multilateral development institutions, working to adopt substantially similar procurement documents and policies and facilitating the activities of executing agencies, bidders and others involved in the procurement process

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

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

The Bank's Procurement Committee is a management-level interdepartmental group that reviews and oversees procurement policies and procedures. The committee is also responsible for reviewing requests for waivers to competitive bidding requirements and all protests submitted by bidders or potential bidders at any stage of the procurement process. In 2002, synopses of decisions taken by the Committee in prior years were posted on the Bank's website, at www.iadb.org/ros/prm/committee.htm.

Disbursements of convertible currencies for the purchase of goods, works and consulting services under investment and sector loans totaled \$5.7 billion in 2002. Borrowing member countries received \$4.4 billion, or 77.6 per cent of the value. Local purchase of goods, works and consulting services for projects in the borrowing countries totaled \$3.5 billion,

while nonborrowing countries provided a total of \$1.3 billion. The accompanying tables (Disbursements for Purchase of Goods and Services by Country of Origin, Tables X, XI, and XII) break out disbursements for all Bank lending, sector loans, and investment loans. Where applicable, the tables include a detailed breakdown of local purchases and exports of goods, works and consulting services.

In 2002, Management took a number of steps to promote transparency in procurement for the projects it finances, including the publication on the Bank's website, for information purposes, of Specific Procurement Notices (SPNs) and General Procurement Notices (GPNs). In addition, a working group comprised of several departments prepared and submitted to the Board of Executive Directors an action plan for expanding the amount of procurement information available to the public free of charge. As part of a program of outreach to the business community, the Office of External Relations organizes (and helps other Bank units to organize) regular seminars for suppliers, contractors and consultants in Washington and in many of its borrowing and nonborrowing member countries.

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

(In millions of U.S. dollars)

	1961-01				2002				1961-02			
	Local Purchases		Exports		Local Purchases		Exports		Local Purchases		Exports	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES												
Argentina	\$ 3,397.2	9.9	\$ 1,571.7	3.9	\$ 4,968.9	6.7	\$ 154.1	4.4	\$ 363.2	6.3	\$ 3,551.3	9.4
Bahamas	23.7	0.1	91.2	0.2	114.9	0.2	10.0	0.3	10.0	0.2	33.7	0.1
Barbados	59.9	0.2	6.7	0.0	66.6	0.1	17.3	0.5	18.1	0.3	77.2	0.2
Belize	28.9	0.1	30.1	0.1	59.0	0.1	11.3	0.3	11.3	0.2	40.2	0.1
Bolivia	817.6	2.4	92.9	0.2	910.5	1.2	61.7	1.7	70.4	1.2	879.3	2.3
Brazil	10,226.9	29.7	3,721.9	9.3	13,948.8	18.8	1,108.2	31.3	1,397.9	24.4	11,335.1	29.9
Chile	2,198.8	6.4	357.3	0.9	2,556.1	3.4	90.8	2.6	153.9	2.7	2,289.6	6.0
Colombia	1,914.8	5.6	389.2	1.0	2,304.0	3.1	166.2	4.7	195.8	3.4	2,081.0	5.5
Costa Rica	380.9	1.1	242.5	0.6	623.4	0.8	11.0	0.3	27.7	0.6	391.9	1.0
Dominican Republic	463.5	1.3	37.2	0.1	500.7	0.7	35.6	1.0	35.6	0.6	499.1	1.3
Ecuador	1,555.8	4.5	288.2	0.7	1,844.0	2.5	96.1	2.7	113.4	2.0	1,651.9	4.4
El Salvador	680.8	2.0	62.1	0.2	742.9	1.0	75.6	2.1	16.4	0.8	756.4	2.0
Guatemala	515.9	1.5	100.8	0.3	616.7	0.8	65.6	1.9	81.5	1.4	581.5	1.5
Guyana	88.2	0.3	2.4	0.0	90.6	0.1	10.0	0.3	10.0	0.2	98.2	0.3
Haiti	250.8	0.7	9.6	0.0	260.4	0.4	2.0	0.1	2.0	0.0	252.8	0.7
Honduras	415.5	1.2	40.9	0.1	456.4	0.6	72.5	2.0	76.4	1.3	488.0	1.3
Jamaica	238.6	0.7	86.8	0.2	325.4	0.4	9.8	0.3	9.9	0.2	248.4	0.7
Mexico	5,510.2	16.0	1,200.2	3.0	6,710.4	9.0	946.8	26.8	1,037.7	18.1	6,457.0	17.0
Nicaragua	385.0	1.1	25.2	0.1	410.2	0.6	31.6	0.9	33.3	0.6	416.6	1.1
Panama	508.1	1.5	105.4	0.3	613.5	0.8	63.5	1.7	67.0	1.2	571.6	1.5
Paraguay	639.9	1.9	98.6	0.2	738.5	1.3	46.8	1.3	70.9	1.2	686.7	1.8
Peru	1,624.7	4.7	167.0	0.4	1,791.7	2.4	100.8	2.8	123.3	2.2	1,725.5	4.5
Suriname	0.7	0.0	1.0	0.0	1.7	0.0	0.0	0.3	0.2	0.0	0.7	0.0
Trinidad and Tobago	251.8	0.7	108.9	0.3	360.7	0.5	18.0	0.5	39.3	0.7	269.8	0.7
Uruguay	947.6	2.7	221.8	0.6	1,169.4	1.6	139.8	4.0	150.4	2.6	1,087.4	2.9
Venezuela	1,294.6	3.7	854.3	2.2	2,148.9	2.9	192.9	5.5	256.4	4.5	1,887.5	3.8
Total Borrowers	\$34,420.4	100.0	\$9,913.9	24.9	\$44,334.3	59.7	\$3,538.0	100.0	\$4,447.6	77.6	\$37,958.4	100.0
												\$10,823.5
												25.8
												\$48,781.9
												61.1
NONBORROWING COUNTRIES												
Austria	\$119.1	0.3	\$119.1	0.3	\$119.1	0.2			\$8.5	0.1	\$127.6	0.3
Belgium	245.8	0.6	245.8	0.6	245.8	0.3			22.7	0.4	268.5	0.6
Canada	703.8	1.8	703.8	1.8	703.8	0.9			26.7	0.5	730.5	1.7
Croatia	4.4	0.0	4.4	0.0	4.4	0.0			0.1	0.0	4.5	0.0
Denmark	151.6	0.4	151.6	0.4	151.6	0.2			6.1	0.1	157.7	0.4
Finland	112.0	0.3	112.0	0.3	112.0	0.2			9.2	0.2	121.2	0.3
France	1,910.8	4.8	1,910.8	4.8	1,910.8	2.6			82.7	1.4	1,993.5	4.8
Germany	2,616.8	6.6	2,616.8	6.6	2,616.8	3.5			120.1	2.1	2,736.9	6.5
Israel	152.8	0.4	152.8	0.4	152.8	0.2			6.2	0.1	159.0	0.4
Italy	2,755.2	6.9	2,755.2	6.9	2,755.2	3.7			82.5	1.4	2,837.7	6.8
Japan	2,100.9	5.3	2,100.9	5.3	2,100.9	2.8			85.4	1.5	2,186.3	5.2
Netherlands	596.0	1.5	596.0	1.5	596.0	0.8			17.0	0.3	613.0	1.5
Norway	50.0	0.1	50.0	0.1	50.0	0.1			3.5	0.1	53.5	0.1
Portugal	57.3	0.1	57.3	0.1	57.3	0.1			3.3	0.1	60.6	0.1
Slovenia	40.5	0.1	40.5	0.1	40.5	0.1			3.0	0.1	43.5	0.1
Spain	1,326.6	3.3	1,326.6	3.3	1,326.6	1.8			86.4	1.5	1,413.0	3.4
Sweden	579.3	1.5	579.3	1.5	579.3	0.8			16.1	0.7	595.4	1.4
Switzerland	757.1	1.9	757.1	1.9	757.1	1.0			31.8	0.6	788.9	1.9
United Kingdom	973.3	2.4	973.3	2.4	973.3	1.3			40.7	0.7	1,014.0	2.4
United States	14,640.8	36.8	14,640.8	36.8	14,640.8	19.7			624.8	10.9	15,265.6	36.3
Yugoslavia	14.3	0.0	14.3	0.0	14.3	0.0			0.0	0.0	14.3	0.0
Total Nonborrowers	\$29,908.4	75.1	\$29,908.4	75.1	\$29,908.4	40.3			\$1,276.8	22.4	\$31,185.2	74.2
												\$42,008.6
												100.0
												\$79,967.0
												100.0
TOTAL	\$34,420.4	100.0	\$39,822.3	100.0	\$74,242.7	100.0	\$3,538.0	100.0	\$5,724.3	100.0	\$42,008.6	100.0
												\$79,967.0
												100.0

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

(In millions of U.S. dollars)

	1990-01				2002				1990-02			
	Local Purchases		Exports		Local Purchases		Exports ²		Local Purchases		Exports	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES												
Argentina	\$30.0	40.2	\$ 727.4	3.9	\$ 757.4	4.0	\$190.3	11.4	\$190.3	11.4	\$ 917.7	4.5
Bahamas			6.4	0.0	6.4	0.0					6.4	0.0
Barbados			4.7	0.0	4.7	0.0					5.5	0.0
Belize			29.9	0.2	29.9	0.2	0.8	0.0	0.8	0.0	29.9	0.1
Bolivia			54.5	0.3	54.5	0.3					62.7	0.3
Brazil			1,948.2	10.3	1,948.2	10.3	8.2	0.5	8.2	0.5	2,121.2	10.3
Chile			282.3	1.5	282.3	1.5	173.0	10.3	173.0	10.3	338.7	1.6
Colombia			253.8	1.3	253.8	1.3	19.6	1.2	19.6	1.2	273.4	1.3
Costa Rica			79.5	0.4	79.5	0.4	14.5	0.9	14.5	0.9	94.0	0.5
Dominican Republic			0.6	0.0	0.6	0.0					0.6	0.0
Ecuador			230.4	1.2	230.4	1.2	16.9	1.0	16.9	1.0	247.3	1.2
El Salvador			30.1	0.2	30.1	0.2	12.6	0.8	12.6	0.8	42.7	0.2
Guatemala			45.9	0.2	45.9	0.2	8.9	0.5	8.9	0.5	54.8	0.3
Guyana			1.7	0.0	1.7	0.0					1.7	0.0
Haiti	14.6	19.5	0.0	0.0	14.6	0.1			14.6	19.5	0.0	0.0
Honduras			9.6	0.1	9.6	0.1	3.6	0.2	3.6	0.2	0.0	0.0
Jamaica			3.4	0.0	3.4	0.0					13.2	0.1
Mexico			488.3	2.6	488.3	2.5	58.5	3.5	58.5	3.5	3.4	0.0
Nicaragua	0.4	0.5	2.8	0.0	3.2	0.0	1.4	0.1	1.4	0.1	546.8	2.7
Panama	29.7	39.8	64.1	0.3	93.8	0.4	1.9	0.1	1.9	0.1	4.2	0.0
Paraguay			53.3	0.3	53.3	0.3	23.6	1.4	23.6	1.4	66.0	0.3
Peru			72.7	0.4	72.7	0.4	5.8	0.3	5.8	0.3	76.9	0.4
Suriname			1.0	0.0	1.0	0.0					78.5	0.4
Trinidad and Tobago			55.7	0.3	55.7	0.3	20.1	1.2	20.1	1.2	1.0	0.0
Uruguay			182.3	1.0	182.3	1.0	10.0	0.6	10.0	0.6	75.8	0.4
Venezuela			659.0	3.5	659.0	3.5	59.1	3.5	59.1	3.5	192.3	0.9
Total Borrowers	\$74.7	100.0	\$5,287.6	28.0	\$5,362.3	28.2	\$685.2	40.9	\$685.2	40.9	\$5,972.8	29.0
									\$74.7	100.0		\$6,047.5
NONBORROWING COUNTRIES												
Austria	\$		49.4	0.3	\$ 49.4	0.3	\$ 6.1	0.4	\$ 6.1	0.4	\$ 55.5	0.3
Belgium			155.6	0.8	155.6	0.8	20.7	1.2	20.7	1.2	176.3	0.9
Canada			362.9	1.9	362.9	1.9	20.0	1.2	20.0	1.2	382.9	1.8
Croatia			2.0	0.0	2.0	0.0	0.1	0.0	0.1	0.0	2.1	0.0
Denmark			50.9	0.3	50.9	0.3	5.0	0.3	5.0	0.3	55.9	0.3
Finland			62.1	0.3	62.1	0.3	8.8	0.5	8.8	0.5	70.9	0.3
France			573.6	3.0	573.6	3.0	75.6	4.5	75.6	4.5	649.2	3.1
Germany			1,265.5	6.7	1,265.5	6.7	101.1	6.0	101.1	6.0	1,366.6	6.6
Israel			50.0	0.3	50.0	0.3					50.0	0.2
Italy			750.9	4.0	750.9	4.0	65.8	3.9	65.8	3.9	816.7	4.0
Japan			890.4	4.7	890.4	4.7	66.2	4.0	66.2	4.0	956.6	4.6
Netherlands			398.7	2.1	398.7	2.1	16.6	1.0	16.6	1.0	415.3	2.0
Norway			36.7	0.2	36.7	0.2	3.5	0.2	3.5	0.2	40.2	0.2
Portugal			15.0	0.1	15.0	0.1					15.0	0.1
Slovenia			5.2	0.0	5.2	0.0	0.4	0.0	0.4	0.0	5.6	0.0
Spain			546.1	2.9	546.1	2.9	53.0	3.2	53.0	3.2	599.1	2.9
Sweden			204.7	1.1	204.7	1.1	15.2	0.9	15.2	0.9	219.9	1.1
Switzerland			244.6	1.3	244.6	1.3	19.3	1.2	19.3	1.2	263.9	1.3
United Kingdom			370.7	2.0	370.7	2.0	31.7	1.9	31.7	1.9	402.4	2.0
United States			7,557.4	40.0	7,557.4	39.9	479.5	28.7	479.5	28.7	8,036.9	38.9
Yugoslavia			0.8	0.0	0.8	0.0					0.8	0.0
Total Nonborrowers	\$ 0.0	0.0	\$13,593.2	72.0	\$13,593.2	71.8	\$ 988.6	59.1	\$ 988.6	59.1	\$14,581.8	71.0
									\$ 0.0	0.0		\$14,581.8
TOTAL	\$74.7	100.0	\$18,880.8	100.0	\$18,955.5	100.0	\$1,673.7	100.0	\$1,673.7	100.0	\$20,554.5	100.0
									\$74.7	100.0		\$20,629.2

¹ Sector lending began in 1990.

² Since 1998, the information in this table has reflected adjustment loan disbursements to each borrower as pro rata shares of that borrower's eligible imports from supplying countries, using the latest available import data drawn from United Nations trade statistics.

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

(In millions of U.S. dollars)

	1961-01				2002				1961-02			
	Local Purchases		Exports		Local Purchases		Exports		Local Purchases		Exports	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES												
Argentina	\$ 3,367.2	9.8	\$ 844.3	4.0	\$ 4,211.5	7.6	\$ 154.1	4.4	\$ 172.9	4.3	\$ 3,521.3	9.3
Bahamas	23.7	0.1	84.8	0.4	108.5	0.2	10.0	0.3	10.0	0.2	33.7	0.1
Barbados	59.9	0.2	2.0	0.0	61.9	0.1	17.3	0.5	17.3	0.4	77.2	2.0
Belize	28.9	0.1	0.2	0.0	29.1	0.1	11.3	0.3	11.3	0.3	40.2	0.1
Bolivia	817.6	2.4	38.4	0.2	856.0	1.6	61.7	1.7	62.2	1.5	879.3	2.3
Brazil	10,226.9	29.8	1,773.7	8.4	12,000.6	21.7	1,108.2	31.3	1,224.9	30.2	11,335.1	29.9
Chile	2,198.8	6.4	75.0	0.4	2,273.8	4.1	90.8	2.6	97.5	2.4	2,289.6	6.0
Colombia	1,914.8	5.6	135.4	0.7	2,050.2	3.7	166.2	4.7	176.2	4.3	2,081.0	5.5
Costa Rica	380.9	1.1	163.0	0.8	543.9	1.0	11.0	0.3	13.2	0.3	391.9	1.0
Dominican Republic	463.5	1.4	36.6	0.2	500.1	0.9	35.6	1.0	35.6	0.9	499.1	1.3
Ecuador	1,555.8	4.5	57.8	0.3	1,613.6	2.9	96.1	2.7	96.5	2.4	1,651.9	4.4
El Salvador	680.8	2.0	32.0	0.2	712.8	1.3	75.6	2.1	79.4	2.0	756.4	2.0
Guatemala	515.9	1.5	54.9	0.3	570.8	1.0	65.6	1.9	72.6	1.8	581.5	1.5
Guyana	88.2	0.3	0.7	0.0	88.9	0.2	10.0	0.3	10.0	0.2	98.2	0.3
Haiti	236.2	0.7	9.6	0.1	245.8	0.4	2.0	0.1	2.0	0.0	238.2	0.6
Honduras	415.5	1.2	31.3	0.2	446.8	0.8	72.5	2.0	72.8	1.8	488.0	1.3
Jamaica	238.6	0.6	83.4	0.4	328.0	0.6	9.8	0.3	9.9	0.2	248.4	0.7
Mexico	5,510.2	16.0	711.9	3.3	6,222.1	11.3	946.8	26.8	979.2	24.2	6,457.0	17.0
Nicaragua	384.6	1.1	22.4	0.1	407.0	0.7	31.6	0.9	31.9	0.8	416.2	1.1
Panama	478.4	1.4	41.3	0.2	519.7	0.9	63.5	1.7	65.1	1.6	541.9	1.4
Paraguay	639.9	1.9	45.3	0.2	685.2	1.2	46.8	1.3	47.3	1.2	686.7	1.8
Peru	1,624.7	4.7	94.3	0.5	1,719.0	3.1	100.8	2.8	117.5	2.9	1,725.5	4.7
Suriname	0.7	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.2	0.0	0.7	0.0
Trinidad and Tobago	251.8	0.7	53.2	0.3	305.0	0.6	18.0	0.5	19.2	0.5	269.8	0.7
Uruguay	947.6	2.8	39.5	0.2	987.1	1.8	139.8	4.0	140.4	3.5	1,087.4	2.9
Venezuela	1,294.6	3.7	195.3	0.8	1,489.9	2.7	192.9	5.5	197.3	4.9	1,487.5	3.9
Total Borrowers	\$34,345.7	100.0	\$4,626.3	22.2	\$38,972.0	70.5	\$3,538.0	100.0	\$3,762.4	92.8	\$37,883.7	100.0
NONBORROWING COUNTRIES												
Austria	\$ 69.7	0.3	\$ 69.7	0.1	\$ 69.7	0.1	\$ 2.4	0.5	\$ 2.4	0.1	\$ 72.1	0.3
Belgium	90.2	0.4	90.2	0.2	90.2	0.2	2.0	0.4	2.0	0.0	92.2	0.4
Canada	340.9	1.5	340.9	0.6	340.9	0.6	6.7	1.3	6.7	0.2	347.6	1.6
Croatia	2.4	0.0	2.4	0.0	2.4	0.0	2.4	0.0	2.4	0.0	2.4	0.0
Denmark	100.7	0.5	100.7	0.2	100.7	0.2	1.1	0.2	1.1	0.0	101.8	0.5
Finland	49.9	0.2	49.9	0.1	49.9	0.1	0.4	0.1	0.4	0.0	50.3	0.2
France	1,337.2	6.4	1,337.2	2.4	1,337.2	2.4	7.1	1.4	7.1	0.2	1,344.3	6.3
Germany	1,351.3	6.5	1,351.3	2.4	1,351.3	2.4	19.0	3.7	19.0	0.5	1,370.3	6.4
Israel	102.8	0.5	102.8	0.2	102.8	0.2	6.2	1.2	6.2	0.2	109.0	0.5
Italy	2,004.3	9.6	2,004.3	3.6	2,004.3	3.6	16.7	3.3	16.7	0.4	2,021.0	9.4
Japan	1,210.5	5.8	1,210.5	2.2	1,210.5	2.2	19.2	3.7	19.2	0.5	1,229.7	5.6
Netherlands	197.3	0.8	197.3	0.4	197.3	0.4	0.4	0.1	0.4	0.0	197.7	0.9
Norway	13.3	0.1	13.3	0.0	13.3	0.0	3.3	0.6	3.3	0.1	13.3	0.1
Portugal	42.3	0.2	42.3	0.1	42.3	0.1	42.3	0.1	42.3	0.2	45.6	0.2
Slovenia	35.3	0.2	35.3	0.1	35.3	0.1	2.6	0.5	2.6	0.1	37.9	0.2
Spain	780.5	3.7	780.5	1.4	780.5	1.4	33.4	6.5	33.4	0.8	813.9	3.8
Sweden	374.6	1.8	374.6	0.7	374.6	0.7	0.9	0.2	0.9	0.0	375.5	1.8
Switzerland	512.5	2.6	512.5	0.9	512.5	0.9	12.5	2.4	12.5	0.3	525.0	2.4
United Kingdom	602.6	2.8	602.6	1.1	602.6	1.1	9.0	1.8	9.0	0.2	611.6	2.9
United States	7,083.4	33.8	7,083.4	12.8	7,083.4	12.8	145.3	28.3	145.3	3.6	7,228.7	33.7
Yugoslavia	13.5	0.1	13.5	0.0	13.5	0.0					13.5	0.1
Total Nonborrowers	\$0.0	0.0	\$16,315.2	77.8	\$16,315.2	29.5	\$ 0.0	0.0	\$ 288.2	7.2	\$16,603.4	77.3
TOTAL	\$34,345.7	100.0	\$20,941.5	100.0	\$55,287.2	100.0	\$3,538.0	100.0	\$4,050.6	100.0	\$21,454.1	100.0
												\$59,337.8
												100.0

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2002
Ordinary Capital

COUNTRY	PROJECT	LOAN NUMBER	AMOUNT (Millions of US\$)
Barbados	Coastal Infrastructure Program	1386/OC-BA	17.0
Bolivia	Transredes S.A.	1444A/OC-BO ¹	75.0
	Redibol	1431A/OC-BO ²	37.0
Brazil	Northeast Tourism Development (Stage II)	1392/OC-BR	240.0
	Santa Catarina State Highway Program (Phase IV)	1390/OC-BR	150.0
	Paraná Urbano II Program	1405/OC-BR	100.0
	Acre Sustainable Development Program	1399/OC-BR	64.8
	Pará Urbe Support Program (Phase I)	1404/OC-BR	48.0
	Goiânia Water and Sanitation Program	1414/OC-BR	47.6
	Northeast Global Microenterprise Credit Program	1387/OC-BR	30.0
	Modernization of the Federal Court of Accounts	1423/OC-BR	5.0
	Diversity in Access to Higher Education	1406/OC-BR	5.0
Chile	Modernization of the Comptroller General's Office	1391/OC-CH	15.0
Colombia	Social Infrastructure and Community Management for Peace	1393/OC-CO	63.0
	Highway Development and Institutional Strengthening in Cundinamarca	1443/OC-CO	21.7
	Institutional Strengthening of the Bogota District	1385/OC-CO	16.0
	Colpatria Mortgage Bond Project	1433/OC-CO	5.2
Costa Rica	Sustainable Agricultural Production	1436/OC-CR	14.4
Dominican Republic	Aerodom Airports	1418/OC-DR	150.0
	Multiphase Program for Equity in Basic Education	1429/OC-DR ³	80.0
	Support for Competitive Agriculture	1397/OC-DR	55.0
	Disaster Prevention and Risk Management Program	1408/OC-DR	5.0
Ecuador	Metropolitan Quito Environmental Sanitation Program (Phase I)	1424/OC-EC	40.0
	Housing Sector Support Program II	1416/OC-EC ³	25.0
	Sustainable Development of the Northern Amazon Border Zone	1420/OC-EC	10.0
El Salvador	Global Multisector Credit Program	1396/OC-ES	42.4
	Support for the Social Peace Program	1389/OC-ES	27.9
Guatemala	Financial Sector Reform Program II	1400/OC-GU ³	200.0
	Urban Poverty Reduction Program	1409/OC-GU	46.8
	Natural Resource Management in Upper Watersheds	1398/OC-GU	40.0
	Capital Expenditures for Electricity Distribution	1440/OC-GU	25.0
	Labor Market Program	1401/OC-GU	10.0
Honduras	Aguas de San Pedro Sula Water and Sewerage	1435/OC-HO	13.7

¹ Complemented by a "B" loan syndication up to \$57 million.

² Complemented by a "B" loan syndication up to \$3 million.

³ Interest rate partially subsidized by the Intermediate Financing Facility.

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2002 (CONTINUED)
Ordinary Capital

COUNTRY	PROJECT	LOAN NUMBER	AMOUNT (Millions of US\$)
Jamaica	Information and Communications Technology	1438/OC-JA ³	17.0
	Emergency Reconstruction Facility	1419/OC-JA	16.0
Mexico	Consolidation and Expansion of the Health, Education and Nutrition Program (<i>Oportunidades</i>)	1388/OC-ME	1,000.0
Panama	Land Administration and Regularization	1427/OC-PN	27.0
	Sustainable Development of Bocas del Toro	1439/OC-PN	15.2
	Strengthening and Modernization of Economic and Fiscal Management (Phase II)	1430/OC-PN	10.0
	Training and Employment System	1403/OC-PN	8.4
	Program to Foster Competitiveness	1410/OC-PN	7.0
Paraguay	Social Investment Program (PROPAIS II)	1422/OC-PR	28.4
Peru	Fiscal Reform Program	1412/OC-PE	300.0
	Compensation and Social Development Fund (Foncodes III)	1421/OC-PE	150.0
	State Modernization and Decentralization	1437/OC-PE	28.0
	Foreign Trade Policy Development Program	1442/OC-PE	5.0
	Institutional Strengthening and Environmental and Social Management for the Camisea Gas Project	1441/OC-PE	5.0
Suriname	National Population and Housing Census	1446/OC-SU ⁴	3.4
Trinidad and Tobago	National Settlements Program (Stage II)	1402/OC-TT	32.0
Uruguay	Social Protection and Sustainability Program	1417/OC-UR	500.0
	Multisector Global Financing Program III	1407/OC-UR	180.0
	Comprehensive Program for At-Risk Children, Adolescents and Families	1434/OC-UR	40.0
	Port of M'Bopicua	1432A/OC-UR ⁴	10.5
	Montevideo Municipal Modernization Program	1425/OC-UR	3.0
Venezuela	Rural and Small Town Water Supply Systems	1445/OC-VE	28.0

⁴ Complemented by a "B" loan syndication up to \$10.5 million.

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2002 (CONTINUED)
Fund for Special Operations

COUNTRY	PROJECT	LOAN NUMBER	AMOUNT (Millions of US\$)
Bolivia	Santa Cruz-Puerto Suárez Corridor Project (Phase I)	1101/SF-BO	75.0
	Environmental and Social Protection in the Santa Cruz-Puerto Suárez Corridor	1099/SF-BO	21.0
	Sustainable Tourism Development Program	1098/SF-BO	10.0
	Strengthening the Foreign Trade Sector Facility	1118/SF-BO	5.0
	Disaster Prevention Program	1121/SF-BO	2.7
	Water Production at the Sama Mountain Biological Reserve	1116/SF-BO	2.5
Guyana	Basic Education Access and Management Support Program (Phase I)	1107/SF-GY	30.0
	Electrification Program for Unserved Areas	1103/SF-GY	27.4
	Basic Nutrition Program	1120/SF-GY	5.0
Honduras	Modernization of the Administration of Justice (Stage 2)	1115/SF-HO	30.0
	Bay Islands Environmental Management Program II	1113/SF-HO	12.0
	San Pedro Sula Municipal Development Program (Phase II)	1104/SF-HO	9.0
	Sustainable Institutional Strengthening of the Road Sector	1106/SF-HO	7.6
	Puerto Cortés Sewerage Project ⁵	—	4.5
	Modernization of the National Statistics System	1112/SF-HO	4.0
Nicaragua	Rural Production Revitalization Program	1110/SF-NI	60.0
	Social Policy Reforms for the Poverty Reduction Strategy	1114/SF-NI	30.0
	Low-Income Housing Program (Phase I)	1111/SF-NI	22.5
	Social Safety Net Program (Phase II)	1109/SF-NI	20.0
	Modernization of the Comptroller General's Office	1100/SF-NI	5.4
	Strengthening Foreign Trade Management	1117/SF-NI	5.0
Regional	Global Credit for Small Caribbean States	1108/SF-RG	20.0

⁵ Increase to a \$13.8 million loan (997/SF-Ho) approved in 1997.

Institutional Aspects

Evaluation and Internal Audit

The year 2002 was the second full year of operation of the Office of Evaluation and Oversight (OVE) under the new mandate defined by the Board of Executive Directors. OVE's main activity during the year focused on initiatives to implement the recommendations contained in its "Development Effectiveness Report." The report showed that while development effectiveness requires results-based management, the organization of the Bank still focuses on interventions, i.e., on inputs and outputs, not outcomes and impacts.

In 2002, OVE produced its own evaluation studies on country programs, strategic directions pursued by the Bank, and Bank policies and instruments. These activities can be grouped into five areas: i) oversight of evaluation activities; ii) country program evaluation; iii) evaluation capacity development; iv) strategy evaluation; v) policy and instrument evaluation.

In the broad area of oversight, a number of reports were released to the Board of Executive Directors, including OVE's annual report, a memorandum on resource allocation, a project evaluability report and a report on tools for project supervision. Country program evaluations are aimed at assessing Bank support and constitute an important element in strengthening the development effectiveness of Bank actions in a given country. In 2002, a protocol for the conduct and content of country program evaluation was developed and evaluations were produced for the Bahamas, Costa Rica, Guyana and Nicaragua.

Under the rubric of evaluation capacity development, OVE administered a series of seminars, training programs and cooperative evaluation agreements with subregional financial institutions. The Office also sponsored four seminars on evaluation methods (private

sector country risk assessment, jointly with Standard and Poor's), evaluation capacity building (jointly with the World Bank), country program evaluation methodology, and evaluation of social investment funds (jointly with the World Bank).

Strategy evaluations were carried out in the areas of agriculture, poverty, decentralization, water and sanitation, justice, small and medium-sized enterprises and integration.

Two other products completed during the year were a summary of evaluation findings of 10 projects that include indigenous people as beneficiaries and a report on service delivery through NGOs, a study of the Bank's experience in working in partnership with civil society in the execution of social programs.

Policy and instrument evaluations were conducted to assess the MIF, the IIC, large technical cooperation projects, and the Emergency Reconstruction Facility. The Office conducted 23 studies of individual projects as part of larger thematic or country level reviews during 2002 (five relating to the Emergency Recovery Facility, 11 relating to the policy evaluation of the water sector, and seven relating to justice), as well as written project evaluation summaries on 140 MIF projects.

During 2002, the Auditor General's Office continued to coordinate all internal audits with the IDB's external auditors to provide maximum audit coverage of Bank activities and to effectively transition to the Bank's new external auditors, Ernst & Young. At headquarters, the Office continued to monitor and review the selection, implementation and upgrade of significant computer applications, including the web-enabled version of PeopleSoft (the Human Resources Information System); the

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new Budget and Financial Management System, which replaced the prior system for budgeting, general ledger, accounts payable, purchasing, Country Office accounting and project accounting; the replacement of the Bank's Investment Management System; the enhancements to the Loan Management System, which is the system for the Bank's lending, guarantee and technical cooperation programs; and the Borrowing Management System, focusing on the enhancements required for reporting financial derivatives under the new accounting standard.

The Office also reviewed test plans and followed up on improvements to the Bank's business continuity plan and disaster recovery plan for mission critical Bank functions and computer systems; continued monitoring the deployment of Windows 2000 Bank-wide; and reviewed the Remote Access Strategy and the Windows 2000 Security for the servers in the Private Sector Department. In addition, the Office reviewed the proposed capital adequacy model. The Office also completed several reviews in the areas of personnel policies and procedures, administrative procurement, contributions and life insurance reserves. Additionally the Office continued a review of the Bank's trust fund activities and coordinated an external review of the risk management process of the Bank's private sector lending program.

In the Regional Operations Departments and Country Offices, the Auditor General's Office focused on the Management Oversight System as well as all key operational control features in Country Offices pertaining to project supervision, procurement, disbursement, reporting and resource management. In addition to its ongoing audit of Country Office operations, the Office continued reviewing the effectiveness of key control features for highly decentralized projects, including the eligibility requirements for the performance of ex-post reviews of procurement and disbursements; the adequacy and timeliness of Bank supervision; the responsibilities of external auditors and consultants regarding projects; and the adequacy

of existing reporting requirements. In addition, the Office worked on the development of the Bank's anti-corruption strategy and revision of the Code of Ethics, and supported the reviews by Regional Operations Departments of certain executing agencies to strengthen their transparency and overall control environment. The Office continued reviewing the involvement of national audit institutions in auditing Bank-financed projects.

The Office of the Auditor General also continued to perform inquiries and investigations, including those referred to the Office from the Ethics Committee and from the Oversight Committee on Fraud and Corruption.

Following up on the important steps taken in 2001 to strengthen the Bank's ongoing fight against fraud and corruption, more significant progress was made in 2002 in carrying out the anti-corruption agenda. The parameters of that agenda were established in the 2001 Board-approved document "Strengthening a Systemic Framework against Corruption."

Within the Bank, the Oversight Committee on Fraud and Corruption spearheads efforts to head off these potential problems. The Oversight Committee is composed of four members of senior management of the Bank and reports directly to the President. It is chaired by the Executive Vice President, and includes the Vice President for Planning and Administration, the General Counsel and the Auditor General. The Oversight Committee oversees all allegations of fraud and corruption in connection with any Bank activities or operations; oversees investigations; imposes appropriate sanctions and coordinates their implementation; and determines when matters need to be referred to national authorities for civil or criminal prosecution.

The executive arm of the Oversight Committee is its Secretariat, which began operations in 2002. The Secretariat receives and classifies all allegations of fraud and corruption. Throughout 2002, the Secretariat focused attention on promoting and dissemi-

nating the new policies related to fraud and corruption. As a result of the emphasis placed on disseminating information on the anti-corruption efforts of the Bank, the number of allegations received by the Secretariat has steadily increased.

The Oversight Committee created a series of mechanisms to report allegations of fraud and corruption. The Secretariat manages the mechanisms, including a direct telephone number that is available toll-free from all the Bank's member countries for anyone wishing to report allegations of fraud and corruption. The Secretariat also provides a secure e-mail address, a secure facsimile, and will receive allegations in person at the Bank's headquarters.

A new website, www.iadb.org/ocfc, provides information to the general public on the Bank's policies against fraud and corruption and also offers secure and confidential mechanisms to report suspected cases.

Country Offices

In 2002, the Bank's Country Offices continued the important task of assisting borrowers and executing agencies in monitoring and implementing Bank-approved projects. Overall initiatives were oriented toward improving the quality of Bank interventions and responding to the challenges faced by countries in the region. At the same time, Country Offices streamlined their internal operations so that they could enhance technical support to borrowers aimed at achieving better development results. Country Offices also undertook efforts to provide feedback from lessons learned from past operations into new project design.

The monitoring of the portfolio continued to be a prime responsibility of the Country Offices. Dialogue with borrowers and executing agencies was intensified, and high-level discussions with national authorities on portfolio issues and project performance occurred on a monthly or quarterly basis. This type of proactive portfolio monitoring was critical in many countries experiencing fiscal constraints, where there was a reduction of the

amount of local counterpart resources available for project implementation. These meetings were complemented by the annual country portfolio reviews, during which action plans were agreed upon with national counterparts to resolve bottlenecks in project implementation.

Country Offices also played a critical role in responding to natural disasters and emergency situations, including an outbreak of dengue fever in El Salvador and Honduras, flooding in Bolivia, Jamaica and Venezuela, and hurricanes in Mexico. Reconstruction efforts also continued in many Central American countries following hurricanes and earthquakes.

In general, Country Offices more actively engaged the national liaison ministries in the overall monitoring of national portfolios. In Jamaica, for example, the Planning Institute has effectively taken on the role of overall portfolio monitoring with support from the Country Office. In Uruguay, the Country Office frequently organizes meetings with representatives from the Ministry of Economy and Finance and the Office of Planning and Budget to discuss individual projects encountering budgetary restrictions and shortfalls in counterpart resources. This type of problem-solving approach has resulted in reinvigorating stagnant portfolios and has contributed to the redirection of resources to projects with greater national priority.

One noteworthy Country Office initiative in support of project monitoring was in the Dominican Republic, where a Project Management Monitoring System (*Sistema de Seguimiento Gerencial, SISEG*) has been developed. The system is being used by nine project implementation units to monitor actual and planned progress for project activities in terms of cost, and uses a color-coded, real-time reporting system to rate project performance. This rating system has encouraged project managers to manage for results, and enhances their ability to identify the source of any problem and take the necessary remedial action opportunely.

As a result of the positive feedback received from the executing agencies, an

enhanced version of SISEG is being developed that will allow executing agencies to automatically generate progress and mid-term evaluation reports with updated information. The SISEG progress reports to be submitted to the Bank's Country Office will represent a key input for monitoring project implementation and updating the Bank's Project Performance and Monitoring Reporting system.

In 2002, Country Offices continued to provide training to executing agencies and related ministry staff on the Bank's policies and procedures, procurement, disbursements, financial management and controls. This was complemented with training in the logical framework, project management, institutional analysis and monitoring and evaluation. The effect of this training has been an improvement by executing agencies in the implementation and monitoring of projects in execution. The development by the Bank of a CD-ROM on the logical framework for borrowers and executing agencies has also responded to the additional demand for training needs in this area.

The Country Offices continued to be actively involved in the preparation of new projects, particularly the institutional analysis of the borrower and project execution mechanisms, as well as participation in the preparation of the logical framework. Leadership of project teams by Country Office specialists increased during the year, and in almost all cases, Country Offices participated in the internal review of new projects. Once projects were approved, the Country Offices were instrumental in supporting borrowers and executing agencies in compliance with contractual conditions and eligibility for first disbursement.

All Country Offices in 2002 held project start-up workshops with borrowers and executing agencies. These events were seen as being critical in promoting national ownership of projects and an overall commitment to success during execution. Another measure to address the institutional weaknesses of borrowers and executing agencies in implementing projects has been the preparation of studies to analyze factors that hamper the ability of executing

units to move forward with Bank-funded projects in a timely manner. The Country Office in Ecuador, for example, developed questionnaires for both Bank specialists and executing agencies to determine the root causes of problems affecting project implementation. The results of these questionnaires were presented in a workshop to each group, and subsequently an action plan was developed with borrowers to seek a mutual resolution of problems. Other Country Offices have initiated similar analyses.

Finally, Country Offices continued to enhance the participation of civil society organizations in the Bank's projects and activities. The Bank's Country Offices in Belize, Barbados, Guyana, Haiti, Jamaica, Suriname and Trinidad and Tobago, along with CARICOM, co-hosted the "Forward Together Civil Society Conference." The event brought together representatives of nongovernmental organizations, private sector groups and other civil society actors to discuss issues related to their roles in the development of the Caribbean region. Participants included representatives of labor, youth, women's groups, the media, religious bodies, the academic community and other civil society interests. The draft Strategy for Promoting Participation in the Activities of the Bank was circulated to all participants, along with the results of national consultations on the same document.

Country Office staff in the Caribbean also met in Trinidad with representatives of government and staff of executing units of Bank-funded projects to discuss interaction with civil society. The objectives of this meeting included increasing awareness of the relevance and impact of civil society participation in the social and economic development of countries, and providing tools and methods to facilitate the incorporation of civil society in Bank projects and activities.

Special Office in Europe

The role of the Special Office in Europe (SOE) is to contribute to the strengthening of relations and cooperation between the Bank and

the IDB's regional and 17 nonregional member countries (16 European countries and Israel), the European Union and international organizations based in Europe (OECD, WTO, UNDP, UNCTAD, UNESCO and the Paris Club). The key elements of its mission are to promote a greater awareness of the IDB in Europe, strengthen the Bank's cooperation with European countries and institutions based there, and create activities to encourage the exchange of information and the generation of informed opinions among those interested in Latin America and the Caribbean. SOE's main activities in 2002 reflected those priorities:

- To increase the Bank's presence among the European member countries and Israel, SOE facilitated a consultative meeting between the President of the Bank and the nonregional member countries in Berlin and subsequent visits by the President to Switzerland, Germany, Spain, Italy, France, Finland, the Netherlands and the UK, featuring meetings with government officials and participation in various conferences. The President also signed agreements with the governments of Spain and Italy and an accord to strengthen cooperation with the European Commission.

- As part of its efforts to disseminate information about the Bank and the region, SOE participated in and helped to coordinate various meetings, including the Consultative Group Meetings for Guatemala, Honduras and Nicaragua; a promotional mission to France and Spain by the Bank's Private Sector Department; and missions linked to the preparation of the 2003 Bank's Annual Meeting to be held in Milan. In the latter connection, meetings were organized with Italian civil society organizations, the private sector and universities. In addition—in cooperation with the Sustainable Development Department—SOE organized discussions on key areas of the Bank's Institutional Strategy, inviting representatives of the nonregional member country governments, civil society and academic circles. Topics included poverty reduction and gender issues (Paris and London), and the Bank's proposed

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<http://www.iadb.org/goto.cfm?europe>

strategies for the social sectors, competitiveness and the environment (Paris).

- In coordination with the Office of External Relations, the IIC and the MIF, SOE organized a series of seminars and missions for European entrepreneurs on business opportunities generated by the Bank group's projects and programs. Presentations were made in Scandinavia, Milan, Munich and Zurich. SOE regularly participated in meetings organized by the French Enterprises Association (MEDEF) and the French Center of Foreign Trade. It also organized meetings in Paris, Milan, Rome and London to present and promote the publication it edited on European foreign direct investment in Latin America.

- SOE participated with the President of the Bank at the summit meeting of heads of state and government of the European Union and Latin America, which took place in Madrid in May. The meeting resulted in a Memorandum of Understanding (MoU) between the Bank and the European Commission to strengthen future cooperation in the pursuit of common goals.

- In view of the MoU and the follow-up to the Madrid Summit—and in collaboration with the Integration and Regional Programs Department, Financial Services Subdepartment and Sustainable Development Department—SOE promoted collaboration with the European Commission in areas such as cooperation with Central America, social equity and poverty reduction, governance and civil society, and planning for natural disasters.

- The Office created a forum for the study of the Latin American economy and a network of centers whose purpose will be to track and study current economic topics in Latin American countries. Joint efforts between the Bank's Research Department and SOE led to the constitution in October of the IDB Euro-Latin Research Network, which will define topics for forthcoming studies and conferences.

■ SOE contributed to the creation of the Euro-Latin Study Network on Integration and Trade, the main objective of which is to foster research and debate on these topics among Latin American and European experts. The network is directed by a steering committee made up of representatives from the IDB, the European Commission and three rotating European research centers. The network will define the topics to be discussed within the context of an annual conference. Additionally, SOE has continued supporting the activities of the Working Group on EU-MERCOSUR Negotiations of the Institute of Political Science (Paris).

■ To promote alliances with international organizations based in Europe, the Special Office in Europe participated in meetings on territorial development (OECD's LEED Program), small and medium-sized enterprises (OECD), corruption and money laundering (OECD/FATF and UN), rural poverty (IFAD), and competition policy and trade (OECD and WTO), as well as fora on education, cultural enterprises, scientific cooperation (Institute Pasteur), the information society (ITU), statistical support for monitoring development goals (UN - Paris21) and the development of the Millennium Development Goals for education (UNESCO).

Office in Japan

During 2002, the IDB Office in Japan celebrated its seventh anniversary of building development partnerships in Japan and East Asia. The Office implemented a broad program of outreach and knowledge dissemination activities with three main objectives: (i) to inform the Japanese community of the social and economic situation of Latin America and the Caribbean and of the business opportunities created by Bank-financed operations in the region; (ii) to promote trade and investment opportunities in Latin America and the Caribbean; and (iii) to foster an exchange of best practices and experiences in different development fields between Japan and East

Asia and the Bank's borrowing member countries.

In coordination with the Bank's Inter-American Institute for Social Development (INDES) and the Japan Program, the Office organized workshops on "Citizen Participation in the Context of Fiscal Decentralization in Tokyo and Kobe." The workshops brought together a distinguished group of researchers and practitioners from East Asia (Japan, Indonesia, Malaysia, Philippines and Thailand) and Latin America (Brazil, Colombia and Peru), as well as from the Asian Development Bank and the IDB. Participants exchanged experiences, best practices and lessons learned from programs featuring citizen participation in municipal management. The workshop assessed programs that have effectively increased public participation in the design and implementation of policies and projects at the local government level, and which have consequently improved social equity in both regions.

In collaboration with the MIE, the Office organized a seminar for Peruvian and Brazilian temporary workers residing in Japan. During the meeting, creation of a "Dekasegui Fund" by the Bank was discussed. The Fund would serve as a means to help workers reduce the transaction costs of remittances to their home countries and to channel important resources to more productive uses.

In the area of promotion of trade and investment for Latin American and Caribbean countries, the Office sponsored seminars on the occasion of the visit to Japan of the Presidents of Ecuador and Dominican Republic and of the Vice Minister of Finance of Peru and Vice Minister of Foreign Affairs of Paraguay. An additional event, on the occasion of the visit to Japan of Chile's Minister of Foreign Affairs, focused on the ongoing negotiations of a possible free trade agreement between Japan and Chile, and was held in cooperation with the Japan and Tokyo Chambers of Commerce and

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<http://www.iadb.org/goto.cfm?japan>

Industry, the Japan-Chile Business Cooperation Committee, the Japan External Trade Organization (JETRO) and the Japan Institute for Overseas Investment (JOI).

In the field of private sector development, in coordination with the Development Bank of Japan (DBJ), the Office conducted an outreach seminar on “Entrepreneurship in Emerging Economies: The Creation and Development of New Firms in Latin America and East Asia.” It focused on the results of a large-scale comparative study undertaken by the IDB on the entrepreneurial process of nine countries: four from East Asia (Japan, Korea, Singapore and Taiwan) and five from Latin America (Argentina, Brazil, Costa Rica, Mexico and Peru). A separate seminar on “Challenges in Private Infrastructure Finance in Latin America,” at which the recent and ongoing efforts of the Latin American countries in fostering private infrastructure development were discussed, highlighted the role played by the Bank in attracting private investment to the region.

Activities undertaken in conjunction with the Bank’s Private Sector Department included seminars and working sessions to inform interested Japanese commercial banks, investment groups and consulting firms on the business opportunities created by the Bank-financed operations in the region and on the Bank’s policy for the procurement of goods and services. With the support of staff from the three Regional Operations Departments, the Office led a public outreach seminar in Tokyo on the investment opportunities for Japanese investors in two ongoing regional integration initiatives—the Puebla-Panama Plan (PPP) and the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).

The Office also sought to support regional integration initiatives in Latin America and the Caribbean through the Japan-Central American Information Encounter. The aim was to strengthen mutual understanding and economic relations between Japan and Central America. The encounter proposed a new framework for cooperation to increase trade, investment and

tourism flows from Japan to the region as a whole and to enhance cultural exchanges.

A key aspect of the work of the Office is to focus attention on the economies of Latin America and the Caribbean. To that effect, it conducted a seminar on the “Recent Performance and Prospects of the Argentine Republic,” which examined the external and domestic factors accounting for that country’s difficulties, as well as the policy measures that the country has been implementing to begin a sustainable recovery. Another program, “Ecuador: Dollarization, Competitiveness and Investment Opportunities,” held on the occasion of the visit to Japan of Ecuador’s Minister of Foreign Trade, Industry, Fisheries and Competitiveness, reviewed impacts of dollarization of the Ecuadorian economy.

In collaboration with the Integration and Regional Programs Department, the Office promoted the first meeting in Tokyo of the Latin America/Caribbean and Asia/Pacific Economics and Business Association (LAEBA). This association is an initiative launched under the umbrella of the Bank’s Partnership Agreement with the Asian Development Bank. The Tokyo panel focused on “Regional Monetary and Financial Arrangements for Emerging Economies: Latin America and the Caribbean and Asia-Pacific” and was part of the annual meeting of the Asia-Pacific Finance Association (APFA).

Together with the Financial Services Subdepartment, the Office was instrumental in setting up the IDB-JBIC Coordination Meeting in Tokyo to discuss strategies and projects for possible cofinancing between the two organizations. A second meeting helped define areas of possible cooperation between the IDB and Japan International Cooperation Agency (JICA) in the area of technical assistance for Latin American and Caribbean countries.

Administration

In addition to core activities (administration of the IDB’s human resources and the corresponding policies and rules), the Bank’s focus

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

Category	2000 Actual	2001 Actual	2002 Actual
Board of Governors	\$ 2,095.9	\$ 2,885.0	\$ 3,232.4
Board of Executive Directors	14,751.1	14,918.1	15,598.8
Evaluation Office	3,633.8	4,581.5	4,730.5
Headquarters and Country Offices	292,102.2	305,159.1	338,559.5
Post-Retirement Benefits	1,200.0	–	–
Total before Reimbursement^{1,2,3}	313,783.1	327,543.8	362,121.2
Reimbursement from Funds in Administration and IIC	(2,526.9)	(2,333.9)	(1,885.4)
Total Administrative	311,256.2	325,209.9	360,235.8
Capital	10,750.0	20,206.2	26,059.9
TOTAL ADMINISTRATIVE AND CAPITAL	\$ 322,006.2	\$ 345,416.1	\$ 386,295.7

¹ Excludes depreciation amounting to \$15.7 million in 2000, \$15.3 million in 2001 and \$9.6 million in 2002.

² Net of certain income items in the amount of \$13.1 million, \$11.6 million, and \$11.8 million in 2000, 2001, and 2002, respectively.

³ Includes \$7.8 million of prepaid pension costs in 2002.

during 2002 was on consolidating critical components of the Human Resources Strategy (including the Leadership Assessment Development Program, Management Development Program, staffing plan, and plans and strategies in the areas of performance management, compensation, diversity, and mobility and communications).

The Leadership Assessment and Development Program, designed to identify, assess and develop staff with high potential to perform leadership roles at the Bank, completed three sessions during 2002. The Management Development Program, which is intended to improve the skills of newly-appointed supervisors, current supervisors and senior management, conducted workshops, forums and seminars and continued with an individual coaching program.

A compensation strategy was approved by the Board in May, following completion of a study on benefits in comparator organizations. In addition, management sent forward a Diversity Action Plan, containing a methodology to conduct a Bank-wide survey to identify staff perceptions of opportunities and obstacles for promoting diversity. A census to obtain data on race and ethnicity was also developed.

The Office of Learning, responsible for basic training and orientation workshops for

the Country Offices, gave priority to developing additional expertise in the areas of competitiveness, civil society, development effectiveness, ethics and corruption, violence prevention and judicial reform.

During 2002, Management implemented several programs to enhance security at Bank headquarters and the Country Offices. The Security Advisory Committee chaired by the Vice President for Planning and Administration reviewed and coordinated all aspects of security policies, physical security, the protection of data and other information assets, disaster recovery and business continuity.

A net administrative budget of \$378.6 million and a Capital Improvement Program of \$31.7 million have been authorized for 2003. Table XIII shows total expenditures for 2000, 2001 and 2002. In 2002, total administrative expenditures of \$360.2 million represented 98.2 percent of the net approved budget.

At year-end 2002, Bank staff funded by the administrative budget, excluding the Board of Executive Directors and the Office of Evaluation and Oversight totaled 1,912, of whom 1,396 were professionals and 516 administrative. Of this total, 543 staff were assigned to Country Offices. At year's end, there were 516 professional women at the Bank, comprising 37 percent of all professional staff.



Financial Matters

Highlights

As of December 31, 2002, all ordinary capital loans were performing except for certain loans to private sector borrowers without sovereign guarantee that were classified as impaired and were in nonaccrual. Ordinary capital operations generated operating income of \$728 million, compared with \$1 billion in 2001. Operating income decreased, due largely to a reduction in loan charges approved by the Board of Executive Directors. Investment income declined due to a general fall in short-term interest rates, which affects a large part of the liquidity that is invested in floating rate securities. However, the reduction in yield did not affect operating income because a large part of the liquidity is financed with matching floating rate debt. The interest coverage ratio was 1.40 in 2002. Ordinary capital equity grew to \$14.3 billion as of December 31, 2002 from \$13.3 billion at the end of the previous year, including total reserves of \$9.9 billion in 2002, up from \$8.9 billion in 2001. The reserves to net loans and guarantees ratio at the end of 2002 was 21.4 percent. These ratios, which are calculated excluding the effects of the implementation of FAS 133, are consistent with Bank policy and reflect the institution's financial soundness.

The Bank was again rated AAA by the major credit agencies in 2002, as it has ever since it was first rated.

The Bank applied minimum loan charges to ordinary capital loans during the first and second semesters of 2002. That is, full waivers of both the supervision and inspection fee and the credit commission were granted, and a minimum lending spread of 0.1 percent was

TABLE XIV. CAPITAL OF THE BANK

(In thousands of U.S. dollars)¹

Country	Subscriptions as of December 31, 2002		
	Paid-in	Callable	Total
Argentina	\$ 465,118	\$10,393,829	\$ 10,858,947
Austria	6,900	153,688	160,588
Bahamas	11,533	198,347	209,880
Barbados	5,634	124,253	129,887
Belgium	14,235	316,762	330,997
Belize	7,202	103,516	110,718
Bolivia	37,324	834,355	871,680
Brazil	465,118	10,393,829	10,858,947
Canada	173,677	3,866,209	4,039,887
Chile	127,716	2,853,919	2,981,634
Colombia	127,716	2,853,919	2,981,634
Costa Rica	18,662	417,081	435,743
Croatia	2,087	46,384	48,471
Denmark	7,347	163,435	170,782
Dominican Republic	24,911	556,788	581,699
Ecuador	24,911	556,788	581,699
El Salvador	18,662	417,081	435,743
Finland	6,900	153,688	160,588
France	82,273	1,831,446	1,913,719
Germany	82,273	1,831,446	1,913,719
Guatemala	24,911	556,788	581,699
Guyana	7,793	153,773	161,566
Haiti	18,662	417,081	435,743
Honduras	18,662	417,081	435,743
Israel	6,804	151,541	158,345
Italy	82,273	1,831,446	1,913,719
Jamaica	24,911	556,788	581,699
Japan	217,106	4,833,154	5,050,260
Mexico	298,980	6,681,308	6,980,288
Netherlands	14,633	325,640	340,273
Nicaragua	18,662	417,081	435,743
Norway	7,347	163,435	170,782
Panama	18,662	417,081	435,743
Paraguay	18,662	417,081	435,743
Peru	62,235	1,390,745	1,452,980
Portugal	2,316	51,656	53,972
Slovenia	1,267	28,096	29,362
Spain	82,273	1,831,446	1,913,719
Suriname	5,718	82,852	88,570
Sweden	14,139	314,807	328,946
Switzerland	20,411	454,249	474,660
Trinidad and Tobago	18,662	417,081	435,743
United Kingdom	41,776	929,946	971,722
United States	1,303,020	29,006,704	30,309,724
Uruguay	49,870	1,114,335	1,164,206
Venezuela	249,339	5,568,456	5,817,795
Subtotal	4,339,289	96,596,415	100,935,704
Unallocated	905	14,765	15,670 ²
TOTAL	\$4,340,194	\$96,611,180	\$100,951,374

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

² Total unallocated amount consists of 1,299 shares (75 paid-in and 1,224 callable) pertaining to the remainder of the former Social Federal Republic of Yugoslavia.

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

Country	As of December 31, 2002
Argentina	\$ 493,789
Austria	18,500
Bahamas	10,440
Barbados	1,751
Belgium	42,597
Belize	7,502
Bolivia	48,193
Brazil	538,561
Canada	292,055
Chile	156,062
Colombia	152,065
Costa Rica	23,129
Croatia	5,398
Denmark	19,718
Dominican Republic	33,588
Ecuador	29,978
El Salvador	21,154
Finland	18,183
France	218,592
Germany	232,318
Guatemala	32,522
Guyana	8,244
Haiti	21,535
Honduras	26,291
Israel	18,237
Italy	208,645
Jamaica	28,470
Japan	570,748
Mexico	325,254
Netherlands	36,160
Nicaragua	23,925
Norway	19,848
Panama	25,121
Paraguay	27,679
Peru	78,967
Portugal	7,307
Slovenia	3,278
Spain	207,347
Suriname	6,219
Sweden	37,169
Switzerland	62,579
Trinidad and Tobago	20,707
United Kingdom	174,175
United States	4,822,778
Uruguay	55,246
Venezuela	312,194
Subtotal	9,524,218
Unallocated	59,546
TOTAL	\$9,583,764

¹ After exchange adjustments.

charged. Minimum loan charges were applied in 2002 in accordance with the Bank's policy of targeting only as much operating income as is required to meet its financial ratio targets. For a detailed description of the terms and conditions that apply to the Bank's various loan products, refer to the Bank's Web site at www.iadb.org/fin/capmar.htm.

At December 31, 2002, the loan portfolio of the Fund for Special Operations (FSO) was fully performing, except for loans to Haiti in the amount of \$436 million. FSO operations generated net income before technical cooperation expense and HIPC debt relief in an amount of \$81 million, compared to \$129 million in 2001.

In 2002, the amount of \$70.2 million was allocated from the FSO to the Intermediate Financing Facility (IFF), for its standard operations, for the Heavily Indebted Poor Countries (HIPC) initiative, and in connection with the agreement on concessional resources approved by the Board of Governors in 1999.

In 2001, Bolivia reached the HIPC completion point, thereby becoming eligible for net present value (NPV) \$307 million in debt relief. The Board of Directors approved

TABLE XVI. OUTSTANDING BORROWINGS BY CURRENCY AS OF DECEMBER 31, 2002*(In millions of U.S. dollars)*

Currency ¹	Amount
Australian dollars	\$ 1,504
British pounds sterling	3,118
Canadian dollars	538
Euro	4,910
Hong Kong dollars	1,042
Japanese yen	3,555
New Taiwan dollars	1,052
New Zealand dollars	259
Polish zlotys	117
South African rand	18
Swedish kronor	57
Swiss francs	2,439
United States dollars	28,862
Total	\$47,471

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

interim HIPC financing for debt relief for Honduras and Nicaragua in 2001 in the nominal amounts of \$43.8 million and \$56.3 million, respectively. Guyana became eligible for interim relief in 2002 of \$11.2 million in nominal terms. As a result of these decisions, the FSO recognized HIPC debt relief totaling \$540.8 million and \$37.5 million during 2001 and 2002, respectively, following its accounting policy for these transactions.

The audited financial statements of the ordinary capital, the Fund for Special Operations and the Intermediate Financing Facility, appear on pages 113-161 of this report.

Borrowings

In 2002, the Bank issued bonds for a total face amount of \$9.1 billion equivalent and net proceeds of \$8.6 billion with an average life of six years. The funding continued within a strategy of combining a few very large benchmark bonds in the Bank's core currency with smaller transactions in a series of currencies as opportunities arose. Accordingly, the Bank marketed two U.S. dollar denominated global bond issues of \$2 billion, carrying maturities of three and ten years. The three-year issue was subsequently increased by \$500 million. In addition, the Bank diversified the market access by selling bonds in five other currencies than U.S. dollars. The institutional market continued to absorb a significant part of the 2002 borrowing program (67 percent). However, the Japanese retail market, the "Uridashi market," was also an important part of the placement of Bank's bond issues (30 percent). As interest rates came down during 2002, an unusually high volume of call options attached to outstanding bonds of the Bank was exercised (\$813 million). The Bank maintained a broad geographical distribution of its bond sales with 57 percent placed in Asia, 26 percent in Europe and the Middle East, and 17 percent in North and South America.

TABLE XVII. BORROWINGS, FISCAL YEAR 2002^{1,6}

(Amounts in millions)

Type	Issue	Amount	Amount (US\$ equiv.)
Australian dollars	5.02%, due 2005	178	\$ 99
	5.12%, due 2007	100	55
	4.53%, due 2005	150	82
	4.77%, due 2007	265	149
	1.00%, due 2012 ⁵	1,300	736
Euro	3.79%, due 2005	45	39
	3.70%, due 2005	10	9
	4.00%, due 2006	60	59
	Step up, due 2008 ^{2,4}	200	197
	3.62%, due 2007	10	10
	0.50%, due 2012 ⁵	400	395
	1.00%, due 2014 ⁵	200	204
	3.52%, due 2008	200	205
New Taiwan dollars	2.74%, due 2005 ⁴	500	14
	2.72%, due 2005 ³	500	14
	2.70%, due 2005	1,000	29
	3.00%, due 2006 ⁴	500	15
	2.96%, due 2006 ³	500	14
	2.95%, due 2006	1,000	29
	3.15%, due 2007 ⁴	500	14
	3.08%, due 2007 ³	500	15
	3.07%, due 2007	1,000	29
	3.13%, due 2008 ³	500	14
	3.15%, due 2008 ³	500	14
	3.16%, due 2008 ³	500	14
	3.12%, due 2008	1,000	29
	3.21%, due 2009 ³	500	14
Polish zlotys	3.22%, due 2009 ³	500	14
	3.25%, due 2009 ³	500	14
Polish zlotys	8.25%, due 2005	150	36
Swiss francs	3.00%, due 2007	700	410
United States dollars	4.25%, due 2003	50	50
	4.00%, due 2005	2,500	2,500
	Variable, due 2009	61	61
	Variable, due 2008	25	25
	3.44%, due 2005	59	59
	3.85%, due 2006	300	300
	3.62%, due 2005	35	35
	3.53%, due 2005	81	81
	3.25%, due 2007	15	15
	4.375%, due 2012	2,000	2,000
	0.50%, due 2012 ⁵	300	300
	3.00%, due 2005	500	500
United States dollars	0.50%, due 2012 ⁵	137	137
	0.50%, due 2012 ⁵	106	106
TOTAL BORROWINGS			\$ 9,140

¹ Medium- and long-term borrowings before swaps.

² Year 1 - 4.125% with annual increases of 0.125%.

³ The issuer has a single call option.

⁴ The issuer has multiple call options.

⁵ Deep discount issues. Proceeds approximate 68% of face value.

⁶ This table excludes a US\$200 million issue (1%, due 2015) launched on December 5, 2002, with settlement on January 7, 2003.

Part II:
Financial Statements

ORDINARY CAPITAL

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited the accompanying balance sheet of the Inter-American Development Bank (Bank)—Ordinary Capital as of December 31, 2002, and the related statements of income and general reserve, comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Inter-American Development Bank—Ordinary Capital as of December 31, 2001, were audited by other auditors who have ceased operations and whose report dated February 13, 2002, expressed an unqualified opinion on those statements and included an explanatory paragraph that disclosed the change in the Bank's method of accounting for derivative instruments and hedging activities discussed in Note B to these financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank—Ordinary Capital as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Washington, D.C.
February 12, 2003

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in thousands of United States dollars

	December 31,			
	2002		2001	
ASSETS				
Cash and investments				
Cash	\$ 208,909		\$ 267,477	
Investments				
Trading	11,298,628		8,384,364	
Held-to-maturity	3,542,249	\$15,049,786	3,370,235	\$12,022,076
Loans outstanding	47,957,857		44,950,977	
Allowance for loan losses	(1,560,885)	46,396,972	(1,423,849)	43,527,128
Accrued interest and other charges				
On investments	113,688		103,954	
On loans	694,037		805,086	
On swaps, net	181,719	989,444	150,364	1,059,404
Receivable from members				
Capital subscriptions	6,191		11,617	
Non-negotiable, non-interest bearing demand obligations	499,506		578,831	
Amounts required to maintain value of currency holdings	57,868	563,565	56,991	647,439
Currency and interest rate swaps				
Investments—trading	18,860		41,688	
Borrowings	1,293,803	1,312,663	739,277	780,965
Other assets				
Property, net	287,152		271,405	
Unamortized borrowing costs	143,972		113,216	
Miscellaneous	254,386	685,510	159,499	544,120
Total assets		\$64,997,940		\$58,581,132
LIABILITIES AND CAPITAL				
Liabilities				
Borrowings				
Short-term	\$ 729,434		\$ 490,361	
Medium- and long-term	48,129,872	\$48,859,306	42,676,726	\$43,167,087
Currency and interest rate swaps				
Investments—trading	288,829		132,102	
Loans	64,932		8,709	
Borrowings	613,362	967,123	1,159,904	1,300,715
Accrued interest on borrowings		781,735		749,387
Accounts payable and accrued expenses		121,014		110,295
Total liabilities		50,729,178		45,327,484
Capital				
Capital stock				
Subscribed—8,368,379 shares (2001—8,369,043)	100,951,374		100,959,384	
Less callable portion	(96,611,180)		(96,618,732)	
	4,340,194		4,340,652	
General reserve	7,217,356		6,535,821	
Special reserve	2,665,500		2,665,500	
Accumulated other comprehensive income (loss)	45,712	14,268,762	(288,325)	13,253,648
Total liabilities and capital		\$64,997,940		\$58,581,132

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF INCOME AND GENERAL RESERVE

Expressed in thousands of United States dollars

	Years ended December 31,	
	2002	2001
Income		
Loans		
Interest	\$2,615,576	\$2,994,938
Credit commissions	564	114,687
Supervision and inspection and other fees	22,731	81,344
	<u>2,638,871</u>	<u>3,190,969</u>
Investments	318,596	540,917
Other	27,384	45,162
Total income	<u>2,984,851</u>	<u>3,777,048</u>
Expenses		
Borrowing expenses		
Interest	1,801,147	2,269,439
Amortization of borrowing costs	37,520	40,116
Debt repurchase costs	2,694	10,955
	<u>1,841,361</u>	<u>2,320,510</u>
Provision for loan losses	99,884	147,303
Administrative expenses	315,972	299,777
Total expenses	<u>2,257,217</u>	<u>2,767,590</u>
Operating income	727,634	1,009,458
Net loss from hedging activities under SFAS 133	(18,899)	(39,697)
Income before cumulative effect of change in accounting principle	708,735	969,761
Cumulative effect of change in accounting principle	—	50,839
Net income	708,735	1,020,600
Allocation to the Fund for Special Operations	(27,200)	(27,200)
Addition to general reserve for the year	681,535	993,400
General reserve, beginning of year	6,535,821	5,542,421
General reserve, end of year	<u>\$7,217,356</u>	<u>\$6,535,821</u>

STATEMENT OF COMPREHENSIVE INCOME

Expressed in thousands of United States dollars

	Years ended December 31,	
	2002	2001
Net income	\$ 708,735	\$1,020,600
Other comprehensive income (loss)		
Translation adjustments	372,928	(207,049)
Net loss on cash flow hedges under SFAS 133	(38,891)	(21,155)
Cumulative effect of change in accounting principle	—	44,760
Total other comprehensive income (loss)	<u>334,037</u>	<u>(183,444)</u>
Comprehensive income	<u>\$1,042,772</u>	<u>\$ 837,156</u>

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

Expressed in thousands of United States dollars

	Years ended December 31,	
	2002	2001
Cash flows from lending and investing activities		
Lending:		
Loan disbursements (net of participations)	\$ (5,521,825)	\$ (6,037,233)
Loan collections (net of participations)	4,106,227	1,925,760
Net cash used in lending activities	(1,415,598)	(4,111,473)
Gross purchases of held-to-maturity investments	(17,017,449)	(15,159,919)
Gross proceeds from maturities of held-to-maturity investments	16,961,698	14,801,386
Purchase of property	(25,328)	(20,220)
Miscellaneous assets and liabilities	(21,608)	5,683
Net cash used in lending and investing activities	(1,518,285)	(4,484,543)
Cash flows from financing activities		
Medium- and long-term borrowings:		
Gross proceeds	8,575,159	7,081,689
Repayments	(6,058,863)	(5,399,508)
Short-term borrowings:		
Gross proceeds	897,801	2,900,790
Repayments	(655,814)	(3,479,867)
Capital:		
Collections of receivables from members	83,415	164,148
Net cash provided by financing activities	2,841,698	1,267,252
Cash flows from operating activities		
Loan income collections	2,785,447	3,028,763
Interest and other costs of borrowings	(1,708,692)	(2,366,599)
Income from investments	309,070	577,643
Other income	14,677	14,862
Administrative expenses	(326,031)	(318,481)
Net cash provided by operating activities	1,074,471	936,188
Adjustments to receivable from members	—	(1,639)
Change in market value of trading investments	(1,097)	4,612
Effect of exchange rate fluctuations on cash and trading investments	306,554	(154,903)
Allocation to the Fund for Special Operations	(27,200)	(27,200)
Net increase (decrease) in cash and trading investments	2,676,141	(2,460,233)
Cash and trading investments, beginning of year	8,561,427	11,021,660
Cash and trading investments, end of year	<u>\$11,237,568</u>	<u>\$ 8,561,427</u>
Composition of cash and trading investments:		
Cash	\$ 208,909	\$ 267,477
Investments held in trading portfolio	11,298,628	8,384,364
Currency and interest rate swaps—Investments-trading, net	(269,969)	(90,414)
	<u>\$11,237,568</u>	<u>\$ 8,561,427</u>

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

Note A – Origin

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

Note B – Summary of Significant Accounting Policies

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

New accounting pronouncements

In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This interpretation clarifies the requirements for a guarantor's accounting for and disclosures of certain guarantees issued and outstanding. The initial recognition and measurement provisions of this interpretation are applicable to guarantees issued or modified after December 31, 2002, while the disclosure requirements are effective for the Bank's 2002 financial statements. Management is in the process of reviewing the initial recognition and measurement provisions of the interpretation and expects that they will not have a material impact on the Bank's financial statements.

Adoption of Statement of Financial Accounting Standards (SFAS) No. 133

On January 1, 2001, the Bank adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (herein after referred

to as SFAS 133). SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the Balance Sheet as either an asset or liability measured at its fair value. Changes in the fair value of the derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of the hedge transaction. In accordance with the transition provisions of SFAS 133 the Bank recorded a cumulative effect adjustment of \$96,101,000 (gain) in earnings to recognize at fair value all derivatives that were designated as fair value hedge instruments at December 31, 2000. The Bank also recorded a cumulative effect adjustment of \$45,262,000 (loss) in earnings to adjust the carrying values of related hedged assets, liabilities and firm commitments. In addition, the Bank recorded a cumulative effect adjustment of \$44,760,000 (gain) in other comprehensive income to recognize at fair value all derivatives that were designated as cash flow hedging instruments. Investment derivative instruments were already recorded at market value as part of the trading portfolio; therefore, they were not affected by SFAS 133.

Reclassifications

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

Translation of currencies

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

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

and expenses are translated at approximate market exchange rates prevailing during each month.

Valuation of capital stock

The Agreement Establishing the Bank (Agreement) provides that the Ordinary Capital be expressed in terms of the United States dollar of the weight and fineness in effect on January 1, 1959. The Second Amendment to the Articles of Agreement of the International Monetary Fund eliminated par values of currencies in terms of gold effective April 1, 1978, and consequently the General Counsel of the Bank has rendered an opinion that the Special Drawing Right (SDR) has become the successor to the 1959 United States dollar as the standard of value of the Bank's capital stock and for the purpose of maintaining the value of the Bank's currency holdings. The SDR has a value equal to the sum of the values of specific amounts of stated currencies, including the United States dollar. Pending a decision by the Bank's governing boards and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using the 1959 United States dollar, which pursuant to the devaluations of the United States dollar in 1972 and 1973 is equal to approximately 1.2063 current United States dollars, as the basis of valuation. If the 1959 United States dollar were to have been substituted with the SDR on December 31, 2002, the financial position and the results of operations of the Bank would not have been materially affected.

Maintenance of value

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

General and special reserves

In accordance with resolutions of the Board of Governors, the net income from the Ordinary Capital resources of the Bank is generally added to the general reserve to provide for possible annual excess of expenses over income.

The special reserve consists of loan commissions set aside from the Bank's inception to 1998 pursuant to Article III, Section 13 of the Agreement, which are held in investments. These investments may be used only for the purpose of meeting liabilities of the Bank on its borrowings and guarantees in the event of defaults on loans made, participated in, or guaranteed by the Bank.

Investments

Investment securities are classified based on management's intention on the date of purchase. Securities which management has the intent and ability to hold until maturity are included in the held-to-maturity portfolio and reported at amortized cost. All other securities are held in a trading portfolio. Securities and related derivative instruments (mostly currency and interest rate swaps) held in the trading portfolio are carried and reported at market value, with realized and unrealized gains and losses included in income from investments. These securities and related derivative instruments are included in the Statement of Cash Flows as cash equivalents due to their nature and the Bank's policy governing the level and use of such investments.

Loans

The Bank makes loans to its developing member countries, agencies or political subdivisions of such members or to private enterprises carrying out projects in their territories. In the case of loans to borrowers other than national governments, central banks or other governmental or inter-governmental entities, the Bank follows the general policy of requiring a guarantee engaging the full faith and credit of the government. Up to 10% of the Bank's outstanding loans and guarantees, not including emergency lending, may be made directly to private sector entities without a government guarantee on the basis of market-based pricing and provisioning (Private Sector Program). These financings are subject to a number of restrictions, including a ceiling on financing the lesser of 25% of the total costs of an individual project or \$75 million, although in the case of certain specified countries the Bank may finance up to the lesser of 40% of the total costs of an individual project or \$75 million. There is also a ceiling on partial risk guarantees of the lesser of 50% of the total costs of an individual project or \$150 million.

Loans representing approximately 48% of the outstanding balances have repayment obligations in various currencies determined on the basis of a currency pooling system (Currency Pooling System). The principal amount of Currency Pooling System loans is repayable, in aggregate, in the currencies lent. Multicurrency loans approved prior to January 1, 1983 and single currency loans are repayable in the specific currencies disbursed.

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are considered immaterial to the financial results of the Bank. Front-end fees on emergency loans are deferred and amortized over the first four years of the loan on a straight-line basis, which approximates the effective interest method.

It is the policy of the Bank to place on nonaccrual status all loans made to or guaranteed by a member of the Bank if principal, interest or other charges with respect to any such loan are

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

overdue by more than 180 days. In addition, if loans made to a member country by the FSO or any fund owned or administered by the Bank are placed on nonaccrual status, all loans made to or guaranteed by that member government will also be placed on nonaccrual status by the Bank. On the date a member's loans are placed on nonaccrual status, unpaid interest and other charges accrued on loans outstanding to the member are deducted from the income of the current period. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have actually been received by the Bank. On the date a member pays in full all overdue amounts, the member's loans emerge from nonaccrual status, its eligibility for new loans is restored and all overdue charges (including those from prior years) are recognized as income from loans in the current period.

For Private Sector Program loans, it is the policy of the Bank to place on nonaccrual status loans made to a borrower when interest or other charges are past due by more than 90 days, or earlier when management has doubts about the future collectibility of principal or interest. Income is recorded thereafter on a cash-basis or a combination of cash-basis and cost-recovery methods, until loan service is current and management's doubts about future collectibility cease to exist. If the collectibility risk is considered to be particularly high at the time of arrears clearance, the borrower's loans will not automatically emerge from nonaccrual status.

The Bank's Ordinary Capital has a policy of not rescheduling public sector loan repayments and has never had a write-off on any of its loans. The Bank reviews the collectibility of loans on a continuous basis and records, as an expense, provisions for loan losses in accordance with its determination of the collectibility risk of the total loan and guarantees portfolio. Such reviews consider the potential for delay in the scheduled loan repayments.

The Bank considers a Private Sector Program loan as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the loan's original contractual terms. Specific allowance for losses on impaired loans are set aside based on management's judgment of the present value of expected future cash flows discounted at the loan's effective interest rate or based on the fair value of the collateral. Income on impaired loans is generally recognized following a combination of cash-basis and cost-recovery methods.

Guarantees

The Bank may make partial guarantees either without a government counter-guarantee under the 10% limit for the Private Sector Program operations mentioned above or for public sector operations with a member government counter-guarantee. To date, the Bank has issued partial guarantees designed to encour-

age private sector investments and local capital market development. The partial risk guarantees and partial credit guarantees are provided mostly for infrastructure projects and may be offered on a stand-alone basis or in conjunction with a Bank loan. Partial risk guarantees cover specific risk events related to non-commercial factors (e.g.: currency convertibility, transferability of currencies outside the host country, government contract frustration) and partial credit guarantees cover payment risks for selected project borrowings or debt issuances. The terms of all guarantees are specifically set in each guarantee agreement and are primarily tied to a project or the terms of debt issuances. On a case-by-case basis, depending upon the risks covered and the nature of each individual project, the Bank may reinsure certain guarantees to reduce its exposure. Guarantee fees, net of reinsurance premiums, are charged and recognized as income from loans over the term of the guarantee.

Guarantees are regarded as outstanding when the borrower incurs the underlying financial obligation and are called when a guaranteed party demands payment under the guarantee. The outstanding amount represents the maximum potential risk if the payments guaranteed for these entities are not made. Guarantee exposure is measured as the future guaranteed cash flows, net of reinsurance, when applicable, discounted to the current period. Guarantees are not included in reported loan balances.

Receivable from members

Receivable from members includes non-negotiable, non-interest bearing demand obligations that have been accepted in lieu of the immediate payment of all or any part of a member's subscribed paid-in capital stock.

Property

Property is recorded at cost. Major improvements are capitalized while routine replacements, maintenance and repairs are charged to expense. Depreciation is computed on the straight-line method over estimated useful lives (30 to 40 years for buildings, 10 years for building improvements and capitalized software, and 4 to 15 years for equipment).

Borrowings

To ensure funds are available for lending and liquidity purposes, the Bank borrows in the international capital markets, offering its securities to private and public investors. The Bank issues medium- and long-term debt instruments denominated in various currencies with both fixed and adjustable interest rates. The Bank also issues short-term discount notes for liquidity management purposes. Borrowings are carried on the Balance Sheet at their par value (face value) adjusted for changes in fair value attributable to the hedged risk, when part of a hedging relationship (basis adjust-

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

ment), and for any unamortized premiums or discounts. Basis adjustments on hedged borrowings are recorded in net gain (loss) from hedging activities under SFAS 133 on the Statement of Income and General Reserve. The Bank starts amortizing basis adjustments when the related hedge is terminated. Basis adjustments and premiums or discounts are amortized on a straight-line basis, which approximates the effective interest method. Amortization of premiums and discounts is included in interest under borrowing expenses, on the Statement of Income and General Reserve. Borrowing costs associated with a bond offering are deferred and amortized on a straight-line basis, which approximates the effective interest method, over the period during which the related indebtedness is outstanding. The unamortized balance of the borrowing costs is presented separately under other assets on the Balance Sheet and the amortization of the borrowing costs is presented as a separate element under borrowing expenses in the Statement of Income and General Reserve.

Derivatives

As part of its asset and liability management, the Bank uses derivatives, mostly currency and interest rate swaps, in its investment, loan and borrowing operations. These derivatives modify the interest rate and/or currency characteristics of the respective operation to produce the desired interest and/or currency type.

Effective January 1, 2001, all derivatives are recognized in the Balance Sheet at their fair value and are classified as either assets or liabilities, depending on the nature (debit or credit) of their net fair value amount. On the date the derivative contract is entered into, the Bank designates the derivative as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge) or as held in the trading portfolio (investment derivatives). Changes in the fair value of a derivative that is highly effective, and that is designated and qualifies as a fair-value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk (including gains or losses on firm commitments) are recorded in net gain (loss) from hedging activities under SFAS 133 in the Statement of Income and General Reserve. The effective portion of the changes in fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge is recorded in other comprehensive income, until earnings are affected by the variability of cash flows. The ineffective portion, resulting from excess expected cash flows on the derivative, is recorded in net gain (loss) from hedging activities under SFAS 133 in the Statement of Income and General Reserve. Changes in the market value of investment derivatives are recorded in income from investments. The interest component of derivatives is recognized as an adjust-

ment to the investment yield, the loan return, or the borrowing cost, as applicable, over the life of the derivative contract and is included in the corresponding income or expense category on the Statement of Income and General Reserve.

The Bank occasionally issues debt instruments that contain an embedded derivative. The Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the debt instrument (i.e., the host contract), excluding the embedded derivative features. If the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, not already marked to market through earnings, and would separately meet the definition of a derivative, then the embedded derivative is separated from the host contract, carried at fair value, and designated as a fair value or cash flow hedge.

Administrative expenses

Substantially all administrative expenses of the Bank, including depreciation, are allocated between the Ordinary Capital and the FSO pursuant to an allocation method approved by the Board of Executive Directors. Following this allocation method, during 2002 the effective ratio of administrative expenses charged to the Ordinary Capital was 83.6% and 16.4% to the FSO (2001—84.0% and 16.0%).

Fair values of financial instruments

The following methods and assumptions were used by the Bank in estimating the fair value for its financial instruments:

Cash: The carrying amount reported in the Balance Sheet for cash approximates fair value.

Investments: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: The Bank is one of very few lenders of development loans to Latin American and Caribbean countries. There is no secondary market for development loans. For all loans and related commitments, the Bank is of the opinion that, due to its unique position in lending operations and the absence of a secondary market, it is not practicable to estimate a fair value for the Bank's lending portfolio.

Swaps: Fair values for the Bank's interest rate and currency swaps are based on quoted market prices or pricing models and represent the estimated cost of replacing these contracts.

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Borrowings: The fair values of the Bank's borrowings are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Note C – Restricted Currencies

At December 31, 2002, cash includes \$118,557,000 (2001—\$112,749,000) in non-convertible currencies of regional borrowing members, of which \$23,356,000 (2001—\$22,612,000) has been restricted by one of the members, in accordance with the provisions of the Agreement, to be used for making payments for goods and services produced in its territory.

Note D – Investments

As part of its overall portfolio management strategy, the Bank invests in government, agency, bank and corporate obligations, time deposits, asset- and mortgage-backed securities, and related derivative instruments, in particular currency and interest rate swaps.

Government and agency obligations: These obligations include unsubordinated and marketable bonds, notes and other obligations issued or unconditionally guaranteed by a government of a country, an agency or instrumentality of a government of a country, a multilateral organization, or any other official entity. The Bank invests only in (i) obligations of or guaranteed by the government of the member country whose currency is being invested, (ii) obligations issued or unconditionally guaranteed by an agency or instrumentality of the government of certain countries or any other official entity, in any currency, with credit quality equivalent to a AA– or better rating (residential mortgage-backed securities require a AAA rating), (iii) obligations of multilateral organizations, in any currency, with credit quality equivalent to a AAA rating, and (iv) non-local currency obligations of or guaranteed by certain governments with credit quality equivalent to a AA– or better rating.

Bank obligations and time deposits: These obligations include certificates of deposit, bankers' acceptances, and other obligations issued or unconditionally guaranteed by banks or other financial institutions. The Bank invests in these types of obligations if the entity issuing or guaranteeing them has a senior debt securities rating of at least A+.

Corporate securities: These obligations include publicly issued, unsubordinated and marketable bonds, notes or other debt obligations issued or unconditionally guaranteed by non-bank corporate entities or trusts. The Bank invests only in these types of securities with credit ratings of AAA.

Asset- and mortgage-backed securities: Asset- and mortgage-backed securities include unsubordinated, marketable asset-backed and residential mortgage-backed obligations issued or unconditionally guaranteed by corporate entities or trusts. The cash flow of these instruments is based on the cash flows of the pool of underlying assets managed by a special purpose vehicle, or trust, which provides credit enhancements to ensure higher credit ratings. The Bank invests only in these types of securities with credit ratings of AAA. In addition, the Bank invests in short-term asset-backed securities and short-term asset-backed commercial paper carrying only the highest short-term credit ratings.

Currency swaps: Currency swaps are agreements to exchange cash flows denominated in different currencies at one or more certain times in the future. Cash flows are based on a predetermined exchange rate and a formula, which reflects fixed or floating rates of interest and an exchange of principal.

Interest rate swaps: Interest rate swaps are agreements involving the exchange of periodic interest payments of differing character, based on an underlying notional principal amount for a specified time.

Trading portfolio: A summary of the Bank's position in trading portfolio instruments at December 31, 2002 and 2001 is shown in the Summary Statement of Trading Investments and Swaps in Appendix I-1.

Net unrealized gains (losses) on trading portfolio instruments, held at December 31, 2002, of (\$3,118,000) (2001—\$3,333,000), were included in income from investments. The average return on trading investments, after swaps, including realized and unrealized gains and losses, during 2002 and 2001 was 1.79% and 4.18%, respectively.

Held-to-maturity portfolio: A summary of the Bank's held-to-maturity portfolio and the portfolio's maturity structure at December 31, 2002 and 2001 are shown in the Summary Statement of Held-to-Maturity Investments in Appendix I-2. The average return on held-to-maturity investments for the years ended December 31, 2002 and 2001 was 3.87% and 3.97%, respectively.

Note E – Loans and Guarantees Outstanding

Approved loans are disbursed to borrowers in accordance with the requirements of the project being financed; however, disbursements do not begin until the borrower and guarantor, if any, take certain actions and furnish certain documents to the Bank. Of the undisbursed balances, the Bank has entered into irrevocable

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cable commitments to disburse approximately \$31,630,000 at December 31, 2002.

The average interest rate earned on loans outstanding was 5.68% in 2002 and 7.02% in 2001. The average total return on loans outstanding was 5.73% in 2002 and 7.48% in 2001.

A summary statement of loans is presented in Appendix I-3 and a summary of the Bank's outstanding loans by currency and product type and their maturity structure at December 31, 2002 and 2001 is shown in Appendix I-4.

Multicurrency loans – With a government guarantee

Fixed rate loans: Prior to January 1, 1983, the interest rate due on all amounts disbursed under each loan was the interest rate prevailing at the time that the loan was approved. In 1982, the Bank established the Currency Pooling System to equalize exchange risk among the borrowers in determining their repayment obligations. The interest rate due for Currency Pooling System loans approved from January 1, 1983 to December 31, 1989 is fixed at the time of each disbursement, for the life of the loan, at a rate which represents the cost of the funds borrowed by the Bank for such loans over the two calendar semesters prior to the date of disbursement, plus a spread which, including loan fees, is estimated to cover administrative and other costs.

Adjustable rate loans: On January 1, 1990, the Bank mitigated its interest rate risk by moving from fixed rate to adjustable rate lending for all Currency Pooling System loans made after that date. This rate, which resets twice a year, represents the effective cost during the previous six months of a pool of borrowings allocated to fund such loans, plus a spread which, including loan fees, is estimated to cover administrative and other costs and to meet desired operating income targets.

Average maturity: The Bank maintains a targeted currency composition in its Currency Pooling System. The present target ratio is 50% United States dollars, 25% Japanese yen and 25% European currencies (primarily Swiss francs and euro). The composition of the multicurrency loans is affected by the selection of currencies for disbursements on those loans and by the currencies selected for the billing of the principal repayments, both of which are managed so as to maintain the alignment of the multicurrency loans' composition with the target ratio. The selection of currencies by the Bank for billing purposes does not permit the determination of average maturity information for multicurrency loans by individual currency. Accordingly, the Bank discloses the maturity periods for its multicurrency loans and the average maturity for the total multicurrency loan portfolio on a combined United States dollar equivalent basis.

Single currency loans – With a government guarantee

Adjustable rate loans: In 1996, the Single Currency Facility was approved, pursuant to which borrowers have the option to choose to denominate each loan in the Currency Pooling System, in one of four currencies (United States dollars, euro, Japanese yen and Swiss francs) or in a combination of the Currency Pooling System and such currencies. The rates charged on Single Currency Facility loans are reset semi-annually to reflect the effective cost during the previous six months of each of the single-currency pools of borrowings allocated to fund such loans, plus a spread which, including loan fees, is estimated to cover administrative and other costs and to meet desired operating income targets.

LIBOR-based loans: In 1994, a lending program (U.S. Dollar Window Program) aimed for private sector borrowers was approved under which loans are denominated and disbursed only in United States dollars and are guaranteed by a government. The amount approved for this program is currently \$500,000,000 per calendar year. Borrowers under the U.S. Dollar Window Program have the option of electing either a LIBOR-based fixed or floating-rate loan. For fixed rate loans, the interest rate is fixed for each disbursement, for the life of the loan, at a rate based on a LIBOR funding cost. For floating-rate loans, the interest rate resets every six months based on a LIBOR rate. In either case, the borrower pays the Bank's spread and fees.

In December 1998, guidelines were approved for emergency lending to participate in concerted international emergency financial assistance to the Bank's borrowing member countries in response to the global liquidity crisis. These loans are for a term not to exceed five years, with a three-year grace period, and carry a six-month LIBOR interest rate plus a spread of 400 basis points, a front-end fee of 1% on the total amount of the loan, and a commitment fee of 0.75% per annum on the undisbursed balance. Under the guidelines approved, these loans are currently not eligible for the standard fee waivers described below. During 1998 and 1999, the Bank approved \$7,239,501,000, net of cancellations amounting to \$370,499,000, under a temporary emergency lending program. Outstanding emergency loans under this program amounted to \$5,235,951,000 at December 31, 2002 (2001—\$6,999,011,000).

In March 2002, the Bank approved a new emergency lending facility in a revolving aggregate amount of up to \$6 billion under essentially the same terms and conditions of the temporary emergency lending program in effect in 1998 and 1999 described in the preceding paragraph. As of December 31, 2002, emergency loans approved under this facility amounted to \$500,000,000, of which \$340,000,000 were outstanding.

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Charges on loans with a government guarantee (excluding emergency lending)

In addition to the interest rate, for loans made under the Currency Pooling System, the U.S. Dollar Window Program and the Single Currency Facility, the Bank charges a credit commission of 0.75% (1.25% on loans approved prior to January 1, 1989) per annum on the undisbursed convertible currency portion of a loan and a one-time supervision and inspection fee of 1% on the principal amount of a loan which is capitalized into the loan balance in quarterly installments during the disbursement period of the loan. Waivers of loan charges and a portion of the lending spread, down to a minimum spread of 0.10%, are granted at the discretion of the Board of Executive Directors when their collection is not needed to meet desired operating income targets. During 2002, the Board of Executive Directors approved full waivers of loan charges and a reduction in lending spread of 0.40%. The effect of these waivers and reduction in lending spread was to decrease income from loans by approximately \$307,952,000. Lending spreads, credit commissions and one-time supervision and inspection fees prevailing during 2002 and 2001 were as follows:

	Lending spread %	Credit commission %	One-time supervision & inspection fee %
2001: First six months	0.50	Full	1.00
Second six months	0.50	Full	1.00
2002: First six months	0.10	—	—
Second six months	0.10	—	—

Single currency loans – Without a government guarantee

Under the terms of the Eighth General Increase in the Resources of the Bank and subsequent agreements, the Bank is authorized to lend under the Private Sector Program up to 10% of outstanding loans and guarantees, not including emergency lending, directly to private sector entities without a government guarantee on the basis of market-based pricing and provisioning, subject to a number of restrictions. Disbursements are denominated in United States dollars and borrowers have the option of either a LIBOR-based fixed or floating-rate loan. For fixed rate loans, the interest rate is fixed upon approval or for each disbursement, for the life of the loan, at a rate based on a LIBOR funding cost plus a credit spread. For floating-rate loans, the interest rate resets every one, three or six months based on a LIBOR rate plus a credit spread. The credit spreads and fees for Private Sector Program loans are set on a case by case basis.

As of December 31, 2002, cumulative Private Sector Program loans approved, net of cancellations and participations, amounted to \$1,814,759,000 (2001—\$1,765,230,000). Outstanding loans, net of participations, under this Program amounted to \$1,254,353,000 at December 31, 2002 (2001—\$1,059,428,000).

Inter-American Investment Corporation (IIC)

Currently, the Bank has an approved loan to the IIC, an affiliated entity, in the amount of \$300,000,000. Disbursements under this loan are to be denominated in United States dollars and carry a LIBOR-based interest rate. There were no amounts outstanding as of December 31, 2002 and 2001.

Loan participations and guarantees

Under the loan contracts with the borrowers, the Bank may sell participations in the loans to commercial banks or other public or private organizations, but it reserves to itself the administration of the loans. As of December 31, 2002, there were \$2,156,068,000 (2001—\$1,725,023,000) in outstanding participations in Private Sector Program loans not included in the Balance Sheet.

As of December 31, 2002, the Bank had approved, net of cancellations, guarantees without government counter-guarantees in the amount of \$611,450,000 (2001—\$531,250,000) of which \$335,420,000 (2001—\$337,104,000) was outstanding and subject to call. As of December 31, 2002, no guarantees provided by the Bank have been called. The net present value of guarantee exposure, net of reinsurance, which is the amount counted under the Private Sector Program's limit, was \$193,600,000 at December 31, 2002 (2001—\$188,900,000).

IFF subsidy

The IFF was established in 1983 by the Board of Governors of the Bank for the purpose of subsidizing part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital resources of the Bank. In addition, under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, which is a concerted, international initiative for addressing the debt problems of a group of countries identified as heavily indebted poor countries in which the Bank is participating, the IFF will subsidize 100% of certain principal and interest payments on Ordinary Capital loans. During 2002, the IFF paid \$68,917,000 (2001—\$73,328,000) of interest and \$10,525,000 (2001—\$1,243,000) of principal on behalf of the borrowers. The IFF is funded primarily from the general reserve of the Bank's FSO.

Nonaccrual and impaired loans and allowance for loan losses

At December 31, 2002, all loans were performing except for certain Private Sector Program loans which were classified as impaired and were in nonaccrual. The Bank's recorded investment in impaired Private Sector Program loans at December 31, 2002 was \$315,561,000 (2001—\$185,004,000). The average recorded investment in impaired Private Sector Program loans during 2002 was \$256,722,000 (2001—\$60,439,000). Income recognized on impaired Private Sector Program loans while impaired was

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\$7,129,000 in 2002 and \$3,676,000 in 2001. Income that would have been recognized on a cash basis for the period of impairment was \$14,308,000 in 2002 and \$7,599,000 in 2001. All impaired loans have specific allowances for loan losses amounting to \$98,687,000 at December 31, 2002 (2001—\$66,887,000).

The changes in the allowance for loan losses for the years ended December 31, 2002 and 2001 were as follows (in thousands):

	2002	2001
Balance at January 1,	\$1,423,849	\$1,308,146
Provision for loan losses	99,884	147,303
Translation adjustments	37,152	(31,600)
Balance at December 31,	<u>\$1,560,885</u>	<u>\$1,423,849</u>

Note F – Property

As of December 31, 2002 and 2001, the property of the Bank—Ordinary Capital—consists of the following (in thousands):

	2002	2001
Land, buildings, improvements, capitalized software and equipment, at cost	\$ 491,863	\$ 466,546
Less: accumulated depreciation	<u>(204,711)</u>	<u>(195,141)</u>
	<u>\$ 287,152</u>	<u>\$ 271,405</u>

Note G – Borrowings

The primary objective of the Bank's borrowing policy is to obtain the necessary resources to finance its lending program at the lowest possible cost for borrowers. The medium- and long-term borrowings of the Bank consist of loans, notes and bonds issued in various currencies at contracted interest rates ranging from 0.50% to 15.00%, before swaps, and from (0.54%) to 12.77%, after swaps, with various maturity dates through 2027. A summary of the Bank's medium- and long-term borrowing portfolio and its maturity structure at December 31, 2002 and 2001 is shown in Appendix I-5.

The Bank has a short-term borrowing facility under which discount notes are issued in amounts not less than \$100,000 and maturities of up to 360 days.

The average cost of total borrowings during 2002 and 2001 was 5.79% and 6.18%, respectively, before swaps, and 3.97% and 5.34%, respectively, after swaps.

The estimated fair values of borrowings as of December 31, 2002 and 2001 amounted to \$51,413,000,000 and \$44,872,000,000, respectively.

Note H – Derivatives and Hedging Activities

Risk management strategy and use of derivatives

The Bank's financial risk management strategy is designed to strengthen the Bank's ability to fulfill its purpose. Such strategy in-

cludes establishing and maintaining financial practices consistent with its risk preference primarily by implementing, updating, and monitoring its interrelated set of financial policies and guidelines and by utilizing appropriate financial instruments and organizational structures. Financial derivative instruments are an important component of the set of financial instruments used by the Bank to facilitate increasing its financial efficiency while achieving its risk management objectives. The Bank uses financial derivative instruments, mostly currency and interest rate swaps, exclusively for hedging purposes as part of its asset and liability management. This approach enables the Bank to lower funding costs and enhance investment returns without increasing the Bank's exposure to market risk. Consequently, whenever it enters into a derivative contract, the Bank identifies the specific hedging relationship and, when designated in accordance with SFAS 133, documents the hedge transaction and evaluates its hedge effectiveness to determine whether or not the transaction qualifies for hedge accounting.

The majority of the Bank's current borrowing operations include swaps to hedge a specific underlying liability, producing the funding required (i.e., the appropriate currency and rate type). The Bank's operations also include interest rate swaps to hedge private sector fixed rate loans and investment swaps that hedge a particular underlying investment security and produce the appropriate vehicle to invest existing cash. Investment swaps are held in the trading portfolio which is carried and reported at market value. Effective January 1, 2001, the Bank follows hedge accounting under SFAS 133 for all currency and interest rate swaps, except for a small number of basis swaps and the investment swaps already reported at market value, as described below:

Fair-value hedges

To hedge the change in fair value of fixed rate debt resulting from changes in the benchmark interest rates and currencies, while obtaining the currencies and interest rate types required, the Bank enters into currency and/or interest rate swap agreements. In aligning its private sector loans with the funding obtained for such loans, the Bank also enters into interest rate swap agreements to hedge the changes in fair value of fixed rate loans and loan commitments resulting from changes in the benchmark interest rate. During 2002, the Bank recognized a net loss of \$9,749,000 (2001—\$26,698,000) (included in Net loss from hedging activities under SFAS 133 on the Statement of Income and General Reserve), which represented the ineffective portion of all fair value hedges.

Cash-flow hedges

The Bank enters into currency swap agreements to convert debt into the currencies required while hedging foreign currency fixed-rate medium- and long-term debt against the variability of cash

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flows resulting from changes in exchange rates. The ineffectiveness of cash-flow hedges for the years ended December 31, 2002 and 2001 was not significant. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness. During 2001, the year of initial application of SFAS 133, an amount of approximately \$8,400,000 associated with the transition adjustment originated upon adoption of SFAS 133 was reclassified to earnings. The estimated amount, included in accumulated other comprehensive income as of December 31, 2002, expected to be reclassified into earnings within the next 12 months to offset the variability of cash flows during this period is not material. As of December 31, 2002, the maximum term over which the Bank is hedging its exposure to the variability of future cash flows was 8.3 years (2001—9.3 years).

Hedge effectiveness assessment

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the Balance Sheet or to specific firm commitments. The Bank formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items and whether they are expected to continue to be highly effective in the future.

Discontinuation of hedge accounting

The Bank discontinues hedge accounting when the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item or when management determines that designation of the derivative as a hedging instrument is no longer appropriate. In general, when hedge accounting is discontinued, the derivative designated in a fair value hedge continues to be carried on the Balance Sheet at its fair value, the hedged asset or liability no longer is adjusted for changes in fair value and the related basis adjustment is amortized over the remaining life of the asset or liability. Similarly, the derivative designated in a cash flow hedge continues to be carried on the Balance Sheet at its fair value, and the gains and losses that were accumulated in other comprehensive income are reclassified to earnings in the same period or periods in which the hedged transaction affects earnings. Also, the Bank discontinues hedge accounting when the derivative expires, is sold, terminated, or exercised.

Note I – Commercial Credit Risk

Commercial credit risk is the potential loss that could result from either the default or the downgrade by a credit rating agency of

one of the Bank's investment, trading or swap counterparties. The main sources of commercial credit risk are the debt instruments in which the Bank invests its liquid holdings. The primary objective in the management of the Bank's liquid assets is the maintenance of a conservative exposure to market, credit and liquidity risks. Consequently, the Bank will only invest in high quality debt instruments issued by sovereigns, agencies, banks and corporate entities.

In addition, as part of its regular investment, funding and asset and liability management activities, the Bank uses derivative instruments, primarily swaps, exclusively for hedging purposes without incurring additional market risk. To manage the credit risk of its investment, funding and asset and liability management activities, the Bank limits these activities to authorized dealers and counterparties selected on the basis of conservative risk management policies. The Bank also establishes strict credit limits for each counterparty and, for swap counterparties, has entered into master swap agreements which contain enforceable close-out netting provisions and has agreements in place providing for collateralization in the event that the mark-to-market exposure exceeds certain contractual limits, which are a function of the counterparty's credit rating. Monitoring the Bank's exposures and managing such risks are continuous processes. The Bank does not expect nonperformance by any of its counterparties. As of December 31, 2002, the Bank had received collateral of \$456,600,000 (2001—\$244,700,000) in connection with swap agreements. None of this collateral has been included in the assets of the Bank.

The credit risk exposures below represent the maximum potential loss, based on the gross fair value of the financial instrument, the Bank would incur if the parties to the derivative financial instruments referred to in the preceding paragraphs failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value. As of December 31, 2002 and 2001, such credit risk exposures, prior to considering any master swap or collateral agreements, are as follows (in thousands):

	2002	2001
Investments – Trading Portfolio		
Currency swaps	\$ 18,120	\$ 33,191
Interest rate swaps	1,170	3,061
Borrowing Portfolio		
Currency swaps	493,460	318,860
Interest rate swaps	1,007,796	587,452

**Note J – Capital Stock
Composition**

The capital of the Bank consists of "paid-in" and "callable" shares. The subscribed "paid-in" capital has been or is to be paid in gold

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and/or United States dollars and in the currency of the respective member, which in some cases must be made freely convertible, in accordance with the terms for the respective increase in capital. Non-negotiable, non-interest bearing demand obligations have been or will be accepted in lieu of the immediate payment of all or any part of the member's subscribed "paid-in" capital stock. The subscribed "callable" portion of capital may only be called when required to meet obligations of the Bank created by borrowings of funds for inclusion in the Bank's Ordinary Capital resources or guarantees chargeable to such resources and is payable at the option of the member either in gold, in United States dollars, in fully convertible currency of the member country, or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made. For a Statement of Subscriptions to Capital Stock at December 31, 2002 and 2001, see Appendix I-6.

The composition of the receivable from members as of December 31, 2002 and 2001 is as follows (in thousands):

	2002	2001
Regional developing members	\$500,890	\$525,891
United States	15,366	30,733
Canada	3,039	5,468
Non-regional members	44,270	85,347
Total	<u>\$563,565</u>	<u>\$647,439</u>

Voting power

Under the Agreement, each member country shall have 135 votes plus one vote for each share of Ordinary Capital stock held by that country. The Agreement, as amended by the Eighth General Increase in the Resources of the Bank, also provides that no increase in the subscription of any member to the Ordinary Capital stock shall have the effect of reducing the voting power of the regional developing members below 50.005%, of the United States below 30%, and of Canada below 4% of the total voting power, leaving the voting power available for nonregional members at up to 15.995%, including approximately 5% for Japan.

In making decisions concerning operations of the FSO and the IFF, the number of votes and percent of total voting power for each member country are the same as determined by the provisions of the Agreement referred to above.

Total subscriptions to shares of Ordinary Capital stock and the voting power of the member countries as of December 31, 2002 are shown in the Statement of Subscriptions to Capital Stock and Voting Power in Appendix I-7.

Membership

On April 21, 1993, the Bank's Board of Executive Directors decided that the Socialist Federal Republic of Yugoslavia (SFRY) had ceased to be a member of the Bank and that the Republic of

Bosnia and Herzegovina, the Republic of Croatia, the former Yugoslav Republic of Macedonia, the Republic of Slovenia and the Federal Republic of Yugoslavia (Serbia and Montenegro) were authorized to succeed to the SFRY's membership. Accordingly, the shares representing SFRY's membership in the Ordinary Capital of the Bank were classified as unallocated until each successor republic succeeded to the membership of the SFRY. The Republics of Croatia and Slovenia have since become members of the Bank and have subscribed to the 1,142 and 655 shares, respectively, allocated to them. The Governments of the former Yugoslav Republic of Macedonia and the Republic of Bosnia and Herzegovina declined the offer to succeed to the membership of the SFRY in the Bank. Membership of the Federal Republic of Yugoslavia (Serbia and Montenegro) is still pending.

Note K – Allocation of Net Income

The agreement for the Eighth General Increase in the Resources of the Bank provides for up to \$136,000,000 of unallocated special contributions to the FSO to be paid by contributions from members. Any unpaid portion is to be paid to the FSO by periodic transfers from the net income of the Ordinary Capital, consistent with prudent financial management, between January 1, 2000 and December 31, 2004. As of December 31, 2002, no such contributions had been paid by members. Accordingly, the Bank has transferred \$27,200,000, representing one fifth of the unallocated special contributions, from the net income of the Ordinary Capital to the FSO in each of the years 2000 through 2002.

Note L – General Reserve

The following is a summary of changes in the General Reserve for the years ended December 31, 2002 and 2001 (in thousands):

	Operating Income	SFAS 133 Adjustments	Total
Balance at January 1, 2001	\$5,542,421	\$ —	\$5,542,421
Operating income	1,009,458	—	1,009,458
Allocation to the FSO	(27,200)	—	(27,200)
Cumulative effect of change in accounting principle	—	50,839	50,839
Net loss from hedging activities under SFAS 133 ...	—	(39,697)	(39,697)
Balance at December 31, 2001	6,524,679	11,142	6,535,821
Operating income	727,634	—	727,634
Allocation to the FSO	(27,200)	—	(27,200)
Net loss from hedging activities under SFAS 133 ...	—	(18,899)	(18,899)
Balance at December 31, 2002	<u>\$7,225,113</u>	<u>\$ (7,757)</u>	<u>\$7,217,356</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

Note M – Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises the effects of the implementation of SFAS 133 and currency translation adjustments. These items are presented on the Statement of Comprehensive Income.

The following is a summary of changes in accumulated other comprehensive income (loss) for the years ended December 31, 2002 and 2001 (in thousands):

	Translation Adjustments		SFAS 133 Adjustments	Total
	General Reserve	Special Reserve		
Balance at				
January 1, 2001	\$ 167,946	\$(272,827)	\$ —	\$(104,881)
Translation adjustments	(150,976)	(56,073)	—	(207,049)
Cumulative effect of change in accounting principle	—	—	44,760	44,760
Net loss on cash flow hedges	—	—	(21,155)	(21,155)
Balance at				
December 31, 2001	16,970	(328,900)	23,605	(288,325)
Translation adjustments	290,772	82,156	—	372,928
Net loss on cash flow hedges	—	—	(38,891)	(38,891)
Balance at				
December 31, 2002	\$ 307,742	\$(246,744)	\$(15,286)	\$ 45,712

Note N – Pension and Postretirement Benefit Plans

The Bank has two defined benefit retirement plans (Plans), the Staff Retirement Plan (SRP) for the pension benefit of its international employees and the employees of the IIC and the Local Retirement Plan (LRP) for the pension benefit of local employees in the country offices. The Plans are funded by employee and Bank contributions in accordance with the provisions of the Plans. Any and all contributions to the Plans by the Bank are irrevocable and are held separately in retirement funds solely for the payment of benefits under the Plans.

The Bank also provides certain health care and other benefits to retirees. All current staff of the Bank and the IIC who contribute to the SRP and LRP while in active service and who meet certain requirements are eligible for postretirement benefits under the Postretirement Benefits Plan (PRF). Retirees contribute toward the Bank's health care program based on a premium schedule established by the Bank. The Bank contributes the remainder of the actuarially determined cost of future health and other benefits. While all contributions made by the Bank and all other assets and income of the PRF remain the property of the Bank, they are held and administered separately and apart from the other property and assets of the Bank solely for the purpose of payment of benefits under the plan.

The following table summarizes the change in benefit obligation, change in plan assets, and funded status of the Plans and the PRF and amounts recognized in the Balance Sheet for the years ended December 31, 2002 and 2001 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Change in benefit obligation				
Benefit obligation, beginning of year	\$1,567,003	\$1,444,637	\$624,126	\$695,781
Service cost	46,512	40,161	18,929	18,099
Interest cost	80,003	83,724	32,439	33,419
Plan participants' contributions	17,251	15,550	—	—
Actuarial (gain) loss	(68,248)	26,048	(18,721)	(112,231)
Benefits paid	(47,940)	(43,117)	(11,508)	(10,942)
Benefit obligation, end of year	1,594,581	1,567,003	645,265	624,126
Change in plan assets				
Fair value of plan assets, beginning of year	1,842,893	1,949,616	754,841	813,842
Actual return on plan assets	(150,395)	(81,094)	(80,446)	(48,059)
Employer contribution	18,119	1,881	—	—
Plan participants' contributions	17,251	15,550	—	—
Benefits paid	(47,940)	(43,117)	(11,508)	(10,942)
Net payments from other plans	—	57	—	—
Fair value of plan assets, end of year	1,679,928	1,842,893	662,887	754,841
Funded status	85,347	275,890	17,622	130,715
Unrecognized:				
Net actuarial loss (gain)	25,037	(174,700)	32,139	(94,751)
Prior service cost	5,761	7,214	(3,249)	(5,023)
Prepaid benefit cost	\$ 116,145	\$ 108,404	\$ 46,512	\$ 30,941
Amounts recognized in the Balance Sheet consist of:				
Prepaid benefit cost	\$ 116,145	\$ 108,404	\$ 46,716	\$ 31,077
Accrued benefit liability	—	—	(204)	(136)
Net amount recognized	\$ 116,145	\$ 108,404	\$ 46,512	\$ 30,941

The actuarial assumptions used are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations. Actuarial gains and losses occur when actual results are different from expected results. Unrecognized actuarial gains and losses which exceed 10% of the greater of the benefit obligation or market-related value of plan assets at the beginning of the period are amortized over the average remaining service period of active employees expected to receive benefits under the SRP and LRP plans, which approximates 10.8 and 13.0 years, respectively. Excess unrecognized actuarial gains and losses for the PRF are amortized over the average remaining life of active participants, which approximates 11.8 years.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

Unrecognized prior service cost is amortized over 15 years for the Plans and over 7 years for the PRF.

The weighted average actuarial assumptions taken into consideration for the calculation of the benefit obligation as of December 31, 2002 and 2001 are as follows:

	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Discount rate	6.25%	5.25%	6.25%	5.25%
Expected return on plan assets	7.25%	6.00%	7.25%	6.00%
Rate of salary increase SRP	3.9%–10.8%	3.1%–10.0%		
Rate of salary increase LRP	5.3%–12.2%	4.5%–11.4%		

The accumulated postretirement benefit obligation was determined using health care cost rates of 9.75% for medical, 16.75% for prescription drugs, and 8.25% for dental, for those participants assumed to retire in the United States. These rates were assumed to decrease gradually to 5.25% in 2013 and thereafter. For those participants assumed to retire outside of the United States, a 9.75% health care cost trend rate was used.

Net periodic benefit cost (income) for the years ended December 31, 2002 and 2001 consists of the following components (in thousands):

	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Service cost	\$ 46,512	\$ 40,161	\$ 18,929	\$ 18,099
Interest cost	80,003	83,724	32,439	33,419
Expected return on plan assets	(112,557)	(121,613)	(53,089)	(57,825)
Amortization of:				
Prior service cost ...	1,453	1,453	(1,774)	(1,774)
Unrecognized net gain	(5,033)	(12,358)	(12,076)	(17,731)
Net periodic benefit cost (income)	<u>\$ 10,378</u>	<u>\$ (8,633)</u>	<u>\$ (15,571)</u>	<u>\$ (25,812)</u>

Total net benefit income for the Plans and the PRF for the year ended December 31, 2002 amounted to \$5,193,000 (2001—\$34,445,000) and was allocated to the ORC and FSO in accordance with the allocation method approved by the Board of Executive Directors for administrative expenses. The portion of this income that was credited to the Ordinary Capital for the year ended December 31, 2002 is \$4,183,000 (2001—\$27,834,000). The balance of the income has been credited to the FSO.

During 2002, the PRF had benefit income of \$15,571,000, which is included in the total net benefit income for the year

(2001—SRP—\$11,685,000 and PRF—\$25,812,000, respectively). The portion of this benefit income related to the Ordinary Capital in the amount of \$12,544,000 (2001—\$30,300,000) has been included in other income.

Assumed health care cost trend rates have a significant effect on the amounts reported for the PRF. A one-percentage point change in assumed health care costs trend rates would have the following effects as of December 31, 2002 (in thousands):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	\$10,089	\$ (8,185)
Effect on postretirement benefit obligation	70,207	(59,067)

Note O – Reconciliation of Net Income to Net Cash Provided by Operating Activities

A reconciliation of net income to net cash provided by operating activities, as shown in the Statement of Cash Flows, is as follows (in thousands):

	Years ended December 31,	
	2002	2001
Net income	\$ 708,735	\$1,020,600
Difference between amounts accrued and amounts paid or collected for:		
Loan income	146,576	(162,206)
Investment income	(10,623)	41,338
Net unrealized loss (gain) on trading investments	1,097	(4,612)
Interest and other costs of borrowings	(54,261)	(62,230)
Administrative expenses, including depreciation	(22,766)	(49,004)
Net unrealized loss from hedging activities under SEAS 133	205,829	55,838
Provision for loan losses	99,884	147,303
Cumulative effect of change in accounting principle	—	(50,839)
Net cash provided by operating activities	<u>\$1,074,471</u>	<u>\$ 936,188</u>

Supplemental disclosure of noncash activities

Increase (decrease) resulting from exchange rate fluctuations:		
Held-to-maturity investments ...	\$ 114,400	\$ (79,716)
Loans outstanding	1,591,283	(1,032,111)
Borrowings	1,626,622	(1,052,391)

ORDINARY CAPITAL
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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

Note P – Segment Reporting

Management has determined that the Bank has only one reportable segment since the Bank does not manage its operations by allocating resources based on a determination of the contributions to net income of individual operations. The Bank does not differentiate between the nature of the products or

services provided, the preparation process, or the method for providing the services among individual countries. For the year 2002, loans made to or guaranteed by three countries individually generated in excess of 10 percent of loan income. Loan income from these three countries was \$675,928,000, \$466,901,000 and \$345,855,000, respectively.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D

December 31, 2002

Expressed in thousands of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Other currencies	All currencies
Obligations of the United States Government and its corporations and agencies:						
Carrying value	93,017	—	—	307,329	—	400,346
Average balance during year	113,018	—	—	171,531	—	284,549
Net gains (losses) for the year	6,938	—	—	(484)	—	6,454
Obligations of other governments and agencies:						
Carrying value	474,644	136,221	—	423,598	9,586	1,044,049
Average balance during year	501,624	284,603	—	410,128	10,021	1,206,376
Net gains (losses) for the year	(7,145)	(1,865)	—	16,015	(554)	6,451
Bank obligations and time deposits:						
Carrying value	1,460,743	—	298,792	2,004,240	6,007	3,769,782
Average balance during year	1,478,400	168,134	448,031	1,686,128	3,019	3,783,712
Net gains (losses) for the year	240	—	—	(209)	—	31
Corporate securities:						
Carrying value	31,196	133,279	—	1,454,443	32,326	1,651,244
Average balance during year	14,248	99,115	—	1,391,694	48,232	1,553,289
Net gains (losses) for the year	(30)	(98)	—	19,908	356	20,136
Asset- and mortgage-backed securities:						
Carrying value	582,034	121,357	—	3,729,816	—	4,433,207
Average balance during year	246,691	95,198	—	3,648,433	—	3,990,322
Net gains (losses) for the year	(421)	22	—	(2,837)	—	(3,236)
Total trading investments:						
Carrying value	2,641,634	390,857	298,792	7,919,426	47,919	11,298,628
Average balance during year	2,353,981	647,050	448,031	7,307,914	61,272	10,818,248
Net gains (losses) for the year	(418)	(1,941)	—	32,393	(198)	29,836
Currency swaps receivable:						
Carrying value ⁽²⁾	—	221,539	—	1,338,548	—	1,560,087
Average balance during year	—	448,609	—	1,905,505	—	2,354,114
Net gains for the year	—	330	—	687	—	1,017
Currency swaps payable:						
Carrying value ⁽²⁾	(1,521,610)	(33,571)	—	(182,080)	(41,913)	(1,779,174)
Average balance during year	(2,015,199)	(58,231)	—	(397,032)	(59,751)	(2,530,213)
Net gains for the year	238	142	—	1,441	199	2,020
Net interest rate swaps:						
Carrying value ⁽²⁾	(13)	(1,192)	—	(49,677)	—	(50,882)
Average balance during year	(1)	119	—	(34,162)	—	(34,044)
Net gains (losses) for the year	(13)	1,360	—	(17,748)	—	(16,401)
Total trading investments and swaps:						
Carrying value	1,120,011	577,633	298,792	9,026,217	6,006 ⁽¹⁾	11,028,659
Average balance during year	338,781	1,037,547	448,031	8,782,225	1,521	10,608,105
Net gains (losses) for the year	(193)	(109)	—	16,773	1	16,472
Return for the year (%)	3.31	0.14	1.07	1.96	3.99	1.79

⁽¹⁾ The carrying value of total trading investments and swaps held in other currencies consists of British pound sterling.

⁽²⁾ Carrying value of currency swaps represents the fair value of each individual receivable or (payable) leg, classified by their currency. As explained in Note B to the financial statements, currency and interest rate swap agreements are stated in the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D

December 31, 2001

Expressed in thousands of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Other currencies	All currencies
Obligations of the United States Government and its corporations and agencies:						
Carrying value	344,634	—	—	117,549	—	462,183
Average balance during year	207,322	—	—	122,672	—	329,994
Net gains for the year	5,014	—	—	1,429	—	6,443
Obligations of other governments and agencies:						
Carrying value	314,844	692,420	—	384,090	10,016	1,401,370
Average balance during year	284,275	341,233	—	557,956	31,282	1,214,746
Net gains (losses) for the year	(3,316)	(1,706)	—	18,690	98	13,766
Bank obligations and time deposits:						
Carrying value	1,525,009	44,917	278,722	566,682	5,071	2,420,401
Average balance during year	2,063,180	240,060	139,668	2,211,755	1,689	4,656,352
Net gains (losses) for the year	(216)	(114)	—	5,570	1	5,241
Corporate securities:						
Carrying value	—	7,648	—	296,552	105,707	409,907
Average balance during year	—	8,260	—	554,977	73,697	636,934
Net gains for the year	—	52	—	20,378	183	20,613
Asset- and mortgage-backed securities:						
Carrying value	159,002	34,143	—	3,497,358	—	3,690,503
Average balance during year	165,183	5,697	—	3,415,657	—	3,586,537
Net gains for the year	427	—	—	10,750	—	11,177
Total trading investments:						
Carrying value	2,343,489	779,128	278,722	4,862,231	120,794	8,384,364
Average balance during year	2,719,960	595,250	139,668	6,863,017	106,668	10,424,563
Net gains (losses) for the year	1,909	(1,768)	—	56,817	282	57,240
Currency swaps receivable:						
Carrying value ⁽²⁾	—	357,085	—	2,279,425	—	2,636,510
Average balance during year	—	648,345	—	2,309,037	—	2,957,382
Net losses for the year	—	(33)	—	(5)	—	(38)
Currency swaps payable:						
Carrying value ⁽²⁾	(2,180,072)	(68,611)	—	(333,067)	(115,723)	(2,697,473)
Average balance during year	(2,507,268)	(118,322)	—	(356,973)	(105,041)	(3,087,604)
Net gains (losses) for the year	(1,909)	504	—	(134)	(281)	(1,820)
Net interest rate swaps:						
Carrying value ⁽²⁾	—	(2,397)	—	(27,054)	—	(29,451)
Average balance during year	—	(3,176)	—	(17,989)	—	(21,165)
Net losses for the year	—	(242)	—	(24,938)	—	(25,180)
Total trading investments and swaps:						
Carrying value	163,417	1,065,205	278,722	6,781,535	5,071 ⁽¹⁾	8,293,950
Average balance during year	212,692	1,122,097	139,668	8,797,092	1,627	10,273,176
Net gains (losses) for the year	—	(1,539)	—	31,740	1	30,202
Return for the year (%)	4.43	0.27	2.74	4.66	5.02	4.18

⁽¹⁾ The carrying value of total trading investments and swaps held in other currencies consists of British pound sterling.

⁽²⁾ Carrying value of currency swaps represents the fair value of each individual receivable or (payable) leg, classified by their currency. As explained in Note B to the financial statements, currency and interest rate swap agreements are stated in the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-2

SUMMARY STATEMENT OF HELD-TO-MATURITY INVESTMENTS – NOTE D

December 31, 2002

Expressed in thousands of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Other currencies	All currencies
Obligations of the United States Government and its corporations and agencies:						
Net carrying amount	166,240	—	—	—	16,043	182,283
Gross unrealized gains	4,683	—	—	—	104	4,787
Gross unrealized losses	—	—	—	—	—	—
Market value	170,923	—	—	—	16,147	187,070
Obligations of other governments and agencies:						
Net carrying amount	417,166	482,650	160,156	300,073	671,100	2,031,145
Gross unrealized gains	3,425	1,114	5,913	14,363	20,574	45,389
Gross unrealized losses	—	31	—	—	—	31
Market value	420,591	483,733	166,069	314,436	691,674	2,076,503
Bank obligations and time deposits:						
Net carrying amount	1,015	—	10,039	34,322	320,780	366,156
Gross unrealized gains	—	—	—	—	—	—
Gross unrealized losses	—	—	—	—	—	—
Market value	1,015	—	10,039	34,322	320,780	366,156
Corporate securities:						
Net carrying amount	—	15,393	—	67,244	31,319	113,956
Gross unrealized gains	—	18	—	1,966	433	2,417
Gross unrealized losses	—	25	—	—	—	25
Market value	—	15,386	—	69,210	31,752	116,348
Asset- and mortgage-backed securities:						
Net carrying amount	435,554	19,315	10,726	187,512	195,602	848,709
Gross unrealized gains	12,790	—	260	13,106	6,873	33,029
Gross unrealized losses	—	9	—	—	—	9
Market value	448,344	19,306	10,986	200,618	202,475	881,729
Total held-to-maturity investments:						
Net carrying amount	1,019,975	517,358	180,921	589,151	1,234,844 ⁽¹⁾	3,542,249
Gross unrealized gains	20,898	1,132	6,173	29,435	27,984	85,622
Gross unrealized losses	—	65	—	—	—	65
Market value	1,040,873	518,425	187,094	618,586	1,262,828	3,627,806
Return for the year (%)	4.00	0.30	2.83	5.22	5.15	3.87
⁽¹⁾ The net carrying amount of held-to-maturity investments held in other currencies consists of the following:						
Canadian dollars	\$ 652,808					
British pounds sterling	515,356					
Other	66,680					
Total	<u>\$1,234,844</u>					

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2002

Expressed in thousands of United States dollars

Year of Maturity	Net Carrying Amount	Market Value
2003	\$1,214,608	\$1,221,242
2004	734,410	749,512
2005	646,008	667,026
2006	418,809	436,605
2007	374,019	389,721
2008	90,154	94,084
2009	30,021	31,847
2010	34,220	37,769
Total	<u>\$3,542,249</u>	<u>\$3,627,806</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-2

SUMMARY STATEMENT OF HELD-TO-MATURITY INVESTMENTS – NOTE D

December 31, 2001

Expressed in thousands of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Other currencies	All currencies
Obligations of the United States Government and its corporations and agencies:						
Net carrying amount	118,970	—	—	75,048	16,166	210,184
Gross unrealized gains	557	—	—	783	123	1,463
Gross unrealized losses	706	—	—	—	—	706
Market value	118,821	—	—	75,831	16,289	210,941
Obligations of other governments and agencies:						
Net carrying amount	405,498	491,816	162,734	213,586	655,031	1,928,665
Gross unrealized gains	800	1,156	1,042	4,934	12,976	20,908
Gross unrealized losses	457	101	427	2,042	290	3,317
Market value	405,841	492,871	163,349	216,478	667,717	1,946,256
Bank obligations and time deposits:						
Net carrying amount	6,319	34,203	2,822	700	205,942	249,986
Gross unrealized gains	—	46	—	—	19	65
Gross unrealized losses	—	—	—	—	—	—
Market value	6,319	34,249	2,822	700	205,961	250,051
Corporate securities:						
Net carrying amount	—	14,598	—	60,488	30,048	105,134
Gross unrealized gains	—	44	—	1,030	569	1,643
Gross unrealized losses	—	—	—	133	—	133
Market value	—	14,642	—	61,385	30,617	106,644
Asset- and mortgage-backed securities:						
Net carrying amount	402,707	—	8,900	210,838	253,821	876,266
Gross unrealized gains	2,706	—	—	7,081	7,622	17,409
Gross unrealized losses	3,576	—	82	220	102	3,980
Market value	401,837	—	8,818	217,699	261,341	889,695
Total held-to-maturity investments:						
Net carrying amount	933,494	540,617	174,456	560,660	1,161,008 ⁽¹⁾	3,370,235
Gross unrealized gains	4,063	1,246	1,042	13,828	21,309	41,488
Gross unrealized losses	4,739	101	509	2,395	392	8,136
Market value	932,818	541,762	174,989	572,093	1,181,925	3,403,587
Return for the year (%)	4.04	0.34	2.87	5.87	5.56	3.97
⁽¹⁾ The net carrying amount of held-to-maturity investments held in other currencies consists of the following:						
Canadian dollars	\$ 621,927					
British pounds sterling	473,823					
Other	65,258					
Total	<u>\$1,161,008</u>					

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2001

Expressed in thousands of United States dollars

Year of Maturity	Net Carrying Amount	Market Value
2002	\$ 905,583	\$ 910,014
2003	822,300	834,498
2004	709,360	717,838
2005	427,259	434,518
2006	350,604	351,178
2007	69,746	70,334
2008	70,422	70,165
2009	14,961	15,042
Total	<u>\$3,370,235</u>	<u>\$3,403,587</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-3

SUMMARY STATEMENT OF LOANS – NOTE E

December 31, 2002 and 2001

Expressed in thousands of United States dollars

Member in whose territory loans have been made	Loans approved, less cancellations ⁽¹⁾	Principal collected ⁽²⁾	Undisbursed	Outstanding 2002	Currency in which outstanding portion of approved loans is collectible		Outstanding 2001
					Freely convertible currencies	Other currencies	
Argentina	\$ 16,009,391	\$ 4,637,317	\$ 3,329,680	\$ 8,042,394	\$ 7,950,469	\$ 91,925	\$ 8,269,741
Bahamas	342,208	79,144	68,220	194,844	194,844	—	186,144
Barbados	345,419	73,275	122,768	149,376	149,376	—	131,557
Belize	92,215	—	43,614	48,601	48,601	—	34,347
Bolivia	1,029,535	568,265	4,888	456,382	455,592	790	479,659
Brazil	22,752,887	6,094,217	4,519,762	12,138,908	12,093,616	45,292	11,146,839
Chile	4,501,303	3,581,317	395,397	524,589	521,032	3,557	579,977
Colombia	7,980,577	3,607,989	904,522	3,468,066	3,436,453	31,613	3,762,806
Costa Rica	1,687,880	625,371	370,878	691,631	691,631	—	668,715
Dominican Republic	1,398,733	263,538	566,547	568,648	568,648	—	473,108
Ecuador	2,770,194	1,163,215	228,321	1,378,658	1,378,599	59	1,338,601
El Salvador	2,015,093	431,775	533,849	1,049,469	1,049,282	187	921,601
Guatemala	1,812,893	491,571	517,306	804,016	804,016	—	631,326
Guyana	109,436	87,060	—	22,376	22,376	—	25,212
Honduras	506,891	329,329	—	177,562	177,562	—	184,348
Jamaica	1,341,136	452,499	256,421	632,216	632,216	—	513,736
Mexico	15,005,814	5,526,832	2,768,277	6,710,705	6,709,360	1,345	5,929,419
Nicaragua	248,476	130,874	—	117,602	117,602	—	120,260
Panama	1,642,921	462,328	463,690	716,903	716,903	—	639,957
Paraguay	1,181,164	220,189	405,232	555,743	555,699	44	507,066
Peru	5,339,347	1,590,857	835,173	2,913,317	2,911,909	1,408	2,663,000
Suriname	74,645	8,158	39,341	27,146	27,146	—	26,505
Trinidad and Tobago	962,096	208,502	315,160	438,434	438,434	—	434,673
Uruguay	3,222,549	583,902	668,412	1,970,235	1,970,234	1	1,436,233
Venezuela	3,679,882	1,081,043	434,970	2,163,869	2,156,765	7,104	2,037,133
Regional	1,967,782	1,079,083	146,885	741,814	741,814	—	749,586
Private Sector Program	1,814,759	230,046	330,360	1,254,353	1,254,353	—	1,059,428
Inter-American Investment Corporation	375,000	75,000	300,000	—	—	—	—
Total 2002	<u>\$100,210,226</u>	<u>\$33,682,696</u>	<u>\$18,569,673</u>	<u>\$47,957,857</u>	<u>\$47,774,532</u>	<u>\$183,325</u>	
Total 2001	<u>\$ 92,976,191</u>	<u>\$27,518,903</u>	<u>\$20,506,311</u>		<u>\$44,761,853</u>	<u>\$189,124</u>	<u>\$44,950,977</u>

⁽¹⁾ This table excludes participated Private Sector Program loans which amounted to \$2,785,118 at December 31, 2002 (2001—\$2,792,605). This table also excludes guarantees without government counter-guarantees approved in the amount of \$611,450 at December 31, 2002 (2001—\$531,250).

⁽²⁾ Includes full principal repayments of loans previously sold.

The Bank has Private Sector Program loans outstanding in the following countries (in thousands):

	December 31,	
	2002	2001
Argentina	\$ 266,480	\$ 309,282
Brazil	326,728	222,131
Chile	24,312	22,500
Colombia	22,218	25,215
Dominican Republic	69,375	—
Mexico	344,827	300,892
Peru	51,540	41,017
Regional	89,636	73,693
Other	59,237	64,698
	<u>\$1,254,353</u>	<u>\$1,059,428</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT – NOTE E

December 31, 2002

Expressed in thousands of United States dollars

Currency/Rate type	Multicurrency loans		Single currency loans			Total loans	
	Amount	Weighted average rate (%)	Amount	Weighted average rate (%)	Average maturity (years)	Amount	Weighted average rate (%)
Euro							
Fixed	\$ 501,545	7.48	\$ —	—	—	\$ 501,545	7.48
Adjustable	2,766,682	5.27	7,435	5.35	9.23	2,774,117	5.27
Japanese yen							
Fixed	829,997	7.46	—	—	—	829,997	7.46
Adjustable	4,661,413	5.27	1,907	1.46	8.63	4,663,320	5.27
Swiss francs							
Fixed	499,632	7.50	—	—	—	499,632	7.50
Adjustable	2,717,328	5.27	—	—	—	2,717,328	5.27
United States dollars							
Fixed	1,700,468	7.47	—	—	—	1,700,468	7.47
Adjustable	9,476,363	5.27	17,048,109	5.39	9.29	26,524,472	5.35
LIBOR-based fixed	—	—	927,948	7.35	4.99	927,948	7.35
LIBOR-based floating	—	—	6,634,362	5.10	1.81	6,634,362	5.10
Others							
Fixed	184,668	4.04	—	—	—	184,668	4.04
Loans outstanding							
Fixed	3,716,310	7.30	—	—	—	3,716,310	7.30
Adjustable	19,621,786	5.27	17,057,451	5.39	9.29	36,679,237	5.33
LIBOR-based fixed	—	—	927,948	7.35	4.99	927,948	7.35
LIBOR-based floating	—	—	6,634,362	5.10	1.81	6,634,362	5.10
Total	<u>\$23,338,096</u>	<u>5.59</u>	<u>\$24,619,761</u>	<u>5.39</u>	<u>7.11</u>	<u>\$47,957,857</u>	<u>5.49</u>

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2002

Expressed in thousands of United States dollars

Year of Maturity	Multicurrency loans		Single currency loans		All loans		
	Fixed	Adjustable	Fixed ⁽¹⁾	Adjustable ⁽¹⁾	Fixed	Adjustable	Total
2003	\$ 722,910	\$ 1,395,986	\$ 82,448	\$ 4,364,813	\$ 805,358	\$ 5,760,799	\$ 6,566,157
2004	673,900	1,656,800	108,200	2,127,000	782,100	3,783,800	4,565,900
2005	581,700	1,716,500	114,100	1,038,000	695,800	2,754,500	3,450,300
2006	454,500	1,726,000	106,200	1,237,900	560,700	2,963,900	3,524,600
2007	357,400	1,710,100	101,700	1,351,900	459,100	3,062,000	3,521,100
2008 through 2012	774,700	7,623,300	343,800	6,148,300	1,118,500	13,771,600	14,890,100
2013 through 2017	138,300	3,018,000	62,900	4,814,800	201,200	7,832,800	8,034,000
2018 through 2022	12,200	730,300	8,600	2,231,700	20,800	2,962,000	2,982,800
2023 through 2027	700	44,800	—	366,200	700	411,000	411,700
2028 through 2032	—	—	—	11,200	—	11,200	11,200
Total	<u>\$3,716,310</u>	<u>\$19,621,786</u>	<u>\$927,948</u>	<u>\$23,691,813</u>	<u>\$4,644,258</u>	<u>\$43,313,599</u>	<u>\$47,957,857</u>
Average Maturity (years) ..	<u>3.46</u>	<u>6.46</u>	<u>4.99</u>	<u>7.20</u>	<u>3.77</u>	<u>6.86</u>	<u>6.56</u>

⁽¹⁾ Includes LIBOR-based loans.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT – NOTE E

December 31, 2001

Expressed in thousands of United States dollars

Currency/Rate type	Multicurrency loans		Single currency loans			Total loans	
	Amount	Weighted average rate (%)	Amount	Weighted average rate (%)	Average maturity (years)	Amount	Weighted average rate (%)
Euro							
Fixed	\$ 540,079	7.53	\$ —	—	—	\$ 540,079	7.53
Adjustable	2,404,599	6.29	4,836	6.09	10.11	2,409,435	6.29
Japanese yen							
Fixed	961,468	7.50	—	—	—	961,468	7.50
Adjustable	4,374,072	6.29	516	2.07	8.86	4,374,588	6.29
Swiss francs							
Fixed	527,100	7.54	—	—	—	527,100	7.54
Adjustable	2,320,435	6.29	—	—	—	2,320,435	6.29
United States dollars							
Fixed	2,122,350	7.50	—	—	—	2,122,350	7.50
Adjustable	9,614,249	6.29	13,258,740	6.97	9.36	22,872,989	6.68
LIBOR-based fixed	—	—	526,305	8.61	4.61	526,305	8.61
LIBOR-based floating	—	—	8,104,976	5.79	2.08	8,104,976	5.79
Others							
Fixed	191,252	4.07	—	—	—	191,252	4.07
Loans outstanding							
Fixed	4,342,249	7.36	—	—	—	4,342,249	7.36
Adjustable	18,713,355	6.29	13,264,092	6.97	9.36	31,977,447	6.57
LIBOR-based fixed	—	—	526,305	8.61	4.61	526,305	8.61
LIBOR-based floating	—	—	8,104,976	5.79	2.08	8,104,976	5.79
Total	<u>\$23,055,604</u>	<u>6.49</u>	<u>\$21,895,373</u>	<u>6.57</u>	<u>6.55</u>	<u>\$44,950,977</u>	<u>6.53</u>

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2001

Expressed in thousands of United States dollars

Year of Maturity	Multicurrency loans		Single currency loans		All loans		
	Fixed	Adjustable	Fixed ⁽¹⁾	Adjustable ⁽¹⁾	Fixed	Adjustable	Total
2002	\$ 764,349	\$ 1,128,355	\$ 53,505	\$ 2,717,168	\$ 817,854	\$ 3,845,523	\$ 4,663,377
2003	721,500	1,450,400	58,400	3,899,000	779,900	5,349,400	6,129,300
2004	673,400	1,541,100	67,000	2,158,000	740,400	3,699,100	4,439,500
2005	564,500	1,548,900	65,300	873,400	629,800	2,422,300	3,052,100
2006	424,500	1,550,500	53,400	928,600	477,900	2,479,100	2,957,000
2007 through 2011	973,700	7,288,100	167,200	4,949,400	1,140,900	12,237,500	13,378,400
2012 through 2016	206,900	3,328,100	49,000	3,789,000	255,900	7,117,100	7,373,000
2017 through 2021	12,600	833,300	10,600	1,812,900	23,200	2,646,200	2,669,400
2022 through 2026	800	44,600	1,900	229,100	2,700	273,700	276,400
2027 through 2029	—	—	—	12,500	—	12,500	12,500
Total	<u>\$4,342,249</u>	<u>\$18,713,355</u>	<u>\$526,305</u>	<u>\$21,369,068</u>	<u>\$4,868,554</u>	<u>\$40,082,423</u>	<u>\$44,950,977</u>
Average Maturity (years) ..	<u>3.68</u>	<u>6.86</u>	<u>4.61</u>	<u>6.60</u>	<u>3.78</u>	<u>6.72</u>	<u>6.40</u>

⁽¹⁾ Includes LIBOR-based loans.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES G AND H

December 31, 2002

Expressed in thousands of United States dollars

Currency/Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
	Amount	Wgt'd. avg. cost (%)	Average maturity (years)	Amount ⁽²⁾ payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Notional amount ⁽²⁾ payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years) ⁽¹⁾
Euro												
Fixed	\$ 3,959,851	5.62	5.30	\$ —	—	—	\$ 363,387	4.22	4.31	\$ 4,323,238	5.50	5.21
	—	—	—	(744,340)	5.48	3.51	(1,173,159)	3.98	7.77	(1,917,499)	4.56	6.12
Adjustable	950,134	5.83	12.10	825,547	2.80	3.76	1,173,159	3.40	7.77	2,948,840	4.02	8.04
	—	—	—	(1,020,874)	5.61	11.53	(363,387)	2.77	4.31	(1,384,261)	4.86	9.63
Japanese yen												
Fixed	3,463,319	3.80	5.85	752,762	0.93	5.82	293,544	0.01	1.09	4,509,625	3.07	5.54
	—	—	—	(502,519)	3.53	5.25	(1,024,187)	1.85	6.52	(1,526,706)	2.40	6.10
Adjustable	91,743	3.23	8.61	1,219,160	(0.25)	3.12	1,007,506	(0.20)	6.79	2,318,409	(0.09)	4.94
	—	—	—	(66,722)	3.84	5.90	(276,863)	(0.21)	1.78	(343,585)	0.58	2.58
Swiss francs												
Fixed	2,438,849	4.00	2.30	486,134	4.61	1.40	255,183	2.23	1.74	3,180,166	3.95	2.12
	—	—	—	(358,654)	2.17	1.39	(143,462)	3.33	1.83	(502,116)	2.50	1.51
Adjustable	—	—	—	255,183	0.60	1.74	143,462	0.58	1.83	398,645	0.59	1.77
	—	—	—	—	—	—	(255,183)	0.60	1.74	(255,183)	0.60	1.74
United States dollars												
Fixed	28,776,000	5.79	4.88	888,383	6.51	3.55	319,129	5.54	5.70	29,983,512	5.81	4.85
	—	—	—	(15,000)	3.60	4.68	(12,243,910)	5.04	3.49	(12,258,910)	5.04	3.49
Adjustable	86,000	5.04	5.82	8,012,468	1.28	5.33	13,739,710	1.44	3.26	21,838,178	1.40	4.03
	—	—	—	(2,089,878)	1.31	4.19	(1,814,929)	1.74	2.15	(3,904,807)	1.51	3.24
Others												
Fixed	7,647,978	6.14	4.40	—	—	—	—	—	—	7,647,978	6.14	4.40
	—	—	—	(7,252,734)	5.64	4.16	—	—	—	(7,252,734)	5.64	4.16
Adjustable	57,499	1.58	0.38	—	—	—	—	—	—	57,499	1.58	0.38
	—	—	—	(57,499)	1.58	0.38	—	—	—	(57,499)	1.58	0.38
Total												
Fixed	46,285,997	5.59	4.77	2,127,279	—	—	1,231,243	—	—	49,644,519	5.47	4.70
	—	—	—	(8,873,247)	—	—	(14,584,718)	—	—	(23,457,965)	4.96	4.04
Adjustable	1,185,376	5.37	10.81	10,312,358	—	—	16,063,837	—	—	27,561,571	1.54	4.49
	—	—	—	(3,234,973)	—	—	(2,710,362)	—	—	(5,945,335)	2.20	4.60
Principal at face value .	47,471,373	5.59	4.92	331,417	—	—	—	—	—	47,802,790	3.86	4.92
SFAS 133 —												
Basis adjustment ...	1,270,177	—	—	—	—	—	—	—	—	1,270,177	—	—
Market value adjustment ⁽²⁾ ...	—	—	—	(227,341)	—	—	(784,517)	—	—	(1,011,858)	—	—
Net unamortized discount	(611,678)	—	—	—	—	—	—	—	—	(611,678)	—	—
Total	<u>\$48,129,872</u>	<u>5.59</u>	<u>4.92</u>	<u>\$ 104,076</u>	—	—	<u>\$ (784,517)</u>	—	—	<u>\$ 47,449,431</u>	<u>3.86</u>	<u>4.92</u>

⁽¹⁾ As of December 31, 2002, the average repricing period of the net currency obligations for adjustable rate borrowings was four months.

⁽²⁾ Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or (receivable) leg, classified by their currency. Both currency and interest rate swaps are adjusted, in total, to fair value as indicated. The net fair value amount payable from currency swaps of \$104,076 and the net fair value amount receivable from interest rate swaps of \$784,517 as of December 31, 2002, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$1,293,803 and currency and interest rate swap liabilities at fair value of \$613,362, included in the Balance Sheet.

MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2002

Expressed in thousands of United States dollars

Year of Maturity		Year of Maturity	
2003	\$ 7,701,269	2008 through 2012	\$15,074,753
2004	7,298,703	2013 through 2017	1,262,728
2005	5,428,997	2018 through 2022	610,040
2006	4,737,769	2023 through 2027	1,550,000
2007	3,807,114	Total	<u>\$47,471,373</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES G AND H

December 31, 2001

Expressed in thousands of United States dollars

Currency/Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
	Amount	Wgt'd. avg. cost (%)	Average maturity (years)	Amount ⁽²⁾ payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Notional amount ⁽²⁾ payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years) ⁽¹⁾
Euro												
Fixed	\$ 2,769,560	6.45	4.15	\$ —	—	—	\$ 176,258	4.64	4.88	\$ 2,945,818	6.34	4.19
	—	—	—	(366,657)	6.13	1.50	(225,298)	6.22	4.79	(591,955)	6.16	2.75
Adjustable	983,669	5.93	11.71	324,205	3.04	4.88	225,298	3.49	4.79	1,533,172	4.96	9.25
	—	—	—	(1,043,487)	5.79	11.31	(176,258)	3.04	4.88	(1,219,745)	5.39	10.38
Japanese yen												
Fixed	4,250,774	4.16	5.93	684,796	0.93	6.82	267,040	0.01	2.08	5,202,610	3.52	5.85
	—	—	—	(495,083)	3.59	6.03	(969,651)	1.94	7.63	(1,464,734)	2.50	7.09
Adjustable	83,460	1.46	10.97	1,109,084	(0.23)	4.12	992,413	(0.19)	7.84	2,184,957	(0.15)	6.07
	—	—	—	(22,762)	3.37	12.76	(289,802)	(0.44)	3.25	(312,564)	(0.16)	3.94
Swiss francs												
Fixed	2,220,831	4.90	2.08	480,489	4.96	2.04	50,677	2.74	2.74	2,751,997	4.87	2.09
	—	—	—	(298,098)	2.17	2.39	(119,239)	3.33	2.83	(417,337)	2.50	2.52
Adjustable	—	—	—	212,097	1.70	2.78	119,239	2.03	2.83	331,336	1.82	2.80
	—	—	—	—	—	—	(50,677)	1.72	2.74	(50,677)	1.72	2.74
United States dollars												
Fixed	24,463,000	6.26	5.41	888,383	6.45	4.55	503,973	6.70	3.46	25,855,356	6.28	5.34
	—	—	—	—	—	—	(11,698,000)	5.66	3.51	(11,698,000)	5.66	3.51
Adjustable	—	—	—	8,405,510	1.89	4.84	13,107,800	2.03	3.36	21,513,310	1.98	3.94
	—	—	—	(1,903,817)	1.96	5.36	(1,913,773)	2.10	2.48	(3,817,590)	2.03	3.92
Others												
Fixed	7,357,843	6.60	3.94	—	—	—	—	—	—	7,357,843	6.60	3.94
	—	—	—	(7,000,338)	6.35	3.64	—	—	—	(7,000,338)	6.35	3.64
Adjustable	57,013	4.36	1.39	—	—	—	—	—	—	57,013	4.36	1.39
	—	—	—	(57,013)	2.05	1.39	—	—	—	(57,013)	2.05	1.39
Total												
Fixed	41,062,008	6.04	4.94	2,053,668			997,948			44,113,624	5.92	4.89
	—	—	—	(8,160,176)			(13,012,188)			(21,172,364)	5.62	3.76
Adjustable	1,124,142	5.52	11.13	10,050,896			14,444,750			25,619,788	1.98	4.42
	—	—	—	(3,027,079)			(2,430,510)			(5,457,589)	2.64	5.30
Principal at face value ...	42,186,150	6.03	5.10	917,309			—			43,103,459	4.14	5.11
SFAS 133 —												
Basis adjustment	515,414									515,414		
Market value adjustment ⁽²⁾				(78,849)			(417,833)			(496,682)		
Net unamortized discount	(24,838)									(24,838)		
Total	<u>\$42,676,726</u>	<u>6.03</u>	<u>5.10</u>	<u>\$ 838,460</u>			<u>\$ (417,833)</u>			<u>\$ 43,097,353</u>	<u>4.14</u>	<u>5.11</u>

⁽¹⁾ As of December 31, 2001, the average repricing period of the net currency obligations for adjustable rate borrowings was four months.

⁽²⁾ Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or (receivable) leg, classified by their currency. Both currency and interest rate swaps are adjusted, in total, to fair value as indicated. The net fair value amount payable from currency swaps of \$838,460 and the net fair value amount receivable from interest rate swaps of \$417,833 as of December 31, 2001, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$739,277 and currency and interest rate swap liabilities at fair value of \$1,159,904, included in the Balance Sheet.

MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2001

Expressed in thousands of United States dollars

Year of Maturity		Year of Maturity	
2002	\$ 4,877,789	2007 through 2011	\$13,803,008
2003	7,478,513	2012 through 2016	757,480
2004	7,019,293	2017 through 2021	721,826
2005	1,775,926	2022 through 2026	950,000
2006	4,202,315	2027	600,000
		Total	<u>\$42,186,150</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-6

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK – NOTE J

December 31, 2002 and 2001

Expressed in thousands of United States dollars⁽¹⁾

Members	Shares	Paid-in portion of subscribed capital		Callable portion of subscribed capital	Total 2002	Total 2001
		Freely convertible currencies	Other currencies			
Argentina	900,154	\$ 361,059	\$104,059	\$10,393,829	\$ 10,858,947	\$ 10,858,947
Austria	13,312	6,900	—	153,688	160,588	160,588
Bahamas	17,398	7,479	4,054	198,347	209,880	209,880
Barbados	10,767	3,879	1,755	124,253	129,887	129,887
Belgium	27,438	14,235	—	316,762	330,997	330,997
Belize	9,178	3,601	3,601	103,516	110,718	110,718
Bolivia	72,258	28,964	8,360	834,355	871,680	871,680
Brazil	900,154	361,059	104,059	10,393,829	10,858,947	10,858,947
Canada	334,887	173,677	—	3,866,209	4,039,887	4,039,887
Chile	247,163	99,149	28,566	2,853,919	2,981,634	2,981,634
Colombia	247,163	99,161	28,554	2,853,919	2,981,634	2,981,634
Costa Rica	36,121	14,500	4,162	417,081	435,743	435,743
Croatia	4,018	2,087	—	46,384	48,471	48,471
Denmark	14,157	7,347	—	163,435	170,782	170,782
Dominican Republic	48,220	19,338	5,573	556,788	581,699	581,699
Ecuador	48,220	19,338	5,573	556,788	581,699	581,699
El Salvador	36,121	14,500	4,162	417,081	435,743	435,743
Finland	13,312	6,900	—	153,688	160,588	160,588
France	158,638	82,273	—	1,831,446	1,913,719	1,913,719
Germany	158,638	82,273	—	1,831,446	1,913,719	1,913,719
Guatemala	48,220	19,338	5,573	556,788	581,699	581,699
Guyana	13,393	5,223	2,570	153,773	161,566	161,566
Haiti	36,121	14,500	4,162	417,081	435,743	435,743
Honduras	36,121	14,500	4,162	417,081	435,743	435,743
Israel	13,126	6,804	—	151,541	158,345	158,345
Italy	158,638	82,273	—	1,831,446	1,913,719	1,913,719
Jamaica	48,220	19,338	5,573	556,788	581,699	581,699
Japan	418,642	217,106	—	4,833,154	5,050,260	5,050,260
Mexico	578,632	232,076	66,904	6,681,308	6,980,288	6,980,288
Netherlands	28,207	14,633	—	325,640	340,273	340,273
Nicaragua	36,121	14,500	4,162	417,081	435,743	435,743
Norway	14,157	7,347	—	163,435	170,782	170,782
Panama	36,121	14,500	4,162	417,081	435,743	435,743
Paraguay	36,121	14,500	4,162	417,081	435,743	435,743
Peru	120,445	48,278	13,957	1,390,745	1,452,980	1,452,980
Portugal	4,474	2,316	—	51,656	53,972	53,972
Slovenia	2,434	1,267	—	28,096	29,362	29,362
Spain	158,638	82,273	—	1,831,446	1,913,719	1,913,719
Suriname	7,342	3,486	2,232	82,852	88,570	88,570
Sweden	27,268	14,139	—	314,807	328,946	328,946
Switzerland	39,347	20,411	—	454,249	474,660	474,660
Trinidad and Tobago	36,121	14,500	4,162	417,081	435,743	435,743
United Kingdom	80,551	41,776	—	929,946	971,722	971,722
United States	2,512,529	1,303,020	—	29,006,704	30,309,724	30,309,724
Uruguay	96,507	38,699	11,171	1,114,335	1,164,206	1,164,206
Venezuela	482,267	216,008	33,331	5,568,456	5,817,795	5,817,795
Total before unallocated amount ..	8,367,080	3,870,529	468,760	96,596,415	100,935,704	100,935,704
Unallocated (see Note J)	1,299	905	—	14,765	15,670	23,680
Total 2002	<u>8,368,379</u>	<u>\$3,871,434</u>	<u>\$468,760</u>	<u>\$96,611,180</u>	<u>\$100,951,374</u>	
Total 2001	<u>8,369,043</u>	<u>\$3,871,892</u>	<u>\$468,760</u>	<u>\$96,618,732</u>		<u>\$100,959,384</u>

⁽¹⁾ Data are rounded; detail may not add up to subtotals and totals because of rounding.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-7

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

December 31, 2002

Member countries	Subscribed shares	Number of votes	% of total number of votes ⁽¹⁾
Regional developing members			
Argentina	900,154	900,289	10.752
Bahamas	17,398	17,533	0.209
Barbados	10,767	10,902	0.130
Belize	9,178	9,313	0.111
Bolivia	72,258	72,393	0.865
Brazil	900,154	900,289	10.752
Chile	247,163	247,298	2.953
Colombia	247,163	247,298	2.953
Costa Rica	36,121	36,256	0.433
Dominican Republic	48,220	48,355	0.577
Ecuador	48,220	48,355	0.577
El Salvador	36,121	36,256	0.433
Guatemala	48,220	48,355	0.577
Guyana	13,393	13,528	0.162
Haiti	36,121	36,256	0.433
Honduras	36,121	36,256	0.433
Jamaica	48,220	48,355	0.577
Mexico	578,632	578,767	6.912
Nicaragua	36,121	36,256	0.433
Panama	36,121	36,256	0.433
Paraguay	36,121	36,256	0.433
Peru	120,445	120,580	1.440
Suriname	7,342	7,477	0.089
Trinidad and Tobago	36,121	36,256	0.433
Uruguay	96,507	96,642	1.154
Venezuela	482,267	482,402	5.761
Total regional developing members	4,184,669	4,188,179	50.018
Canada	334,887	335,022	4.001
United States	2,512,529	2,512,664	30.008
Nonregional members			
Austria	13,312	13,447	0.161
Belgium	27,438	27,573	0.329
Croatia	4,018	4,153	0.050
Denmark	14,157	14,292	0.171
Finland	13,312	13,447	0.161
France	158,638	158,773	1.896
Germany	158,638	158,773	1.896
Israel	13,126	13,261	0.158
Italy	158,638	158,773	1.896
Japan	418,642	418,777	5.001
Netherlands	28,207	28,342	0.338
Norway	14,157	14,292	0.171
Portugal	4,474	4,609	0.055
Slovenia	2,434	2,569	0.031
Spain	158,638	158,773	1.896
Sweden	27,268	27,403	0.327
Switzerland	39,347	39,482	0.472
United Kingdom	80,551	80,686	0.964
Total nonregional members	1,334,995	1,337,425	15.973
Total before unallocated amount	8,367,080	8,373,290	100.000
Unallocated (see Note J)	1,299	1,434	
GRAND TOTAL	<u>8,368,379</u>	<u>8,374,724</u>	

⁽¹⁾ Data are rounded; detail may not add to subtotals and grand total because of rounding.

FUND FOR SPECIAL OPERATIONS

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited the accompanying special purpose statement of assets, liabilities and fund balance of the Inter-American Development Bank (Bank)—Fund for Special Operations as of December 31, 2002, and the related special purpose statements of changes in general reserve, comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The special purpose financial statements of the Inter-American Development Bank—Fund for Special Operations as of December 31, 2001, were audited by other auditors who have ceased operations and whose report dated February 13, 2002, expressed an unqualified opinion on those special purpose financial statements prepared on the basis of accounting described in Note B to these financial statements.

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

As described in Note B, the accompanying special purpose financial statements have been prepared for the purpose of complying with Article IV, Section 8(d) of the Agreement Establishing the Inter-American Development Bank, and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the accompanying special purpose financial statements of the Inter-American Development Bank—Fund for Special Operations as of December 31, 2002 and for the year then ended present fairly, in all material respects, the information set forth therein on the basis of accounting described in Note B.

This report was prepared solely for the information and use of the Board of Governors, Board of Executive Directors, and management of the Bank. However, under the Agreement Establishing the Inter-American Development Bank, this report is included in the Annual Report of the Bank and is therefore a matter of public record and its distribution is not limited.

Ernst & Young LLP

Washington, D.C.
February 12, 2003

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

SPECIAL PURPOSE STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE

Expressed in thousands of United States dollars

	December 31,			
	2002		2001	
ASSETS				
Cash and investments				
Cash	\$ 487,232		\$ 517,527	
Investments	<u>1,133,919</u>	<u>\$1,621,151</u>	<u>1,041,679</u>	<u>\$1,559,206</u>
Loans outstanding		6,730,320		6,636,835
Accrued interest and other charges				
On investments	2,464		2,338	
On loans	<u>35,485</u>	<u>37,949</u>	<u>48,149</u>	50,487
Receivable from members				
Contribution quotas	57,019		85,380	
Non-negotiable, non-interest bearing demand obligations	944,183		999,843	
Amounts required to maintain value of currency holdings	<u>250,200</u>	<u>1,251,402</u>	<u>279,787</u>	1,365,010
Other assets		7,411		12,340
Total assets		<u><u>\$9,648,233</u></u>		<u><u>\$9,623,878</u></u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses	\$ 9,704		\$ 2,349	
Undisbursed technical cooperation projects and other financings	<u>118,628</u>	<u>\$ 128,332</u>	<u>132,023</u>	\$ 134,372
Fund balance				
Contribution quotas authorized and subscribed	9,583,764		9,480,313	
General reserve	(53,604)		4,124	
Accumulated translation adjustments	<u>(10,259)</u>	<u>9,519,901</u>	<u>5,069</u>	9,489,506
Total liabilities and fund balance		<u><u>\$9,648,233</u></u>		<u><u>\$9,623,878</u></u>

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

SPECIAL PURPOSE STATEMENT OF CHANGES IN GENERAL RESERVE

Expressed in thousands of United States dollars

	Years ended December 31,	
	2002	2001
Income		
Loans		
Interest	\$106,706	\$ 126,459
Credit commissions	4,504	4,704
Service charges	408	513
Supervision and inspection fees	3,929	3,220
	115,547	134,896
Investments	22,791	41,376
Other	2,931	7,863
Total income	141,269	184,135
Expenses		
Administrative expenses	60,247	55,604
Total expenses	60,247	55,604
Excess of income over expenses before technical cooperation expense and HIPC debt initiative	81,022	128,531
Technical cooperation expense	31,056	27,424
HIPC debt relief	37,494	540,828
Excess of income over expenses (expenses over income)	12,472	(439,721)
General reserve, beginning of year	4,124	498,345
Allocations to Intermediate Financing Facility Account	(70,200)	(54,500)
General reserve, end of year	\$ (53,604)	\$ 4,124

SPECIAL PURPOSE STATEMENT OF COMPREHENSIVE INCOME

Expressed in thousands of United States dollars

	Years ended December 31,	
	2002	2001
Excess of income over expenses (expenses over income)	\$ 12,472	\$ (439,721)
Translation adjustments on assets and liabilities	88,892	(64,086)
Comprehensive income (loss)	\$101,364	\$ (503,807)

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

SPECIAL PURPOSE STATEMENT OF CASH FLOWS

Expressed in thousands of United States dollars

	Years ended December 31,	
	2002	2001
Cash flows from lending and investing activities		
Lending:		
Loan disbursements	\$ (312,910)	\$ (422,033)
Loan collections	255,611	265,732
Loan participations, net	(6,567)	1,992
Net cash used in lending activities	(63,866)	(154,309)
Miscellaneous assets and liabilities	2,518	(1,096)
Net cash used in lending and investing activities	(61,348)	(155,405)
Cash flows from financing activities		
Capital:		
Collections of receivables from members	132,142	277,357
Net cash provided by financing activities	132,142	277,357
Cash flows from operating activities		
Loan income collections	115,895	117,021
Income from investments	23,159	43,641
Other income	2,931	7,863
Administrative expenses	(52,042)	(57,403)
Technical cooperation and other financings	(44,450)	(51,299)
Net cash provided by operating activities	45,493	59,823
Adjustments to receivable from members	—	(55,379)
Change in market value of investments	(482)	301
Allocations to the Intermediate Financing Facility Account	(70,200)	(54,500)
Effect of exchange rate fluctuations on cash and investments	16,340	(25,735)
Net increase in cash and investments	61,945	46,462
Cash and investments, beginning of year	1,559,206	1,512,744
Cash and investments, end of year	\$1,621,151	\$1,559,206

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

December 31, 2002 and 2001

Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. The principal purpose of the Bank is to promote the economic and social development of Latin America and the Caribbean, primarily by providing loans and related technical assistance for specific projects and for programs of economic reform. The Fund for Special Operations (FSO) was established under the Agreement Establishing the Bank (Agreement) for the purpose of making loans in the less developed member countries in Latin America and the Caribbean by providing financing on terms which are highly concessional. The FSO also provides technical assistance both related to projects and not connected to specific loans. The FSO complements the activities of the Ordinary Capital and the Intermediate Financing Facility Account (IFF). The IFF's purpose is to subsidize part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital. The FSO makes annual general reserve allocations to the IFF, as indicated in Note H.

Note B – Summary of Significant Accounting Policies

Due to the nature and organization of the FSO, the accompanying financial statements have been prepared on a special accounting basis. As described below, this special accounting basis is not consistent with United States generally accepted accounting principles (GAAP) with respect to certain items. These special purpose financial statements have been prepared to comply with Article IV, Section 8(d) of the Agreement.

Basis of accounting

The FSO's special purpose financial statements are prepared on the accrual basis of accounting for loan income, investment income and administrative expenses. That is, the effect of transactions and other events is recognized when they occur (not as cash is received or paid) and they are recorded in the accounting records and reported in the annual financial statements of the period to which they relate. The FSO follows a special accounting basis for loans and contribution quotas as described below.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Translation of currencies

The FSO's financial statements are expressed in United States dollars; however, the Bank conducts the operations of the FSO in

the currencies of all of its members. Assets and liabilities denominated in currencies other than the United States dollar are generally translated at approximate market rates of exchange prevailing at the dates of the financial statements. Income and expenses in such currencies are translated at approximate market rates of exchange prevailing during each month. Exchange rate fluctuations generally do not have any effect on the United States dollar equivalents of such currencies because of the maintenance of value provisions described below. The adjustments resulting from the translation into United States dollars of assets and liabilities are presented as a component of comprehensive income in the Special Purpose Statement of Comprehensive Income. The adjustments resulting from the translation of contribution quotas authorized and subscribed that do not have maintenance of value protection, which are derived from the 1983, 1990 and 1995 increases in contribution quotas, are charged or credited directly to accumulated translation adjustments. Under United States GAAP, the contribution quotas authorized and subscribed should be reported at historical rates of exchange prevailing at the date of the relevant replenishment's approval.

Investments

All of the FSO's investment securities are held in a trading portfolio carried at market value, with realized and unrealized gains and losses included in income from investments. The investments are included in the Special Purpose Statement of Cash Flows as cash equivalents due to their nature and the Bank's policy governing the level and use of such investments.

Loans

The FSO makes highly concessional loans in convertible currencies to the Bank's least-developed borrowing members, agencies or political subdivisions of such members, or to private enterprises located in their territories. In previous years, the FSO also made concessional loans in local currencies to borrowing members. In the case of loans to borrowers other than national governments, central banks or other governmental or inter-governmental entities, the FSO follows the general policy of requiring a guarantee engaging the full faith and credit of the government. Under the loan contracts with the borrowers, the FSO sells participations in certain loans to the Social Progress Trust Fund (SPTF), reserving to itself the administration of those loans.

Loans generally have up to 40 years final maturity and up to a 10 year grace period for principal payments and generally carry an interest rate of 1% during the grace period and 2% thereafter. The principal amount of loans and accrued interest are repayable in the currencies lent.

It is the policy of the FSO to place on nonaccrual status all loans to a member government if service under any loan to or

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

guaranteed by the member government, made from any fund owned or administered by the Bank, is overdue more than 180 days. On the date that a member's loan is placed on nonaccrual status, all loans to that member country are also placed on nonaccrual status. When a loan is placed on nonaccrual status, charges that had been accrued and remain unpaid are deducted from the income of the current period. Charges on nonaccruing loans are included in income only to the extent that payments have actually been received by the FSO. On the date a member pays in full all overdue amounts, the member's loans emerge from nonaccrual status, its eligibility for new loans is restored, and all overdue charges (including those from prior years) are recognized as income from loans in the current period. Except for the debt relief loan write-offs resulting from the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative discussed in Note M, the FSO has never had a write-off on any of its loans and has a policy of not rescheduling loan repayments.

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are immaterial to the financial results of the FSO.

Under United States GAAP, loans are recorded at their net realizable value, including an allowance for amounts estimated to be uncollectible. Management has elected to present loans under a special accounting basis to provide for recording loans and accrued income at the full face amount of the borrowers' outstanding obligations. Any loan losses that might occur would be charged to income of the current period.

The principal component of FSO loans affected by the enhanced HIPC Initiative is recognized as HIPC debt relief in the Special Purpose Statement of Changes in General Reserve and as a reduction in loans in the Special Purpose Statement of Assets, Liabilities and Fund Balance when the Board of Executive Directors determines that a country has reached completion point. Interim debt relief, which is revocable, during the period between decision and completion points (as defined in Note M) is recognized when relief is delivered to the country. HIPC loans continue to accrue interest and other charges until principal debt relief is delivered. The interest and other charges component of debt relief, if any, is recognized as HIPC debt relief in the period it is forgiven.

Contribution quotas

Recognition: Under United States GAAP, contribution quotas authorized and subscribed should not be recorded until the Bank receives a promissory demand note, which is guaranteed by the member country, as payment of the amount due. To present the full amount of the member country's commitment, management has elected to report contribution quotas under a special accounting basis that provides for the recording of member's contribu-

tion quotas, for each FSO replenishment, in full as contribution quotas receivable upon approval of the relevant replenishment by the Board of Governors.

Contribution quotas come due as a receivable throughout the replenishment period in accordance with an agreed subscription and encashment schedule. The actual subscription and payment of receivables when they become due from certain members is conditional upon the respective member's budgetary appropriation processes. Contribution quotas are settled through payment of cash or non-negotiable, non-interest bearing demand notes. If the receivable is settled in cash, the cash is recorded in cash and investments. The notes are encashed by the FSO as provided in the relevant replenishment resolution.

Valuation: The Agreement provides that the FSO be expressed in terms of the United States dollar of the weight and fineness in effect on January 1, 1959. The Second Amendment to the Articles of Agreement of the International Monetary Fund eliminated par values of currencies in terms of gold effective April 1, 1978, and consequently the General Counsel of the Bank has rendered an opinion that the Special Drawing Right (SDR) has become the successor to the 1959 United States dollar as the standard of value of the FSO's member contributions and for the purpose of maintaining the value of the FSO's currency holdings. The SDR has a value equal to the sum of the values of specific amounts of stated currencies, including the United States dollar. Pending a decision by the Bank's governing board and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using the 1959 United States dollar, which, pursuant to the devaluations of the United States dollar in 1972 and 1973, is equal to approximately 1.2063 current United States dollars, as the basis of valuation. If the 1959 United States dollar were to have been substituted with the SDR on December 31, 2002, the financial position and the results of operations of the FSO would not have been materially affected.

Maintenance of value

In accordance with the Agreement, each member is required to maintain the value of its currency held in the FSO to the extent established by the terms for the respective increases in contribution quotas. Likewise, and subject to the same terms of the contribution quota increases, the Bank is required to return to a member an amount of its currency equal to any significant increase in value of such member's currency which is held in the FSO. The standard of value for these purposes is the United States dollar of the weight and fineness in effect on January 1, 1959, as provided in the Agreement. Currency holdings derived from the 1983, 1990 and 1995 increases in contribution quotas do not have maintenance of value protection.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

Administrative expenses

Substantially all administrative expenses of the Bank, including depreciation, are allocated between the Ordinary Capital and the FSO pursuant to an allocation method approved by the Board of Executive Directors. Following this allocation method, during 2002, the effective ratio of administrative expenses charged to the FSO was 16.4% and 83.6% to the Ordinary Capital (2001—16.0% and 84.0%, respectively).

Technical cooperation

Non-reimbursable technical cooperation projects, as well as certain financings whose recovery is explicitly contingent on events that may not occur, are recorded as technical cooperation expense at the time of approval.

Cancellations of undisbursed balances and recuperations of contingently recoverable financings are recognized as an offset to technical cooperation expense in the period in which they occur.

Fair values of financial instruments

The following methods and assumptions were used by the FSO in estimating the fair value for its financial instruments:

Cash: The carrying amount reported in the Special Purpose Statement of Assets, Liabilities and Fund Balance for cash approximates fair value.

Investments: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: The FSO is one of very few sources of development loans to Latin American and Caribbean countries. There is no secondary market for development loans. Interest on all loans within the FSO is accrued at fixed rates. For all loans and related commitments, the FSO is of the opinion that, due to its unique position in lending operations and the absence of a secondary market, it is not practicable to estimate a fair market value for the FSO's lending portfolio.

Note C – Restricted Currencies

As of December 31, 2002, cash includes \$461,697,000 (2001—\$500,584,000) in non-convertible currencies of regional borrowing members, of which \$38,478,000 (2001—\$53,212,000) has been restricted by one of the members in accordance with provisions of the Agreement, to be used for making payments for goods and services produced in its territory.

Note D – Investments

As part of its overall portfolio management strategy, the Bank invests FSO resources in government, agency, bank and corporate obligations, time deposits and asset- and mortgage-backed securities. The Bank limits FSO activities of investing in securities to a list of authorized dealers and counterparties. Strict credit limits have been established for each counterparty.

Government and agency obligations: These obligations include unsubordinated and marketable bonds, notes and other obligations issued or unconditionally guaranteed by a government of a country, an agency or instrumentality of a government of a country, a multilateral organization, or any other official entity. The Bank invests only in (i) obligations of or guaranteed by the government of the member country whose currency is being invested, (ii) obligations issued or unconditionally guaranteed by an agency or instrumentality of the government of certain countries or any other official entity, in any currency, with credit quality equivalent to a AA– or better rating (residential mortgage-backed securities require a AAA rating), (iii) obligations of multilateral organizations, in any currency, with credit quality equivalent to a AAA rating, and (iv) non-local currency obligations of or guaranteed by certain governments with credit quality equivalent to a AA– or better rating.

Bank obligations and time deposits: These obligations include certificates of deposit, bankers' acceptances, and other obligations issued or unconditionally guaranteed by banks or other financial institutions. The Bank invests in these types of obligations if the entity issuing or guaranteeing them has a senior debt securities rating of at least A+.

Corporate securities: These obligations include publicly issued, unsubordinated and marketable bonds, notes or other debt obligations issued or unconditionally guaranteed by non-bank corporate entities or trusts. The Bank invests only in these types of securities with credit ratings of AAA.

Asset- and mortgage-backed securities: Asset- and mortgage-backed securities include unsubordinated, marketable asset-backed and residential mortgage-backed obligations issued or unconditionally guaranteed by corporate entities or trusts. The cash flow of these instruments is based on the cash flows of the pool of underlying assets managed by a special purpose vehicle, or trust, which provides credit enhancements to ensure higher credit ratings. The Bank invests only in these types of securities with credit ratings of AAA. In addition, the Bank invests in short-term asset-backed securities and short-term asset-backed commercial paper carrying only the highest short-term credit ratings.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

Trading portfolio: A summary of the FSO's position in trading portfolio securities at December 31, 2002 and 2001 is shown in the Summary Statement of Investments in Appendix II-1.

Net unrealized gains on trading securities, held at December 31, 2002, of \$259,000 (2001—\$320,000) were included in income from investments. The average return on investments, including realized and unrealized gains and losses, during 2002 and 2001 was 2.05% and 3.88%, respectively.

Note E – Loans Outstanding

Approved loans are disbursed to borrowers in accordance with the requirements of the project being financed; however, disbursements do not begin until the borrower and guarantor, if any, take certain actions and furnish certain documents to the Bank. Of the undisbursed balances, the FSO has entered into irrevocable commitments to disburse approximately \$5,863,000 at December 31, 2002. The loans outstanding of the FSO are shown in the Summary Statement of Loans in Appendix II-2. At December 31, 2002, loans made to or guaranteed by Haiti with an outstanding balance of \$435,625,000 were on nonaccrual status, pursuant to the policy described in Note B. If these loans had not been on nonaccrual status, income from loans for 2002 would have been higher by \$11,454,000.

The average maturity for loans outstanding at December 31, 2002 and 2001 was 13.45 years and 13.52 years, respectively, and the average interest rate was 1.75% and 1.74%, respectively.

Note F – Contribution Quotas Authorized and Subscribed

Non-negotiable, non-interest bearing demand obligations have been or will be accepted in lieu of the immediate payment of all or any part of a member's contribution quotas. The payment of contribution quotas is conditional on the members' budgetary and, in some cases, legislative processes. The Canadian contribution quota is being increased by collections of principal, interest and service charges on loans extended from the Canadian Trust Fund administered by the Bank. For a Statement of Contribution Quotas at December 31, 2002 and 2001, see Appendix II-3.

Voting power

The number of votes and percent of voting power of the Ordinary Capital for each member country form the basis of decision making concerning the operations of the FSO.

Changes for the period

The following table summarizes the changes in contribution

quotas authorized and subscribed for the years ended December 31, 2002 and 2001 (in thousands):

	Contribution quotas authorized and subscribed
Balance at January 1, 2001	\$9,559,010
Contribution by Canada—	
Trust Fund collections	828
Contribution by Switzerland—	
Additional contribution from terminated trust fund	321
Translation adjustment of contributions approved in 1983, 1990 and 1995 due to exchange rate fluctuations	(79,713)
Other	(133)
Balance at December 31, 2001	9,480,313
Contribution by Canada—	
Trust Fund collections	739
Contribution by Switzerland—	
Additional contribution from terminated trust fund	310
Translation adjustment of contributions approved in 1983, 1990 and 1995 due to exchange rate fluctuations	104,220
Withdrawal of Bosnia and Herzegovina	(1,818)
Balance at December 31, 2002	<u>\$9,583,764</u>

As of December 31, 2002, the cumulative decrease in the United States dollar equivalents of contribution quotas because of exchange rate fluctuations was \$196,497,000 (2001—\$300,717,000).

The composition of the receivable from members as of December 31, 2002 and 2001 is as follows (in thousands):

	2002	2001
Regional developing members	\$1,020,880	\$1,033,258
Canada	—	2,508
Non-regional members	176,122	247,644
Unallocated	54,400	81,600
Total	<u>\$1,251,402</u>	<u>\$1,365,010</u>

In 2001, the FSO reclassified \$55,379,000 from cash to receivable from members—amounts required to maintain the value of currency holdings relating to its regional developing members.

On July 31, 1995, the Board of Governors of the Bank approved the Eighth General Increase in the Resources of the Bank which provided for an increase in the authorized contribution quotas for the FSO of approximately \$1,000,000,000. Encash-

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

ments of contributions under this increase are due annually through 2005. Under the increase, up to \$136,000,000 of unallocated special contributions to the FSO are to be paid by contributions from members. Any unpaid portion is to be paid to the FSO by periodic transfers from the net income of the Ordinary Capital, consistent with prudent financial management, between January 1, 2000 and December 31, 2004. As of December 31, 2002, no such contributions had been paid by members. Accordingly, the Bank has transferred \$27,200,000, representing one fifth of the unallocated special contributions, from the net income of the Ordinary Capital to the FSO in each of the years 2000 through 2002. In accordance with the Agreement, these transfers are credited to the total contribution quotas of each member in the FSO in proportion to the number of Ordinary Capital shares held by each member. At December 31, 2002, unallocated special contributions not covered by net income transfers from the Ordinary Capital amounted to \$54,400,000 (2001—\$81,600,000).

Membership

On April 21, 1993, the Bank's Board of Executive Directors decided that the Socialist Federal Republic of Yugoslavia (SFRY) had ceased to be a member of the Bank and that the Republic of Bosnia and Herzegovina, the Republic of Croatia, the former Yugoslav Republic of Macedonia, the Republic of Slovenia and the Federal Republic of Yugoslavia (Serbia and Montenegro) were authorized to succeed to the SFRY's membership. Accordingly, the contribution quotas representing SFRY's membership in the FSO of the Bank were classified as unallocated until each successor republic succeeded to the membership of the SFRY. Subsequently, the Republics of Croatia and Slovenia became members of the Bank and subscribed to their allocated share of the contribution quotas. The Governments of the former Yugoslav Republic of Macedonia and the Republic of Bosnia and Herzegovina declined the offer to succeed to the membership of the SFRY in the Bank. Membership of the Federal Republic of Yugoslavia (Serbia and Montenegro) is still pending.

Note G—Maintenance of Value Receivable

At December 31, 2002, amounts required to maintain value of currency holdings, included on the Special Purpose Statement of Assets, Liabilities and Fund Balance as a component of receivable from members, includes \$20,535,000 (2001—\$47,302,000) of amounts due from member countries for maintenance of value adjustments resulting from the changes in the values of currencies in 1972 and 1973 due to the devaluation of the United States dollar in those years and \$224,749,000 (2001—\$227,570,000) relating to reclassifications from cash to receivable from members.

Note H—General Reserve

In accordance with resolutions of the Board of Governors, the excess of income over expenses of the FSO is to be added to the general reserve.

In 2002, the Board of Governors allocated the equivalent of \$70,200,000 (2001—\$54,500,000) in convertible currencies from the general reserve of the FSO to the IFF for the purpose of subsidizing part of the interest and principal for which certain borrowers are liable on loans from the Ordinary Capital. Projected allocations from the general reserve of the FSO to the IFF in accordance with various agreements of the Board of Governors are shown in the following table (in thousands):

Year	Capital increases ⁽¹⁾	HIPC initiative ⁽²⁾	Concessional resources agreement ⁽³⁾	Total
2003	\$ 30,000	\$ 25,200	\$ 20,000	\$ 75,200
2004	30,000	22,600	20,000	72,600
2005	30,000	12,300	20,000	62,300
2006	30,000	11,000	20,000	61,000
2007	30,000	11,000	20,000	61,000
2008 to 2012	120,000	28,000	165,000	313,000
2013 to 2017	—	—	340,000	340,000
2018 to 2019	—	—	130,000	130,000
Total	<u>\$270,000</u>	<u>\$110,100</u>	<u>\$735,000</u>	<u>\$1,115,100</u>

⁽¹⁾ Under the terms of the Sixth and Seventh General Capital Increases in the Resources of the Bank.

⁽²⁾ Transfers to fund additional subsidy payments on Ordinary Capital loans to Bolivia, Guyana and Nicaragua. See Note M for a description of the HIPC Initiative.

⁽³⁾ Mandated allocations under the Concessional resources agreement approved by the Board of Governors in 1999 amount to \$20 million annually from 2000 to 2012 and \$15 million in 2013. Additional transfers of approximately \$65 million annually from 2012 to 2019 will be necessary to fund the 2000–2008 IFF lending mandated under the Concessional resources agreement of 1999. The level of these additional transfers may change as assumptions are revised in future years.

These allocations are subject to annual approvals by the Board of Governors and to adjustment for appropriate reasons related to the availability of funding for the IFF.

The following is a summary of changes in the general reserve for the years ended December 31, 2002 and 2001 (in thousands):

	HIPC Initiative	Income, Other than HIPC	Total General Reserve
Balance at January 1, 2001	\$(177,077)	\$675,422	\$(498,345)
Allocation to IFF	—	(54,500)	(54,500)
HIPC debt relief	(540,828)	—	(540,828)
Income, excluding HIPC	—	101,107	101,107
Balance at December 31, 2001	(717,905)	722,029	4,124
Allocation to IFF	(15,700)	(54,500)	(70,200)
HIPC debt relief	(37,494)	—	(37,494)
Income, excluding HIPC	—	49,966	49,966
Balance at December 31, 2002	<u>\$(771,099)</u>	<u>\$717,495</u>	<u>\$(53,604)</u>

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

Note I – Accumulated Translation Adjustments

The following is a summary of changes in the accumulated translation adjustments for the years ended December 31, 2002 and 2001 (in thousands):

	Assets and liabilities	Contribution quotas authorized and subscribed	Total
Balance at January 1, 2001	\$(231,562)	\$221,004	\$(10,558)
Translation adjustments	(64,086)	79,713	15,627
Balance at December 31, 2001	(295,648)	300,717	5,069
Translation adjustments	88,892	(104,220)	(15,328)
Balance at December 31, 2002	<u>\$(206,756)</u>	<u>\$196,497</u>	<u>\$(10,259)</u>

Note J – Administrative Expenses

Pursuant to the policy described in Note B, the FSO shares in all of the expenses incurred by the Bank in the Ordinary Capital including those related to the pension and postretirement benefit plans. During 2002, the Bank's Postretirement Benefit Plan had benefit income of \$15,571,000 while during 2001 the Bank's Staff Retirement Plan and the Postretirement Benefit Plan had benefit income aggregating \$37,497,000. The FSO's share of such income, which is included in other income, amounted to \$3,027,000 (2001—\$7,200,000).

Note K – Undisbursed Technical Cooperation Projects and Other Financings

The following is a summary of changes in undisbursed technical cooperation projects and other financings for the years ended December 31, 2002 and 2001 (in thousands):

	2002	2001
Balance at January 1,	\$132,023	\$155,782
Approvals	35,930	39,412
Cancellations	(3,434)	(9,814)
Disbursements	(45,891)	(53,357)
Balance at December 31,	<u>\$118,628</u>	<u>\$132,023</u>

Note L – Reconciliation of Excess of Income over Expenses (Expenses over Income) to Net Cash Provided by Operating Activities

A reconciliation of excess of income over expenses (expenses over income) to net cash provided by operating activities, as shown in

the Special Purpose Statement of Cash Flows, is as follows (in thousands):

	Years ended December 31,	
	2002	2001
Excess of income over expenses (expenses over income)	\$ 12,472	\$(439,721)
Difference between amounts accrued and amounts paid or collected for:		
Loan income	348	(17,875)
Income from investments	(114)	2,566
Net unrealized loss (gain) on investments	482	(301)
Administrative expenses	8,205	(1,799)
Technical cooperation and other financings	(13,394)	(23,875)
HIPC debt relief	37,494	540,828
Net cash provided by operating activities	<u>\$ 45,493</u>	<u>\$ (59,823)</u>

Supplemental disclosure of noncash activities

Increase (decrease) resulting from exchange rate fluctuations:		
Loans outstanding	\$ 54,586	\$ (14,843)
Receivable from members	17,798	(23,063)
Contribution quotas authorized and subscribed	104,220	(79,713)

Note M – Heavily Indebted Poor Countries (HIPC) Initiative

The Bank is participating in the HIPC Initiative, a concerted, international initiative endorsed by the Group of Seven Countries (G-7), the World Bank and the International Monetary Fund for addressing the debt problems of a group of countries identified as heavily indebted poor countries to ensure that reform efforts of these countries will not be put at risk by continued high external debt burdens. Under the HIPC Initiative, all bilateral and multilateral creditors are providing debt relief for countries that demonstrate good policy performance over an extended period in order to bring their debt service burdens to sustainable levels.

For the Bank, HIPC debt relief comprises HIPC I of 1998 and the enhanced HIPC Initiative approved in 2001. Eligible member countries are Bolivia, Guyana, Honduras and Nicaragua and debt relief is expected to total a net present value of approximately \$1.1 billion, to be delivered from 1998 through 2019. This debt relief is being implemented through a combination of

FUND FOR SPECIAL OPERATIONS
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NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

write-offs of FSO loans, transfers from the FSO general reserve to the IFF, conversion of Bank-held FSO local currencies to convertible currencies, and grants of member countries through the World Bank HIPC Trust Fund.

As part of HIPC I, in 1998 the FSO charged off loans to Bolivia and Guyana in the amount of \$177.1 million. In addition, the FSO will transfer the equivalent of \$138 million in convertible currencies during the period 1998 to 2010 from its general reserve to the IFF to provide for increased IFF subsidy payments during the period 1998 to 2015 on Ordinary Capital loans. Of this amount \$55,000,000 had already been transferred as of December 31, 2002 (2001—\$44,000,000).

Enhanced HIPC Initiative

As part of the enhanced HIPC, the FSO will deliver debt service relief by forgiving a portion of an eligible country's FSO debt service obligations as they become due. Additional debt service relief to be delivered from 2001 to 2008 will be funded by amounts received from the World Bank HIPC Trust Fund which, including any investment income thereon, are kept separately from the resources of the FSO in the HIPC Account to be used solely for the specific purpose of meeting debt service obligations of eligible countries with the FSO. These resources are not included in the financial statements and do not affect the operations of the FSO.

Under the enhanced HIPC, decision point is reached once the country has established an adequate policy track record. The completion point is achieved once the country has demonstrated

continued strong policy performance. During the period between decision point and completion point, referred to as the interim period, partial debt relief, not to exceed one-third of the total relief amount, may be granted to a country. Such interim debt relief is revocable and is contingent upon the country making satisfactory progress towards a strong policy performance. Once a country reaches completion point, the debt relief to the country becomes irrevocable.

Because of its revocable nature, interim debt relief is recognized only when actual relief is delivered to the country. Once the Board of Executive Directors determines that a country has reached completion point, the remaining nominal value of the principal component of the total debt relief to be provided from the FSO resources to the country is recorded as a reduction in loans in the Special Purpose Statement of Assets, Liabilities and Fund Balance and as HIPC debt relief in the Special Purpose Statement of Changes in General Reserve. The interest and other charges component of debt relief to be provided from the FSO resources, if any, is recognized as HIPC debt relief in the period the debt relief is delivered.

During 2002, the Board of Executive Directors determined that Guyana had reached decision point. In 2001, the Board of Executive Directors determined that Bolivia had reached completion point and that Honduras and Nicaragua had reached decision point. As a result of these determinations, the FSO recognized as HIPC debt relief a total amount of \$37,494,000 and \$540,828,000 during 2002 and 2001, respectively, following the accounting policy described above.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-1

SUMMARY STATEMENT OF INVESTMENTS – NOTE D

December 31, 2002 and 2001

Expressed in thousands of United States dollars

Investments	2002		2001	
	Cost	Market value	Cost	Market value
Obligations of governments and agencies	\$ 18,440	\$ 18,437	\$ 99,606	\$ 99,830
Bank obligations and time deposits	404,947	404,966	337,029	337,029
Corporate Securities	50,000	49,833	—	—
Asset- and mortgage-backed securities	660,699	660,683	604,724	604,820
	<u>\$1,134,086</u>	<u>\$1,133,919</u>	<u>\$1,041,359</u>	<u>\$1,041,679</u>

The freely convertible currencies of the above investments are as follows:

Currencies	2002	2001
British pounds sterling	\$ 58,144	\$ 43,647
Canadian dollars	10,027	—
Euro	31,557	1,868
Japanese yen	—	37,936
Swedish kronor	1,316	3,352
Swiss francs	5,049	1,013
United States dollars	1,027,826	953,863
	<u>\$1,133,919</u>	<u>\$1,041,679</u>

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-2

SUMMARY STATEMENT OF LOANS – NOTE E

December 31, 2002 and 2001

Expressed in thousands of United States dollars

Member in whose territory loans have been made	Loans approved, less cancellations	Principal collected ⁽¹⁾	HIPC debt relief	Undisbursed	Outstanding 2002	Currency in which outstanding portion of approved loans is collectible		Outstanding 2001
						Freely convertible currencies	Other currencies	
Argentina	\$ 644,904	\$ 481,617	\$ —	\$ 11,307	\$ 151,980	\$ 61	\$ 151,919	\$ 167,478
Barbados	40,797	22,710	—	—	18,087	17,921	166	18,700
Bolivia	1,911,287	304,950	612,852 ⁽²⁾	490,539	502,946	448,774	54,172	402,061
Brazil	1,558,305	1,134,592	—	27,244	396,469	1,642	394,827	423,494
Chile	202,991	196,558	—	—	6,433	2,669	3,764	8,553
Colombia	754,845	534,382	—	16,344	204,119	61,659	142,460	222,910
Costa Rica	347,161	234,715	—	—	112,446	103,391	9,055	124,002
Dominican Republic	705,117	291,896	—	—	413,221	390,688	22,533	422,762
Ecuador	929,833	337,291	—	2,418	590,124	528,760	61,364	605,838
El Salvador	739,833	219,870	—	834	519,129	493,737	25,392	536,216
Guatemala	617,168	233,614	—	2,528	381,026	326,093	54,933	384,869
Guyana	700,843	48,477	81,465	236,356	334,545	332,941	1,604	314,545
Haiti	740,736	104,588	—	200,523	435,625	420,508	15,117	427,049
Honduras	1,683,751	265,725	21,194	409,831	987,001	940,195	46,806	950,002
Jamaica	161,656	99,243	—	—	62,413	52,317	10,096	67,749
Mexico	558,986	528,537	—	—	30,449	—	30,449	34,216
Nicaragua	1,657,091	170,635	15,303	501,897	969,256	936,642	32,614	874,738
Panama	280,891	208,644	—	—	72,247	63,179	9,068	82,007
Paraguay	577,794	233,260	—	—	344,534	314,195	30,339	351,988
Peru	419,075	322,428	—	—	96,647	45,864	50,783	106,932
Suriname	2,036	591	—	—	1,445	—	1,445	1,544
Trinidad and Tobago	30,607	20,110	—	—	10,497	131	10,366	11,408
Uruguay	103,934	73,292	—	—	30,642	15,516	15,126	33,663
Venezuela	101,393	101,393	—	—	—	—	—	—
Regional	221,285	142,246	—	20,000	59,039	54,791	4,248	64,111
Total 2002	<u>\$15,692,319</u>	<u>\$6,311,364</u>	<u>\$730,814</u>	<u>\$1,919,821</u>	<u>\$6,730,320</u>	<u>\$5,551,674</u>	<u>\$1,178,646</u>	
Total 2001	<u>\$15,245,916</u>	<u>\$6,060,346</u>	<u>\$704,763</u>	<u>\$1,843,972</u>		<u>\$5,393,832</u>	<u>\$1,243,003</u>	<u>\$6,636,835</u>

⁽¹⁾ Includes full principal repayment of loans previously sold.⁽²⁾ Includes \$489,168 of debt relief to be delivered in future years.

The freely convertible currency in which the outstanding portion of approved loans is collectible are as follows:

Currencies	2002	2001
British pounds sterling	\$ 99,612	\$ 100,689
Canadian dollars	373,686	378,408
Danish kroner	28,615	26,815
Euro	757,771	720,449
Japanese yen	218,243	203,301
Norwegian kroner	24,062	23,030
Swedish kronor	43,096	40,056
Swiss francs	47,731	45,756
United States dollars	4,422,324	4,333,333
Venezuelan bolivars	25,702	27,587
	<u>6,040,842</u>	<u>5,899,424</u>
Less: HIPC debt relief not delivered yet ⁽¹⁾	<u>489,168</u>	<u>505,592</u>
	<u>\$5,551,674</u>	<u>\$5,393,832</u>

⁽¹⁾ Represents the principal component of loans recognized as HIPC debt relief in the Special Purpose Statement of Changes in General Reserve, and as a reduction of loans outstanding in the Special Purpose Statement of Assets, Liabilities and Fund Balance for which debt service relief has not yet been delivered and, accordingly, the related currency of the debt service to be forgiven has not been determined.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-3

STATEMENT OF CONTRIBUTION QUOTAS – NOTE F

December 31, 2002 and 2001

Expressed in thousands of United States dollars

Members	Contribution quotas authorized and subscribed				
	Subject to maintenance of value		Not subject to maintenance of value	Total 2002	Total 2001
	Before adjustments	Adjustments ⁽¹⁾			
Argentina	\$ 402,819	\$ 29,491	\$ 61,479	\$ 493,789	\$ 486,094
Austria	10,955	—	7,545	18,500	17,312
Bahamas	8,800	—	1,640	10,440	10,383
Barbados	1,403	42	306	1,751	1,716
Belgium	27,098	—	15,499	42,597	40,156
Belize	—	—	7,502	7,502	7,472
Bolivia	32,535	9,671	5,987	48,193	47,958
Brazil	402,819	62,220	73,522	538,561	535,635
Canada	220,530	12,577	58,948	292,055	289,572
Chile	111,440	24,019	20,603	156,062	155,259
Colombia	111,385	20,077	20,603	152,065	151,262
Costa Rica	16,215	3,954	2,960	23,129	23,012
Croatia	3,121	—	2,277	5,398	5,064
Denmark	11,692	—	8,026	19,718	18,454
Dominican Republic	21,721	7,854	4,013	33,588	33,431
Ecuador	21,721	4,246	4,011	29,978	29,821
El Salvador	16,215	1,979	2,960	21,154	21,036
Finland	10,955	—	7,228	18,183	17,352
France	133,396	—	85,196	218,592	205,161
Germany	136,692	—	95,626	232,318	226,856
Guatemala	21,721	6,790	4,011	32,522	32,366
Guyana	6,980	—	1,264	8,244	8,201
Haiti	16,215	2,359	2,961	21,535	21,417
Honduras	16,215	7,116	2,960	26,291	26,174
Israel	10,794	—	7,443	18,237	17,813
Italy	133,396	—	75,249	208,645	196,749
Jamaica	21,721	2,737	4,012	28,470	28,313
Japan	148,825	—	421,923	570,748	531,661
Mexico	259,249	15,041	50,964	325,254	323,373
Netherlands	20,261	—	15,899	36,160	33,656
Nicaragua	16,215	4,758	2,952	23,925	23,808
Norway	11,692	—	8,156	19,848	18,467
Panama	16,215	5,946	2,960	25,121	25,004
Paraguay	16,215	8,504	2,960	27,679	27,562
Peru	54,492	14,340	10,135	78,967	78,575
Portugal	4,994	—	2,313	7,307	7,041
Slovenia	1,795	—	1,483	3,278	3,206
Spain	133,396	—	73,951	207,347	195,652
Suriname	5,280	—	939	6,219	6,195
Sweden	23,729	—	13,440	37,169	34,805
Switzerland	37,035	—	25,544	62,579	57,893
Trinidad and Tobago	16,215	1,532	2,960	20,707	20,590
United Kingdom	133,396	—	40,779	174,175	170,095
United States	4,100,000	243,666	479,112	4,822,778	4,814,697
Uruguay	43,502	3,714	8,030	55,246	54,930
Venezuela	250,060	12,109	50,025	312,194	310,539
Total before unallocated amount	7,221,120	504,742	1,798,356	9,524,218	9,391,788
Unallocated (see Note F)	4,001	3	55,542	59,546	88,525
Total 2002	<u>\$7,225,121</u>	<u>\$504,745</u>	<u>\$1,853,898</u>	<u>\$9,583,764</u>	
Total 2001	<u>\$7,225,518</u>	<u>\$504,745</u>	<u>\$1,750,050</u>		<u>\$9,480,313</u>

⁽¹⁾ Represent maintenance of value adjustments resulting from the changes in the values of currencies in 1972 and 1973 due to the devaluation of the United States dollar in those years.

INTERMEDIATE FINANCING FACILITY ACCOUNT

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited the accompanying balance sheet of the Inter-American Development Bank (Bank)—Intermediate Financing Facility Account as of December 31, 2002, and the related statement of changes in fund balance for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Inter-American Development Bank—Intermediate Financing Facility Account as of December 31, 2001, were audited by other auditors who have ceased operations and whose report dated February 13, 2002, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank—Intermediate Financing Facility Account as of December 31, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Washington, D.C.
February 12, 2003

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in thousands of United States dollars

	December 31,	
	2002	2001
ASSETS		
Cash and investments		
Cash	\$ 1,719	\$ 5,664
Investments	<u>244,650</u>	<u>237,704</u>
	\$246,369	\$243,368
Accrued interest on investments	19	40
Total assets	<u>\$246,388</u>	<u>\$243,408</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable and accrued expenses	\$ 896	\$ 3,720
Fund balance		
Accumulated translation adjustments	\$ 37,488	\$ 26,855
Other changes in fund balance	<u>208,004</u>	<u>212,833</u>
	245,492	239,688
Total liabilities and fund balance	<u>\$246,388</u>	<u>\$243,408</u>

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in thousands of United States dollars

	Years ended December 31,	
	2002	2001
Additions		
Allocations from Fund for Special Operations	\$ 70,200	\$ 54,500
Income from investments	<u>4,413</u>	<u>8,872</u>
Total additions	74,613	63,372
Deductions		
Interest and principal paid on behalf of Ordinary Capital borrowers	<u>79,442</u>	<u>74,571</u>
Decrease for the year	(4,829)	(11,199)
Translation adjustments	<u>10,633</u>	<u>(8,032)</u>
Increase (decrease) for the year, after translation adjustments	5,804	(19,231)
Fund balance, beginning of year	239,688	258,919
Fund balance, end of year	<u>\$245,492</u>	<u>\$239,688</u>

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

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. The principal purpose of the Bank is to promote economic and social development in Latin America and the Caribbean, primarily by providing loans and related technical assistance for specific projects and for programs of economic reform. The Agreement Establishing the Bank (Agreement) provides for operations of the Bank to be conducted through the Fund for Special Operations (FSO) and the Ordinary Capital. In 1983, the Board of Governors of the Bank established the Intermediate Financing Facility Account (IFF) for the purpose of subsidizing part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital. The IFF receives annual allocations from the FSO, as indicated in Note D.

In making decisions concerning operations of the IFF, the number of votes and percent of voting power for each member country are the same as determined for the Ordinary Capital.

Note B – Summary of Significant Accounting Policies

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

Translation of currencies

The IFF's financial statements are expressed in United States dollars; however, the IFF conducts its operations in various convertible currencies, including the United States dollar. Assets and liabilities denominated in currencies other than the United States dollar are translated at approximate market rates of exchange prevailing at the dates of the financial statements. Income and expenses in such currencies are translated at the approximate market rates of exchange prevailing during each month. The adjustments resulting from the translation of assets and liabilities are shown in the Statement of Changes in Fund Balance as translation adjustments.

Investments

All of the IFF's investment securities are in the trading portfolio carried at market value, with realized and unrealized gains and losses included in income from investments in the Statement of Changes in Fund Balance.

Administrative expenses

Administrative expenses of the IFF are paid by the Ordinary Capital and are allocated between the Ordinary Capital and the FSO pursuant to an allocation method approved by the Board of Executive Directors.

Fair values of financial instruments

The following methods and assumptions were used by the IFF in estimating the fair value for its financial instruments:

Cash: The carrying amount reported in the Balance Sheet for cash approximates fair value.

Investments: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Note C – Investments

As part of its overall portfolio management strategy, the Bank invests IFF resources, both directly and indirectly through an investment pool managed by the Bank, in high quality securities. The Bank manages these resources in the same manner as its own investments. IFF investments include government, agency, bank and corporate obligations, time deposits and asset- and mortgage-backed securities with credit ratings ranging from A+ to AAA.

The Bank limits IFF activities of investing in securities to a list of authorized dealers and counterparties. Strict credit limits have been established for each counterparty.

Trading portfolio: Investment securities held in the trading portfolio are carried at market value as shown in the Summary Statement of Investments in Appendix III-1. Net unrealized gains on trading securities, held at December 31, 2002, of \$8,291,000 (2001—\$5,563,000) were included in income from investments. The average return on investments during 2002 and 2001, including realized and unrealized gains and losses, was 1.70% and 3.38%, respectively.

Note D – Fund Contributions

The IFF is funded primarily through transfers from the FSO. The IFF is also authorized to receive additional contributions from any member country.

For initial funding purposes, the equivalent of \$61,000,000 in convertible currencies of the general reserve of the FSO was transferred to the IFF on December 15, 1983. Actual and projected allocations from the general reserve of the FSO to the IFF

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001

in accordance with various agreements of the Board of Governors are shown in the following table (in thousands):

Year	Capital increases ⁽¹⁾	HIPC initiative ⁽²⁾	Concessional resources agreement ⁽³⁾	Total
Through 2000	\$348,500	\$ 33,000	\$ 32,000	\$ 413,500
2001	23,500	11,000	20,000	54,500
2002	23,500	26,700	20,000	70,200
2003	30,000	25,200	20,000	75,200
2004	30,000	22,600	20,000	72,600
2005	30,000	12,300	20,000	62,300
2006	30,000	11,000	20,000	61,000
2007	30,000	11,000	20,000	61,000
2008 to 2012	120,000	28,000	165,000	313,000
2013 to 2017	—	—	340,000	340,000
2018 to 2019	—	—	130,000	130,000
Total	<u>\$665,500</u>	<u>\$180,800</u>	<u>\$807,000</u>	<u>\$1,653,300</u>

⁽¹⁾ Under the terms of the Sixth and Seventh General Capital Increases in the Resources of the Bank.

⁽²⁾ As part of the Heavily Indebted Poor Countries Initiative (HIPC), the IFF is increasing subsidy payments on Ordinary Capital loans to Bolivia, Guyana and Nicaragua. In order to fund these additional subsidy payments, the FSO is making additional annual transfers in convertible currencies from its general reserve to the IFF.

⁽³⁾ Mandated allocations under the Concessional resources agreement approved by the Board of Governors in 1999 amount to \$20 million annually from 2000 to 2012 and \$15 million in 2013. Additional transfers of approximately \$65 million annually from 2012 to 2019 will be necessary to fund the 2000–2008 IFF lending mandated under the Concessional resources agreement of 1999. The level of these additional transfers may change as assumptions are revised in future years.

Future allocations are subject to annual approvals by the Board of Governors and to adjustment for appropriate reasons related to the availability of funding for the IFF.

Note E – Accumulated Translation Adjustments

The following is a summary of changes in the accumulated translation adjustments for the years ended December 31, 2002 and 2001 (in thousands):

	2002	2001
Balance at January 1	\$26,855	\$34,887
Translation adjustments	10,633	(8,032)
Balance at December 31,	<u>\$37,488</u>	<u>\$26,855</u>

Note F – Commitments

The payment by the IFF of part of the interest due from borrowers is contingent on the availability of resources. At December 31, 2002, the amounts disbursed and outstanding and undisbursed, classified by country, under loans on which the IFF would pay part of the interest are as follows (in thousands):

Country	Disbursed and outstanding	Undisbursed
Bahamas	\$ 19,369	\$ —
Barbados	54,666	6,241
Bolivia	264,824	—
Costa Rica	128,383	13,353
Dominican Republic	182,124	201,474
Ecuador	215,357	167,871
El Salvador	246,292	81,964
Guatemala	265,489	109,877
Guyana	22,375	—
Honduras	3,258	—
Jamaica	250,613	154,510
Nicaragua	115,285	—
Panama	114,312	—
Paraguay	141,125	51,862
Suriname	26,077	39,310
Trinidad and Tobago	120,255	7,939
Uruguay	96,272	—
Regional	47,616	—
	<u>\$2,313,692</u>	<u>\$834,401</u>

The rate of IFF subsidy of interest due from certain borrowers on Ordinary Capital loans is set twice annually by the Board of Executive Directors. The amount of subsidy of the lending rate of IFF subsidized loans can be no more than 5% of eligible loans outstanding, subject to the effective rate paid by the borrowers being at least 1.5% above the convertible currency FSO average interest rate. For certain loans with increased subsidy under the HIPC I, the effective rate paid by the borrowers can be as low as the convertible currency FSO average interest rate. Under the enhanced HIPC, the IFF will subsidize 100% of certain debt service payments (both principal and interest) on Ordinary Capital loans to Nicaragua. Over time, the IFF intends to distribute all of its fund balance to subsidize part of the interest and principal payments for which certain Ordinary Capital borrowers are liable.

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX III-1

SUMMARY STATEMENT OF INVESTMENTS – NOTE C

December 31, 2002 and 2001

Expressed in thousands of United States dollars

	2002		2001	
	Cost	Market value	Cost	Market value
Investments				
Investment Pool	\$169,983	\$178,274	\$146,434	\$151,997
Obligations of governments	—	—	40,212	40,212
Time deposits	66,376	66,376	45,495	45,495
	<u>\$236,359</u>	<u>\$244,650</u>	<u>\$232,141</u>	<u>\$237,704</u>

The freely convertible currencies of the above investments are as follows:

Currencies	2002	2001
Euro	\$ 22,738	\$ 27,588
Japanese yen	31,219	40,212
Swiss francs	12,419	17,907
United States dollars	178,274	151,997
	<u>\$244,650</u>	<u>\$237,704</u>

GOVERNORS AND ALTERNATE GOVERNORS

Country	Governor	Alternate Governor
ARGENTINA	Roberto Lavagna	
AUSTRIA	Karl-Heinz Grasser	Thomas Wieser
BAHAMAS	James H. Smith, CBE	Ruth Millar
BARBADOS	Reginald R. Farley, MP	Grantley Smith
BELGIUM	Didier Reynders	Frans Godts
BELIZE	Ralph Fonseca	Meliton J. Auil
BOLIVIA	José Guillermo Justiniano Sandoval	Javier Comboni Salinas
BRAZIL		
CANADA	Bill Graham	Bruce Montador
CHILE	Nicolás Eyzaguirre	María Eugenia Wagner Brizzi
COLOMBIA	Roberto Junguito Bonnet	Santiago Montenegro Trujillo
COSTA RICA	Jorge Walter Bolaños	Francisco de Paula Gutiérrez
CROATIA	Mato Crkvenac	Josip Kulisic
DENMARK	Carsten Staur	Ove Ullerup
DOMINICAN REPUBLIC	Francisco M. Guerrero Prats-R.	Luis Manuel Piantini Munnigh
ECUADOR	Francisco Arosemena Robles	Alonso Pérez Kakabadse
EL SALVADOR	Juan José Daboub	Luz María Serpas de Portillo
FINLAND	Pertti Majanen	Matti Kääriäinen
FRANCE	Francis Mer	Jean-Pierre Jouyet
GERMANY	Uschi Eid	Rolf Wenzel
GUATEMALA	Eduardo H. Weymann Fuentes	Lizardo Sosa
GUYANA	Bharrat Jagdeo	Saisnarine Kowlessar
HAITI	Faubert Gustave	Paul Duret
HONDURAS	Arturo Alvarado	María Elena Mondragón de Villar
ISRAEL	David Klein	Dan Catarivas
ITALY	Giulio Tremonti	Vincenzo Desario
JAMAICA	Omar Davies, MP	Shirley Tyndall
JAPAN	Masajuro Shiokawa	Masaru Hayami
MEXICO	Francisco Gil Díaz	Agustín Carstens Carstens
NETHERLANDS	Hans Hoogervorst	Agnes van Ardenne van der Hoeven
NICARAGUA	Norman José Caldera Cardenal	Eduardo Montealegre Rivas
NORWAY	Olav Kjørven	Age Grutle
PANAMA	Norberto Delgado Durán	Eduardo Antonio Quirós B.
PARAGUAY	Alcides Jiménez Q.	José Ernesto Büttner Limprich
PERU	Javier Silva Ruete	Kurt Burneo Farfán
PORTUGAL	Maria Manuela Dias Ferreira Leite	Miguel Jorge Reis Antunes F.
SLOVENIA	Dusan Mramor	Irena Sodin
SPAIN	Rodrigo de Rato y Figaredo	Juan Costa Climent
SURINAME	Humphrey Stanley Hildenberg	Stanley B. Ramsaran
SWEDEN	Gun Britt Andersson	Stefan Emblad
SWITZERLAND	Oscar Knapp	Peter Bischof
TRINIDAD AND TOBAGO	Keith Rowley	Victoria Méndez-Charles
UNITED KINGDOM	Clare Short, MP	Sally Keeble, MP
UNITED STATES	Paul H. O'Neill	Alan P. Larson
URUGUAY	Ariel Davrieux	Isaac Alfie
VENEZUELA	Tobías Nóbrega Suárez	

As of December 31, 2002

EXECUTIVE DIRECTORS AND ALTERNATE EXECUTIVE DIRECTORS

		Number of votes	Percentage of voting power
Ricardo R. Carciofi, ARGENTINA Martín Bès (Alternate), ARGENTINA	Elected by: Argentina Haiti	936,545	11.185
Luis Guillermo Echeverri, COLOMBIA Jaime Pinto Tabini (Alternate), PERU	Elected by: Colombia Peru	367,878	4.393
José A. Fourquet, UNITED STATES Jorge Luis Arrizurieta (Alternate) UNITED STATES	Appointed by: United States	2,512,664	30.008
Agustín García-López, MEXICO Héctor J. Santos (Alternate) DOMINICAN REPUBLIC	Elected by: Dominican Republic Mexico	627,122	7.489
(Vacant), CANADA Alan F. Gill (Alternate), CANADA	Elected by: Canada	335,022	4.001
Juan E. Notaro, URUGUAY Jorge Crespo-Velasco (Alternate) BOLIVIA	Elected by: Bolivia Paraguay Uruguay	205,291	2.452
Michel Planque, FRANCE Pekka J. Hukka (Alternate), FINLAND	Elected by: Austria Denmark Finland France	400,427	4.783
Germán Quintana, CHILE César Coronel (Alternate), ECUADOR	Elected by: Chile Ecuador	295,653	3.530
José Carlos Quirce, COSTA RICA José Carlos Castañeda (Alternate) GUATEMALA	Elected by: Belize Costa Rica El Salvador	202,692	2.420
Luis Alberto Rodríguez TRINIDAD AND TOBAGO Havelock Brewster (Alternate), GUYANA	Elected by: Bahamas Barbados Guyana	126,574	1.511
José Alejandro Rojas, VENEZUELA Eduardo Linares (Alternate), PANAMA	Elected by: Panama Venezuela	518,658	6.194
Martus Tayares, BRAZIL Frederico Álvares (Alternate), BRAZIL	Elected by: Brazil Suriname	907,766	10.841
Yoshihisa Ueda, JAPAN Toshitake Kurosawa (Alternate), JAPAN	Elected by: Croatia Japan Portugal	510,794	6.101
Michaela Zintl, GERMANY Paolo Cappellacci (Alternate), ITALY	Elected by: Belgium Germany Israel	426,204	5.089
TOTAL:		8,373,290	100.00*

Office of Evaluation and Oversight
Stephen A. Quick, Director
Sixto Felipe Aquino, Deputy Director

As of December 31, 2002

* The figures listed represent the sum of the individual countries' voting percentages, rounded to the nearest one-hundredth of one percent. Consequently, the total of 100% shown may not be identical to the sum of the individual percentages listed.

CHANNELS OF COMMUNICATION AND DEPOSITORIES

Member Country	Channels of Communication	Depository
ARGENTINA	Ministerio de Economía	Banco Central de la República Argentina
AUSTRIA	Federal Ministry of Finance	Österreichische Nationalbank
BAHAMAS	Ministry of Finance	Central Bank of the Bahamas
BARBADOS	Ministry of Economic Development	Central Bank of Barbados
BELGIUM	Administration de la trésorerie, Service des relations internationales	Banque Nationale de Belgique
BELIZE	Financial Secretary, Ministry of Finance	Central Bank of Belize
BOLIVIA	Banco Central de Bolivia	Banco Central de Bolivia
BRAZIL	Ministério do Planejamento, Orçamento e Gestão, Secretaria de Assuntos Internacionais—SEAIN	Banco Central do Brasil
CANADA	International Financial Institution, Multilateral Programs Branch, Canadian International Development Agency	Bank of Canada
CHILE	Ministerio de Hacienda	Banco Central de Chile
COLOMBIA	Ministerio de Hacienda y Crédito Público	Banco de la República
COSTA RICA	Ministerio de Hacienda	Banco Central de Costa Rica
CROATIA	Ministry of Finance	National Bank of Croatia
DENMARK	Danish International Development Agency (DANIDA)	Danmarks Nationalbank
DOMINICAN REPUBLIC	Banco Central de la República Dominicana	Banco Central de la República Dominicana
ECUADOR	Ministerio de Economía y Finanzas	Banco Central del Ecuador
EL SALVADOR	Secretaría Técnica de la Presidencia	Banco Central de Reserva de El Salvador
FINLAND	Ministry for Foreign Affairs	Bank of Finland
FRANCE	Ministère de l'Économie, des Finances et de l'Industrie	Banque de France
GERMANY	Federal Ministry for Economic Cooperation and Development	Deutsche Bundesbank
GUATEMALA	Banco de Guatemala	Banco de Guatemala
GUYANA	Ministry of Finance	Bank of Guyana
HAITI	Banque de la République d'Haïti	Banque de la République d'Haïti
HONDURAS	Banco Central de Honduras	Banco Central de Honduras
ISRAEL	Bank of Israel	Bank of Israel
ITALY	Ministry of the Economy and Finance	Banca d'Italia
JAMAICA	Ministry of Finance and Planning	Bank of Jamaica
JAPAN	Ministry of Finance	Bank of Japan
MEXICO	Secretaría de Hacienda y Crédito Público	Banco de México
NETHERLANDS	Ministry of Finance	De Nederlandsche Bank N.V.
NICARAGUA	Ministerio de Hacienda y Crédito Público	Banco Central de Nicaragua
NORWAY	Royal Norwegian Ministry of Foreign Affairs	Bank of Norway
PANAMA	Ministerio de Economía y Finanzas	Banco Nacional de Panamá
PARAGUAY	Banco Central del Paraguay	Banco Central de Paraguay
PERU	Banco Central de Reserva del Perú	Banco Central de Reserva del Perú
PORTUGAL	Ministério das Finanças	Banco de Portugal
SLOVENIA	Ministry of Finance	Bank of Slovenia
SPAIN	Subdirección General de Instituciones Financieras Multilaterales, Ministerio de Economía	Banco de España
SURINAME	Ministry of Finance	Central Bank van Suriname
SWEDEN	Ministry for Foreign Affairs, Department for International Development Co-operation	Sveriges Riksbank
SWITZERLAND	Office fédéral des affaires économiques extérieures	Banque Nationale Suisse
TRINIDAD AND TOBAGO	Central Bank of Trinidad and Tobago	Central Bank of Trinidad and Tobago
UNITED KINGDOM	Department for International Development	Bank of England
UNITED STATES	Treasury Department	Federal Reserve Bank of New York
URUGUAY	Ministerio de Economía y Finanzas	Banco Central del Uruguay
VENEZUELA	Ministerio de Planificación y Desarrollo	Banco Central de Venezuela

As of December 31, 2002

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As of December 31, 2002

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