Inter-American Development Bank

Annual Report 2004

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Letter of Transmittal

As required under the By-laws of the Inter-American Development Bank, the Board of Executive Directors hereby submits to the Board of Governors the Annual Report of the Bank for 2004. 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 2004.

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—for development in Latin America and the Caribbean; a summary statement of the loans approved in 2004; the financial statements of the Bank; and its general appendices.

Pursuant to 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 in accordance with 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. For the first time, the 2004 Report contains a section entitled "Management's Discussion and Analysis: Ordinary Capital."

February 3, 2005

Cover photo: **HAITI** • A farm worker grafts a commercial variety of mango onto one of the millions of mango trees that grow throughout the country. Within two years the tree will produce export-quality fruit that will increase income for small farmers, create jobs and protect the environment by preventing erosion (photo courtesy ORE World).
Opposite: **BOLIVIA** • This low-income neighborhood outside of La Paz overlooking the snow-capped Andes is being improved under a housing project. Storm drainage and stairways will help prevent mudslides and improve access to transportation and other services for the local population.

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The Annual Report is produced by the IDB Office of External Relations.

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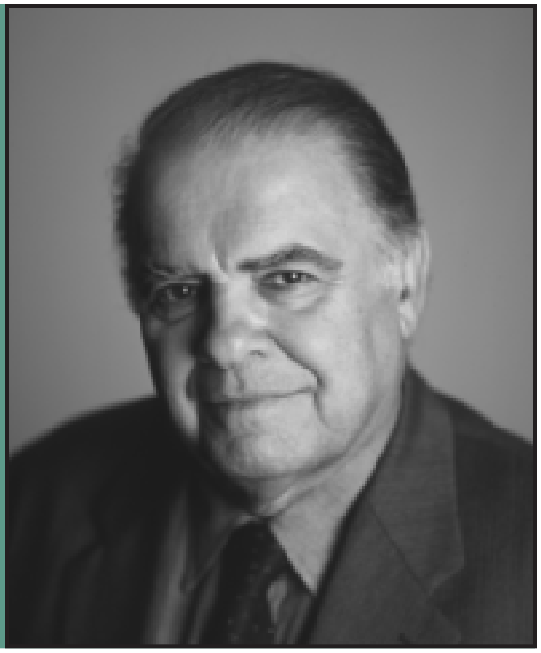
Message from the President



Thanks to various positive developments on both the domestic and international fronts, the borrowing member countries of the Bank grew at an average annual rate of over 5.5 percent, finally breaking out of a period of stagnation that began in 1998. Strong performance by the international economy, the recovery of commodity prices and a striking improvement in the international financial climate, in conjunction with strengthened fiscal policy, moderate inflation and high real exchange rates, all contributed to a good overall economic performance by the Latin American and Caribbean countries.

However, this encouraging picture is not devoid of concerns. Poverty and unemployment are still at intolerable levels, fiscal balances need further strengthening, debt remains high and international economic prospects are somewhat uncertain. Questions have rightly been raised, in particular about whether the demand for raw materials and the performance of the countries driving the recent growth can be sustained.

People in the region have been showing signs of increasing impatience with the slow improvement in social conditions. In certain cases, there have been virtual stalemates in the political systems. Fortunately, though, these have not jeopardized the widespread commitment to representative democracy in the region.

New trends and demands in governance have emerged in Latin America and the Caribbean, involving a general reassessment of the role of the State and of public policy and institutions, greater regard for the quality of social spending and renewed attention to investment in infrastructure and rural areas. These have been accompanied by a call for greater transparency, firm support for trade liberalization and general endorsement of regional investment plans, and a greater role being assigned to the private sector as the engine of growth and a partner with the public sector. The region is also aware that it is lagging behind in science and technology.

The Bank remained the primary source of multilateral financing for Latin America and the Caribbean in 2004, providing more resources to the region as a whole than the World Bank. New IDB loan and guarantee approvals totaled $6 billion during the year and disbursements $4.2 billion. The Bank also took steps to strengthen its corporate governance, modernize its activities and better respond to new demands from potential borrowers.

As mandated by its Governors, the Bank again focused on programs designed to enhance social equity and reduce poverty, with over half the volume of lending for poverty-targeted investments. Special attention was paid to the smaller, less developed countries, and operations were planned according to the four pillars of the Bank's institutional strategy–social development, modernization of the state, competitiveness and regional integration. In particular, the IDB was a linchpin in the international community's commitment to help Haiti and its people confront a period of crisis.

During the year, the Bank approved 340 grants totaling $56.7 million for technical cooperation projects. In addition, the Multilateral Investment Fund (MIF), an independent fund administered by the Bank that is the largest source of technical assistance financing for private sector development in the region, approved another 82 grants and investments totaling $116 million.

Natural disasters occurred in several countries during the year, leading the Bank to review its policies for providing relief and resulting in an increase in the ceiling for resources that can be provided in response to emergencies on a case-by-case basis.

The Bank embarked on a number of important and innovative institutional changes. For example, the proposed new framework for lending instruments, a new policy on expenditures eligible under IDB loans and approval of sector-wide approaches (SWAps) to lending will enhance the development impact of Bank operations. The Bank also approved its first performance-driven loan, for Nicaragua. In 2004, the Board of Executive Directors approved a proposal to allow the Bank to grant local currency guarantees to public sector entities. The Bank also issued its first bonds in Latin American currencies to support a portion of its borrowings in the international capital markets that help finance the IDB lending program.

During the year, the Board of Governors approved the admission of the Republic of Korea as the 47th member country of the Bank and its second member country from Asia, alongside Japan. Korea's prospective membership in the IDB confirms both parties' mutual interest in expanding ties between Asia and Latin America and the Caribbean.

The IDB faces formidable but inspiring challenges ahead. In particular, it will have to operate more flexibly and effectively in providing both financial and nonfinancial services, improving the efficiency and transparency of its activities and responding to the specific needs of each borrowing country.

Enrique V. Iglesias
President
Inter-American Development Bank

Board of Executive Directors

Board members and constituencies: [from left, seated] ***Agustín García-López*** (Dominican Republic and Mexico), ***José Carlos Castañeda*** (Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua), ***Yoshihisa Ueda*** (Croatia, Japan, Portugal, Slovenia and United Kingdom), ***Jorge Crespo Velasco*** (Bolivia, Paraguay and Uruguay), ***Eugenio Díaz-Bonilla*** (Argentina and Haiti), ***Giorgio Lecessi*** (Belgium, Germany, Israel, Italy, Netherlands and Switzerland), ***Charles Bassett*** (Canada), ***Héctor Morales*** (United States)
[From left, standing] ***Havelock Brewster*** (Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago), ***Sandra Midence*** (Alternate for Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua), ***Germán Quintana*** (Chile and Ecuador), ***Juan Notaro*** (Alternate for Bolivia, Paraguay and Uruguay), ***Marta Blanco*** (Alternate for Austria, Denmark, Finland, France, Norway, Spain and Sweden), ***Jaime Pinto*** (Alternate for Colombia and Peru), ***Martín Bès*** (Alternate for Argentina and Haiti), ***Michel Planque*** (Austria, Denmark, Finland, France, Norway, Spain and Sweden), ***Stewart Mills*** (Alternate for Croatia, Japan, Portugal, Slovenia and United Kingdom), ***Rogério Studart*** (Brazil and Suriname), ***Jill Johnson*** (Alternate for Canada), ***Luis Guillermo Echeverri*** (Colombia and Peru), ***Byron Solís*** (Alternate for Chile and Ecuador), ***Roberto B. Saladín*** (Alternate for Dominican Republic and Mexico), ***Arlindo Villaschi*** (Alternate for Brazil and Suriname), ***Jerry Butler*** (Alternate for Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago), ***Adina Bastidas*** (Panama and Venezuela), ***Ina-Marlene Ruthenberg*** (Alternate for Belgium, Germany, Israel, Italy, Netherlands and Switzerland)

The IDB shareholders—its 46 member countries—are represented by the Board of Governors, the highest decision-making authority of the Bank. The Governors delegate many of their powers to the Board of Executive Directors, whose 14 members they elect or appoint for three-year terms. Executive Directors for the United States and Canada represent their own countries; all others represent groups of countries. The Board of Executive Directors also includes 14 Alternates, who have full power to act when their principals are absent.

The Board of Executive Directors is responsible for day-to-day oversight of the Bank's operations. It establishes the institution's policies, approves projects, sets interest rates for Bank loans, authorizes borrowings in the capital markets and approves the institution's administrative budget. The work of the Board of Executive Directors is guided by the Regulations of the Board of Executive Directors and the Code of Ethics for Executive Directors.

The agendas and minutes of the Board of Executive Directors' meetings are public documents, as is the Board's annual work program with its quarterly updates.

ARGENTINA (above) • A container ship unloads its cargo at Madryn port, which was expanded to handle a higher volume of refrigerated fish.
JAMAICA (right) • A schoolgirl enjoys lunch at the Spanish Town Infant School. Through a social safety net reform program, the government is providing free lunches to poor children who attend school regularly and get periodic medical checkups.

Latin America and the Caribbean in 2004

Summary

Two thousand four marked a year of vigorous recovery for Latin America and the Caribbean following the long period of stagnation that began in 1998. The international climate was favorable in 2004, thanks to robust world growth, a recovery in commodity prices and a significant improvement in the international financial risk environment compared with the situation prevailing up to 2002. Correction of external deficits, decreases in real exchange rates, moderate levels of inflation and the strengthening of fiscal accounts were the main factors behind the improved economic performance, and were common to most countries.

As a result of this confluence of favorable external and internal factors, economic growth climbed from –0.5 percent in 2002 to 1.9 percent in 2003 and approximately 5.5 percent in 2004. However, a number of vulnerabilities remain, despite the strong recovery. Although fiscal positions have been strengthened, public debt levels remain high in many countries and pose a risk to stability. A number of risks persist in the financial systems of some countries as well, due to partial dollarization and the weight of government securities on their balance sheets. Most countries continue to report low levels of investment, yet there appears to have been little policy action to improve the investment climate and the quality of economic regulation. In the social domain, unemployment rates have eased very little despite the recovery, and in most countries disenchantment with current economic policies and their social consequences remains the order of the day.

Given these vulnerabilities, deterioration in the international scenario over the short term would cause

MEXICO (left) • A local industry association in Jalisco is providing training and technical assistance to improve the productivity of small metal working firms.
BOLIVIA (below) • A customs clerk expedites clearance of imports using a new computer system installed under a project for customs reform and modernization.

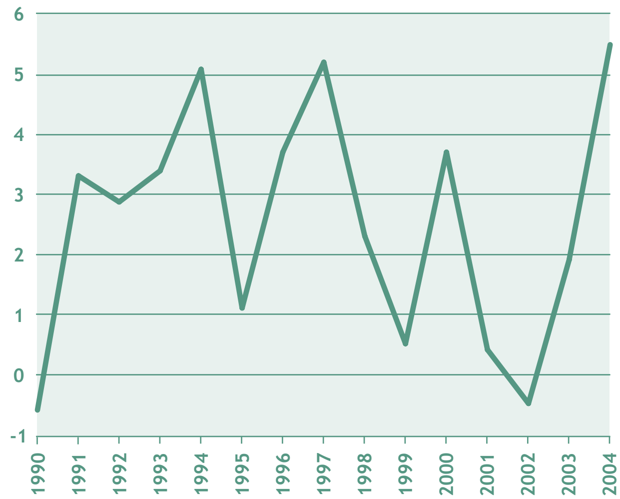
a variety of difficulties for Latin American and Caribbean economies. Rising foreign interest rates could push up debt service costs significantly and restrict the availability of financing for highly indebted countries. If the dollar continues to depreciate on international markets, the ensuing pressure on real exchange rates in the region will erode export growth. Slower growth in China may depress commodity prices as well. The current vulnerabilities also limit the capacity of economies to respond to potential disruptions in the region, such as natural disasters or disturbances in local financial markets.

For these reasons, governments should redouble their efforts to strengthen public finances, improve public debt maturities and currency structure profiles, reinforce the independence of central banks, and expand prudential regulation of the financial system. The hesitancy on the part of some governments to undertake structural reforms over the last few years suggests the need to concentrate efforts on the institutional front in order to combat corruption and strengthen compliance with the law. In the social domain, the main challenges continue to involve targeting social spending to protect and support the poor, while improving the coverage and efficiency of basic social services in education and health care.

International Scenario

Following several years of global economic instability, external conditions for Latin American and Caribbean economies were very favorable in 2004. Worldwide economic growth rose approximately two points above the rates registered since 2000. The world economy grew 4.2 percent in terms of market exchange rates, while it expanded by 5.1 percent when measured according to international purchasing power parity, which gives greater weight to China and the rest of the developing world. Of particular importance to Latin America and the Caribbean was the fact that the United States shook off its recession, thanks to the combination of low interest rates maintained by the Federal Reserve and a highly expansionary fiscal policy. As a result, the growth rate in the United States climbed from 0.5 percent in 2001 to approximately 4.4 percent in 2004. Japan and the euro zone also per-

Economic Growth
(Annual percentage change in real GDP)



Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004.*

formed better in 2004 than in any of the three preceding years, while the rest of Asia maintained growth at 7 percent, driven particularly by China, which continued to grow at a rate of more than 9 percent.

The robust pace of world growth triggered a sharp recovery in commodity prices, which peaked in April 2004 but have since slipped somewhat. In dollar terms, the prices of a representative basket of commodities in December 2004 were still 36 percent higher than their 2001 low (although they were close to 2001 levels when measured in euros). Price increases have been particularly sharp in the case of oil, which in October surged past $50 per barrel and later settled above $40, roughly double the price three years ago. In addition to the global economic recovery, high oil prices have reflected fears of supply cutbacks by Saudi Arabia and Nigeria, in a climate of low inventories and little available surplus capacity worldwide.

As a result of the increase in commodity prices, the terms of trade for the region as a whole in 2004 reached its highest point since at least 1990. The strong increases particularly benefited Argentina, Bolivia, Chile, Colombia and Venezuela, where the terms of trade rose more than 10 percent in comparison with 2002, when the upward trend first began.

The international financial climate was also very favorable in 2004. Capital market risk conditions that had been highly adverse in recent years in the United States and other industrial countries began to improve in October 2002. In 2004, the spread on U.S. high-yield corporate bonds (with respect to Treasury securities) fell below the levels that had prevailed before the corporate scandals of 2002, reaching levels similar to those seen before the 1998 Russian crisis.

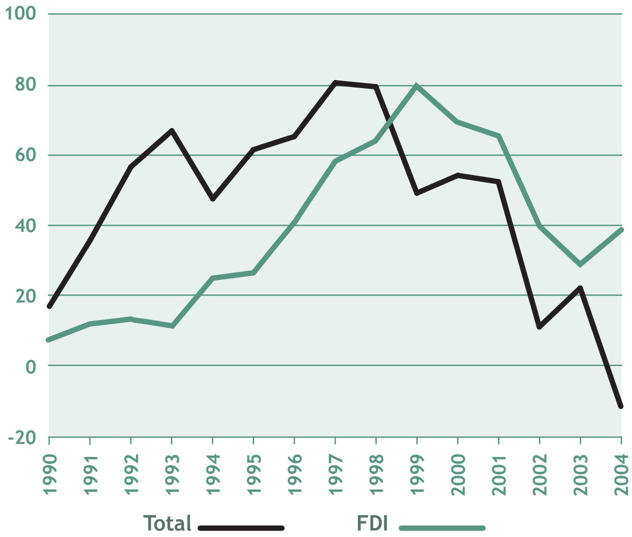
This environment of financial confidence expanded to emerging country bond markets, including those of Latin America and the Caribbean. With the exception of a brief period in April and May, spreads on Latin American debt in 2004 remained substantially below their average levels for the two previous years, reaching historic lows by year-end.

Favorable global financial conditions enabled nearly all governments in the region to place debt issues on the international markets. Through October, the most active countries were Mexico and Brazil, each of which placed nearly $9.5 billion (including private issues); Venezuela with $2 billion; and Chile, Colombia and Jamaica with nearly $1 billion each. The average nominal yield for Latin American sovereign bonds was 6.2 percent, while the nominal yield for corporate bonds was 5.9 percent, just under those of other emerging markets.

Paradoxically, however, this climate of confidence was not reflected in a return of capital to the region in 2004. Capital inflows appeared to bottom out in the last quarter of 2002, when they dropped to less than one-tenth of their pre–Russian crisis peak. Although they recovered somewhat in 2003, figures from the United Nations Economic Commission on Latin America and the Caribbean (ECLAC) suggest that there was an estimated net outflow of capital in 2004 of $12.5 billion. Not even during the most critical moments of the 1980s debt crisis did the region experience net capital outflows, because the withdrawal of private capital was offset by loans from multilateral organizations and other exceptional financing mechanisms.

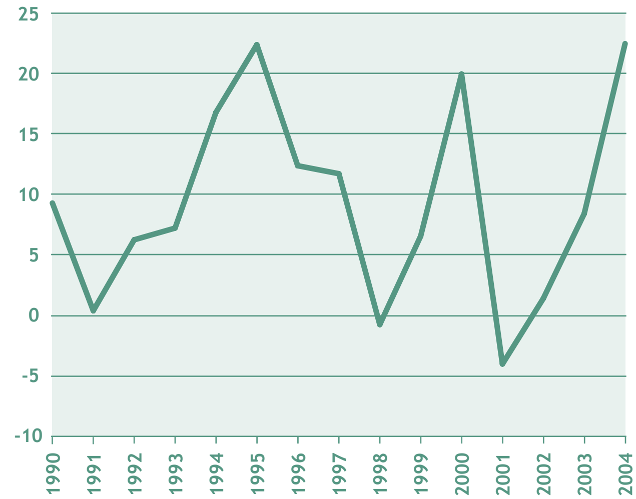
The net capital outflows in 2004 were due in part to the lower net inflow of funds from international financial organizations, which fell below $7 billion from a peak of $24.7 billion in 2002. This was because various countries, during the past year, had partially repaid the emergency funding they had received during the recession years. Patterns in private financing also contributed to the net capital outflow. Although less private capital fled Argentina and other countries hurt by this phenomenon during the height of the recession years, indirect estimates suggest that private capital flight from some countries rose in 2004.

Capital Flows
(In billions of U.S. dollars)



Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004.*

Exports
(Annual percentage change)



Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribean, 2004.*

Although the capital account showed a negative balance overall, it is important to emphasize that net inflows of foreign direct investment experienced a significant recovery. After plummeting from their 1999 peak of $79.3 billion to only $28.5 billion in 2003, they rebounded to $37.8 billion in 2004, according to ECLAC estimates. However, only Chile, Mexico, Argentina and Colombia (in descending order) had sizeable increases in foreign investment. Nine countries registered a decrease, with levels in Bolivia, Brazil and Venezuela falling to extreme lows vis-à-vis their trends for the last decade. Even in Argentina, where recovery has been significant, net foreign investment inflows were modest in comparison with pre-2000 levels.

Economic Performance and Macroeconomic Policies

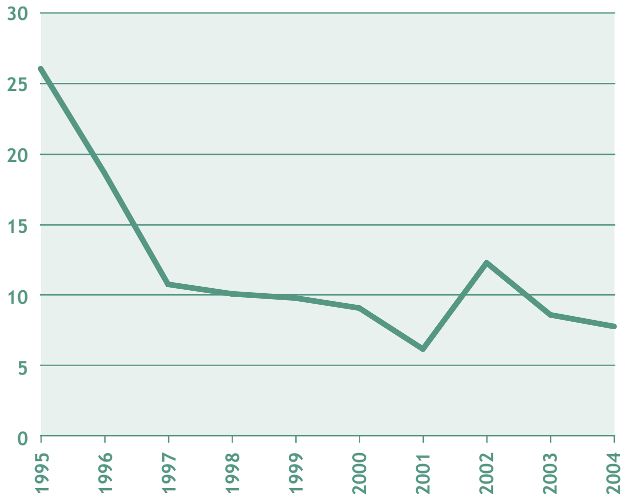
Following five years of very sluggish growth, Latin America and the Caribbean expanded by 5.5 percent in 2004, according to ECLAC estimates. For the second time in 20 years, the region's six largest economies grew more than 3 percent. Argentina, Brazil, Ecuador, Uruguay and Venezuela experienced their best growth rates in 10 years. Only Haiti had negative growth, while nine countries saw their economies expand by more than 5 percent. However, the region's three highest growth rates (18 percent in Venezuela, 12 percent in Uruguay and 8 percent in Argentina) were the result of still incomplete recoveries, given that each of these countries has yet to reach pre-recession levels of GDP. The other countries in which growth topped 5 percent were Brazil, Chile and Ecuador in South America; Panama and Belize in Central America; and Trinidad and Tobago in the Caribbean.

Per capita income grew by 4 percent in 2004, offsetting the cumulative drops during the "lost half-decade" between 1998 and 2003. Current per capita income for the region is already 2 percent higher than in 1998. Nonetheless, it remains below its recent peak in Argentina, Bolivia, Colombia, Haiti, Paraguay, Uruguay and Venezuela.

Exports have been the strongest demand-side factor driving the recovery. Fueled by strong external prices, vigorous growth in world trade and exchange rates that are competitive in real terms, total exports from Latin America and the Caribbean grew by roughly 22 percent in 2004, with particularly impressive increases in Bolivia, Brazil, Chile, Ecuador, Mexico, Peru, Uruguay and Venezuela.

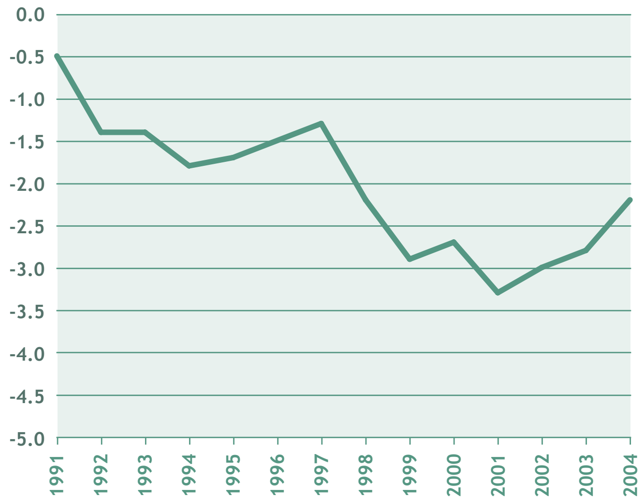
Internal demand has played a much more modest role in growth, although countries that recently experienced sharp recessions are now showing significant recovery in consumption and investment. In fact, investment recovered significant ground in Argentina and Venezuela in 2004, with Uruguay not far behind. Investment also rose strongly in Honduras and Para-

Inflation
(CPI, December-December percentage change)



Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004*.

Fiscal Balance
(Percentage of GDP)



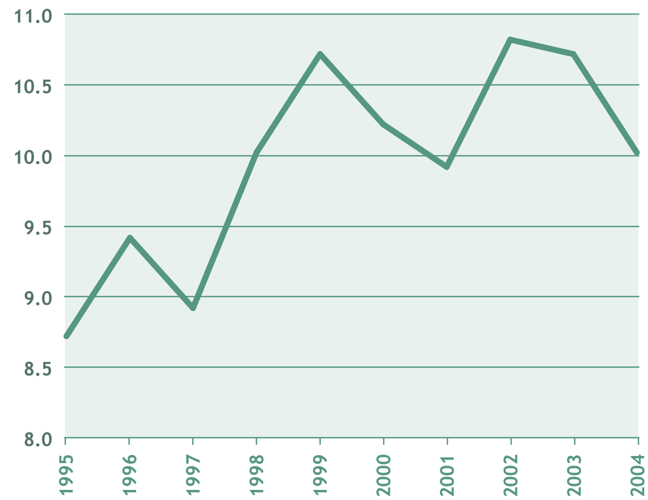
Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004*.

guay, while there was healthy, if less vigorous, growth in Brazil, Chile, Colombia, Guatemala, Mexico, Nicaragua and Peru. However, investments in fixed assets throughout the region barely reached 18.9 percent of GDP, below the 1990s regional average of 19.5 percent, and very low in terms of being able to sustain the region's current growth rate. Investment rates in Uruguay, Venezuela and Bolivia were below 13 percent, the lowest in Latin America. Of the large and medium economies, only Chile and Mexico have investment rates above 20 percent.

The vigorous growth of Latin America's economies in 2004 was not merely the result of favorable international conditions. A set of internal factors made it possible to parlay these conditions into increased exports, as well as boost consumption and private investment. The first of these factors was the reduced need for external financing, since many countries corrected their high current account deficits. The region as a whole posted a current account surplus in 2004 equivalent to 1.1 percent of GDP, buoyed especially by Argentina, Brazil, Chile, the Dominican Republic and Venezuela, with smaller surpluses posted by Bolivia, Ecuador, Haiti and Uruguay. Of the large countries in the region, only Colombia and Mexico had external deficits, and both were modest (1.4 and 1 percent of GDP, respectively). Even though net capital inflows were negative, there is no sign of external financial constraints, which would be reflected in upward pressure on exchange rates or interest rates. This low reliance on external financing is a favorable factor vis-à-vis any future change in the international risk climate.

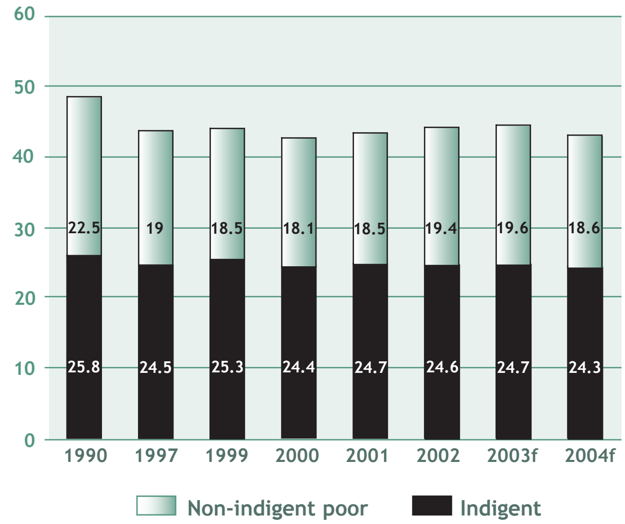
The second internal factor promoting recovery, closely connected to the first one, is the falling level of real exchange rates, which is helping both to boost export performance and to contain the demand for imports. On average, real effective exchange rates for the region as a whole were 30 percent lower in 2004 than between 1992 and 1998, when Latin America and the Caribbean enjoyed healthy access to international financial markets. They were 15 percent above the regional average for 1998 through 2002, which were difficult years for external financing in the region. However, in a number of countries, real exchange rates are currently appreciating from past levels. (For the period 1992–98, listed in descending order, exchange rates appreciated in Honduras, Venezuela, Guatemala, El Salvador, Jamaica, Mexico and Ecuador.) Moreover, all Latin American currencies have been appreciating against the dollar. In the region's seven largest countries, average real exchange rates climbed nearly 60 percent from June 1998 until October 2002. Since then, the trend has reversed, and by September 2004 close to half of the real depreciation gap had been closed. In some countries, depreciation has continued to slow even more sharply. For this reason, depreciation seems to be losing importance rapidly as a factor for recovery, in comparison with

Unemployment
(Percentage)



Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004*.

Poverty
(Percentage of population)



f = forecast
Source: ECLAC, *Social Panorama of Latin America, 2004*.

the dollar's downward slide on international exchange markets.

Flexible exchange rates are currently the most common exchange system in Latin America. Only four countries have fixed or hard-peg exchange rates (Venezuela has fixed-rate parity, while Ecuador, El Salvador and Panama are dollarized). Four small countries use crawling-peg or adjustable-band systems (Bolivia, Costa Rica, Honduras and Nicaragua), while the rest use flexible systems, at least on paper. This means that pressure on real exchange rate appreciation tends to be reflected in nominal exchange rates before prices begin to rise. Of course, these conditions may change if financial authorities decide to contain pressures on appreciation by intervening actively in the exchange markets, thereby boosting international reserves and ultimately creating excess money supply, which could translate into higher prices.

The third internal factor aiding the recovery is the fact that inflation in most countries remains low, despite sharp devaluations between 1998 and 2002. Although inflation rates peaked in several countries in 2002, they have since fallen rapidly, especially in Argentina and Uruguay. Average inflation in the region in 2004 was just 7.7 percent, topping 15 percent only in the Dominican Republic, Haiti and Venezuela, and averaged under 5 percent in 11 countries. The low rates of inflation reflect the credibility gained by independent monetary authorities in nearly all countries in the region, which has enabled significant changes in exchange rates (and other variables) to have modest effects on prices, in contrast to what occurred in the past.

In many countries, monetary policies have gained enough credibility to push real interest rates to levels that only a decade ago would not have been able to restrain inflation. A number of countries (such as Argentina, Brazil, Chile, Colombia, Costa Rica and Peru) capitalized on low international interest rates and low external financing needs in order to reduce domestic rates for 2003 and a good part of 2004. Naturally, this type of monetary policy helped boost aggregate demand and economic activity. By the end of the year, however, monetary authorities in most Latin American and Caribbean countries were clearly beginning to adopt policies that were less accommodating, both in response to rising interest rates in the United States and other developed countries, as well as to signs of rising inflation at home. Mexico was the first to take note of these trends, raising Treasury Certificate rates from 6.6 percent in June 2004 to 8.5 percent in November. Brazil began a series of increases in the Selic rate in September, raising it to 16 percent by May and closing the year at 17.75 percent, while Chile's Monetary Policy Rate climbed from 1.75 percent in August to 2.25 percent by the end of the year. Despite these increases, however, real interest rates in a number of countries remained low during the final

PARAGUAY • This farmer in Guayaibi received a small loan from an intermediary financial institution to expand operations and marketing under a global microenterprise credit program.

months of the year. In fact, real borrowing rates were near or under zero in Argentina, Chile, Honduras and Mexico, and rose above 5 percent only in Brazil, the Dominican Republic, Guatemala and Paraguay.

Although interest rates on lending continue to be high throughout most countries in the region, the relatively relaxed monetary policies in effect during 2004 helped drive a significant expansion of credit in many countries, which was a contributing factor in the economic recovery. Until 2003, lending played a very small role in growth, because banks were still burdened by bad debts, high foreign exchange risk and the uncertainty of a recovery that was still in its very early stages. In fact, the more structural problems underlying some of these risks have not been corrected. However, the financial systems have found relief in low interest rates and increasing exchange rates, which enabled more aggressive lending in the productive sectors. In the region's seven largest countries, which are responsible for 90 percent of GDP, credit expanded by 12 percent in real terms from September 2003 to September 2004. Thus, lending has returned to real levels comparable to those of three years ago, although still 10 percent below the peak reached in early 1999, before local lending markets began to feel the effects of the Russian crisis. According to ECLAC data on sector-specific lending, consumer credit has experienced the highest growth, but lending to the industrial and trade sectors in Brazil, Chile, Colombia, Costa Rica and Mexico has also recovered strongly. Of the countries analyzed, only Peru fell outside this trend.

Finally, strong fiscal accounts in most countries have been an important factor in the recent economic recovery. The average central government fiscal deficit in the Latin American and Caribbean countries fell from 2.9 percent of GDP in 2002 to 2.6 percent in 2003 and 2.2 percent in 2004. Of the 19 countries included in the average, only eight have a deficit above 3 percent of GDP, beginning with Bolivia and followed (in descending order) by Colombia, Panama, Costa Rica, Nicaragua, Honduras, Venezuela and Uruguay. If only the primary accounts are taken into consideration (that is, if interest payments are excluded), the average fiscal balance went from a deficit of 0.3 percent of GDP in 2002 to a surplus of 0.6 percent in 2004. Just seven countries are running a primary deficit: Bolivia, followed (in descending order) by Honduras, Haiti, Nicaragua, Panama, Colombia and El Salvador. Several countries have carved out strong primary fiscal positions while having to make substantial interest payments on government debt.

The strengthening of fiscal accounts in 2004 resulted from recovery-induced higher tax payments and high export prices, particularly for oil. Equally important was the moderate growth in government spending, which, as a percentage of GDP, was lower in most countries.

According to ECLAC estimates for 2004, tax revenues as a percentage of GDP reached their highest level for the region as a whole since at least 1990. The main reasons are the increase in VAT rates, the creation of new taxes (such as export fees in Argentina and banking transaction taxes in various countries) and a number of taxation systems for oil profits. At the same time, current and investment-related expenditures grew more slowly than GDP, breaking the cyclical trend that has characterized fiscal policy in Latin America. A number of countries were able to restrain spending by adopting rules that promoted fiscal responsibility, as well as by improving the institutions responsible for budgeting and by establishing stabilization funds with revenues from oil, copper and other natural resources. The pressure exerted by public debt obligations has also been an important factor in the ability of many countries to develop fiscal discipline.

The strengthening of tax authorities has helped sustain the economic recovery by reducing the need for external and internal financing. Thus, pressures on appreciating real exchange rates have been alleviated, while domestic lending to the private sector has been able to expand under noninflationary conditions. The stronger tax system has boosted confidence, facilitated the work of monetary authorities and helped keep real interest rates low.

While it is still too early to call the region's fiscal hardships a thing of the past–structural vulnerabilities in some areas have not yet been overcome–the trends described above were positive overall. Indeed, though the conventional wisdom would presume otherwise, sound fiscal conditions have not been achieved at the cost of government social spending, because all countries in the region are spending more in this area as a percentage of GDP than at the beginning of the 1990s. Nonetheless, it is true that public investment has been cut back in many countries, and not only in those that successfully opened space for the private sector to make these types of investments.

In summary, the recovery has been sustained in good measure by sound macroeconomic policies that have reduced the need for external financing, kept real exchange rates high, restrained rising prices and strengthened fiscal accounts. However, these successes are not guaranteed, and a number of vulnerabilities still remain.

Trade and Integration

Favorable external conditions have enabled Latin America and the Caribbean to integrate more fully with the rest of the world, as well as paved the way for groups of countries within the region to form closer relationships. Total exports from Latin American and Caribbean countries grew around 22 percent, while imports rose approximately 20 percent. Both rates are substantially higher than those for 2003 (when exports grew 8.6 percent and imports 3.2 percent), and therefore represent a significant increase in the growth rate of trade. As a percentage of GDP, foreign trade climbed to 44 percent. Nonetheless, trends in trade integration have been very different for different groups of countries. Brazil, Uruguay and all the Andean countries (including Chile) had very good export performance, with growth rates above 20 percent in all cases, while exports from the Central American countries with the exception of Panama rose just under 12 percent. Export growth rates from the remaining countries (that is, Panama, Argentina, Paraguay and Mexico) were in the middle range. Imports rose strongly in Argentina, Venezuela, Uruguay and Paraguay, where they climbed by more than 30 percent, recovering from steep cuts in recent years. Rates grew by more than 20 percent in Brazil and Chile, while they rose by approximately 15 percent in the Andean countries (except Venezuela), as well as in Mexico. Growth rates in Central America, along with Haiti and the Dominican Republic, were a more modest 9 percent on average.

Of course, much of the growth in foreign trade was due to rising international prices. ECLAC estimates that half of the increase in exports stemmed from higher prices, which were also responsible for 14 of the 20 percentage points of import growth. For countries whose most important exports are natural resources (such as the Andean countries, Argentina and Paraguay), good export performance was largely the result of factors involving price. In Mexico, the Central American countries and–surprisingly–Uruguay, international prices had a less significant effect.

Trade patterns were also greatly influenced by integration agreements among groups of countries. Exports from Mexico, Central America and the Caribbean were heavily dominated by trends in trade with the United States. Mexico's exports to the United States broke out of a long period of stagnation and grew by 11 percent, while Central American and Caribbean exports increased modestly by just under 5.5 percent, eroded by growing competition from China and the wait for ratification of trade liberalization agreements in the United States. Trade among the Central American Common Market (CACM) countries grew by 15 percent. However, intraregional trade grew more strongly in the other groups, climbing 36 percent in the Andean Community and 34 percent among the

MERCOSUR countries. In both cases, the increases were driven by economic recovery among some group members and by changes in bilateral exchange rates between neighboring countries. According to ECLAC estimates, total Latin American and Caribbean intraregional trade in 2004 accounted for 17 percent of total regional exports, an increase over the 15 and 16 percent of the previous two years. However, this figure is extremely low when compared with the years prior to the crisis that befell intraregional trade in 1999.

Subregional trade negotiations ended up on different paths during 2004. Negotiations toward the **Free Trade Area of the Americas** (FTAA) paused during 2004. Several countries considered the conditions unripe for concluding the negotiations by January 2005 as originally planned. The factors cited as undercutting the prospects for an agreement include the slow progress in the multilateral trade negotiations and the onset of electoral cycles in some of the key countries of the hemisphere. Encouragingly, however, governments have indicated that the FTAA talks may resume in 2005.

The **Andean Community** maintained the goal of a common market by 2005. The countries committed to define a common external tariff, the key building block for the customs union. The members also pursued external trade negotiations on various fronts. Colombia, Peru and Ecuador engaged in intense bilateral free trade negotiations with the United States. The future agreement is expected to enhance the Andean countries' access to the U.S. market and attractiveness for foreign investment, as well as catalyze subregional convergence on the issues that have been more challenging to the group, such as investment and trade in services. In South America, the Community reached the final phase of free trade negotiations with MERCOSUR.

The **Caribbean Community** (CARICOM) advanced in all three areas of its integration process: implementation of the CARICOM Single Market and Economy (CSME), foreign policy coordination and functional cooperation. The creation of the CSME is on track, as Barbados, Jamaica and Trinidad and Tobago have adopted the core measures of the Single Market and the other member states plan to do so by December 2005. Progress was made on removing restrictions on services provision, the right of establishment and the movement of capital and skilled labor. Efforts to make the new Caribbean Court of Justice operational progressed and the Court is expected to be inaugurated in March 2005. Meanwhile, "functional" components of CARICOM focused on the fight against HIV/AIDS and natural disaster management in response to the four major hurricanes that hit the region this year. On the external front, CARICOM (with the exception of the Bahamas and Haiti) signed a free trade agreement with Costa Rica in March. CARICOM and the Dominican Republic subsequently launched bilateral negotiations with the EU for an Economic Partnership Agreement that will contain a reciprocal free trade agreement. The group also continued its active involvement in the FTAA negotiations and the multilateral Doha Development Agenda.

The **Central American Common Market** (CACM) reached a milestone in May by signing a free trade agreement, CAFTA, with the United States. The historic agreement is expected to cement and broaden Central America's long-standing preferential access to the U.S. market, enhance the prospects for foreign investment, and help propel integration within the isthmus. The Dominican Republic joined CAFTA in August. Although CAFTA absorbed much of the member countries' attention in 2004, intra-subregional integration moved forward with the cutting of non-tariff barriers and product-specific exemptions from free trade, and harmonization of customs documentation and phytosanitary norms. Particularly marked strides were made on further dimensions of integration, such as infrastructure projects in the context of the Puebla–Panama Plan.

The **Southern Common Market** (MERCOSUR) undertook initiatives to support the subregional integration process in 2004. The group established a dispute settlement mechanism, and the Presidency for the Commission of Permanent Representatives of MERCOSUR, founded in 2003, worked toward a compromise to address intra-bloc asymmetries. The group reached a trade agreement with the Andean Community and strove to conclude negotiations with the EU, with which a pact is expected to be finalized in 2005. The member states also reached across the Pacific, building increasingly close commercial ties with China.

Labor Conditions and Poverty

Stubbornly high unemployment rates have persisted in Latin America and the Caribbean for the past decade. The regional drop in average unemployment from 10.7 to 10 percent observed in 2004 is the first significant change in this pattern for many years. Unemployment experienced the sharpest reductions in Argentina, Brazil, Uruguay and Venezuela, countries in which greater economic growth led to a genuine rise in the employment rate and a general improvement in labor conditions. Unemployment also declined in Colombia, Costa Rica and El Salvador, but the reason was that fewer people were seeking work in a climate of moderate economic growth, not because employment rates were rising. By contrast, unemployment rates climbed in the Dominican Republic, Ecuador, Honduras, Mexico and Peru even though employment rates rose, because more people were seeking work. Finally, in Chile, the percentage increase in the number of people seeking work was equivalent to the unemployment rate, and the employment rate remained unchanged despite healthy economic growth. The varying behavior of labor supply and demand meant that the strong economic recovery was not directly reflected in the countries' unemployment rates. Nonetheless, the recovery did have a clear effect on employment rates in most countries and in the region as a whole, confirming the close relationship between employment and economic growth.

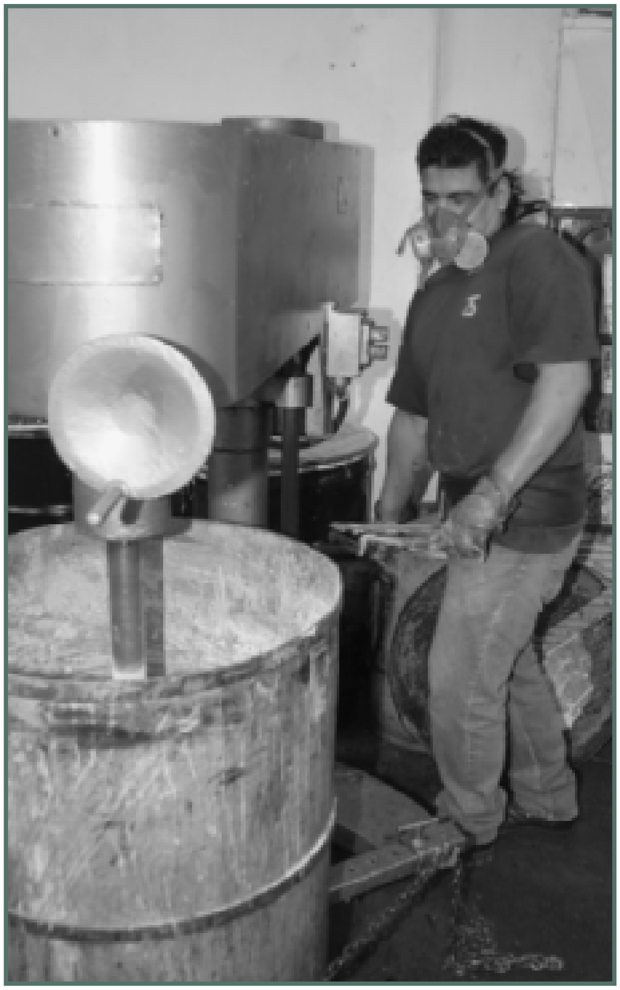
COSTA RICA • The Angostura hydroelectric power plant was built under stage III of the Electric Power Development Program to expand coverage, ensure service quality and conserve energy.

In contrast to employment and unemployment, real wages remained quite stable throughout most of the region, as a result of the surplus labor supply combined with inelastic nominal wages and low inflation. The region's labor markets have been characterized by a loss of flexibility during the past two decades, as inflation has dropped sharply. It is therefore no surprise that Argentina, the Dominican Republic and Venezuela are the only three countries in which real wages changed significantly in 2004. In Argentina, real wages rose 9 percent on average during the year, recovering nearly half of what they lost with respect to 2000 levels. In the other two countries, still-high inflation rates continued to push real wages down. According to ECLAC estimates, the 11 countries that have this information available registered a modest rise in real wages, with a weighted average increase of 0.9 percent and a median hike of 0.2 percent.

Higher employment rates and the modest recovery in income have already had a significant effect on poverty rates. According to ECLAC, the percentage of poor people (those whose per capita income is less than $2 per day) is estimated to have fallen from 44.3 percent in 2003 to 42.9 percent in 2004, while the percentage estimate for the extremely poor population (per capita income of less than $1 per day) declined from 19.6 percent to 18.6 percent during the same period. These improvements in poverty indicators reduced regional figures to levels comparable to those reached in 2001, and very close to the historic lows of 2000. In absolute terms, however, the decline in 2004 was very modest: the total number of poor people in the region is estimated at 222 million, barely 4 million less than in 2003 and 22 million more than in 1990. Moreover, according to ECLAC, most countries have not made enough progress to reach the Millennium Development Goal of halving extreme poverty by 2015.

Outlook and Challenges

It is not clear how long Latin America's current vigorous recovery will last. As 2004 unfolded, independent analysts tended to raise their growth estimates for the



MEXICO • A paint factory in Nuevo León was one of 36 small and medium-sized enterprises to enhance its environmental performance under a project to improve competitiveness.

year as a whole. However, predictions for 2005 and subsequent years suggest that growth will likely weaken, particularly in Argentina, Uruguay and Venezuela, where room for recovery is already beginning to run out. Forecasts for the other countries that performed well in 2004 also tend to be more cautious for 2005, reflecting the uncertainty surrounding the world economic situation and the vulnerabilities still displayed by the region's economies.

The United States and China have been two powerful engines of growth for the world economy and for Latin America and the Caribbean in particular. Paradoxically, however, it is in these two economies that concern for the future of the world economy is concentrated. High fiscal and external deficits in the United States are generating uncertainty regarding the stability of exchange rates between the dollar and other currencies, while also raising doubts about the future financial and investment climate both in the United States and the developed world in general. Fortunately, U.S. economic authorities have already begun to take steps to mitigate these risks, including the gradual increases in interest rates that began in mid-2004.

At the same time, the potential impact of interest rate hikes in the United States on the cost of Latin American debt is uncertain. Thus far, the increases have not had appreciable permanent effects on debt margins, although interest rates in several of the region's countries have begun to reflect them. Still, some studies predict stronger effects going forward and IDB research over the past decade has shown that each percentage-point rise in the Federal Reserve interest rate tends to push up interest rates on Latin American debt by 2.5 percentage points. With public debt levels in many countries at 50 percent of GDP or more, the anticipated interest rate increases in the United States could require very sharp fiscal adjustments that would derail the recovery process. For that reason, the adverse effects could be very substantial.

China also represents an important contributing factor to global uncertainty, given fears regarding the sustainability of its growth model, which is based on expanding investment in fixed assets. The reason for these fears has to do with an accumulation of excess installed capacity in numerous sectors, as well as concern that the large state banks may be building up excessive risk by financing such projects. A sharp slowdown in China would have immediate repercussions on world trade and on commodity prices, which would hit Latin America particularly hard. Any future slowdown could also trigger exchange rate and financial instability around the world, because China's surplus savings are currently one of the main financing sources for U.S. fiscal and external deficits.

High indebtedness by Latin American governments is the main source of vulnerability relative to potential disturbances in the international financial or exchange rate arenas. The current average rate of government indebtedness is 59.3 percent (or 46.6 percent if weighted by the size of the economies), and exceeds 50 percent of GDP in Argentina, Bolivia, Brazil, Colombia, Honduras, Panama and Uruguay. The recent trend toward exchange rate appreciation may be hiding the true scale of the region's fiscal problems, since a high proportion of public debt is denominated in dollars. In fact, average debt ratios declined 5 percentage points in 2004, largely because of their dollar positions. But if the international climate were to turn unfavorable, new devaluations could follow, which would suddenly raise debt ratios and trigger a surge in the effective cost of debt service. This fiscal fragility could also stand in the way of expansionary fiscal policies that governments may wish to adopt in order to counteract disruptions and stabilize economic growth. Governments must therefore continue the sound fiscal policies they exhibited at the beginning of the recovery, maintaining a consistent tax burden, saving some of the extraordinary income from export revenues and curbing the growth of public debt. They must also expand the reforms to fiscal institutions in order to provide support for fiscal discipline, as well as build on the favorable external and internal financial environment in order to improve public debt maturities and currency structure profiles.

In the past two decades, Latin America's financial sectors have undergone a far-reaching process of restructuring and modernization. Financial liberalization, the entry of foreign banks and reduced participation by state-owned banks have made the system considerably more efficient and expanded the supply of credit to some degree. Despite the incipient recovery, however, credit remains scarce, costly and extremely volatile compared with other regions. Moreover, financial liberalization and reform do not appear to have helped resolve the most serious problem facing Latin American banking systems, namely their propensity for crisis. According to the Bank's 2005 Report on Economic and Social Progress in Latin America, entitled *Unlocking Credit: The Quest for Deep and Stable Bank Lending*, Latin America has had more banking crises on average during the last 20 years than any other region in the world. Banking crises not only entail enormous fiscal costs, but also contain a psychological element. The legacies of these crises include mistrust among savers, a fear that debtors cannot or will not pay, and uncertainty over how economic authorities and the courts will react when new problems arise. Crises are even more likely to occur when instability or past macroeconomic difficulties have left high levels of bank-financed public debt and a clear public preference for keeping financial savings in dollars. These circumstances are the main source of vulnerability in the region's banking systems at present, but they are not the only ones. Other aspects of financial system reform that need priority attention are improvement of prudential regulation and supervision, strengthening of creditors' rights and redefining the role of public banks.

HONDURAS • The IDB is contributing to preservation of the Mayan heritage in Honduras, such as these archeological ruins at Copán, and in Belize, Guatemala, El Salvador and southern Mexico through the "Mundo Maya" Sustainable Development Tourism Program.

Of course, the financial system is not the only sector of the economy in which the reforms of the past two decades are not yet complete. Other unresolved challenges include improving regulation of privatized sectors, enhancing conditions for private investment by removing barriers to the startup and operation of businesses and the hiring of workers, increasing transparency and controlling corruption. Economic recovery may diminish the sense of urgency for these reforms, particularly when public opinion is resistant to promarket measures. But some of these reforms are crucial for obtaining the efficiency and welfare gains that were expected from market liberalization and privatizations.

The five years of sluggish growth in Latin America prior to 2004 left a scar on the social climate that the recent recovery has not healed. Though unemployment has fallen, it remains high, and although poverty rates are near the low levels of 2000, the number of poor people has barely declined from its recent peak. Moreover, the incidence of severe poverty continues to be very high in the countries with the lowest per capita income, meaning it will be difficult for them to achieve the goal of halving poverty rates by 2015.

The persistence of poverty does not accurately reflect regional efforts since the early 1990s to increase social spending. Unfortunately, however, social spending is limited in its effectiveness for at least two reasons: social expenditures targeted at the most vulnerable groups tend to be insufficient and cyclical, and numerous programs still lack efficiency in administration and targeting beneficiaries. The recovery so promisingly begun in 2004 must translate quickly into improved standards of living for the most vulnerable segments of the population of Latin America and the Caribbean if the region is going to make sustainable progress in alleviating poverty and improving social equity.

Ten Years of IDB Operations

(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
CAPITAL										
Subscriptions (End of Year)										
Ordinary Capital	66,399	80,895	87,557	94,219	100,881	100,959	100,959	100,951	100,951	100,951
Fund for Special Operations	9,751	9,679	9,572	9,643	9,646	9,559	9,480	9,584	9,735	9,802
Other Funds[1]	2,448	2,498	2,475	2,572	2,634	2,651	2,730	2,772	2,976	3,066
Total	**78,598**	**93,072**	**99,604**	**106,434**	**113,161**	**113,169**	**113,169**	**113,307**	**113,662**	**113,819**
BORROWINGS[2]										
Outstanding (End of Year)	26,338	26,629	27,331	32,511	38,784	41,394	42,186	47,471	50,821	48,886
Gross Annual Borrowings	2,746	4,250	5,569	5,761	8,865	8,139	7,097	9,340	9,109	4,710
OPERATIONS										
Loans and Guarantees Authorized (Cumulative)[3]										
Ordinary Capital[4]	63,512	66,088	68,739	79,742	88,226	89,959	93,518	100,834	110,436	116,799
Fund for Special Operations	13,011	13,363	13,580	14,273	14,663	14,924	15,328	15,774	16,652	17,391
Other Funds	1,636	1,648	1,722	1,735	1,726	1,724	1,719	1,736	1,769	1,747
Total	**78,159**	**81,099**	**84,041**	**95,750**	**104,615**	**106,607**	**110,565**	**118,344**	**128,857**	**135,937**
Loans and Guarantees Authorized (Annual)[5]										
Ordinary Capital[4]	6,437	6,376	5,680	9,364	9,061	4,969	7,411	4,143	6,232	5,468
Fund for Special Operations	795	374	283	686	417	297	443	406	578	552
Other Funds	16	16	85	13	8	-	-	-	-	-
Total	**7,248**	**6,766**	**6,048**	**10,063**	**9,486**	**5,266**	**7,854**	**4,549**	**6,810**	**6,020**
Loan Disbursements (Annual)[5]										
Ordinary Capital[4]	4,255	3,696	4,958	6,085	7,947	6,683	6,037	5,522	8,416	3,768
Fund for Special Operations	541	600	493	535	430	386	422	313	486	463
Other Funds	23	20	17	15	10	-	-	2	-	1
Total	**4,819**	**4,316**	**5,468**	**6,635**	**8,387**	**7,069**	**6,459**	**5,837**	**8,902**	**4,232**
Loan Repayments (Annual)[5]										
Ordinary Capital	2,852	2,287	2,244	1,946	1,988	2,312	1,926	4,106	7,279	5,199
Fund for Special Operations	288	289	285	283	289	289	268	256	296	294
Other Funds	38	36	40	29	29	15	14	13	12	9
Total	**3,178**	**2,612**	**2,569**	**2,258**	**2,306**	**2,616**	**2,208**	**4,375**	**7,587**	**5,502**
Loans Outstanding										
Ordinary Capital	26,581	26,028	27,301	32,635	38,552	41,872	44,951	47,958	50,655	49,842
Fund for Special Operations	6,284	6,547	6,734	6,827	6,955	7,025	6,637	6,763	7,216	7,041
Other Funds	271	241	209	189	164	146	133	118	104	98
Total	**33,136**	**32,816**	**34,244**	**39,651**	**45,671**	**49,043**	**51,721**	**54,839**	**57,975**	**56,981**
Nonreimbursable Technical Cooperation Authorized (Annual)[6]										
Fund for Special Operations	90	87	88	64	47	36	39	36	30	36
Other Funds	25	26	21	53	44	34	46	45	44	30
Total	**115**	**113**	**109**	**117**	**91**	**70**	**85**	**81**	**74**	**66**
Multilateral Investment Fund Operations Authorized (Annual)[7]	75	76	62	127	141	100	90	99	69	116
FINANCIAL HIGHLIGHTS										
Income										
Loans										
Ordinary Capital	1,977	2,012	2,044	2,085	2,582	3,061	3,191	2,639	2,711	2,498
Fund for Special Operations	131	135	135	135	133	137	135	115	153	145
Investments										
Ordinary Capital	654	431	455	520	576	765	541	319	298	288
Fund for Special Operations	49	31	27	27	23	43	41	23	16	21
Net Income										
Ordinary Capital[8]	521	364	415	393	568	846	1,009	727	2,434	862
Fund for Special Operations[9]	84	82	77	95	103	135	129	81	113	104
Reserves (End of Period)										
Ordinary Capital[10]	5,969	6,072	6,307	6,867	7,436	8,103	8,913	9,929	12,772	14,171
Fund for Special Operations[11]	531	628	598	424	445	488	9	(64)	(113)	(608)
ADMINISTRATION										
Administrative Expenses										
Total - All Funds	**333**	**334**	**348**	**341**	**335**	**342**	**355**	**376**	**386**	**404**

[1] Includes the Multilateral Investment Fund.
[2] Medium- and long-term borrowings, before swaps, excluding SFAS 133 hedge basis adjustments beginning in 2001 and net premiums or discounts.
[3] Net of cancellations. Includes currency transaction adjustments.
[4] Net of Private Sector participations.
[5] Based on original amounts in U.S. dollar equivalent.
[6] Includes Small Projects and Social Entrepreneurship Program financing.
[7] Includes technical cooperations, loans and equity investments.
[8] Net income before the effects of Financial Accounting Standard No. 133 effective in 2001 and currency transaction adjustments.
[9] Income before Technical Cooperation expense and HIPC debt relief.
[10] Includes accumulated other comprehensive income.
[11] Includes accumulated transaction adjustments.

HONDURAS (above) • The Puebla-Panama Plan includes initiatives to streamline Customs procedures for passenger and freight traffic at border crossings such as this one between Honduras and Guatemala, promoting integration and competitiveness.
TRINIDAD AND TOBAGO (right) • A hospital is being built in Scarborough at Signal Hill as part of the Health Sector Reform Program, which emphasizes preventive services and strengthens primary care.

Part I: The Bank in 2004

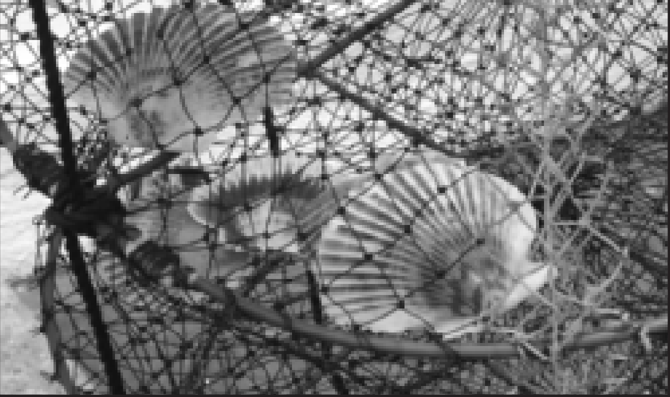
Key Areas

Poverty Reduction and Promotion of Social Equity

Reducing poverty and enhancing social equity are together one of the Bank's two overarching objectives. In 2004, the Bank continued to work towards these goals through four lines of activity: support for national poverty reduction strategies and country poverty papers; loans to finance projects for poverty reduction; activities to create and disseminate knowledge that will improve the design and implementation of poverty reduction policies and programs; and data compilation.

During the year, the IDB provided a total of $82 million in debt relief to Bolivia, Guyana and Nicaragua under the Heavily Indebted Poor Countries (HIPC) Initiative to free up government resources for social programs. Poverty-targeted investments—loans to support poverty reduction programs, social protection systems, human capital accumulation, infrastructure projects, and other activities for low-income groups—totaled $1.55 billion during the period, representing 42 percent of all investment lending.

Projects for implementation of national poverty reduction strategies included loans to Honduras for $30.6 million and $30 million to improve the quality of public social spending, expand coverage of secondary education, and enhance the employability of youths and adults. The Bank also approved a $1 billion loan to Brazil to support its social protection system, and loans for $23 million and $5 million, respectively, to improve the quality, effectiveness, and equity of health services in Guyana and Suriname, with an emphasis on rural areas, where poverty is high.



CHILE (left) • Scallops are harvested for research on aquaculture, one of the strategic areas of the national economy targeted under a technology development and innovation program.
BRAZIL (below) • An instructor teaches anatomy to aspiring nurses' aides at a night class in Recife. Over 100,000 nurses' aides have been trained under the project throughout the country.

In the area of training and education, the Bank granted a $10 million loan to Nicaragua for a primary education program for youths and adults, and an $18 million loan to Peru for a youth training program for disadvantaged youths that links training to concrete labor market needs. Operations to provide basic infrastructure to the poor included a $37 million loan to the Dominican Republic to improve access to housing through microfinance institutions and the provision of basic services in low-income neighborhoods, and a $40 million loan to Jamaica to improve the reliability of water and sanitation services.

Under the Bank-supported Program for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean (MECOVI), technical assistance and training have been provided to 10 countries to improve the quality, timeliness and accessibility of household surveys. Using MECOVI's household survey database, the Bank developed an Equity and Social Indicators Information System that uses a web-based interface to display member countries' progress towards the Millennium Development Goals (MDGs) (see Box 1), assessing inequities across income, ethnic and gender groups since the 1990s.

Bank activities for knowledge creation and dissemination in 2004 sought to improve the quality of policies on poverty reduction and equity enhancement through Bank-sponsored networks. The sixth meeting of the Social Equity Forum examined major institutional challenges for sustainable and equitable social policies. At the seventh meeting of the Regional Policy Dialogue on Poverty and Social Protection Networks, countries exchanged experiences designing and implementing integrated information systems for social management. Other conferences focused on the links between access to financial products and poverty reduction.

See www.iadb.org/ar/pov_en

Sustainable Economic Growth

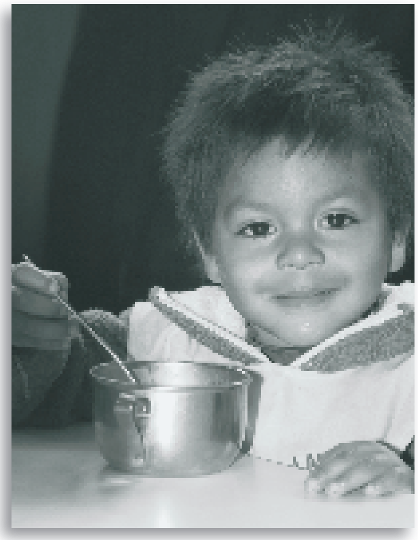
The Strategy for Sustainable Economic Growth, approved by the Board in 2003, refers to the second of the Bank's two overarching objectives and establishes the following priority areas for Bank activity:

Box 1 • The Millennium Development Goals

IDB Support

The Bank approved numerous regular lending operations for MDG-related projects in 2004, including loans supporting national poverty reduction strategies, social development programs, social protection systems, human capital accumulation and infrastructure projects for low-income groups. IDB country strategies, sector strategies and other strategic and programming documents include references to providing assistance for achieving progress towards the MDGs. In addition, the Bank has continued to work closely with the United Nations and other international agencies to help the countries meet the MDGs through technical support, meetings, studies and publications.

Following up on the 2003 International Conference in Brasilia to build consensus in Latin America and the Caribbean on the MDGs, organized jointly by the United Nations Development Programme, the United Nations Economic Commission for Latin America and the Caribbean, the World Bank and the IDB, the Bank published the Brasilia Declaration, which highlights the most pressing needs of the region to meet the goals (www.iadb.org/sds/doc/BrasiliaMDGConference.pdf). The Bank also participated in United Nations conferences, seminars and workshops in the Dominican Republic, Mexico, Trinidad and Tobago and other countries in the region.



The Bank approved a regional technical cooperation project in 2004 for MDG implementation and monitoring. The project, which will receive additional funding from the UNDP, ECLAC and the World Bank, will enhance the institutional capacity of the countries to adapt the MDGs to the specific realities of the region and assess their results and support preparation of MDG progress reports emphasizing best practices. During the year, the Bank also contributed to preparation of country-level MDG progress reports in Brazil, El Salvador and Peru.

The Bank continued to support MDG monitoring under its MECOVI program by providing technical assistance and training to improve the quality, timeliness and accessibility of surveys regarding income, educational attainment and other measures. Additionally, the IDB is developing a socioeconomic database to identify inequalities through MDG indicators in Latin America and the Caribbean (see section on Social Development).

The Bank played a significant role in the UN-led Inter-Agency Groups that are coordinating inputs from international organizations. It was particularly active in the Inter-Agency Group on Race and the Inter-Agency Group in Support of the UN Permanent Forum on Indigenous Issues. The Bank participated in the Poverty and Inequality Group, a forum for sharing lessons learned about the MDGs, sponsored by the Department for International Development of the United Kingdom.

The IDB is also a member of the Regional Inter-Agency Task Force for the Reduction of Maternal Mortality, which in 2004 approved the Inter-Agency Strategic Consensus for Latin America and the Caribbean and pledged to cut maternal deaths in the region by improving essential obstetric care, skilled attendance at birth and access to family planning, among other measures. Dialogues on Reproductive Health took place in Argentina and Chile with Bank support.

Through the Inter-American Dialogue, the Bank contributed to a paper and case studies on the race, ethnicity and inequality aspects of the MDGs in Honduras and Peru. With respect to the MDG for gender equality and women's empowerment, the Bank focused on implementing its Gender Mainstreaming Action Plan (see Box 5) and continued to promote public safety and fight domestic violence. Through PROLEAD, its program for women's leadership, the Bank organized a consultative meeting to set priorities for funding to strengthen the leadership capabilities of indigenous women.

The Bank conducted many activities directly connected to the MDGs for education. For example, it organized meetings with donor countries, particularly Sweden, to examine possible avenues for cooperation. The IDB also collaborated with UNESCO/OREALC in reviewing progress reports on the region and participated in the UNESCO "Education For All" meeting in Brasilia.

Effective deployment of information and communication technologies (ICT) is a critical factor for achieving the MDGs. To this end, the Bank continued to help the countries in Latin America and the Caribbean use ICT as a means of accelerating progress towards the MDGs. For instance, the IDB participated in the United Nations Information and Communication Technology Task Force and organized several international seminars on the role of ICT in achieving the MDGs.

The Bank continued to provide technical support to countries to achieve the MDG of environmental sustainability. For example, it coordinated technical cooperation in Bolivia for regional assessments, an action plan and training and dissemination programs for water and sanitation. The IDB also financed technical studies on the use of economic instruments in water management for the Environment Network under the Regional Policy Dialogue.

The Bank is executing a technical cooperation project to identify opportunities to finance protected natural areas as part of investments that various countries are making to protect forests and biodiversity. It is also providing technical support to the countries for the reduction of carbon dioxide emissions and channeling grants to programs for institutional strengthening and to improve public transportation and clean industrial production, among other areas.

The Bank continued to participate in the Millennium Project, a United Nations initiative to recommend the best strategies for achieving the MDGs, as a member of Task Force One on Poverty and Economic Development and the United Nations Experts Group. It contributed working papers describing the situation in the region, the challenges ahead and the need for the countries to adapt the MDGs to their own circumstances.

Where The Region Stands

If measured by the proportion of girls enrolled in primary and secondary school, gender equality in education—one of the Millennium Development Goals—has already been reached in Latin America and the Caribbean. The region is close to meeting the goal of universal primary education, and is well on the way to achieving three other goals: eliminating hunger (malnutrition levels), reducing child mortality and increasing access to clean drinking water and sanitation.

However, the region is lagging behind in its goal of reducing poverty by 50 percent, one of the greatest MDG challenges. Moreover, there are issues of quality and reliability in the statistics on poverty and other indicators. For instance, sources of more disaggregated regional data on several social indicators show less encouraging projections about the region's progress, implying a need for greater efforts.

Thus, the region faces two great challenges: (i) reducing poverty, which means sustaining higher growth rates while substantially reducing income inequality and social exclusion and (ii) achieving equitable social development, in the absence of which the high levels of inequality and exclusion may prevent large portions of the poor and excluded groups from reaching the targeted levels of well-being.

At several international conferences, the region has been urged to emphasize social development by revising upward the second through seventh MDGs and incorporating equity into individual MDG monitoring. According to the United Nations Millennium Declaration, the region should: (i) establish and monitor goals for equitable social development; and (ii) recalibrate the social development goals, not only revising them upwards, but also supplementing global MDG indicators with measures tailored to the region.

Reporting

The IDB contributed to completed country-level reports, compiled under the leadership of the UNDP, on Argentina, Bolivia, Brazil, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, Panama, Paraguay and Peru, and to 10 others in preparation (Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Trinidad and Tobago, Uruguay and Venezuela). A regional progress report for the Caribbean Community (CARICOM) is complete and another for the Organization of Eastern Caribbean States is being prepared. Reports on thematic areas include completed studies on poverty, education, hunger, children and gender (a pilot report from Peru). The report on ethnicity is nearing completion. Studies containing estimates of the costs of achieving the MDGs have been completed for Nicaragua and Peru.

Millennium Development Goals (MDGs) By 2015:

1 Eradicate extreme poverty and hunger

2 Achieve universal primary education

3 Promote gender equality and empower women

4 Reduce child mortality

5 Improve maternal health

6 Combat HIV/AIDS, malaria and other diseases

7 Ensure environmental sustainability

8 Develop a global partnership for development

See www.iadb.org/ar/mdg

(i) strengthen the institutional foundations for macroeconomic stability; (ii) improve conditions for competitiveness to develop productive activities, with special emphasis on the institutional and economic environment for the strengthening and stability of financial systems and the infrastructure sector; (iii) improve the quality and coverage of education and health to promote human capital and social development; (iv) strengthen public institutions and improve the political climate in the framework of modernization of the state; and (v) promote regional integration and improve the relative position of the countries in the world economy. Activities in these areas pay particular attention to the environment in order to ensure the sustainability of economic growth.

TRINIDAD AND TOBAGO • A baby gets checked at the Couva District Health Facility. The Health Sector Reform Program promotes wellness and provides affordable quality health care in an efficient and equitable manner.

The strategy defines a framework and general principles to guide the various areas of priority action. It is implemented effectively by putting into practice the action plans for each of the priority strategies—competitiveness, modernization of the state, social development, regional integration and the environment.

The strategy is implemented according to national priorities, taking into account the specific circumstances and needs of each country. Consequently, all the IDB country strategies approved in 2004 are based on strategies for sustainable economic growth informed by technical studies conducted by the Bank. The growth strategies place special emphasis on results and therefore include benchmarks and impact assessment methodologies wherever possible.

The Bank recognizes that a strategy for sustainable economic growth is not a detailed action plan, but rather a set of guidelines whose effectiveness depends on knowledge of the causes of and conditions for economic growth in the countries. Accordingly, a considerable portion of Bank research is aimed at understanding the problems of economic growth in the region, proposing solutions and assessing policy outcomes. In 2004, studies on economic growth focused on four particularly relevant issues for the region: the instability of international financial flows, fiscal sustainability, bank lending and public policy-making.

The volatility of international financial flows is the main cause of the region's recent fluctuations in economic growth. Building on studies from previous years, research on this phenomenon in 2004 explored the domestic factors that are vulnerable to sudden stops in international capital flows and how exchange rates, interest rates and domestic financing responded.

The fragile fiscal situation is a recurring concern in many countries in the region. The main causes of fragility include both external factors, such as financial instability and volatility in the terms of trade and domestic factors, such as the currency structure and terms of the public debt, exchange rate fluctuations and the structure and responsiveness of the tax systems. Research in this area in 2004 focused on incorporating these elements into various fiscal projection models to account for unpredictable factors as well as for trends.

The operation of credit markets in Latin America was the topic selected for the Bank's latest Economic and Social Progress Report, entitled *Unlocking Credit: The Quest for Deep and Stable Bank Lending* (see Box 2). In most countries in the region, credit is scarce, costly and volatile. Moreover, Latin American banking systems are more likely to experience crises than banking systems in any other part of the world. The report reviews the macroeconomic and institutional causes of these problems and the impact changes in bank ownership have had on the banking system and the supply of credit. Experiences addressing recent banking crises are discussed and policies prescribed for financial regulation and strengthening of the institutions supporting the financial system. The report also examines two additional challenges for the financial system in recent years: adoption of the new capital adequacy framework (Basel II) and measures to fight money laundering (see Box 3).

The limited capacity of some countries to successfully implement economic, social and institutional reforms is one of the factors behind the region's modest growth rates. There is some consensus that a number of reforms should be undertaken to promote growth, such as instituting policies that contribute to fiscal and financial stability and improve the investment climate. However, the countries' capacity to carry out the reforms is limited by public policy-making and by the institutional capacity of the agencies that must execute the reforms. These are key issues on the Bank's research agenda and will be addressed in the next Economic and Social Progress Report.

See www.iadb.org/ar/ecgrowth_en

PERU • A girl attends preschool in the La Molina neighborhood of Lima. Preschool education coverage was expanded under the Educational Quality Improvement Project.

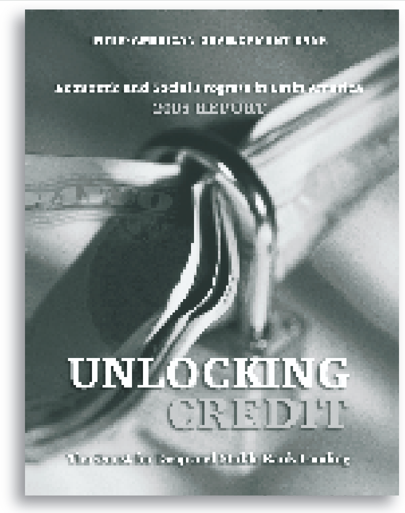
Modernization of the State

The Bank recognizes democratic governance as critical to achieve economic growth and development in the region. Most of the countries in Latin America and the Caribbean have embarked upon ambitious government reforms and the IDB has continued to offer its support through a broad range of activities. These include fiscal reform, reform and decentralization of the state, financial sector reform, public sector reform, the administration of justice and strengthening of legislatures.

In 2004, the Bank approved 24 loans for modernization of the state, totaling $883.9 million. In Guyana, for instance, the Fiscal and Financial Management Program, for which the Bank is providing a $28 million loan, will support a comprehensive government reform for more transparent and efficient fiscal management through training, consulting services, information systems and other activities. Also in Guyana, the Public Management Modernization Program, for which the Bank will provide a $5 million loan, will improve management efficiency, transparency and accountability in public sector institutions and systems, and involves an important effort in consensus-building. In Colombia, the Public Administration Reform Program, for which the IDB granted a $10.3 million loan, will improve the efficiency, transparency and effectiveness of the national government by modernizing management, integrating cross-cutting management systems and improving policy coordination, e-government and service delivery.

The Bank continued to innovate in this area in 2004, approving its first technical cooperation project to combat human trafficking in Paraguay. The project will broaden the national debate on this serious problem, one that particularly affects women and children, and promote its inclusion on the national agenda on human rights, security and justice. It will also help the

Box 2 • Latin American Banking Systems: The 2005 Economic and Social Progress Report



In Latin America, "bank credit remains scarce, costly and extremely volatile." That is the sobering conclusion of an in-depth study of the region's banking systems released by the IDB in 2004. The report, entitled *Unlocking Credit: The Quest for Deep and Stable Bank Lending*, argues that Latin American countries must strengthen and continue to reform their banking systems to achieve higher macroeconomic growth rates, business competitiveness and stability.

Banking systems in Latin America have a disproportionately large financial impact as credit and investment tools because capital markets, such as stock exchanges, are relatively small, leaving investors and entrepreneurs with few alternatives outside the banking system to access funding. "In the context of few alternative sources of financing, the development and stability of the banking sector is crucial for achieving a stable economic path," according to the study, the latest in the IDB's annual series of Economic and Social Progress Reports on the region.

Banking sectors in other developing regions of the world provide much more credit to the private sector than do those in Latin America, according to the study. "During the 1990s, the average level of credit to the private sector in the region was only 28 percent of GDP, a rate significantly lower than that of other groups of developing countries, such as East Asia and the Pacific (72 percent) and the Middle East and North Africa (43 percent)," the report said. Credit to the private sector in East Asia grew from an average of 15 percent of GDP in the 1960s to 70 percent today, while in that same period Latin America's grew from 15 to 28 percent.

To strengthen Latin America's banking systems, the report recommends that countries take steps to reduce their vulnerability to financial crises, improve regulation and supervision, enhance property rights—including creditors' rights and the effective use of collateral for inducing greater lending—and improve the availability of financial information, particularly through credit bureaus and credit registries.

A Stronger Financial Safety Net

In addition to their "shallowness" in terms of support for private-sector activity, Latin America's banking systems are extraordinarily vulnerable to recurrent shocks and crises. "Compared with other regions, Latin America displays the highest average number of crises per country," the study says. "Moreover, when ranking regions by the share of countries that have experienced two or more crises, Latin America comes out first, with 35 percent of its countries having experienced recurrent crises. This share is almost three times higher than any other region."

In addition to macroeconomic policies that will reduce vulnerability to "sudden stops" in international flows and volatile credit and exchange rate cycles, Latin American

government develop the capacity to prevent human trafficking, protect victims, and establish and enforce penalties for traffickers.

In 2004, following a series of public consultations, the Board of Executive Directors approved a Strategy for Promoting Citizen Participation in IDB Activities. The new strategy sets priorities for Bank action and lays the foundation for new operations and technical studies. The Bank is implementing the new strategy through support for a civil society information network, a workshop on strengthening civil society, a toolkit to support Bank staff in implementing the strategy in operations and civil society training programs in Suriname and Guyana.

In the area of fiscal reform, Bank activities included studies on the political economy of tax reforms, training programs on tax policy, customs and tax administration, and a program on international taxation in Central America associated with IDB support for the CAFTA process.

In fiscal decentralization, the Bank is working on state-of-the-art methods of intergovernmental transfers and subnational lending, and regulatory practices in fiscal responsibility. In public sector reform, the IDB has developed approaches to decentralization and reform in key sectors suitable for devolution of responsibilities, such as health, education, transportation and sanitation.

Technical cooperation projects for reform and modernization of the state approved in 2004 totaled nations must also take steps to deal with specific vulnerabilities, such as financial dollarization, and strengthen the regulation and supervision of their banking systems.

The report notes that highly dollarized banking systems, in which banks lend in hard currency for local nontradable investments, together with a high concentration of public debt in the asset structure of banks, were the two leading vulnerabilities of banking systems in Latin America during the 1990s. By transferring exchange rate risks to nontradable sectors, "a sizeable component of banks' assets was vulnerable to real exchange rate fluctuations."

To build a financial safety net, the report suggests a balance of tighter banking supervision and regulation in combination with market discipline by the private sector. "This means that appropriate regulations can enhance the disciplining power of markets, and markets may enhance the disciplining power of supervisors."

Despite many reforms throughout the region during the 1990s, the study found, "it is clear that prudential regulation and supervision are not tight enough, and further reforms are needed in order to improve banking oversight." In an examination of the Basel II international agreement on banking supervision and regulation, however, the study recommended a cautious approach to adopting its principles. It said Basel II "cannot easily be implemented in Latin America and the Caribbean" and so, before implementing the standards, countries should first guarantee "stronger compliance with the basic core principles of supervision and regulation."

Stronger Property Rights

The report argues that Latin America's credit markets, particularly for small businesses, are inhibited by weaknesses in property rights that make it difficult to enforce loan contracts based on collateral, for example. Developed countries have stronger property rights and enforce loan contracts more effectively than Latin America, where laws "tend to favor debtors in the case of disputes, and make it excessively costly for creditors to recover collateral in case of borrower default."

In addition, titling and property registries are "weak and poorly managed, which makes it difficult for creditors to establish the priority and seniority of their claims." An improvement in the region's credit registries and financial information systems can reduce banking costs and lead to more credit, by "allowing creditors to sort good and bad debtors before granting credit."

In a separate chapter, the report also urges Latin American and Caribbean countries to adopt measures to combat money laundering, a problem that has gained urgency because of growing world concern about terrorism and drug trafficking. It says a successful fight against money laundering in the region requires a "comprehensive view," because "some of the structural weaknesses in the region contribute to thriving money laundering activities, and, as long as such weaknesses are not properly dealt with, purely legislative measures may not suffice."

See www.iadb.org/ar/ipes_en

78 for $15.2 million. Through these projects, which are both national and regional in scope, the Bank is addressing such innovative issues as public safety, civil society participation, e-government and decentralization. The projects financed workshops, seminars, research, training sessions, publications and other activities designed to build consensus among all stakeholders.

See www.iadb.org/ar/mod_en

Competitiveness

The Bank's involvement in programs to improve competitiveness in Latin America and the Caribbean is aimed at generating higher-paying jobs and boosting growth rates, thereby driving economic development. Competitiveness has become a priority in the region now that development strategies are focusing on regional integration. Recent experience shows that reducing tariffs and entering into trade agreements are not enough to achieve satisfactory performance in exports and generate the jobs so badly needed in the countries; measures must also be taken to improve competitiveness.

In this context, the Bank has been investigating how its support for competitiveness could be more effective in the region. One area being carefully explored is the array of "microeconomic interventions" the countries have been increasingly undertaking. These activities go beyond conventional approaches, such as macroeconomic stability, infrastructure and education, to include programs to support small and medium-sized

Box 3 • Anti-Money Laundering Initiatives

Throughout 2004, the Bank continued to actively support its borrowing member countries in combating money laundering through national and regional programs. A regional project financed with resources from the Multilateral Investment Fund is currently assisting nine member countries in South America in establishing and strengthening financial intelligence units. A critical component of any anti-money laundering strategy, such units gather information on potential money laundering activities and share it with other countries on a cooperative basis.

The project received additional financing from the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of the American States (OAS). CICAD promotes anti-money laundering policies and helps ensure that international standards and regulations are applied uniformly in OAS member countries.

The Bank has also provided support to the regional financial action task forces in South America and the Caribbean, established under the aegis of the Financial Action Task Force, an international policymaking body that promotes national legislative and regulatory reforms to combat money laundering and terrorist financing.

Through the South American Financial Action Task Force (GAFISUD), for example, a Bank program provided training for the experts that conducted the first round of peer review-style mutual evaluations in the nine countries. The evaluations are core components of the work carried out by the regional financial action task forces. The Bank also cosponsored a workshop with CICAD and GAFISUD on Responsibilities of Legal and Financial Professionals in Preventing Money Laundering.

The Bank is examining various other possible regional projects with CICAD, such as preparation of anti-money laundering Internet training courses that would be made available to officers of commercial banks located in borrowing member countries.

The Caribbean Financial Action Task Force (CFATF), which is made up of 26 countries in the Caribbean Basin, executed a Bank-financed program to train banking supervisors and employees of regulated financial institutions in four member countries in techniques for detecting money laundering. Several national financial sector loans and technical cooperation operations approved by the Bank for countries in Central America, South America and the Caribbean have included a specific anti-money laundering component. The Bank participates in the international dialogue on combating money laundering and terrorist financing. It attends the periodic meetings of the Financial Action Task Force and attends meetings of the CFATF and GAFISUD as an observer.

See www.iadb.org/ar/aml_en

enterprises, attract foreign direct investment, promote exports and develop industry clusters. For instance, in 2004 the Bank approved a $1 billion loan and line of credit to Brazil for a program to support micro, small and medium-sized enterprises that includes financing for investment projects to make firms more competitive.

To supplement its programs for competitiveness in Latin America and the Caribbean, the Bank launched the Business Climate Initiative (see Box 4). Under the initiative, the Bank will help governments, in consultation with the private sector, identify the main obstacles to private investment and formulate action plans to eliminate specific barriers. Issues such as property rights and trade, investment and commercial codes are among those being addressed.

Country-specific plans will provide a framework for Bank support to promote private sector competitiveness through its programs, loans and technical cooperation. The Bank and the governments will agree on the performance indicators to be used to monitor progress toward the goals established under the initiative. In 2004, 16 countries joined the program and are identifying concrete measures to improve their respective business climates. Paraguay was the first country to adopt an action plan.

In another line of action, the Bank continues to provide resources and technical assistance for national competitiveness programs. In several countries, it has also developed IDB strategies for the private sector, with a specific set of activities for all Bank group instruments for a given period. Strategies have been prepared, for example, in El Salvador and Guatemala. To disseminate lessons learned, the Bank prepared a "Toolkit for Practitioners on Competitiveness" on CD-Rom to be used by Bank staff and executing agencies. The toolkit reviews regional experiences in measuring competitiveness, policies and institutions to promote competitiveness and the role of clusters in increasing productivity.

Targeted efforts have also been made in countries transitioning to new administrations. For example, several studies were conducted in El Salvador to better understand the reasons for the country's sluggish growth since 1996. New approaches were developed to increase competitiveness, assigning priority to transformation of the country's agricultural sector, adjustments in the assembly industry that will promote forms of production with greater value added (the "complete package" approach) and diversification. In Uruguay, several studies were conducted to make recommendations for competitiveness, including a new plan to support productivity improvements in selected sectors. A policy discussion paper includes these ideas and others to help sustain the strong growth rates the Uruguayan economy has recently enjoyed.

In addition to formulating strategies, in 2004 the Bank approved 27 loans for a total of $2.1 billion to improve competitiveness in Latin America and the Caribbean. Examples of such operations include projects for technological innovations in agriculture in Brazil, competition and development of the regulatory framework for the provision of infrastructure services in Mexico, management and supervision of the financial sector in Honduras, land titling and a legal framework for real property guarantees in Peru and simplified business registration in Nicaragua. A regional technical cooperation project was approved for improved negotiating capacity for free trade agreements in the CARICOM countries.

During the year the Bank also granted loans and technical cooperation funding for national competitiveness programs in the Dominican Republic, Guatemala, Honduras and Panama. At the regional level, in response to a request by the Mesoamerican presidents at the Business Forum in Managua, Nicaragua, the Bank helped establish the Mesoamerican Competitiveness Council as a forum for public and private sector representatives to exchange ideas on an ongoing basis.

MEXICO • Officials from Pronatura Chiapas, A.C., an environmental cooperative, inspect pine seedlings at a nursery run by their organization with financing from a Small Project to promote sustainable management of natural resources.

Preparation of an information and communication technology (ICT) for development strategy, initiated during 2004, will culminate in the submission of a draft to the Board during the coming year. The strategy builds upon five years of Bank experience and recommendations from the Board of Executive Directors after their review of the Office of Evaluation and Oversight (OVE) report "Information Age Technologies and Development." Beyond this, the strategy promotes ICT deployment as a common denominator for achieving the Millennium Development Goals and as a basis for building regional consensus for the second phase of the World Summit on the Information Society.

ICT projects are concentrated in four strategic areas: sustainable economic growth, human capital, governance and institution building. In 2004, during the first phase of the ICT4BUS grant program, which supports ICT use by small and medium-sized enterprises to achieve productivity gains and improved competitiveness, the Bank allocated a total of $2.3 million to seven initiatives. In addition, an Information and Communication Technology Trust Fund began functioning with funds from the government of Italy,

BOLIVIA • An arbitration center resolves business conflicts in Santa Cruz as part of a program to promote an enabling business climate by ensuring transparency and security in commercial dispute resolution.

supporting eight technical cooperation initiatives in electronic government, including studies and pilot projects, with a total commitment of approximately $2 million.

See www.iadb.org/ar/comp_en

Social Development

Social development is a key element in the Bank's mission to fight poverty and inequality, promote growth and improve well-being in the region. Under its Social Development Strategy, the IDB helps countries in the region to accelerate social progress, especially through education, health and housing, with emphasis on reducing inequities in opportunities based on gender, ethnicity, race and disability.

Education loans approved in 2004 totaled $91 million. They included a project to strengthen secondary education in Honduras ($30.6 million) and another for basic literacy and job skills for young adults in Nicaragua ($10 million). Work on the Millennium Development Goals in education continued (see Box 1), as did regional initiatives on educational assessment and testing. Technical papers were prepared and disseminated on emerging areas, such as education financing and social exclusion in education.

The IDB currently has separate strategies on primary, secondary and tertiary education, which are being consolidated into a single updated strategy. To this end, studies were commissioned on such issues as developing consistent indicators on the state of education throughout the region. Two books were published, one on public-private partnerships in education and the other on education financing in the region.

In 2004 the Bank approved five loans totaling $137 million for the health sectors of Colombia, Ecuador, Guyana, Nicaragua and Suriname. The projects will increase the efficiency of health reforms in terms of service delivery, hospital management and financing of the health sector. The Bank also approved five loans for $553.3 million containing components for protection of health spending and for investment in maternal and child health programs for groups living in extreme poverty. A loan for $13.2 million was approved to strengthen the digital strategy in Chile that will also improve health services for the poor.

The Bank also approved $1.4 million in technical cooperation grants to strengthen the social inclusion of the disabled, increase the responsiveness of HIV/AIDS programs, improve information systems on maternal and child health, conduct studies on ethnic groups and equity in health, and evaluate and disseminate the effectiveness of health programs carried out in Latin America and the Caribbean.

In 2004 the Bank prepared its Health Strategy Profile, which is under public consultation. The final strategy is expected to be approved in 2005.

Bank loans approved in 2004 with a significant gender component totaled $53.6 million. For example, a $28.5 million loan to Bolivia for revitalization and urban development in La Paz includes training for women to boost their income-earning capacity.

During 2004, the Bank focused on implementing its Gender Mainstreaming Action Plan 2003-05 (see Box 5) across the Bank. The plan has helped increase interdepartmental coordination and a sense of shared responsibility for gender mainstreaming Bank-wide.

The Bank also continued to make progress in 2004 in incorporating gender issues into new country strategies and into project design in non-social sectors.

With funding from the Norwegian government, the IDB Program for the Support of Women's Leadership and Representation (PROLEAD) launched a project entitled "Leadership in the Andean Region: Promoting the Role of Indigenous Women," pursuant to the First Summit of Women Indigenous Leaders in Oaxaca, Mexico. The project will strengthen the leadership capabilities of indigenous women in Bolivia, Colombia, Ecuador, Peru and Venezuela.

The External Advisory Council on Women in Development and its chair, Dr. Ruth Cardoso of Brazil, reported to the IDB Board of Executive Directors on the Council's fifteenth meeting, held in Argentina to review gender mainstreaming in project execution. The Council also provided feedback to the Board on a plan for review of the Bank's Gender Policy and preparation of the Long-Term Strategic Outlook for 2005 to 2015 requested by the Board.

During 2004, the Bank moved to a broader definition of social inclusion that will deepen the cross-linkages and synergies between excluded groups in the region, primarily indigenous peoples, Afro-descendants, persons with disabilities, poor women and persons with HIV/AIDS (see Box 6). Internal coordination between specialists working with each of these groups was expanded to better address the cumulative disadvantages and discrimination faced by the groups, with support from the Social Inclusion Trust Fund funded by the governments of Norway and the United Kingdom.

Social inclusion was incorporated into larger sector loans totaling $800 million. These included an anti-poverty loan to Peru ($300 million) that will strengthen the social safety net protecting the poorest of the poor by improving systems for social spending transfers and targeting, education quality, health services and nutrition programs. Two loans to Brazil for mass transit systems in Curitiba and Fortaleza will apply universal design principles for persons with disabilities ($80 million and $85.2 million, respectively). Social inclusion was also incorporated into IDB country strategies (e.g., Barbados, Colombia, Ecuador, and Trinidad and Tobago) and national poverty reduction strategies (e.g., Colombia).

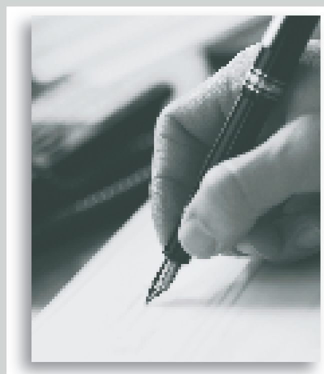
Box 4 • Business Climate Initiative

While the private sector is the principal engine of a country's economic growth, the state provides an enabling environment for enterprises to thrive by ensuring economic stability, essential infrastructure and the necessary institutions to support private sector activity, improve competitiveness and promote a propitious climate for business.

In 2004, the Bank launched its Business Climate Initiative to help sustain private sector growth in Latin America and the Caribbean and to increase the effectiveness of governments in providing goods and services to the public by regulating markets, promoting positive externalities, overcoming or avoiding market failures and building consensus on pro-growth development policies.

By the end of 2004, 16 countries had signed up as participants in the initiative by signing a Memorandum of Understanding with the Bank: the Bahamas, Barbados, Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Paraguay, Peru, Suriname, Trinidad and Tobago, and Uruguay. In almost all of them, diagnostic assessments were undertaken to identify obstacles to business development. The diagnostics will be used to prepare action plans that will constitute the core of the initiative in each country. Paraguay was the first to sign an action plan, followed by five more. By March 2005, all of the countries that have signed up should have agreed on action plans.

The Bank is compiling a catalogue of specialists, consultants and other local and international resources that can be drawn upon to design effective solutions to the specific problems identified in the action plans. The countries can then use the full range of IDB group products, depending on the issue to be resolved. A progress report specifying the obstacles that have been eliminated and those in the process of being eliminated under the initiative is expected to be delivered in 2005.



See www.iadb.org/ar/bci_en

Pursuant to the Institutional Strategy, profiles for the Strategic Framework on Indigenous Development and the Operational Policy on Indigenous Peoples were prepared and public consultations organized. The final documents, expected to be approved in 2005, will strengthen the mainstreaming of indigenous issues within the Bank (see Box 7).

CHILE • A program for technology development and innovation included microbiological studies in support of the country's important fisheries industry.

During the year, the Bank approved several projects promoting sustainable development practices among indigenous communities. For example, the regional program for Integrated Ecosystem Management in Indigenous Communities, to be financed by a $5 million grant from the Global Environment Facility (GEF), with parallel GEF grant cofinancing from the World Bank, will strengthen sustainable development and biodiversity management on indigenous lands in the Central American Biological Corridor.

Other community-based initiatives to strengthen the capacity of indigenous groups to manage their own development include the sustainable development program for the Sixaola River Binational Watershed in Costa Rica and Panama and the Northern Corridor Highway Program in Bolivia, under which benefits will be targeted for Aymara and Aymara-speaking Afro-descendant communities. And in Ecuador, a coastal resource management project incorporates Afro-descendants into programs involving conservation, sustainable use, and management of natural resources.

See www.iadb.org/ar/socdev_en

The Bank's Inter-American Institute for Social Development (INDES) functions as a training center for the design and management of public policy and national programs. In 2004, it continued working to strengthen institutions responsible for social policies and programs in the region, specifically by improving the performance of managers through national and regional social management training. During the year, INDES trained over 450 professionals in regional-level courses and 1,500 in national-level courses. Participants came from a wide range of government agencies, nongovernmental organizations, universities, training centers and civil society organizations. INDES also continued its line of publications, producing three books, five case studies and three working papers.

See www.iadb.org/ar/indes_en

Integration

The Bank strengthened and expanded its support for regional integration and cooperation in 2004. Key projects included the new Initiative to Promote Regional Public Goods (RPGs) (see Box 8), a range of activities under the Bank's Special Initiative on Trade and Integration, and support for various subregional, hemispheric and interregional integration initiatives.

The Bank continued to implement its regional technical cooperation program and to assist countries in mainstreaming trade and integration into national development strategies. It stepped up work on trade capacity building in the Central American Common Market (CACM), provided technical support for intraregional integration and the extensive external trade negotiations agenda in the Andean Community and CARICOM, and helped consolidate subregional institutions in MERCOSUR.

The Bank also continued to provide techni-

Box 5 • Gender Mainstreaming Action Plan

The Bank approved its first Gender Mainstreaming Action Plan (GAP) in 2003 to cover the period 2003-05. The plan's general objective is to increase the focus on gender equality and women's empowerment in all areas of Bank activity, thus contributing to poverty reduction and economic development in the region. The plan establishes specific targets for gender mainstreaming throughout the project cycle, serves as a tool for promoting shared commitments and responsibilities across the Bank, provides a solid basis for internal collaboration, negotiation and monitoring, and sets parameters for institutional learning.

During the first 18 months of GAP implementation, the Bank reenergized its efforts to mainstream gender, especially in its regional operations departments. While progress has been achieved in all areas of activity under the plan, special attention has been paid to incorporating gender throughout the project cycle, particularly in IDB country strategies and project design.

Twelve IDB country strategies have been identified as priorities for gender mainstreaming, almost double the original target of one strategy for each of the Bank's three regional operations departments per year. Activities have included country gender assessments, a gender focus on several priority sectors and thematic areas, and consultations with key stakeholders, such as government agencies and civil society organizations for women.

Gender mainstreaming in project design has continued to advance in all sectors, with the best results still in the social sectors. In 2003-04, regional operations divisions identified a total of 59 projects in the pipeline for gender mainstreaming, also double the original target.

The Action Plan target for project execution has been exceeded as well, and several Country Offices have shown initiative in this effort. However, the 17 projects selected are still at early stages of implementation, making it difficult to ascertain whether their design will serve to meet the operations' development goals. An interesting pilot initiative is underway in Honduras to mainstream gender and social inclusion into the portfolio, with an emphasis on execution and institutional strengthening; it may generate lessons that could be replicated in other countries.

Certain studies in the pipeline of activities to be conducted by the Office of Evaluation and Oversight have been identified for possible analysis of gender dimensions, including sector and thematic evaluations, impact and sustainability assessments, and gender issues in upcoming country program evaluations.

The progress achieved in gender mainstreaming Bank-wide has increased demand for technical support. Several Bank offices are involved in responding to this demand, including the Office of the Executive Vice President, the Integration and Regional Programs Department, the Legal Department, and the Sustainable Development Department, the latter through its Women in Development Unit. Starting in 2005, a new Multi-donor Gender Mainstreaming Fund, with a contribution from Norway, will provide financial support to promising approaches in all areas of the Action Plan.

A preliminary analysis of progress shows that there is greater success in programming and project design, particularly for social sector projects. The challenge ahead is to incorporate gender issues more thoroughly into projects in other sectors and to achieve the expected impact of increased gender equality through successful execution of projects and their evaluation.

Projects that incorporate gender issues in their design could be monitored through execution to document good practices and lessons learned. A final external assessment of Action Plan results, starting in mid-2005, will examine the quality of gender mainstreaming of all activities by the Bank's operations departments and other relevant units.

See www.iadb.org/ar/gender_en

cal support for the Free Trade Area of the Americas (FTAA) process. As a member of the Tripartite Committee, with the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and Organization of the American States (OAS), the Bank helped countries prepare and implement national strategies for strengthening trade-related capacity for the Hemispheric Cooperation Program (HCP), a vital component of the FTAA initiative. This support included technical cooperation under the IDB-Canada Trade Fund.

The Bank provided technical support for the Andean Community in response to the subregion's active trade negotiation agenda. It assisted national and

Box 6 • Social Inclusion and Cohesion—Attacking the Roots of Inequality

Discrimination and exclusion on the basis of ethnicity, race, health status and other attributes are being studied and addressed in new ways at the IDB, under initiatives for social inclusion and social *cohesion*—a broader dimension of inclusion that incorporates economic and fiscal policies and democratic development.

The Bank's social inclusion activities focus on indigenous peoples, Afro-descendants, persons with disabilities, persons with HIV/AIDS and poor women. Activities in 2004 included the following operations, publications and meetings.

Operations. The Bank launched the Social Inclusion Trust Fund, with support from the governments of Norway and the United Kingdom. The Fund finances operations for research and raising awareness, support for Bank operations and organizational strengthening for groups traditionally excluded from the mainstream of economic and social activity in the countries of the region. To date, 18 operations and new initiatives are underway, totaling nearly $1 million. Noteworthy among them is the first affirmative action policy paper in Colombia, which has the second largest Afro-descendant population in Latin America. Key Fund achievements include a substantial increase in technical cooperation funding for project preparation and to expand knowledge on social inclusion. Other advances include incorporation of social exclusion into IDB country strategies; a special internship program at the IDB for Afro-descendants; and development of data, indicators and surveys on ethnic and racial groups.

Publications. The Bank published three books on social inclusion in 2004: *Social Inclusion and Economic Development in Latin America*, compiling more than two years of research on the causes and consequences of social exclusion in the region; *Building Social Cohesion in Latin America and the Caribbean*, which proposes a comprehensive framework for understanding the factors that influence the development of cohesive societies; and *Reforms and Social Equity in Latin America and the Caribbean: The First Phase of the Social Equity Forum*, which examines the main challenges and opportunities that the region faces to design and implement reforms to improve equity and social cohesion. The Bank distributed the three publications at the EU/LAC Summit of Presidents in Guadalajara, Mexico.

Meetings. The Bank organized meetings of technical experts to prepare the EU/LAC Summit of Presidents, in cooperation with the European Commission; an international forum on anti-discrimination legislation in the region, held in Mexico, in collaboration with the Mexican National Commission on Discrimination (CONAPRED) and the Japan Program; and a seminar series featuring research papers on the incorporation of social, economic and cultural rights in development. The series was held in partnership with ECLAC and with support from the Department for International Development of the United Kingdom (DFID).

See www.iadb.org/ar/inclusion_en

regional officials in evaluating trade and integration agreements, prepared studies and policy papers and organized workshops and conferences on the economic impact of trade liberalization and the participation of civil society in trade negotiations. The IDB helped the Andean countries to reach agreement on harmonization of indirect taxes (VAT and excise taxes).

The IDB continued to support subregional infrastructure projects through the Puebla-Panama Plan (PPP), the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and small-scale cross-border pilot projects to develop and integrate common border zones. It collaborated with the Andean Development Corporation (CAF) on a program to assess the potential contribution of the Andean hydrocarbons sector to hemispheric energy cooperation. Among the regional technical cooperation projects approved in 2004 was a study on fiscal equity in the Andean Community countries and an assessment of tax incidence and social spending in different income brackets, cofinanced by Britain's Department for International Development (DFID). Bank support for CARICOM integration and external trade negotiations advanced on a number of fronts during the year. Seven new integration and trade-related regional technical cooperation projects were approved for the subregion. They include support for the Caribbean Regional Negotiating Machinery to coordinate external trade negotiations and a MIF-financed program to strengthen private sector participation in the negotiating process.

Other new projects involve assistance for the Association of Caribbean States for the development of an Internet-based port and maritime database, a study on the fiscal impact of trade liberalization and an assessment of trade-related services by Caribbean business associations. Two MIF projects for small and medium-sized enterprises (SMEs) in the Caribbean were approved, one for the CARICOM Regional Organization for Standards and Quality to promote SME competitiveness and the other to strengthen market access for SMEs in the Caribbean agrifood industry.

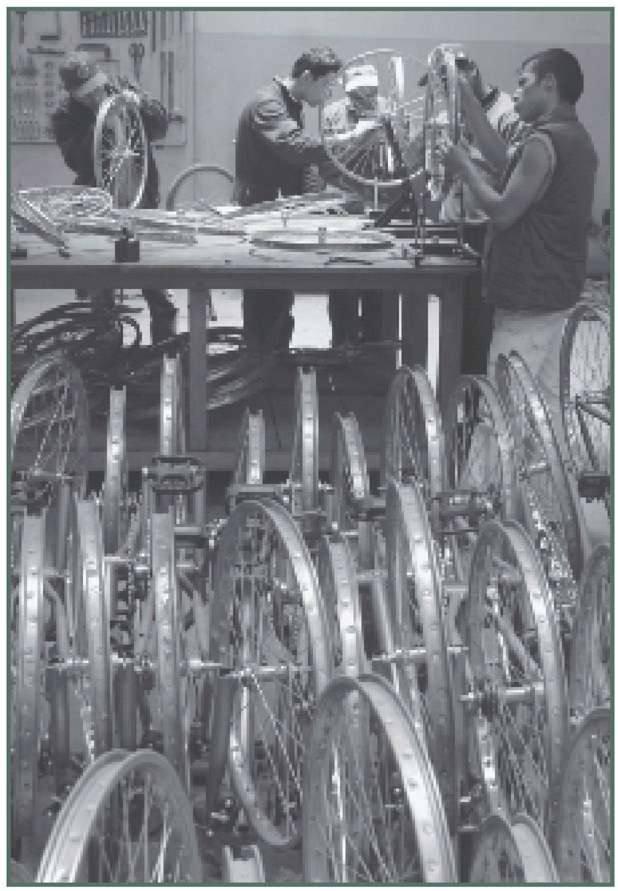
The Bank's trade and integration-related support for Central America focused on two processes in 2004: the Central America Free Trade Agreement (CAFTA) and the Puebla-Panama Plan. The Bank assisted Central American countries in CAFTA trade capacity building rounds and helped CACM members implement country strategies and national action plans to meet trade capacity building needs. Costa Rica made the first request for a loan under the Bank's new Lending Program for Trade, Integration and Competitiveness. The multifaceted project involves activities ranging from modernization of the tax system to upgrading infrastructure and schools.

Bank-funded projects for the PPP focused on trade facilitation and infrastructure, for instance by developing a regional plan for ports and airports, implementing the Central American Electrical Interconnection System (SIEPAC) and expanding SIEPAC to include rural electrification. Further Bank activities under the PPP umbrella include support for the Mesoamerican Competitiveness Council, customs modernization and studies on customs coordination.

The Bank's longstanding support for MERCOSUR continued with completion of a data bank for mineral projects and a technical cooperation project to promote competition policy in the subregion. Two new technical cooperation projects were approved during the year to consolidate MERCOSUR and its institutions and to support the newly established MERCOSUR Committee of Permanent Representatives. The Bank prepared a new subregional programming strategy, in close coordination with the formulation of national strategies.

The Trade and Integration Network is one of the seven instances in which the Bank has established a Regional Policy Dialogue among vice ministers to promote best practices and enhance regional cooperation and integration. Activities in 2004 consisted of the Southern Cone Subregional Meeting held in Buenos Aires on key fiscal measures for consolidating integration, the Caribbean Subregional Meeting in Jamaica on the role of special and differential treatment in trade agreements and the Central American meeting in El Salvador to discuss the challenges and opportunities for SMEs in light of CAFTA.

The Bank supported a wide range of activities in the third year of its Special Initiative on Trade and Integration. The purpose of the initiative, which was launched in 2002, is to strengthen the Bank's capacity to contribute to the policy debate on trade and integration, provide technical support to governments



COLOMBIA • Ex-gang members in Bogota receive job training under a comprehensive program to reduce violence and insecurity in several cities. Other measures include crime reporting, access to justice, police training and citizen watches.

Box 7 • Indigenous Peoples: A Framework for Development with Identity

The IDB's draft Strategy for Indigenous Development explicitly recognizes the correlation between ethnicity and levels of poverty, as well as the importance of the cultural and natural heritage of indigenous peoples for development. Despite some progress, indigenous peoples continue to suffer from high poverty rates, exclusion and discrimination in labor markets, limited access to social and financial services, and degradation of their natural environment.

The Bank is developing a strategy and policy on indigenous issues to establish goals, priority areas, lines of action and specific forms of support for indigenous peoples. "Development with Identity" describes a holistic approach to increasing their access to opportunities for socioeconomic development, with a gender perspective, while strengthening their identity, culture, natural resources and social organization.

In 2004, the profiles of the Strategy for Indigenous Development and the Operational Policy on Indigenous Peoples were prepared and extensive consultations held with indigenous representatives and other stakeholders. A series of informational meetings was followed by 29 regional and national consultation meetings with a total of some 1,200 participants. In addition, a special website on the consultation was created so that interested parties could send feedback online.

A first meeting of the Indigenous Advisory Council was held at Bank headquarters to assist the Inter-Departmental Working Group in consolidating the input from the consultations and revising the draft final documents to be submitted to the Board of Executive Directors. The package of documents sent to the Board will include a report on the consultations highlighting key inputs, comments and recommendations.

Several technical papers also informed the draft policy and strategy, including one on lessons learned from 10 years of Bank support for indigenous peoples, based on a review of data on more than 300 projects. The preliminary findings of the review were discussed at a conference on the International Decade of the World's Indigenous Peoples and an interagency meeting, both held in Quito in 2004. Another key input was a comparative database on legislation on indigenous peoples in Latin America and the Caribbean.

See www.iadb.org/ar/ind_en

and support public outreach. The 2004 research program under the initiative featured such diverse topics as China's emergence in the global economy, economic ties between the European Union and Latin America, and agricultural trade policy and liberalization.
See www.iadb.org/ar/int_en

In 2004, the Bank's Institute for the Integration of Latin America and the Caribbean (INTAL) emphasized strengthening the institutional capacity of governments in the region to formulate, negotiate and implement trade policy at the bilateral, subregional, hemispheric, interregional and multilateral levels. It also actively supported regional infrastructure integration in the transportation, energy and telecommunications sectors of the 12 countries of South America through IIRSA, whose secretariat is located at INTAL headquarters. Through training and public outreach, INTAL helped promote the participation of civil society in integration processes.

To support trade negotiations and policymaking, INTAL and the WTO Secretariat jointly organized capacity-building programs on a variety of issues in the multilateral negotiations and their interrelation with hemispheric and subregional initiatives. For example, INTAL held a course on a "toolkit" for FTAA trade negotiators, in association with the World Trade Organization and the Secretariat for Central American Economic Integration.

During the year, INTAL conducted a series of case studies on current trade policy consultation mechanisms in 15 countries. The studies are being updated for eventual discussion in workshops with government agencies and civil society organizations, including business and labor groups. Among its training and exchange programs, INTAL partnered with the Global Trade Analysis Project Group of Purdue University to organize a course for South American government experts on measuring the impact of trade agreements. Jointly with Harvard University, the Institute published the book *Integrating the Americas: FTAA and Beyond*, a compendium of policy papers on various aspects of the subject.

See www.iadb.org/ar/intal_en

Environment

Protecting the region's vast natural resources and improving environmental quality is key to achieving sustainable economic growth and reducing poverty and social inequality. The Bank is helping the countries of Latin America and the Caribbean achieve their environmental sustainability goals through a wide range of financial and nonfinancial programs. It also fosters leadership and innovation to help governments improve their environmental performance.

GUYANA • Passengers disembark from a Brazilian regional airline flight at Cheddi Jagan International Airport in Georgetown, which was expanded and enhanced to meet international standards for operations, safety and services.

The IDB's Environment Strategy, approved by the Board in July 2003, reflects the priorities, challenges and opportunities for sustainable development in the region. It sets out basic principles for good environmental governance, enhanced policy integration and development of the right set of incentives to achieve sustainable outcomes. Two new lines of action were established in the strategy: mainstreaming the environment in economic decision-making and enhancing the sustainability of Bank operations.

Among the numerous activities carried out in 2004 to implement the strategy were the incorporation of country environmental analysis in early stages of IDB country strategy preparation, the development and use of best practices and guidelines for strategic environmental assessments for large infrastructure projects, improved environmental baseline data and performance indicators, and a review of the Bank's approach to managing environmental risk and enhancing sustainability.

The Bank also began updating its Environmental Policy. The new Environment and Safeguards Compliance Policy, to be considered by the Board in 2005, will establish the necessary directives to mainstream environment in Bank programming activities and to safeguard the environment and manage risks (see Box 9).

Several loans directly related to the environment were approved in 2004, including a $40 million loan to Jamaica for the Kingston water and sanitation project, a $20 million loan to Colombia for the National Environment System and a $10 million loan to Mexico for a pilot program for institutional development in the water and sanitation sector. In addition, several projects included important environmental components, such as the Guyana loan for the Agricultural Support Service and the Jamaica loan for the National Irrigation Development Program. In Guyana, a thorough assessment of pesticide content in sediment was conducted as a baseline for project monitoring; in Jamaica, resources are being provided to ensure project and sector sustainability.

See www.iadb.org/ar/env_en

Private Sector Development

During the year, the Bank approved financing for 10 private sector projects, consisting of six senior A-loans for a total of $271 million (two of which carried corresponding "B" loans) and four guarantees for a total of $185 million.

By the end of 2004, cumulative approvals totaled 70 operations, including 57 senior A-loans and 13

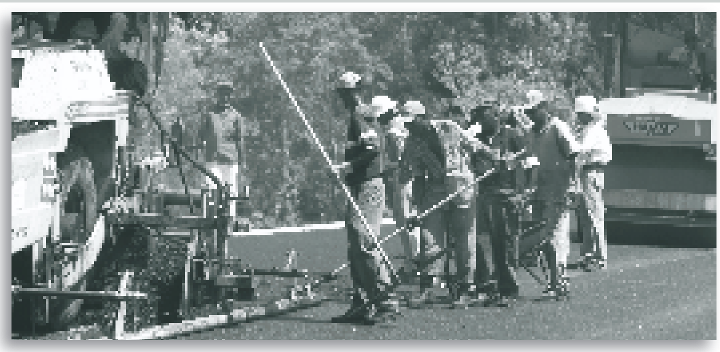
Box 8 • Initiative for the Promotion of Regional Public Goods

The strengthening of economic integration in the 1990s and the rise of regional initiatives to support these efforts—such as NAFTA, MERCOSUR and the Andean Community in Latin America—have increased demand for public goods that address "spillovers" within such territorial subsystems. The Initiative for the Promotion of Regional Public Goods was conceived to support the participating countries in Latin America and the Caribbean into finding and articulating a response to a shared problem or need.

The key concept in the Bank's definition of a regional public good (RPG) is cooperation or collective action, which needs to be present in all stages of the identification and production of the good. This means that people and countries in the region or a given subregion need to think collectively and propose collectively how to solve a problem, and to allocate collectively the responsibilities and tasks that the good's production requires.

The IDB is the first multilateral institution undertaking such an initiative. The Bank's regional position makes it an ideal promoter and facilitator of collaborative efforts to produce these goods.

In mid-September, the Bank launched the first call for proposals to promote RPGs for development projects that support or require collaboration among several countries. By November 15, the deadline for submissions, the Bank had received 35 proposals for approximately $64 million. The Board of Executive Directors approved the creation of the Initiative and has provided up to $10 million annually to finance the selected proposals. A second call will be launched in mid-2005.



See www.iadb.org/ar/bpr_en

guarantees. The total amount of private sector loans and guarantees approved by the Bank (net of cancellations) reached $3.1 billion, with an additional $3.6 billion in syndicated "B" loans and co-guarantees, mobilizing over $18 billion in total project costs.

In addition, in 2004 the Bank approved a guarantee program of up to $400 million for the establishment of the Trade Finance Facilitation Program under which partial credit guarantees may be issued to local banks on trade-related transactions. As of December 31, 2004, no guarantees had been issued under this program.

The increase in the number of guarantees compared with previous years reflects the Bank's ongoing efforts to assist in local capital market development so that clients undertaking infrastructure projects can eliminate the foreign exchange risk.

Five of the loans approved in 2004 will support infrastructure financing in the region: a $75 million loan for the Campos Novos Hydroelectric Power Project in the state of Santa Catarina in Brazil; a $31 million loan to *Interconexión Eléctrica ISA Bolivia S.A.* for power transmission lines in Bolivia; a $75 million senior loan for a $575 million Brazilian Infrastructure Investment Fund (BIIF) in local currency; a $150 million loan facility to *União de Bancos Brasileiros S.A.* (Unibanco) of Brazil; and a $25 million loan for *Corporación Interamericana para el Financiamiento de Infraestructura, S.A.* (CIFI) for onlending to companies from IDB borrowing member countries. The IDB's catalytic role is expected to attract international resources for capital investments in basic infrastructure that otherwise would not be available at reasonable pricing levels and tenors. Two of the private sector operations were trade finance facilities: the Crecera Regional Trade Finance Facility, with an IDB loan of $15 million, cofinanced with the Netherlands Development Finance Company, will benefit medium-sized exporters that do not have direct access to the local banking system, and the ABN Amro Uruguay Trade Finance Facility, under which the Bank will provide a $22.5 million partial risk guarantee on a portion of ABN Amro Uruguay's trade finance portfolio. These facilities may be replicated in other countries throughout Latin America and the Caribbean. In addition, the Board's approval of the Regional Trade Finance

Facilitation Program should provide confidence to the markets in the event of a crisis affecting trade finance liquidity (see Box 10).

Two private sector projects will support housing development in Latin America: a $75 million partial credit guarantee for Mexico's leading mortgage lender, *Hipotecaria Nacional* (HN), and a $20 million partial credit guarantee for El Salvador's *Banco de Comercio* (BanCo) to expand its home lending operations.

Three of the direct loans to the private sector approved by the Bank in 2004 included a cofinancing component. B-loans totaling $150 million were approved for Unibanco in Brazil and the regional CIFI.

In 2004, the Board of Executive Directors approved the new Private Sector Development Strategy, which recognizes the contribution of the private sector to economic growth and poverty reduction and outlines IDB group activities to support private sector growth in the region. The core objective of the strategy, together with its Implementation Plan, is to strengthen the coherence and complementarity of private sector activities by the IDB group.

The strategy identifies four areas of activity: coordinating development of a conducive climate for business (see Box 4); development of guidelines to engage the private sector in dialogue and action (Guidelines for Strategic Partnerships with the Private Sector); identification of incentives to increase cooperation among all IDB units working with the private sector (including the designation of private sector liaison officers in a number of Country Offices); and inclusion of corporate governance indicators in IDB projects.

As an indication of the importance of creating synergy among the Bank's private sector activities, the Board of Governors endorsed the creation of the high-level Private Sector Coordinator position, effective January 1, 2005.

In the area of financial markets, activities related to the Private Sector Development Strategy have been focusing on public-private sector cooperation. In 2004, they included a conference on "The New Basel Capital Accord and the use of External Credit Assessment Institutions"; a memorandum of understanding with the Ibero-American Federation of Stock Exchanges, a private sector entity, to promote market integration, savings mobilization and domestic opportunities for

Box 9 • Environment and Safeguards Compliance Policy

The Environment and Safeguards Compliance Policy will contribute to advancing the Bank's mission for promoting sustainable development and reducing poverty across the Latin American and Caribbean region. The specific objectives of the Policy are to maximize development benefits and environmental sustainability outcomes in Bank operations and activities; to manage risks in order to ensure that all Bank operations and activities are environmentally viable; and to improve and promote corporate environmental responsibility within the Bank.

These specific objectives will be achieved through Bank measures to: a) mainstream the environment into overall economic and social development, requiring a strategic view to promote environmental governance as part of IDB country strategies and programming activities and b) apply safeguards throughout the project cycle in order to assure environmental viability of Bank-financed operations and strengthen compliance and effectiveness in managing environmental impacts and risks.

The policy profile underwent a public consultation process that has involved regional and nonregional consultations to discuss the position, mandates and directions the Bank wishes to pursue regarding the environment within the framework of its activities and operations. The electronic consultation on the profile took place from April 20 to June 30, 2004. Comments and suggestions from a wide spectrum of public and private entities, including civil society organizations and NGOs in the region and across the globe, were incorporated into a draft Policy.

The draft policy will be discussed in a series of consultation meetings (at least four in the region and one each in Washington and Paris) during the first quarter of 2005. The final policy document will be submitted to the Board for approval later in 2005.

See www.iadb.org/ar/safeguards_en

Box 10 • Trade Finance Facilitation Program

In 2004, the Board of Executive Directors approved a Trade Finance Facilitation Program (TFFP). The TFFP is designed to achieve a globally consistent network of support from multilateral development banks for trade finance, based on the lessons learned from the successful experience of a program developed by the European Bank for Reconstruction and Development, and consistent with the Trade Finance Program recently implemented by the Asian Development Bank.

The TFFP, in essence a guarantee program for trade finance operations, is designed to play a countercyclical role by providing liquidity to the international "trade finance system," particularly during times of economic difficulties. At the same time, the TFFP is expected to support and develop intra- and inter-regional trade and to help local banks in IDB borrowing member countries to establish track records with international banks, thus improving the prospects for their participation in international trade finance.

The TFFP will use an "open architecture" approach, developing an extensive network of local and international banks ("issuing" and "confirming" banks, respectively), supporting all of the IDB's borrowing member countries and covering a substantial portion of their exposure on a comprehensive basis. The program's main parameters are as follows:

- Instrument: revolving partial credit guarantee to support short-term trade-related transactions (up to one year) from banks operating in IDB borrowing member countries ("issuing banks").
- Term: five years.
- Maximum IDB exposure: $400 million, with transaction and country exposure limits.
- Coverage level: up to 90 percent per eligible transaction.
- Eligible transactions: documentary credits, documentary collections, pre-export financing.

See www.iadb.org/ar/tffp_en

investors; and a joint project with the Inter-American Federation of Insurance Companies, also a private sector entity, to survey insurance markets in the region.

Numerous activities were carried out in 2004 to promote private sector development in infrastructure, such as conferences on increasing infrastructure investments in Latin America and the Caribbean held in Europe, Washington, D.C., Lima and Japan, to review infrastructure needs and foster private sector investment in the region. The Bank's Energy Policy, which guides Bank activities in energy, was revised with a view to increasing private sector investment and sent forward to the Board of Executive Directors following a public consultation. Several studies were conducted on the political economy of infrastructure reform to help understand the implications of public policy and reform and the obstacles to private sector participation.

See www.iadb.org/ar/pridev_en

Multilateral Investment Fund

During 2004, the MIF approved 82 technical assistance and investment projects, totaling over $116 million. Reflecting the strong commitment of the MIF's local partners, counterpart funding grew to $106 million, putting over $222 million to work developing micro and small enterprise and improving the business environment in the region.

The MIF provides technical assistance grants and investment financing for projects to reduce poverty and promote economic growth through grassroots private sector development, addressing those aspects of the business environment that are the most critical for micro and small enterprise, as well as strengthening their capacity to benefit from market change. Since its establishment, the MIF has approved 667 projects for $924 million, net of cancellations. Including counterpart funds, this amount exceeds $1.8 billion in commitments to MIF projects throughout the region.

Of the total amounts approved since the MIF began operations in 1993, microenterprise, microfinance and remittances have accounted for 18 percent of approvals (see Boxes 11 and 12); small business innovation, 18 percent; small business venture capital, 17 percent; business environment reform, 17 percent; worker skills development, 16 percent; financial and capital markets, 7 percent; and the environment, 7 percent.

MIF projects are particularly important to assist the smaller and less developed countries in the region (Group C and D countries) where there is a narrower domestic base of expertise in specific issues, and where standard models need greater adaptation to gain support. These countries receive over two-thirds of MIF projects and the majority of funding. MIF projects are undertaken in direct partnership with leading private sector organizations throughout the region, building a network of hundreds of NGOs to help ensure that support reaches those who need it most.

Increasingly, MIF projects are grouped into project clusters, which are identified, implemented and evaluated as a group. This approach has proven an effective way to focus resources and increase the ongoing sharing of lessons, and has become a primary method for delivering MIF grant assistance, representing 44 percent of the number and 57 percent of the total amount of grant approvals. Lines of activity are another mechanism to increase the effectiveness of MIF support when there is a need not for innovative new methods but rapid introduction of proven practice in a number of countries. During 2004, lines of activity accounted for 13 percent of the number and 4 percent of the total value of project approvals.

Progress was made in 2004 on reaching agreement among donors to expand MIF membership and replenish its resources. The IDB Board of Governors held three special meetings during the year to review the MIF's strategic focus and develop new Agreements for MIF II. The process is expected to be completed prior to the 2005 Annual Meeting.

See www.iadb.org/ar/mif_en

ECUADOR • Fresh water for the new water supply system in southern Quito comes from the Antisana Ecological Reserve, bringing reliable water service to 120,000 people in low-income neighborhoods.

Inter-American Investment Corporation

The Inter-American Investment Corporation (IIC) is the only multilateral organization mandated specifically to promote economic development in Latin America and the Caribbean by encouraging the establishment, expansion and modernization of small and medium-sized companies in the region. The IIC, which began operations in 1989, provides financing to companies in the region that lack access to suitable sources of credit or capital.

The IIC lends to and invests 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 sustainable manner, fostering local savings or promoting economic integration in the region.

In 2004, the IIC approved $163.6 million for 31 direct loan and equity transactions. Of particular note are four loans to microfinance institutions in Bolivia, Ecuador, El Salvador and Nicaragua. These are the first IIC loans to be carried out on a *pari passu* basis with the IDB's Multilateral Investment Fund. They are also the first to be carried out in conjunction with a European organization specializing in microfinance banks, Germany's *Internationale Micro Investitionen Aktiengesellschaft*. The four loans are consistent with the private sector development guidelines laid out at the Special Summit of the Americas, held in Monterrey, Mexico, in January 2004, which encourage use of the banking sector to channel loans to micro and small private enterprises in Latin America and the Caribbean.

For further information on these and other IIC operations during 2004, see the IIC's Annual Report, published separately. For general information on the IIC, visit **www.iic.int**

Development Effectiveness

As part of its ongoing efforts to ensure that it contributes effectively to the economic and social development of its borrowing member countries, in 2004 the Bank developed the "Medium-Term Action Plan for Development Effectiveness at the IDB" requested by the Board of Governors. The plan calls for an ambitious set of activities to establish a system for development effectiveness at the IDB and includes long-term goals as well as short-term actions for 2004-2006.

Underlying the plan are three interrelated pillars: external, internal and corporate. The external pillar will help borrowing member countries build and/or strengthen their capacity to manage for results and enhance Bank coordination with other development institutions. The internal pillar will strengthen the Bank's internal processes and procedures related to managing for results and risk management, in order to better help borrowing member countries achieve their development goals. The corporate pillar consists of a set of interconnected corporate actions in areas such as incentives, learning, reporting, budgets and accountability.

During the year, the Bank participated in the dialogue on development effectiveness with other multilateral development banks and the OECD's Development Assistance Committee, particularly during the preparation of the Second Roundtable on Monitoring, Measuring and Managing for Results (Marrakech, February 2004). As part of the dialogue, agreement was reached on core principles for managing for development results.

The country strategy guidelines approved by the Board in 2002 have proven useful in organizing the Bank-country dialogue, strengthening borrower ownership of macroeconomic and sector analyses, and identifying the scope of proposed Bank assistance. In 2004, the Bank initiated a structured review of experience with the new guidelines to date. Recommendations based on the review will be submitted to the Board in 2005.

For the purpose of identifying "lessons learned" that should be applied to the preparation of future policy-based loans, in 2004 the Bank carried out a review of the quality-at-entry of the 10 policy-based loans approved by the Board in 2003.

See www.iadb.org/ar/dev_en

Portfolio Management

According to the 2004 Annual Report on Portfolio Management, Performance and Results (ARPRE), which reviewed IDB loans in execution as of December 31, 2003, the slight signs of recovery that the economy of Latin America and the Caribbean had begun to show by the end of that year had a clear impact on the Bank's active portfolio.

As of December 31, 2003, the Bank's active portfolio consisted of 521 projects totaling $36.2 billion, down from $40.1 billion at the end of 2002. The size of the portfolio declined for the fifth consecutive year, in part due to projects exiting the portfolio and cancellations of $10 billion in commitment amounts. Seventy-two new loans were approved in 2003 for a total of $6.8 billion, including $3.2 billion in emergency loans for Argentina and Colombia and $1.7 billion in policy-based loans. New public sector investment loans declined to $1.6 billion, less than half the average over the previous four years. Cumulative commitments for private sector operations accounted for 4 percent of the total portfolio amount and consisted of 56 active projects.

The Bank bolstered liquidity in the region with an unprecedented level of disbursements of $8.9 billion in 2003, dominated by fast-disbursing policy-based and emergency loans, which accounted for 56 percent of total disbursements.

As in previous years, lending for social sector investments continued to account for more than half of total commitment values: 56 percent of commitments were for projects aimed at reducing poverty and enhancing social equity, significantly higher than the target of 40 percent set for the Eighth Replenish-

Box 11 • Twenty-five Years of Microfinance

In 2004, the Bank commemorated 25 years of assistance to the microenterprise sector. The IDB group assumed a pioneering role in 1979 when it began channeling financing to local intermediary institutions, establishing a mechanism for direct support for entrepreneurial initiatives and economic activities by the poorest segments of the population. The projects were financed by the Bank through a program first known as Small Social Projects, then as the Small Projects Program and since 1998 as the Social Entrepreneurship Program.

During the past 25 years, the Bank has financed 570 projects for a total of $302 million, reaching approximately 530,000 microentrepreneurs, small producers, agricultural producers, farmers and artisans. The Bank has also attracted numerous trust funds from bilateral donors in support of programs for microenterprise development, including contributions from Italy, Japan, Norway, Sweden, Switzerland and the European Union.

The vision of these innovative programs has been to facilitate access to credit for the vast numbers of individuals and enterprises that do not have access to commercial banks. With the introduction of this program, the IDB assumed a leadership role as the first multilateral institution to grant loans without governmental guarantees to nonprofit private organizations. Many other donor agencies and development institutions have since joined in this endeavor to assist the poor, following the principle of "teaching them how to fish"—that is, providing them with job and business skills.

Microfinance has become one of the most important mechanisms to reduce poverty and generate employment for marginalized segments of the population in Latin America and the Caribbean. Through targeted projects to strengthen microfinance institutions and their methodologies, the Bank has significantly contributed to the emergence of some of the first regulated microfinance institutions in the region, including *BancoSol* and *Caja Los Andes* in Bolivia, *Financiera Calpiá* in El Salvador (now *Banco Procredit*), and *Mi Banco* in Peru.

As microenterprise programs have flourished over time, the instruments for development have become more innovative and sophisticated. The field has expanded to include not only access to microfinance, but also access to business development services, support for social entrepreneurship initiatives and assistance to improve performance in production.

In recent years, the flexibility of the Social Entrepreneurship Program has provided opportunities for the Bank to support entrepreneurial initiatives with a social and community impact. For example, a project in Colombia to support women entrepreneurs in recycling plastic waste from banana plantations has helped not only to increase the income level of more than 250 women, leading to better quality of life for them and their families, but also to improve the environment and raise awareness in the community. In Mexico, support was provided to indigenous farmers who, because they could no longer make a living producing coffee, switched to making and selling high-quality organic honey. They now have a registered trademark and a marketing plan targeting both domestic and international markets.

Other projects under the Social Entrepreneurship Program include production of organic coffee, beans and handicrafts, sheep farming and irrigation in mountainous areas. The impact of these interventions is evident in each individual project, where microentrepreneurs, including women, youth and indigenous people, have notably increased their incomes through better performance, thereby significantly improving the well-being of their families and communities.

As a testament to the quarter century of assistance to the microenterprise sector, in 2004 the IDB published a book with descriptions of a collection of projects representing the wide range of experiences across Latin America and the Caribbean. Entitled *Macro impacto con micro dinero: 25 años de apoyo a la microempresa*, it will be available in English in 2005.

See www.iadb.org/ar/mic_en

ment period. Commitment values of the portfolios in Argentina, Brazil and Mexico together accounted for 55 percent of the total.

Of the total portfolio of 521 projects, 480 public sector projects (93.5 percent), representing nearly $33.9 billion, were reported on in the Bank's Project Performance Monitoring System (PPMR) as of December 31, 2003. As part of the supervision process, the Bank classifies projects in terms of the extent to which they are expected to achieve their develop-

Box 12 • Remittances

The MIF's pioneering work on remittances has played a central role in raising awareness about the importance of these flows for poverty reduction and economic development. Over the past four years, the MIF has been intensively involved with this issue, commissioning studies, sponsoring seminars, developing core principles and financing projects to raise awareness of the importance of these flows. The goal is to increase competition and lower the costs of sending remittances; promote financial democracy; and leverage development impact by making more financial options available to the recipients of remittances—families and their communities throughout Latin America and the Caribbean.

The importance of remittances is now widely recognized, and during 2004 the subject appeared prominently on the agenda of the G-8 Summit and the World Bank/IMF meetings.

Latin America and the Caribbean is the fastest growing and highest volume remittance market in the world. For 2004, remittances to the region are expected to have reached over $40 billion, exceeding the combined flows of all foreign direct investment and net official development assistance. These flows substantially exceed tourism income to each country, account for at least 10 percent of GDP in six countries, and almost always exceed the earnings from a country's largest single export.

As described in greater detail in the section on **The Year's Lending**, the MIF has invested in several innovative projects in this area. In Peru, for instance, a senior loan of up to $7 million from the MIF's Small Enterprise Investment Fund to one of the country's fastest growing banks, *Banco del Trabajo*, will help channel remittances from workers based in Japan toward increased savings and investment at home. A regional technical cooperation project approved in 2004 will analyze how remittances affect development through their impact on schooling, health, poverty and income distribution, and entrepreneurship.

See www.iadb.org/ar/remittances_en

ment objectives, implementation progress is satisfactory, and key assumptions or enabling conditions continue to be favorable. According to PPMR ratings as of December 31, 2003, nearly 90 percent of projects (430 projects) were considered likely to achieve their development objectives (10 percent were classified as problem projects), close to three quarters reported satisfactory implementation progress, and 86 percent had assumptions or enabling conditions that remained valid.

The ARPRE also identified a number of critical factors affecting project performance in some cases, primarily weaknesses in the institutional capacity of executing agencies, interagency coordination, counterpart funding shortfalls or fiscal ceilings imposed on public spending, varying degrees of borrower or executing agency commitment, procurement difficulties and lack of monitoring and evaluation systems to track development results. Other nonproject factors that also affected performance included changes in national policies, legislative approvals, community and political opposition, and environmental concerns. According to the Bank's Project Alert Identification System, 30 percent of projects in the 2003 portfolio were classified as being on alert and required more intense monitoring, due to poor implementation progress, or the occurrence of two or more indicators associated with higher risk, such as delays in contract ratification and project eligibility, extensions to last disbursement, low disbursement performance or failure to submit audited financial statements.

Performance of private sector operations is monitored through a semiannual review in which each project is rated in terms of credit quality and credit-related covenant compliance, including the likelihood of timely loan repayment in the future. Over the past two years, private sector operations have been incorporated into the Bank's PPMR system. In addition, private sector project documents prepared in 2004 included a logical framework along with the traditional risk matrix.

To enhance portfolio performance, the Bank established a Portfolio Management Action Plan in 2003 and began tracking progress in key areas. Benchmarks were established for improvements in such areas as project startup and completion, submittal of audited financial statements and project completion reports, and accuracy in performance reporting. Management also enhanced efforts to improve the quality of project design, including the use of institutional analysis and results frameworks early on in project design, and the retrofitting of logical frameworks for projects already in execution.

The Bank also launched a new online system for project completion reports that fully incorporates the OECD Development Assistance Committee standards and places increased emphasis on project outcomes, institutional development, sustainability and lessons learned, and rates both Bank and borrower performance. Progress has also been made in improving the quality of project supervision instruments. Internal quality reviews have shown that outcome indicators and linkages with strategic goals at the country level need to be further improved within a more robust results framework throughout the project cycle.

The IDB has already begun to implement the primary recommendations outlined in the ARPRE, which include boosting the quality of public administration, management, results and evaluation capacity of executing agencies in the region; revamping country strategies to include verifiable development outcome indicators as a key element for managing the portfolio for results; consolidating improvements in the quality of project design and supervision; and continuing Bank efforts to enhance overall improvement in portfolio performance, while fostering greater coordination with other multilateral development agencies in strengthening national capacity in the region.

As of June 30, 2004, 27 projects had exited the portfolio and 33 new projects were approved, for a total active portfolio of 527 projects totaling $33.3 billion, a 1 percent increase in the number of projects and an 8 percent decrease in commitment amounts since December 31, 2003 ($36.2 billion). Of the 50 problem projects reported at the end of 2003, 15 were upgraded and three exited the portfolio by June 30, 2004. However, 23 projects entered problem project status in the first half of 2004, resulting in a total of 55 problem projects totaling $3 billion in commitments, down from $4.1 billion (50 projects) reported at the end of 2003.

Of the 55 problem projects in June 2004, 22 ($1.7 billion) were classified as multiyear problem projects (that is, having received such a rating for two or more years), a slight decrease from the 23 multiyear problem projects totaling $2.4 billion reported at the end of 2003. Commitments tied up in multiyear problem projects were concentrated mainly in Argentina (55 percent), Peru (14 percent) and Venezuela (10 percent). Seven Country Offices reported no problem projects as of June 30, 2004: Chile, Costa Rica, El Salvador, Haiti, Mexico, Panama and Suriname.

In addition to the problem projects, 150 projects or 31 percent of projects in execution were identified as on alert status. The value of commitments associated with the 150 alert status projects increased from $10.4 billion as of December 31, 2003 to $12 billion as of June 30, 2004. Of the 150 alert status projects, 60 percent amounting to $7.1 billion had been on alert status for two or more years. About 30 percent of those multiyear alert projects were concentrated in two countries, Argentina and Brazil, which accounted for 18 percent and 39 percent, respectively, of commitment amounts.

The Bank will continue to improve its operational policies, procedures and toolbox of financial and nonfinancial products in an effort to respond more appropriately to the needs of its borrowing member countries and to meet the challenges that lie ahead in managing for results to achieve development effectiveness.

See www.iadb.org/ar/arpre_en

COLOMBIA (above) • New bus terminals were built in Bogota under a municipal development program to improve or expand urban infrastructure and local services, such as mass transit systems, roads and traffic management.
URUGUAY (right) • Cartographers work on data for the National Geographic Data Clearinghouse to be used in infrastructure planning, development and management. The project received support from the Japan Trust Fund for Consulting Services.

The Year's Lending

Summary

This chapter includes summaries by country with brief descriptions of loans, guarantees, technical cooperation operations, small projects and MIF operations authorized by the Bank in 2004. The summaries and introductory paragraphs for each country refer only to operations over $1 million. The chapter concludes with information related to the Bank's lending and technical cooperation program and the Statement of Approved Loans and Guarantees.

The 2004 loans and guarantees authorized by the Bank and cumulative totals, as of December 31, 2004, less cancellations, came from the following sources:

▶ **Ordinary Capital** (OC): 56 loans for $5.3 billion and four guarantees for $185 million brought the cumulative total of loans to 1,703 for $115.9 billion and the cumulative number of guarantees to 13 totaling $876 million.

▶ **Fund for Special Operations** (FSO): 27 loans totaling $552 million brought the cumulative total of loans to 1,148 for $17.4 billion.

▶ **Other funds:** There were no loans approved in 2004. Cumulative total loans were 209 for $1.7 billion.

The Bank agreed to partially defray up to 5 percentage points of the interest on eight loans for $173 million, approved in 2004 from the Ordinary Capital, with funds from the Intermediate Financing Facility (IFF) created under the Sixth Replenishment.

GUATEMALA (left) • Small-scale indigenous farmers in Sacatepequez are increasing their income by switching to nontraditional crops such as coffee under an IDB Small Project to improve competitiveness.

PANAMA (below) • This school in Santa Ana received financing from Panama's Emergency Social Fund under a community development program designed to reduce poverty and increase community participation in investment planning.

TABLE I • DISTRIBUTION OF LOANS BY SECTOR OF ACTIVITY[1]

(In millions of U.S. dollars)

Sector	2004	%	1961-2004	%
Competitiveness				
Energy	$ 146.0	2.4	$ 18,792.2	13.8
Transportation and Communication	582.7	9.7	15,168.3	11.2
Agriculture and Fisheries	90.8	1.5	13,723.4	10.1
Industry, Mining and Tourism	0.8	0.0	13,063.5	9.6
Multisector Credit and Preinvestment	1,000.0	16.6	3,663.1	2.7
Science and Technology	0.0	0.0	1,642.1	1.2
Trade Financing	37.5	0.6	1,650.8	1.2
Multisector Infrastructure	100.0	1.7	614.8	0.5
Capital Markets	145.0	2.4	160.3	0.1
Social Sector Reform				
Social Investment	2,545.3	42.3	16,490.6	12.1
Water and Sanitation	61.8	1.0	9,063.4	6.7
Urban Development	164.7	2.7	7,857.2	5.8
Education	91.0	1.5	5,566.2	4.1
Health	136.5	2.3	2,789.4	2.1
Environment	34.0	0.6	2,809.2	2.1
Microenterprise	0.0	0.0	432.8	0.3
Reform and Modernization of the State				
Reform and Public Sector Support	664.5	11.0	11,554.3	8.5
Financial Sector Reform	125.0	2.1	5,905.4	4.3
Fiscal Reform	43.0	0.7	3,759.7	2.8
E-Government	13.2	0.2	13.9	0.0
Decentralization Policies	30.4	0.5	671.2	0.5
Modernization and Admin. of Justice	3.0	0.0	313.5	0.2
Planning and State Reform	0.0	0.0	119.4	0.1
Parliamentary Modernization	4.8	0.1	76.2	0.1
Civil Society	0.0	0.0	23.1	0.0
Trade Policy Support	0.0	0.0	13.6	0.0
TOTAL	**$6,019.9**		**$135,937.2**	

[1] Categories reflect priority areas of activity according to the Bank's Institutional Strategy.

TABLE II • YEARLY (2004) AND CUMULATIVE (1961-2004) LOANS AND GUARANTEES[1]

(In millions of U.S. dollars)

			Detail by Funds					
	Total Amount		Ordinary Capital[2]		Fund for Special Operations		Funds in Administration	
Country	2004	1961-04	2004	1961-04	2004	1961-04	2004	1961-04
Argentina	$ 528.0	$ 20,399.0	$ 528.0	$ 19,705.0	$ -	$ 644.9	-	$ 49.1
Bahamas	3.5	358.5	3.5	356.4	-	-	-	2.0
Barbados	-	426.9	-	367.2	-	40.7	-	19.0
Belize	-	92.0	-	92.0	-	-	-	-
Bolivia	92.6	3,624.6	31.0	1,288.3	61.6	2,263.1	-	73.2
Brazil	2,609.7	28,869.0	2,609.7	27,178.0	-	1,558.2	-	132.8
Chile	23.2	5,381.4	23.2	5,133.0	-	204.7	-	43.7
Colombia	737.3	11,905.6	737.3	11,074.2	-	767.6	-	63.8
Costa Rica	11.0	2,379.0	11.0	1,879.7	-	361.3	-	138.0
Dominican Republic	337.0	2,978.4	337.0	2,147.1	-	743.9	-	87.4
Ecuador	17.4	4,262.7	17.4	3,207.9	-	965.0	-	89.8
El Salvador	20.0	3,050.4	20.0	2,119.4	-	785.9	-	145.1
Guatemala	100.6	2,776.5	100.6	2,046.5	-	659.9	-	70.1
Guyana	117.3	978.9	-	121.2	117.3	850.7	-	6.9
Haiti	-	984.3	-	-	-	978.0	-	6.3
Honduras	228.8	2,742.9	-	582.4	228.8	2,095.1	-	65.4
Jamaica	56.8	1,872.6	56.8	1,503.6	-	170.1	-	198.9
Mexico	485.4	17,644.3	485.4	17,026.7	-	559.0	-	58.6
Nicaragua	143.8	2,292.6	-	285.4	143.8	1,941.0	-	66.2
Panama	-	2,103.3	-	1,767.9	-	292.8	-	42.6
Paraguay	-	1,946.6	-	1,325.5	-	608.2	-	12.9
Peru	351.1	6,966.5	351.1	6,310.3	-	435.1	-	221.2
Suriname	10.8	101.6	10.8	99.6	-	2.0	-	-
Trinidad and Tobago	-	1,069.1	-	1,013.4	-	30.6	-	25.2
Uruguay	99.5	3,814.0	99.5	3,667.8	-	104.3	-	41.8
Venezuela	6.0	4,035.1	6.0	3,860.9	-	101.4	-	72.9
Regional	40.0	2,881.4	40.0	2,639.9	-	227.9	-	13.6
TOTAL	**$6,019.9**	**$135,937.4**	**$5,468.3**	**$116,799.2**	**$551.6**	**$17,391.5**	**-**	**$1,746.7**

[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 $6 billion in Bank loans and guarantees approved in 2004 will help to finance projects involving a total investment of more than $16.4 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 comes principally from the Latin American and Caribbean countries.

Disbursements

The Bank's disbursements on authorized loans amounted to $4.2 billion in 2004, compared with $8.9 billion in 2003. As of December 31, 2004, cumulative disbursements, including exchange adjustments, totaled $116.8 billion, or 86 percent of the loans authorized by the Bank. The 2004 disbursements and cumulative totals as of December 31, 2004 by funds include:

- **Ordinary Capital:** $3.8 billion, bringing the cumulative total to $99.8 billion.
- **Fund for Special Operations:** $463 million, bringing the cumulative total to $15.3 billion.

TABLE III • YEARLY (2004) AND CUMULATIVE (1961-2004) DISBURSEMENTS[1]

(In millions of U.S. dollars)

	Total Amount		Detail by Funds					
			Ordinary Capital[2]		Fund for Special Operations		Funds in Administration	
Country	2004	1961-04	2004	1961-04	2004	1961-04	2004	1961-04
Argentina	$ 335.5	$ 17,579.4	$ 331.8	$16,889.0	$ 3.8	$ 641.3	$ -	$ 49.1
Bahamas	4.2	305.6	4.2	303.6	-	-	-	2.0
Barbados	7.9	328.3	7.9	268.6	-	40.7	-	19.0
Belize	8.1	72.5	8.1	72.5	-	-	-	-
Bolivia	109.8	3,082.7	17.3	1,234.6	92.4	1,774.9	-	73.2
Brazil	552.6	23,152.5	541.5	21,472.1	11.1	1,547.6	-	132.8
Chile	111.9	5,028.8	111.9	4,780.4	-	204.7	-	43.7
Colombia	332.0	10,858.1	329.6	10,034.0	2.4	760.3	-	63.8
Costa Rica	100.4	2,170.9	100.2	1,681.2	-	361.3	0.3	128.4
Dominican Republic	254.2	2,204.5	254.2	1,373.1	-	743.9	-	87.4
Ecuador	48.8	4,005.4	48.5	2,950.5	0.3	965.0	-	89.8
El Salvador	52.6	2,619.9	52.0	1,698.7	0.2	785.8	0.4	135.5
Guatemala	119.2	2,245.1	119.4	1,526.1	(0.6)	658.4	0.5	60.6
Guyana	46.4	705.5	-	121.2	46.4	577.4	-	6.9
Haiti	28.0	660.9	-	-	28.0	654.5	-	6.3
Honduras	138.4	2,221.2	-	568.7	138.3	1,602.1	0.1	50.5
Jamaica	80.8	1,647.6	80.8	1,278.5	-	170.1	-	198.9
Mexico	969.9	16,275.8	969.9	15,658.2	-	559.0	-	58.6
Nicaragua	140.6	1,809.6	-	285.4	140.5	1,473.0	0.1	51.2
Panama	37.1	1,751.1	37.0	1,425.2	-	292.8	0.1	33.1
Paraguay	60.6	1,621.6	60.6	1,000.5	-	608.2	-	12.9
Peru	508.9	6,107.3	508.9	5,451.1	-	435.1	-	221.2
Suriname	3.3	58.0	3.3	56.0	-	2.0	-	-
Trinidad and Tobago	40.7	829.7	40.7	773.9	-	30.6	-	25.2
Uruguay	57.6	3,276.9	57.6	3,130.7	-	104.3	-	41.8
Venezuela	63.0	3,760.6	63.0	3,586.4	-	101.4	-	72.9
Regional	19.3	2,438.2	19.3	2,210.0	-	214.6	-	13.6
TOTAL	**$4,231.8**	**$116,817.6**	**$3,767.8**	**$99,830.3**	**$462.7**	**$15,308.9**	**$1.2**	**$1,678.4**

[1] After exchange adjustments. Totals may not add up due to rounding.

[2] Detail includes private sector loans, net of participations.

▶ **Other funds:** $1.2 million, bringing the cumulative total from funds administered by the Bank to $1.7 billion.

Repayments

Loan repayments amounted to $5.5 billion in 2004. Cumulative payments as of December 31, 2004 were $58.6 billion. Repayments received by the Bank during the year, and cumulative as of December 31, 2004, were:

▶ **Ordinary Capital:** $5.2 billion, bringing the cumulative total, before repayments to participants, to $49.9 billion.

▶ **Fund for Special Operations:** $294 million, for a cumulative total of $7 billion.

▶ **Other funds:** $9 million, bringing the cumulative total to $1.6 billion.

TABLE IV • YEARLY (2004) AND CUMULATIVE (1961-2004) TOTAL COST OF PROJECTS[1]

(In millions of U.S. dollars)

	Total Cost		Bank Loans and Guarantees[2]		Country Contributions	
Country	**2004**	**1961-04**	**2004**	**1961-04**	**2004**	**1961-04**
Argentina	$ 545.2	$ 42,674.2	$ 528.0	$ 20,399.0	$ 17.2	$ 22,275.2
Bahamas	5.0	560.7	3.5	358.5	1.5	202.3
Barbados	0.0	717.6	0.0	426.9	0.0	290.6
Belize	0.0	139.9	0.0	92.0	0.0	47.9
Bolivia	153.0	5,768.3	92.6	3,624.6	60.4	2,143.7
Brazil	11,841.9	84,035.4	2,609.7	28,869.0	9,232.2	55,166.4
Chile	32.9	12,893.2	23.2	5,381.4	9.7	7,511.8
Colombia	784.4	23,246.9	737.3	11,905.6	47.0	11,341.4
Costa Rica	12.2	3,730.0	11.0	2,379.0	1.2	1,351.0
Dominican Republic	341.2	4,183.9	337.0	2,978.4	4.2	1,205.5
Ecuador	20.0	7,288.5	17.4	4,262.7	2.6	3,025.8
El Salvador	150.0	4,527.6	20.0	3,050.4	130.0	1,477.2
Guatemala	100.6	4,354.3	100.6	2,776.5	0.0	1,577.8
Guyana	128.6	1,151.6	117.3	978.9	11.3	172.8
Haiti	0.0	1,274.1	0.0	984.3	0.0	289.7
Honduras	265.6	4,450.1	228.8	2,742.9	36.7	1,707.2
Jamaica	75.7	2,677.4	56.8	1,872.6	18.9	804.9
Mexico	1,102.0	46,199.5	485.4	17,644.3	616.6	28,555.2
Nicaragua	191.6	3,411.2	143.8	2,292.6	47.9	1,118.5
Panama	0.0	3,868.3	0.0	2,103.3	0.0	1,765.1
Paraguay	0.0	2,661.0	0.0	1,946.6	0.0	714.3
Peru	376.5	12,376.3	351.1	6,966.5	25.4	5,409.7
Suriname	12.0	123.3	10.8	101.6	2.0	21.7
Trinidad and Tobago	0.0	1,603.9	0.0	1,069.1	0.0	534.7
Uruguay	160.0	5,464.3	99.5	3,814.0	60.5	1,650.3
Venezuela	11.0	13,268.8	6.0	4,035.1	5.0	9,233.7
Regional	110.0	14,471.7	40.0	2,881.4	70.0	11,590.2
TOTAL	**$16,419.2**	**$307,121.9**	**$6,019.9**	**$135,937.2**	**$10,400.2**	**$171,184.7**

[1] Cumulative loans after cancellations and exchange adjustments. Totals may not add up due to rounding.

[2] Excludes private sector participations.

Project Descriptions

Argentina

In 2004, the Bank approved four loans and one MIF financing to Argentina. Since 1962, the Bank has made 229 loans totaling $20.4 billion and disbursements have totaled $17.6 billion.

"Argentina Avanza" Social Sector Program
($500 million loan from the OC with cofinancing from the World Bank)

This policy-based loan will support Argentina's transition from emergency social interventions in response to the 2001-2002 economic crisis to sustainable programs based on social inclusion policies and effective targeting and management criteria. Resources will be disbursed according to progress in implementing social sector reforms, establishing mechanisms to protect spending on priority social programs, maintaining a viable macroeconomic environment, and monitoring social indicators. Reforms will focus on modernizing and streamlining social programs by rationalizing benefits based on profiles and needs, and improving and automating control procedures for cash transfer programs. Job training and employment programs will be strengthened, and health and education initiatives will target the most vulnerable population groups, including expansion of social insurance coverage for the elderly.

Strengthening Production-related Provincial Institutions and Fiscal Management
($18 million loan from the OC)

Technical assistance, training and equipment financed by this loan will promote investment at the provincial level by strengthening the subnational agencies that support the productive sectors and streamlining their support services. Provincial information systems linked to the federal system will be installed to provide economic and productive data, promote business opportunities, and clarify legal and procedural standards important to private sector development. With an emphasis on the relatively less-developed provinces, the program will support reforms to help producers access and use support services. To improve provincial fiscal management and coordination with federal initiatives, the program will install standardized integrated financial data systems in the provinces that allow for effective monitoring of public expenditure patterns. The systems will consolidate budget, accounting, treasury and public credit modules into a single database.

Institutional Strengthening of the Argentine Senate
($4.8 million loan from the OC)

An institutionalized system of legislative advisory assistance would enable the Argentine Senate to carry out its lawmaking and administrative tasks more effectively and transparently. Technical assistance, equipment and training provided through this program will restructure and modernize the Parliamentary Secretariat, create a permanent core of high-level advisors, and install specialized information systems. Reforms in administrative and financial management–including redesign of critical administrative processes, development of a compendium of regulations and strengthening of audit practices–will help the Senate manage the legislative process in a more efficient and timely manner. The Senate's public outreach will be enhanced by extending coverage on public television and improving the institution's Internet portal.

Institutional Strengthening of the Economic Policy Secretariat
($4.8 million loan from the OC)

This technical cooperation loan will strengthen the secretariat within the Ministry of the Economy and Production that designs policies to promote sustained and equitable growth. The operation will improve economic policy management by developing strategies and medium-term development proposals, implementing a public policy evaluation system that includes statistical and early warning systems to facilitate timely decision-making, and better coordinating policy initiatives with other public sector agencies. To strengthen the Economic Policy Secretariat, the program will upgrade the professional staff profile, establish performance evaluation systems, and install modern information management systems.

Support for Small Business Development in the Province of Santa Fe
($5 million MIF investment and $500,000 MIF grant)

In partnership with the *Fundación de la Cuenca*, this project will introduce a new funding methodology in Argentina, establishing a special facility to grant medium- and long-term loans to an estimated 70 to 90 small businesses in the province of Santa Fe. The facility will also provide quasi-equity funding. Targeting the sectors of agribusiness, auto parts, tools, farm machinery and food industry equipment, the project aims to demonstrate how this type of facility can be an effective and viable source of small business finance. It will also create a lasting local source of know-how regarding this methodology by training local personnel and evaluating the program so that it can be replicated elsewhere in the region.

Bahamas

In 2004, the Bank approved one loan to the Bahamas. Since 1979, the Bank has made 18 loans totaling $359 million and disbursements have totaled $306 million.

Land Use Policy and Administration Project
($3.5 million loan from the OC)

This program will modernize land administration processes in order to reduce waiting times for the public and increase the number of taxable properties. Digital mapping, geographic databases and a parcel information management system will record the location, ownership and value of all properties on the archipelago's most populated islands of New Providence and Grand Bahama. A computerized information system and a land surveying initiative will rationalize procedures and facilitate grants and leases of Crown Land, publicly managed property that accounts for 70 percent of the nation's land. Training of surveyors and acquisition of modern equipment will modernize the geodetic infrastructure as well as cadastral surveys of several key Bahamian islands. The program is expected to substantially reduce the time required for recording deeds, increase the property tax rolls by 20 percent, and bolster revenues generated from Crown Lands by 40 percent. Technical assistance will strengthen the government's capacity to develop policy options and procedures for national land issues.

Barbados

In 2004, the Bank made no new loans to Barbados. Since 1979, the Bank has made 39 loans totaling $427 million and disbursements have totaled $328 million.

In 2004, the South Coast Sewerage Project to improve sanitation and water quality along the densely populated south coast tourist resort areas was fully disbursed. The civil works of the Bridgetown Roads and Safety Project were also completed. Projects in execution included the $85 million Education Sector Enhancement Program for all primary and secondary schools.

Projects under development in 2004 included modernization of customs, excise and value-added tax areas, a proposed $4.4 million loan to improve revenue collection and expedite commerce and travel, and a housing and neighborhood upgrading program to develop low-income urban neighborhoods and help with affordable housing solutions.

In September 2004, Hurricane Ivan wrought terrible destruction in several islands of the Caribbean, including Barbados. Hardest hit were Grenada, St. Vincent and the Grenadines, and St. Lucia in the Eastern Caribbean. The Bank responded quickly with nonreimbursable technical cooperation grants from the Fund for Special Operations of $200,000 and $100,000, channeled through the Caribbean Development Bank. Also during the year, MIF financing provided support to the Caribbean Regional Negotiating Machinery through a fourth technical cooperation project to assist with preparing for and undertaking the Caribbean Community's external trade negotiations.

Belize

In 2004, the Bank approved no new loans to Belize. Since 1997, the Bank has made nine loans totaling $93 million and disbursements have totaled $73 million.

The Bank's activities during 2004 focused on the completion of the new IDB country strategy, the implementation of key technical assistance and the preparation of nonfinancial products to enhance the public sector's capacity to foster private sector development and competitiveness. The new country strategy was approved by the Board of Executive Directors in September.

The Bank worked closely throughout the year with the Belizean authorities in the areas of macroeconomic stability and competitiveness. One MIF technical cooperation operation of $500,000 was approved to strengthen the regulatory capacity of the Public Utility Commission. A second grant in the same amount, approved in December 2003 and designed to improve the supervision of banking and nonbanking institutions, was implemented over the course of the year. In addition, three diagnostic studies were completed: a public debt assessment, a country environmental analysis and a preliminary review of the country's human resource capacity.

Bolivia

In 2004, the Bank approved four loans and one MIF financing to Bolivia. Since 1961, the Bank has made 167 loans totaling $3.6 billion and disbursements have totaled $3.1 billion.

Northern Corridor Highway Program
($33.1 million loan from the FSO with cofinancing from the Andean Development Corporation)

Bolivia's northern corridor provides key highway connections with Brazil and Peru and is considered an important transportation hub under the Initiative for the Integration of Regional Infrastructure in South America (IIRSA). This loan will finance highway repairs and safety measures across rugged terrain in the departments of Beni and Pando. The operation will repave a 44-km segment that crosses the Andes from La Paz to Cotapata and build stabilization and drainage works such as retaining walls, channels and culverts extending 50 kms further north to Santa Bárbara. On-site sensors for early warning and hazard management systems will be installed along particularly remote and vulnerable sections of the highway. The program will also finance design studies to further extend the highway improvements to Caranavi.

ISA Bolivia Transmission Lines Project
($31 million loan from the OC)

Transmission lines and substations financed through this project will increase the supply of electricity in Santa Cruz–Bolivia's largest market–as well as in Sucre and the southern departments of Chuquisaca and Potosí. The project includes construction of four new substations and installation of single circuit 230kV transmission lines spanning 248 kms between Santiváñez and Sucre, 188 kms between Sucre and Punutuma, and 168 kms between Carrasco and Urubo. In all, the project is expected to increase the capacity of the national grid by 40 percent and contribute to gradual decreases in average electricity tariffs over a period of years. The project will be designed, built and operated by a special-purpose, private Bolivian consortium sponsored principally by *Interconexión Eléctrica* (ISA), a Colombian firm with extensive experience with electricity sector projects in Latin America.

Revitalization and Urban Development of La Paz
($28.5 million loan from the FSO with cofinancing from the U.S. Agency for International Development)

This operation will stimulate economic development in the historic city center of La Paz by financing construction of parks, upgrades of roads and basic infrastructure, and training and social services for downtown residents. Resources will be used to begin work on a 40-hectare central park and recreational area, install drainage facilities and pedestrian walkways, repair and widen principal thoroughfares, and improve other green spaces in the downtown area. Competitive social and productive funds will be established to finance projects by civil society organizations to assist the most vulnerable groups, as well as for training and technical assistance projects for artisans, microentrepreneurs and small business owners.

Credit and Training for Low-income Women
($1.8 million in loans and $350,000 in grants from the FSO under the Social Entrepreneurship Program)

This operation will improve access for low-income women in peri-urban and rural areas to microcredit, training and human development services, with a view to strengthening their economic activities, increasing their incomes, promoting savings and improving their business management skills and family health practices. The two executing agencies, *CRECER* and *Pro Mujer*, will use IDB resources to open branches in the poorest and most underserved areas of the country (the Northern Tropics, El Chaco and the Andean region) and will provide services to some 20,000 women. In addition to promoting business development by women, the operation will improve the education and health of their families.

Deepening the Bolivian Leasing Market
($1.5 million MIF loan, $400,000 MIF convertible subordinated loan and $65,000 MIF grant)

Leasing can have a substantial impact on the development of small and medium-sized companies by supporting entrepreneurial activities, catalyzing investments and enabling sustainable growth of businesses. In addition, it helps firms access foreign technology when they have neither the financial resources nor the expertise to import capital goods. Several small leasing firms that appeared in Bolivia in the early 1990s failed due to problems in raising capital, high operating costs and lack of a well-diversified portfolio. In partnership with *Fortaleza Fondo Financiero Privado*, this MIF project will help launch an SME-focused leasing company in Bolivia by providing tier two capital as well as debt financing through a senior loan. The project will serve as an example to the financial services industry that it is possible to create viable leasing companies that target the SME sector, hopefully leading to the development of a robust leasing market in Bolivia.

Brazil

In 2004, the Bank approved 12 loans, one guarantee and two MIF financings to Brazil. Since 1961, the Bank has made 315 loans totaling $28.9 billion and disbursements have totaled $23.2 billion.

Support for Micro, Small and Medium-sized Enterprises
($1 billion loan and conditional credit line from the OC)

Micro, small and medium-sized enterprises account for 95 percent of all Brazilian firms and nearly two-thirds of total employment. However, the growth of these businesses is constrained because they often lack access to the commercial banking sector. This operation aims to strengthen their competitiveness and create jobs by providing medium- and long-term financing for small-scale investment projects. Loan resources extended to the National Economic and Social Development Bank (BNDES) will be channeled through intermediary financial institutions for projects to expand, modernize and diversify business productivity. The goals of these multisector credit programs are to meet demand across a wide variety of economic sectors and regions, ensure transparency in resource allocation through the use of market criteria and proper management and oversight, and maximize the impact of the resources by using the BNDES system to select efficient projects that boost competitiveness.

Social Protection System
($1 billion loan from the OC with cofinancing from the World Bank)

Since the passage of laws in the 1990s that redefined social protection in terms of rights and reformed service delivery mechanisms, Brazil has developed an array of federal, state and municipal social programs that have substantially reduced poverty. The cornerstone of the modern system is *Bolsa Família*, a cash transfer program that targets those most in need but requires beneficiaries to comply with certain requirements such as school attendance and participation in health services. This program–the first by the IDB to use a sector-wide approach (SWAp)–will expand *Bolsa Família* to cover an estimated 11.2 million families, in part by incorporating beneficiaries of other health, nutrition and education programs, eliminating duplication and improving efficiency. The operation will also strengthen efforts to combat child labor and assess and improve the quality of complementary safety net programs.

Fortaleza Urban Transport Program
($85.2 million loan from the OC)

This program will upgrade the most heavily traveled bus routes throughout this densely populated capital city of the northeastern state of Ceará. The loan will finance construction and repairs of three urban transit trunk corridors, including paving, lane additions, overpasses, and bus terminals and stations, as well as sidewalks, cycle paths, plazas and parks. In addition, 26 kms of key roads that feed into the main corridors will be paved, expanded and incorporated into the bus system. A citywide traffic monitoring system, as well as traffic lights, storm sewers and street lighting, will be installed to improve road safety. The improvements will particularly benefit low-income residents who must commute on buses from the outskirts of the metropolitan area, making both bus and automobile travel faster, less costly and safer.

Curitiba Urban Transport Program II
($80 million loan from the OC)

This program will transform the interstate highway (BR-116/476) that runs through Curitiba into a city boulevard serviced by a new public transit corridor featuring high-capacity buses. The busway will be fully linked to the city's established transit system through three transfer terminals and 12 stations. The design calls for median lanes for biarticulated buses, three express lanes and a side lane for local traffic. The program also will finance construction of parks and bicycle paths, road safety improvements and upgrades to the Inter-2 secondary circular route. The improvements are expected to reduce travel time, improve passenger comfort, safety and access to the transit system, and reduce operating costs throughout the metropolitan area.

Infrastructure Investment Fund
($75 million loan from the OC)

The Brazilian Infrastructure Investment Fund will be a mixed debt-equity fund designed primarily to promote medium- and long-term financing for private sector infrastructure projects and public utilities in energy, transport, telecommunications, and water and sanitation. The Fund, which will be managed by an independently selected management corporation, will invest in some 15 different projects, including greenfield projects and corporate capital expenditure initiatives to expand capacity. Projects must meet economic development, credit and other eligibility criteria, including concentration limits and diversification guidelines with respect to the type of industry, the financing offered, and exposure to a single project or firm. Fund resources will come from savings provided by Brazilian pension funds as well as from other institutional investors.

Campos Novos Hydroelectric Power Project
($75 million loan from the OC)

This private sector loan will finance construction of a 880-megawatt hydroelectric power plant on the Canoas River in the state of Santa Catarina as part of Brazil's plan over 2001-2010 to develop an interconnected generation system. The project includes installation of three 293-megawatt turbines, construction of a dam with a crest length of 592 meters, and installation of 11 kms of transmission lines to connect to the existing 230-kilovolt Campos Novos substation. Construction will be carried out by a consortium of contractors including *CPFL Geração de Energia, Companhia Brasileira de Alumínio, Companhia Níquel Tocantins, Companhia Estadual de Energia Elétrica,* and *Centrais Elétricas de Santa Catarina*. The financing includes a $1 million Social Fund to support local communities in areas affected by the project.

São Bernardo do Campo Urban Transport Program
($72 million loan from the OC)

This operation will expand the mass transit system and complete construction of a beltway and other key highway projects in this growing city between São Paulo and the coast. To better connect and speed up bus service, the loan will finance construction of transfer terminals, dedicated bus lanes, viaducts, and an east-west tunnel under Via Anchieta, the principal highway through the city. Nine kilometers of the city beltway will be widened or extended in order to separate regional and metropolitan traffic from local traffic. The program will upgrade traffic signals and build flood control works, sidewalks, pedestrian overpasses, disabled access ramps at intersections, and bicycle lanes.

Telemar Bond Guarantee
($68 million partial credit guarantee from the OC)

Telemar Norte Leste S.A. provides fixed line telecommunications services to 16 Brazilian states covering nearly two-thirds of the country. The IDB guarantee for Telemar's domestic corporate bond issue will support expansion and modernization of the firm's telecommunications network and business management systems, enabling Telemar to upgrade data and Internet service, secure productivity gains, and develop information technology services. Project objectives include resolving network congestion issues and reducing the amount of time to install new lines. The project will digitalize networks, introduce new services and expand the number of lines by installing cables, building cable galleries and tubes, and relocating terminals and other equipment.

Unibanco Trade Finance Facility
($50 million loan from the OC with a "B" loan of $100 million)

This loan will help expand Brazil's trade capacity by supporting a facility to provide financing for international transactions by Brazilian companies and their subsidiaries abroad. The funds can be used for pre- and post-shipment export financing as well as for prepayments for exports and the financing of imports. The borrower, *União de Bancos Brasileiros*, is the country's oldest and third largest private bank in terms of total assets and loans, with a strong presence in the wholesale and retail banking business. The operation forms part of the International Trade Finance Reactivation Program approved by the IDB in 2003. The "B" loan enables the IDB to play a catalytic role in mobilizing resources by encouraging international lenders to extend and retain credit lines to Brazilian financial institutions.

Belo Horizonte Environmental Restoration Program
($46.5 million loan from the OC)

This operation will improve sanitary conditions, restore the environmental quality of local waterways, and reduce the risk of flooding in the Velhas River watershed in metropolitan Belo Horizonte. The program will finance construction of erosion and landslide control works along 37 kms of streams, five small dams for flood control, and nearly 8 kms of drainage collectors. To improve sewerage, more than 60 kms of marginal interceptors and collection networks will be installed along with 5,380 household connections. The program will also build, repair and equip parks and public squares, reforest watershed areas, and build protection works for springs. Some 27 kms of roads to be built near waterways will be integrated into the urban road system to facilitate the collection of solid waste currently being illegally dumped in streams.

Technological and Managerial Innovation in Agricultural Research
($33 million loan from the OC)

The agrifood sector accounts for more than a quarter of Brazilian GDP and employment and more than 40 percent of exports. This program will improve the competitiveness of the sector by strengthening research capacity and by supporting innovative processes and methodologies to diversify exports and improve market access. Resources will be used for research on environmental management, genetic resource development, biotechnology and intellectual property issues. Applied research projects will examine agroexport chains, agrifood quality, biodiversity and organic agriculture. Three pilot clusters will be implemented to develop technology markets in order to help family farmers. Finally, the operation will support linkages between Brazil's agricultural research agency, Embrapa, and regional and international partners such as the Consultative Group on International Agriculture Research.

Strengthening Fiscal Administration in the State of São Paulo
($20 million loan from the OC)

By streamlining tax collection and procurement procedures, training staff and modernizing information systems, this program will strengthen public resource management and improve the state's fiscal position. Administrative reforms will bolster revenue collection, establish audit teams to combat tax evasion, coordinate prosecution of tax offenders, and improve customer service to stimulate voluntary compliance. An expanded electronic procurement system will optimize competition, efficiency and transparency in the contracting of government goods and services. Ongoing training and performance evaluation, as well as development of career stream models, will enhance the skills of state Finance Department staff. Technical assistance and equipment will be provided to upgrade information and communications systems in order to give taxpayers better access to services.

São Paulo State Social Policy Evaluation and Improvement Project
($5 million loan from the OC)

This program will improve the efficiency and effectiveness of the state's safety net for the poor by strengthening the institutions that administer social programs. The financing will be used to design and implement a centralized database on federal, state, municipal and private social programs; develop municipal social welfare plans based on an evaluation of the needs of the at-risk population; support social policy evaluation and research; and carry out a public information strategy that promotes the participation of civil society, nongovernmental organizations and beneficiary groups in social program design and implementation.

Investment Fund for Brazilian Companies (DVC II)
($4 million MIF investment and $750,000 MIF grant)

This investment will fund a vehicle to be managed by Dynamo Venture Capital Management Company, Ltda. that will provide equity and convertible debt financing as well as financial and technical advisory services to approximately 15 technology-based small and medium-sized enterprises. Provision of this type of finance will increase competitiveness and innovation among technology-based SMEs and generate employment. It will also further the development of the venture capital industry in Brazil, providing examples of how the financing of early-stage and medium-sized Brazilian companies produces an impact on the growth and organization of these firms.

Fund for Competitive Technology-based Companies
($3.7 million MIF investment and $75,000 MIF grant)

MIF small business risk capital funds are providing an important demonstration of how access to venture capital can increase the growth and organization of early-stage Brazilian companies. The project will establish a vehicle to be managed by *Companhia de Participações* that will provide equity and convertible debt financing, financial and technical advisory services, and value-added governance to approximately 20 Brazilian technology-based small and medium-sized firms. This will enable increased competitiveness and innovation among technology-based SMEs, generate employment and further the development of the venture capital industry in Brazil.

Chile

In 2004, the Bank approved three loans and three MIF financings to Chile. Since 1961, the Bank has made 136 loans totaling $5.4 billion and disbursements have totaled $5 billion.

Strengthening the Digital Strategy (Phase I)
($13.2 million loan from the OC)

The level of Internet penetration and connectivity in Chile is far greater than in any other nation in Latin America, spurred on by close collaboration between the public, private and academic sectors in promoting the country's digital development strategy. This program looks to further strengthen Chile's e-readiness by developing an integrated platform for five government agencies to provide electronic services; implementing electronic public procurement procedures to improve efficiency and transparency; carrying out a digital literacy campaign that provides computer training to 250,000 citizens, many of them from digitally-excluded low-income groups; installing information technology systems in 10 health care facilities, including two hospitals, in order to improve health service delivery; and introducing local Web platform service to automate processes and services in a dozen municipalities.

Innovative Interventions for the Elderly
($6.5 million loan from the OC)

Over the next 10 years, the proportion of Chileans over 60 years old will increase more rapidly than in any other country in the region. This program will address the social challenges posed by that demographic shift by developing innovative approaches to improve the delivery of social services to the elderly. The operation will finance the startup of 13 regional offices of SENAMA, the nation's service agency for the elderly, as well as local service centers in 20 municipalities where older adults can access services ranging from health and housing referrals to information on volunteerism and training opportunities. Technical assistance will support creation of a "Seniors for Development" corps to involve older citizens in community initiatives. The program will finance studies and design of a national plan on ways to improve and expand public services for the elderly at all levels of government.

Public Building Management Program
($3 million loan from the OC)

Leasing, maintenance and repair costs for some 4,000 buildings used by the Chilean government are estimated to exceed 9 percent of current public sector expenditures. This technical cooperation program will enable central government agencies to more efficiently manage use of those buildings. The program will provide consulting services to carry out an inventory of the legal status, uses, tenure, value, costs and other characteristics of public buildings. The aim is to provide reliable information that facilitates better building management and informs public and private stakeholders about the status of government facilities. An economic management model will be developed that takes into account such factors as use, internal efficiency, land, quality of construction and services, condition, and costs and budgeting. Studies will also examine the regulatory and institutional reforms needed for more efficient building management.

Development of Technology-based Enterprises: Seed Capital Facility
($3 million MIF loan and $530,000 MIF grant)

In the region, support services and especially financial products specializing in dynamic ventures are limited in terms of sophistication and sheer numbers. The lack of efficient markets and limited transparency further increase barriers to entry for new ventures and the complexity and cost of starting up new enterprises. In partnership with *Fundación Chile,* MIF has designed a project whose general objective is to help bring together institutions, investors and technology-based enterprises, for purposes of financing the interface between technological development and the business expansion and maturing phase. The project will strengthen a network of business support centers; involve various activities to establish a network of business investors who, in addition to financing, may support enterprise development; and support the creation of a seed capital facility, an instrument to finance technology-based enterprises in the initial ramp-up stage.

Helping Small and Medium-sized Exporters to Capitalize on Trade Agreements
($2.1 million MIF grant)

Since 1990, the Chilean government has negotiated trade agreements with several countries. Up to now, few Chilean small and medium-sized exporters have managed to secure a firm foothold in these markets, or to capitalize fully on the export opportunities offered by the new trade agreements. By developing and implementing a standardized and transferable model enabling Chilean firms to access more discriminating international markets, this project will benefit 250 to 300 small and medium-sized enterprises requiring assistance to initiate and/or increase exports to markets in countries with which Chile has signed trade agreements. The project will be carried out jointly by the International Economic Relations Division (ProChile) of the Ministry of Foreign Affairs and the Santiago Chamber of Commerce.

Strengthening Regulation and Oversight of Cooperatives
($1.1 million MIF grant)

Enhancing the competitiveness, transparency, integrity and soundness of Chilean cooperatives is an important means of promoting the social and economic development of the country. Administered by the Department of Cooperatives (DECOOP), a unit within the Ministry of the Economy, Development and Reconstruction, this MIF project will strengthen the management capacity of Chilean cooperatives, generate reliable statistics for regulatory and economic policy decision-making and deliver financial services for low-income groups, microentrepreneurs and rural entrepreneurs. Resources will help formalize nonbank financial institutions and establish general government oversight capacity through DECOOP.

Colombia

In 2004, the Bank approved six loans and three MIF financings to Colombia. Since 1961, the Bank has made 202 loans totaling $11.9 billion and disbursements have totaled $10.9 billion.

Sector Program for Public Utilities
($600 million loan from the OC)

This policy-based loan will support reforms to policies, procedures and institutions aimed at improving the efficiency, equity and sustainability of electricity, telecommunications, and water and sanitation services. The program will strengthen the effectiveness and accountability of regulatory and supervisory agencies by strengthening interagency coordination, establishing transparent selection procedures, and improving stakeholder participation through such measures as public hearings on rate-setting resolutions. Reform measures will improve the investment climate for private sector participation. Targeting of subsidies for the poor will be improved and subsistence consumption levels for certain services reduced. Loan resources will be released in tranches based on progress in carrying out the reforms and maintaining the macroeconomic stability necessary to implement them.

Reorganization, Redesign and Modernization of Health Service Networks
($72 million loan from the OC)

This program will improve the quality and efficiency of health services available at public hospitals by implementing a system of performance contracts that encourages managed competition. Technical assistance, information system support, retraining and human resource reforms will consolidate public health providers at departmental and municipal levels into service networks whose operational funding will be linked to output and quality targets. The program is expected to substantially reduce the operating deficit of public hospitals while improving services for poor and rural populations that rely on public institutions and allowing for expansion of insurance coverage to those most in need.

Rural Low-income Housing Program
($30 million loan from the OC)

Nearly a third of Colombians, most of them impoverished and many in substandard housing, live in the country's rural areas. Housing subsidies financed by this loan will enable an estimated 17,000 rural families to build or buy a new home or make improvements to an existing dwelling. Program resources will be distributed nationally based on targeting criteria that identify regions and populations most in need. Housing upgrades that qualify for subsidies include water and sewerage connections, flooring, roofing and additions to relieve overcrowding. Beneficiary families and housing providers must contribute a small portion of the project value in order to qualify for the subsidy. The operation will also provide consulting services, equipment and training to design and install an information system to administer the subsidy program.

National Environmental System (SINA II)
($20 million loan from the OC)

This program will finance priority regional and local environmental initiatives to restore, conserve and sustainably manage forest ecosystems in watersheds, upgrade solid waste disposal, and implement cleaner production methods. The funds will be channeled through autonomous regional corporations established by the government to finance investments in natural resource management. The program will also develop a national environmental research and information system, strengthen mechanisms to implement environmental policies, and provide training on natural resource conservation and management. Finally, the operation will consolidate the achievements of the first phase of the program (SINA I), particularly reforestation programs to increase protective and productive forest cover.

Public Administration Reform Program
($10.3 million loan from the OC)

Colombia's national public administration entails more than 300 entities that form the executive branch of government. Although a considerable portion of national revenues has been decentralized to subnational levels, the structure and size of the central government has not been proportionately adjusted. To open the way for greater public investment, this program will improve the efficiency, transparency and effectiveness of the national government by modernizing management, reducing institutional dispersion, integrating cross-cutting management systems and improving policy coordination, e-government and service delivery. The operation will make public information more transparent and accessible through online systems for government services, procurement and contracting; improve legal and asset management; redesign the organizational structure of government agencies; provide workforce retraining; and strengthen personnel management by introducing merit systems and public employment information networks.

Support for Private Sector Participation and Concessions in Infrastructure
($5 million loan from the OC)

This operation will provide advisory services to design projects with private sector participation for building, upgrading, operating and maintaining transportation, power, communications, and water and sanitation infrastructure. The objective is to promote more efficient delivery of quality services in these sectors. The funds can be used to evaluate the technical, economic, financial, institutional, legal, social and environmental aspects of proposed infrastructure projects and to study and design innovative approaches to promote private participation, including mechanisms to diversify capital ownership. The operation also aims to improve the investment climate by strengthening the technical and institutional capacity of policy, regulatory and oversight agencies in the infrastructure sectors.

Supporting Cluster Competitiveness
($3.5 million MIF grant)

Executed by the *Universidad de los Andes*, this project will establish an innovative public-private institutional mechanism with nationwide coverage to support implementation of a competitively awarded cluster development support program. The mechanism will fund selected initiatives aimed at producing verifiable improvements in the competitiveness of participating firms, demonstrating the use of efficient and transparent procedures and promoting partnerships among firms, mainly through outreach units in the clusters.

Corporate Social Responsibility in Small and Medium-sized Enterprises
($1.2 million MIF grant)

The development and institution of corporate social responsibility (CSR) practices is still an emerging process in Colombia. The country's textile, flower and coffee export industries have incentives to adopt socially responsible policies, due to the demand from their destination markets. Because CSR is still a new concept in Colombia, support from the MIF, in partnership with the *Confederación Colombiana de Cámaras de Comercio,* will help to accelerate the use of CSR as a competitiveness-enhancing tool for SMEs. One novel feature of the proposed operation is that it makes CSR considerations an integral part of credit rating systems and of corporate risk rating tied to insurance costs. As a result of the program, participating banks and insurance companies will build nonfinancial CSR-related criteria into their credit risk management systems so that the firms that adopt CSR practices can improve their credit ratings.

Promotion of Youth Entrepreneurship
($1.1 million MIF grant)

The project will contribute to the strengthening of the entrepreneurial fabric of Bogota, Medellín and Cali by developing a model for creating sustainable and competitive enterprises for the young people of these three cities. Directed by the *Fundación Corona*, the project focuses on improving the skills of Colombian youths for establishing new enterprises, introducing innovations in institutions of higher learning and training activities, and facilitating access for teams of entrepreneurs to business, institutional and financial networks that will help them structure and start up their enterprises. It will also strengthen the coordination and specialization of the institutions that provide support services to entrepreneurs. Results of the project will be closely tracked and widely disseminated to help promote the use of good business practices.

Costa Rica

In 2004, the Bank approved one loan to Costa Rica. Since 1963, the Bank has made 99 loans totaling $2.4 billion and disbursements have totaled $2.2 billion.

Sustainable Development Program for the Sixaola River Binational Watershed
($11 million loan from the OC)

Much of the Sixaola watershed is safeguarded as national parks, but the part in the Talamanca Valley is home to a growing number of subsistence farmers whose activities sometimes affect the ecosystem. A sustainable development model developed through this program will support construction of basic social infrastructure and development of crop diversification initiatives that create jobs and mitigate negative environmental practices. The loan will finance water supply and sanitation systems, electrification, roads and drainage, markets and storage facilities. Training and technical assistance will promote economic development through projects for alternative crops, agroforestry and ecotourism. The program will be carried out in part by the Sixaola River Basin Committee made up of delegates from public sector agencies, local governments and civil society groups. Local committees will work with environmental and productive organizations, indigenous communities and governments to develop project proposals.

Dominican Republic

In 2004, the Bank approved three loans to the Dominican Republic. Since 1963, the Bank has made 87 loans totaling $3 billion and disbursements have totaled $2.2 billion.

Protection and Sustainability of Social Reforms
($200 million loan from the OC with cofinancing from the World Bank)

This operation will mitigate the impact of fiscal adjustment on the poor by safeguarding social spending while the government implements reforms to ensure macroeconomic and fiscal stability. Specifically, the financing will be used to protect priority budgets in the health and education sectors. Loan resources will be disbursed in tranches based on implementation of policy reforms outlined in an arrangement with the International Monetary Fund to strengthen the country's fiscal balance. Those reforms are expected to lay the groundwork for a comprehensive financial administration law to consolidate budget management, as well as for reorganization of the social welfare sector to improve the quality and efficiency of expenditures, leading to a more effective social safety net for the poorest and most vulnerable segments of society.

Financial Sector Consolidation Program
($100 million loan from the OC with cofinancing from the World Bank)

Designed as a response to the country's recent financial crisis, this program aims to restore public confidence in the banking system by supporting implementation of reforms entailed in the new Monetary and Finance Act. The legislation calls for establishing a new second-tier bank to lend to and facilitate funds for the productive sectors and the secondary housing market, thus eliminating Central Bank lending to the nonfinancial sector. It also will strengthen the capital position and technical capacity of the Central Bank so that it can operate more efficiently and eliminate its fiscal deficit. The program will also implement reforms that enable the Office of the Superintendent of Banks to function autonomously, adapt international standards for regulating credit risk, modernize audit standards, and bolster bank inspections.

Multiphase Low- and Moderate-income Housing Program
($37 million loan from the OC)

This program will improve housing conditions for poor and moderate-income families by upgrading infrastructure and social services in urban neighborhoods, expanding access to credit, and promoting private development of low-cost housing. Comprehensive packages in impoverished areas will provide land titles, upgrade water and sewerage systems, garbage collection, street paving and lighting, and improve early child development, primary health, and technical training services. The National Housing Bank will rediscount microcredits originated by first-tier lenders for home construction or improvements. The government will develop infrastructure on public land and then sell tracts to private developers for construction of low-cost housing units. An estimated 14,000 families will directly benefit from the program, which will also provide technical assistance to develop housing planning, policymaking and monitoring systems.

Ecuador

In 2004, the Bank approved two loans and one MIF financing to Ecuador. Since 1961, the Bank has made 171 loans totaling $4.3 billion and disbursements have totaled $4 billion.

Coastal Resources Management Project, Phase II
($12.4 million loan from the OC with an IFF interest rate subsidy)

This operation will promote sustainable development along Ecuador's Pacific coast by financing preventive and productive projects and transferring responsibilities for land use planning and coastal management to local communities. An estimated 70,000 coastal residents will benefit from projects to install potable water and solid waste management systems, build public works to preserve the environment and mitigate damage from natural disasters such as the El Niño weather phenomenon, and strengthen productive activities. Afro-Ecuadorian and other communities whose livelihood depends on sustainable management of the Cayapas-Mataje Reserve are among the project beneficiaries. Technical assistance and training will support adoption of a national coastal management agenda, strengthen the planning capacity of 10 municipalities, and develop an information system to monitor the status of coastal resources and promote best practices to manage them.

Strengthening Health Care under the Rural Social Security Directorate
($5 million loan from the OC with an IFF interest rate subsidy)

Training and equipment provided through this operation will strengthen rural health promotion and disease prevention activities and ensure the availability of medications for effective primary care. Personnel in medical facilities under the Rural Social Security Directorate will be trained in maternal and prenatal care, as well as in health care for children under five, based on the Integrated Management of Childhood Illness strategy. Public information campaigns on health care issues and practices will be directed toward rural communities and local organizations. Technical assistance and computer equipment will be provided to develop an efficient system for obtaining and distributing pharmaceutical products, and new medical equipment will enable clinics to better respond to epidemiological profiles at the primary care level.

Providing Credit to Underserved Rural Communities
($1.5 million MIF investment)

Extending financial services to isolated rural populations is a central goal of the MIF, and one shared by *Codesarrollo*, a regulated savings and loan cooperative that focuses on the development of the marginalized rural segments of Ecuador's population through the promotion and strengthening of local financial systems. *Codesarrollo*'s main clients are small agricultural producers and rural microentrepreneurs who have very limited access to financial services. This project introduces an innovative two-tier mechanism whereby *Codesarrollo* will onlend to rural financial entities that belong to its network.

El Salvador

In 2004, the Bank approved one guarantee to El Salvador. Since 1961, the Bank has made 104 loans totaling $3 billion and disbursements have totaled $2.6 billion.

Banco de Comercio – Mortgage Bond Project
($20 million partial credit guarantee from the OC)

This partial credit guarantee will support a three-year mortgage bond issue totaling $150 million to expand the housing loan operations of one of El Salvador's largest commercial banks. The transaction will enable the *Banco de Comercio* to offer new and affordable mortgages at terms consistent with the long-term nature of mortgage lending. As it will mark the first time a Salvadoran bank uses mortgage collateral to tap local capital markets, the operation will enable lenders and investors to become more familiar with a mortgage-backed structure that can achieve high-grade credit quality and low-cost funding. The operation will also strengthen capital market integration because the new bonds will be offered to institutional investors from other Central American nations. The IDB's participation will help mobilize private resources from those regional investors.

Guatemala

In 2004, the Bank approved one loan to Guatemala. Since 1961, the Bank has made 112 loans totaling $2.8 billion and disbursements have totaled $2.2 billion.

Improving the Quality of Social Expenditure
($100 million loan from the OC with an IFF interest rate subsidy)

This policy-based loan will enhance the efficiency and effectiveness of social spending by implementing results-driven management mechanisms and by protecting budgets for social programs. Resources will be disbursed in tranches based on progress in meeting targets and maintaining benchmarks for investments that help the poorest and most vulnerable groups in society. The program will support implementation of the government's *Guate Solidaria* strategy to improve health, nutrition, food security and education programs in 39 priority municipalities. A national system of performance indicators will be put in place to promote performance-oriented management, evaluation and monitoring of social expenditures.

Guyana

In 2004, the Bank approved five loans to Guyana. Since 1977, the Bank has made 52 loans totaling $979 million and disbursements have totaled $706 million.

Moleson Creek – New Amsterdam Road
($37.3 million loan from the FSO)

This loan will finance repairs of a key coastal highway that provides the only land transport link to Suriname. Rehabilitation of 86 kms of the two-lane highway between New Amsterdam and Moleson Creek will complete improvements of the eastern shore road system that starts in the capital of Georgetown, facilitating Guyana's trade links with neighboring countries as part of the Initiative for Integration of Regional Infrastructure in South America (IIRSA). The program will repair bridges and drainage structures and upgrade unsafe portions of the road where there are high accident rates. Technical assistance will strengthen the capacity of Guyana's public works ministry to design and implement transportation policies, prioritize investments, and regulate public transport. The program also will finance a feasibility study on prospects for building a new bridge across the Demerara River.

Fiscal and Financial Management Program
($28 million loan from the FSO)

This dual policy-based and investment loan will support a comprehensive government reform agenda that promotes more transparent and efficient fiscal management. Training, consultancy services, information systems and repairs of facilities will help to modernize the legislative framework, revenue authority and public expenditure management system, as well as strengthen fiscal and fiduciary oversight systems to bring them into compliance with recent constitutional mandates. Tax reforms will increase revenues while making the system more equitable by reducing tax system distortions, increasing the efficiency of tax administration, and laying the groundwork for fair and effective implementation of a value-added tax in 2006. Loan resources will be released in tranches based on progress in meeting program objectives.

Health Sector Program
($23 million loan from the FSO)

By upgrading priority health facilities and strengthening the institutional capacity of the health sector, this program will improve the effectiveness of primary and preventive care services. The McKenzie Regional Hospital in Linden will be repaired, expanded and equipped, and its power, water supply and sewerage systems will be upgraded. The inpatient ward of the Georgetown Public Hospital Compound will also be repaired. To improve patient access to essential drugs and health supplies, technical assistance will assist in setting up a procurement information system and improving the storage, distribution and cold chain for pharmaceuticals. The program will also support the drafting of health legislation and regulations to modernize the sector, enhance management capacity, strengthen information technology at the central and regional levels, and promote human resource reforms to modernize recruitment and training and enhance productivity.

Agricultural Support Services
($22.5 million loan from the FSO)

Agriculture is critical to Guyana's economy, accounting for nearly a third of GDP and employment and 40 percent of export earnings. This program will improve agricultural efficiency by financing irrigation and drainage works to reduce flooding in the coastal plains and providing technical assistance to farmers to increase productivity. The program will build or repair 1,200 kms of channels, 400 kms of service roads, 1,200 sluice gates, and several small dams. Water user associations will be established to sustainably manage the works, and farmers will be trained in environmentally safe use of pesticides, fertilizers and waste disposal systems, as well as in methods to improve traditional yields and introduce new crops. A seed facility will be built for rice production and research, and support services will provide marketing and plant and animal health information to strengthen private sector participation in production and exports.

Public Management Modernization Program
($5 million loan from the FSO)

This operation aims to make government services more efficient, transparent and accountable by improving the institutional capacity of entities ranging from the Public Service Ministry to semiautonomous agencies. Technical assistance will strengthen the regulation and management of public services, enhance information systems for human resource management, train key personnel, and design a staff performance appraisal system. The program will develop reclassification and other mechanisms to improve the performance of at least six statutory bodies and semiautonomous agencies. To coordinate state reforms over the long term, the program will assess institutional and governmental performance in several areas, design guidelines to improve public sector transparency, develop a government information technology plan, and formulate development strategies for local governments. The program also involves an important effort in consensus building.

Haiti

In 2004, the Bank approved no new loans to Haiti. Since 1961, the Bank has made 50 loans totaling $984 million and disbursements have totaled $661 million.

Haiti faced a difficult social, economic and political situation throughout most of 2004. In addition, the country was buffeted by natural disasters, exacerbating the humanitarian crisis and leading to growing instability and security concerns. The interim government, installed in March 2004 in the aftermath of an armed conflict, faces daunting demands in implementing a strategy for national reconciliation and reconstruction.

The Bank was a key member of the multidonor Steering Committee that together with the government oversaw the formulation in 2004 of a needs assessment entitled the Interim Cooperation Framework (ICF). The ICF sets out clear targets and financial requirements in four strategic areas: (1) strengthening political governance and national dialogue; (2) strengthening economic governance and institutional development; (3) promoting economic recovery; and (4) improving access to basic services. The Bank's Transition Strategy for Re-engagement 2003-2004, approved in 2003, led to the Board's approval of operations in each of these areas in the second half of that year. This leadership will be maintained through the Transition Strategy for 2005-2006.

When the Bank resumed lending in 2003, it came at a time of limited donor engagement. The 10 projects totaling $400 million that were either reactivated or newly approved that year constituted a major effort at re-engagement. Of the total, $30 million were disbursed in 2004, despite growing security concerns. The Bank has developed flexible, innovative approaches to maintain and even accelerate execution, streamlining its procedures and setting an example for other agencies. These include technical cooperation in the fields of basic services, institutional strengthening and emergency response, in addition to progress in implementing projects in the areas of social services, basic economic infrastructure and road rehabilitation.

Honduras

In 2004, the Bank approved eight loans and one GEF grant to Honduras. Since 1961, the Bank has made 149 loans totaling $2.7 billion and disbursements have totaled $2.2 billion.

Puebla-Panama Plan Atlantic Corridor Improvement Project
($50 million loan from the FSO with cofinancing from OPEC)

The Puebla-Panama Plan's Atlantic Corridor spans 1,745 kms and is a critical transport link for the countries of Mesoamerica. A key portion of the corridor in Honduras is the CA-5 Norte highway, which connects Tegucigalpa with Puerto Cortés on the Caribbean coast. This loan will finance repaving, widening and other repairs of 50 kms of CA-5 running through the Comayagua Valley and from Villanueva to La Barca. Bypasses will be built around the towns of Comayagua, Pimienta and Potrerillos, and a new bridge will be constructed over the Ulúa River. The loan will also strengthen road safety for the entire 350 kms of the PPP highway system across Honduras by upgrading signage and pavement markings.

Support for Rural Electrification
($35 million loan from the FSO)

Upgrades to transmission and dispatch systems financed by this loan will improve or initiate electricity service in impoverished rural areas throughout the country. The project includes construction of substations and subtransmission lines in Erandique and Chichicaste, as well as lines between Danlí and Chichicaste and between Las Flores and Erandique. Reactive compensation equipment will be installed in the departments of Santa Barbara, Cortés, El Paraíso, Lempira, Intibucá and Olancho. The project will enhance service to 27,000 households and bring electricity to another 8,000 for the first time. Efficiency improvements will focus on modernizing the National Dispatch Center, establishing a Loss Investigation Unit, and regularizing service in some 6,500 households currently connected to the grid illegally. The project is being undertaken as part of the Puebla-Panama Plan's regional electrical initiative to extend coverage and create markets in Mesoamerica.

Secondary Education and Job Training Program
($30.6 million loan from the FSO)

Less than 37 percent of junior high and 19 percent of high school age youths attend school in Honduras. This program aims to increase enrollment in grades 7 through 12 by offering more flexible educational programs and upgrading school facilities. Vocational training will also be expanded for students as well as for unemployed young adults. Increased use of distance education programs such as the tutorial-based learning system and the *Telebásica* educational television program will expand instruction in isolated areas. The Bank program will finance expansion of classroom space in existing schools as well as construction of 68 secondary education modules in low-income rural areas. Consulting and technical support services will better link instruction in 50 vocational secondary schools to the needs of prospective employers, with a focus on agroindustry, forestry and tourism. The program will also help companies establish job training and placement mechanisms for young adults.

Poverty Reduction Support Program
($30 million loan from the FSO with cofinancing from the Swedish International Development Cooperation Agency and the World Bank)

This policy-based loan will support efforts to meet targets for improving social indicators as established in the government's poverty reduction strategy. The operation will monitor the quantity and quality of public social spending in order to improve the efficiency and effectiveness of programs for those most in need, support reforms of priority health and education programs, and promote planning and evaluation methodologies that link social sector policy and investment decisions. Progress toward meeting poverty reduction targets will move Honduras closer to obtaining substantial relief on its external debt under the Heavily Indebted Poor Countries (HIPC) initiative. Loan resources will be released in tranches based on meeting objectives in terms of improving the management capacity of social sector programs and maintaining a stable macroeconomic climate.

Financial Sector Program
($25 million loan from the FSO with cofinancing from the IMF and World Bank)

Banking reforms introduced under this program will restore depositor confidence and provide borrowers with a stable source of financing. To bring prudential regulations into line with Basel Principles, the program will help the National Banking and Insurance Commission strengthen standards and supervision in terms of capital adequacy; classification of loans, guarantees and reserves; matching of maturities, currencies and insurance rates; contingent assets; accrual of interest in income accounts; and electronic exchange of financial information. Other reforms will improve supervision of financial groups and registration procedures, the methodology for presenting consolidated financial statements, financial group capital adequacy and offshore operations. Loan resources will be disbursed in tranches based on progress in meeting program and macroeconomic policy objectives.

Central District Municipal Development Program (Phase II)
($22.5 million loan from the FSO)

This program will modernize or upgrade municipal services such as water supply, sanitation and roads in metropolitan Tegucigalpa. The loan will finance paving and expansion of the Boulevard Centroamérica, construction of the El Estadio connector towards Comayaguela, and improvements to intersections at La Granja and Humuya. Urban renewal projects will title lands in 15 informal settlements, pave bus routes, and support a variety of other community initiatives in low-income areas. An institutional and contractual model will be designed to contract out water supply, sanitation and waste disposal services to private firms. To improve efficiency, technical assistance and training will support reforms in municipal planning and management, including implementation of a financial strategy and a service cost-recovery plan.

Comprehensive Social Safety Net Program
($20 million loan from the FSO)

This program will offer financial incentives to 32,000 poor households in exchange for their making regular use of social services for their children. To qualify for the health subsidy, families must take children under five to clinics for growth monitoring, vaccinations and other basic services. Pregnant women and mothers must also participate in health and nutritional counseling. To increase school enrollment and retention, the program will offer stipends for student supplies and other school needs to families whose children regularly attend the first through the sixth grade. On the supply side, the program will finance provision of health outpatient services in impoverished areas and provide cash transfers to parent-teacher associations to purchase teacher materials, upgrade schools and promote teacher training. An estimated 32,000 households are expected to benefit from stipends, which will be delivered to women heads of households.

Strengthening Fiscal Management
($15 million loan from the FSO with cofinancing from the Swedish International Development Cooperation Agency)

This program will improve the efficiency and transparency of management of the revenue and expenditure sides of government finances in order to improve services and promote a stable macroeconomic environment. To support the Ministry of Finance, the program will provide staff training, strengthen customs and tax operations and enforcement, and modernize equipment and infrastructure. Revenue Office operations will be improved through increased economic and fiscal planning and analysis, program-based budgeting, and more efficient accounting procedures. Information technology upgrades at the Central Bank will facilitate compilation and analysis of the economic data necessary to support monetary policy management based on international standards. Finally, an Integrated Poverty Reduction Tracking System will be implemented to promote efficient and effective social spending.

Consolidation of Ecosystem Management for the Bay Islands
($2.5 million grant from the IDB/Global Environment Facility Fund)

This grant, the first to be approved under the 2004 program whereby the IDB administers funds from the Global Environment Facility, complements a $12 million IDB loan from 2002 and will strengthen the conservation of globally significant coastal marine habitats and species. The program will help the Executive Commission for Sustainable Tourism of the Bay

Islands integrate concerns related to biodiversity into land use planning and will result in benefits for the entire archipelago and its surrounding waters, including 21,000 hectares of marine ecosystems (coral reefs, mangroves and other wetlands).

Jamaica

In 2004, the Bank approved two loans to Jamaica. Since 1970, the Bank has made 89 loans totaling $1.9 billion and disbursements have totaled $1.6 billion.

Kingston Water and Sanitation Project
($40 million loan from the OC with an IFF interest rate subsidy and cofinancing from Japan Bank for International Cooperation)

This program will improve water and sewage services in the Kingston and St. Andrew area by repairing water distribution system supply and sewerage facilities. Pumping stations, pipelines and storage facilities will be brought up to acceptable standards of reliability and safety. To reduce levels of unaccounted for water, bulk flow and micrometers will be installed to identify leakage and commercial losses. Sewage collection will be repaired and expanded to avoid overflows harmful to both public and environmental health. Training and technical assistance to modernize the National Water Commission will make the system more sustainable by improving staff skills, promoting a more equitable rate structure, improving customer services, strengthening the management information system, and outsourcing certain services to the private sector. Studies for wastewater treatment in Kingston will also be financed.

Irrigation Development Program
($16.8 million loan from the OC with an IFF interest rate subsidy)

Vulnerability to drought, particularly in certain regions of the country, is a significant constraint to improving agricultural productivity in Jamaica. By expanding areas under irrigation, this program will enable farmers to increase yields and cropping intensity and introduce new crops. The loan will finance repairs and construction of wells, pump houses and equipment, power supply, pipe networks, and on-farm systems in the parishes of Yallahs, Colbeck, New Forest, Essex Valley and Saint Dorothy. Technical assistance and training in agricultural and marketing techniques will help farmers optimally manage their irrigated lands, and water user associations will be established to manage the water systems. Institutional strengthening of the National Irrigation Commission will improve sector planning and monitoring by upgrading information, billing and accounting systems and developing a business strategy to manage water resources.

Mexico

In 2004, the Bank approved three loans, one guarantee and three MIF financings to Mexico. Since 1963, the Bank has made 180 loans totaling $17.6 billion and disbursements have totaled $16.3 billion.

Urban Poverty Program (Phase I)
($350 million loan from the OC)

This program will upgrade basic social infrastructure and services in targeted urban neighborhoods with a high incidence of poverty. The resources will be channeled through Habitat, a poverty reduction initiative of the Ministry of Social Development. The operation is expected to benefit 600,000 households in cities throughout the country. The resources will finance construction of basic urban services such as water supply and sanitation, recreation and other community facilities, road repairs, electrification, property titling, and a range of training, education and other social programs for children, youth and other vulnerable groups such as the elderly and disabled. These services will include daycare, after-school activities, health education campaigns, computer training, assistance for business startups, and domestic violence prevention programs.

Hipotecaria Nacional Mortgage-backed Securities Program
($75 million guarantee from the OC)

Demographic trends point to an ongoing and significant need for new housing in Mexico well into the future. This partial credit guarantee will cover mortgage-backed securities issued by *Hipotecaria Nacional,* the nation's largest special-purpose mortgage institution. The private firm is launching a $500 million operation to fund the origination of residential mortgages for low- and middle-income housing, where the current housing deficit is greatest. The IDB's participation will enhance the ability of *Hipotecaria Nacional* to raise long-term financing and provide support to local capital markets to create standardized mortgage-backed securities. The program backs efforts by the Mexican government to reduce dependency on direct public finding for the housing market by diversifying funding sources and strengthening local capital markets as the primary financing source for mortgages.

Skill-based Human Resources Development (Phase I)
($50.4 million loan from the OC)

Technical assistance, teacher training and equipment and materials provided under this program will improve the employability and productivity of vocational school graduates. The aim is to strengthen links between training programs and the needs of the job market. Curricula in 48 vocational, technical, technological research and career education programs will be modified to incorporate a more skill-based and benchmark-oriented approach. School-business linkages will be enhanced through market research, the use of modern information systems, and more exchange programs between schools and business and industry. To upgrade and standardize worker skills, the program will support implementation of the Occupational Skills Standardization and Certification System in 10 key sectors of the economy, including the automotive industry, electronics, software, in-bond assembly (*maquilas*), tourism and construction.

Institutional Development in the Water Supply and Sanitation Sector
($10 million loan from the OC)

Delivery of water supply and sanitation services in Mexico is constrained not only by problems with infrastructure but also by the institutional and operational shortcomings of service providers. This program will finance repairs and expansion of civil works by operators that develop business plans to improve management, operating efficiency and financial sustainability. The program will benefit nearly 600,000 residents of small and mid-sized cities by improving water supply facilities to reduce losses and ensure safety, repairing damaged or obsolete equipment and installations, expanding water systems in low-income areas, and installing low-cost systems in isolated communities. Participating providers must implement institutional and regulatory reforms, strengthen staff training and community outreach, improve operational areas such as procurement and metering, and modernize business and financial systems, including accounting and billing.

Fund for Early- and Medium-stage Technology Firms
($5.1 million MIF investment)

The establishment of this fund is expected to further five key objectives: (i) to promote technology entrepreneurship in Mexico by providing growth financing for up to 10 early- and middle-stage technology-based small and medium-sized enterprises (SMEs), that, if successful, will become role-models for others to follow; (ii) to promote the adoption and use of technology innovations among SMEs, increasing their competitiveness and generating high-quality employment; (iii) to lead the nascent risk capital technology sector in Mexico; (iv) to guide government institutions with an interest in promoting the development of the technology sector on how to invest and participate in the governance of an investment fund; and (v) to promote risk capital fundraising among nontraditional investors in Mexican investment funds. The fund will be managed by Latin Idea Mexico Venture Capital Fund II, L.P.

Program to Incorporate Business Assets into the Formal Sector
($2.6 million MIF grant)

A key aspect of improving the income-generating capacity of the poor is to increase the number of informal enterprises that can move into the formal sector and then continue to operate and grow on a formal basis. This calls for changing the incentives to do so as well as facilitating the process of formalization. Working in partnership with the Ministry of Social Development (SEDESOL), this project will design and implement a reform package to pave the way for the incorporation of informal businesses into the formal sector, in conjunction with a nationwide strategy for its immediate implementation. The project includes a diagnostic assessment of the country's business environment and regulatory system.

Implementing Corporate Social Responsibility Measures in SMEs
($1.3 million MIF grant)

Helping to improve the competitiveness and market opportunities of small and medium-sized enterprises (SMEs), the *Universidad Anáhuac* will use MIF resources to promote the implementation of corporate social responsibility (CSR) measures among SMEs that are in the value chains of larger enterprises. To achieve these objectives, the program will include the following three components: (i) development of a methodology and local capacity for implementing CSR measures; (ii) CSR implementation in SMEs in the value chain; and (iii) promotion of CSR and dissemination of the program's results.

Nicaragua

In 2004, the Bank approved eight loans to Nicaragua. Since 1961, the Bank has made 130 loans totaling $2.3 billion and disbursements have totaled $1.8 billion.

Puebla-Panama Plan Highway Project
($40 million loan from the FSO with cofinancing from the Nordic Development Fund)

This program will upgrade portions of the road system in northwest Nicaragua assigned high priority under the Puebla-Panama Plan, a regional effort by the Mesoamerican countries to foster sustainable development through such means as highway improvements. The program will finance repairs or paving of 160 kms of roads and carry out maintenance on another 292 kms, with a focus on upgrading the road network in the department of Chinandega and connections to the port of Corinto. By reducing travel time and freight costs, improving highway interconnections, and increasing the amount of all-weather roadways, the program aims to promote investment in northwest Nicaragua and foster the competitiveness of productive activities.

Puebla-Panama Plan Highway Project (Zone III)
($40 million loan from the FSO)

Highway construction and repairs financed by this loan will complete the Pacific corridor of the Pan American Highway through Nicaragua. Paving of 72 kms of the Malpaisillo-San Isidro highway in north-central Nicaragua will connect it with the Telica-Malpaisillo segment financed by an earlier IDB loan, thus linking the Pan American and Coastal Highways and reducing travel times. The program will also finance repairs of 93 kms of feeder roads and highway maintenance covering another 286 kms in agricultural areas in the departments of Matagalpa, Jinotega and León, facilitating the transport of products to major highways and ports. The program is under the purview of the PPP. For Nicaraguan highway operations, the country is divided into four zones based on production potential, highway network requirements and marketing needs.

Improving Maternal and Child Health
($30 million loan from the FSO)

This performance-driven loan will expand and improve health services for vulnerable populations in impoverished rural and indigenous areas. The target group is women of childbearing age and children under age five that live in 76 municipalities identified as having the most severe poverty levels, greatest difficulty in accessing services, and highest rates of maternal and infant mortality and morbidity. The program will support services for preventive checkups during pregnancy, childbirth assisted by qualified professionals, and hospitalization for prevalent pathologies such as postpartum hemorrhaging and infant asphyxia. Maternity homes will be established to enable pregnant women from remote areas to be closer to modern health facilities, and hospitals and other health care facilities will be built or repaired. The program will also finance purchases of drugs and other medical equipment.

Youth and Adult Basic Education Program
($10 million loan from the FSO)

Education and training programs financed by this loan will increase the income-earning capacity of young adults by improving their job skills and helping them complete their basic schooling. The classes will primarily target young people 15-30 years old who dropped out of primary school. The program will expand nonformal adult basic education, provide teaching materials for training and study groups, and incorporate job skills training into the curriculum. A pilot radio-assisted program will target people living in remote areas. To reduce future demand for adult education, a separate program component will provide supplies and equipment to expand coverage of the final two years of primary school in order to boost graduation rates for youths between 10 and 15 years old.

Citizen Security Program
($7.2 million loan from the FSO with cofinancing from the UNDP)

This program will improve public safety by reducing violence and juvenile delinquency in targeted urban areas. To prevent and mitigate juvenile violence, the operation will finance social programs for job training, counseling for youths and parents, and direct interventions with gangs. To strengthen enforcement, the program will expand community policing initiatives by modernizing police communications systems, bolstering public information campaigns, and providing equipment and training to improve efforts to address juvenile and domestic violence. An integrated citizen security information system will be developed to provide reliable data on crime trends and identify effective prevention and control measures. The 11 cities targeted by the program are Managua, Ciudad Sandino, Tipitapa, Masaya, Granada, Jinotepe, Diriamba, Estelí, Chinandega, Matagalpa and León.

Support for the Secretariat for Coordination and Strategy
($7 million loan from the FSO)

This program will strengthen a government agency involved in planning, formulating policy and supervising implementation of the national development plan presented to the Nicaragua Consultative Group in 2003, as well as an economic growth and poverty reduction strategy important to the nation's participation in the Heavily Indebted Poor Countries (HIPC) initiative. The aim is to improve coordination of public investment with local and external resources in order to more efficiently and effectively implement social and economic investments. Training, technical assistance and information system support will enable the Secretariat for Coordination and Strategy of the Office of the President to better determine resource priorities, ensure that investments are consistent with government strategies, and monitor progress of the national plan. Studies and consultancies will establish eligibility criteria for investment projects in production-oriented sectors and economic infrastructure.

Strengthening the National Statistics System and 2005 Population and Housing Census
($6.6 million loan from the FSO with cofinancing from Japan, Sweden, UNDP, UNFPA, United Kingdom and the World Bank)

Census data gathered with the support of this operation will serve as a basis for formulating and implementing development strategies, policies and programs at the national and subnational levels. The loan will finance pre-census selection and training of field personnel, updating of census mapping, and the conduct of the census itself, including assistance with translators for the country's various ethnic groups and racial minorities and the training of rural and urban municipal and district leaders. A public information campaign will help raise awareness about the importance of participation in the census. Traditionally excluded groups will be targeted so as to benefit from the collection, analysis and dissemination of reliable statistics about their social and economic status.

Strengthening the Ministry of the Family
($3 million loan from the FSO)

This operation will improve the efficiency and effectiveness of social protection programs by upgrading facilities and providing training and equipment for the Ministry of the Family (MIFAMILIA). An accreditation system will be established as a benchmark for training local and national service providers in such areas as comprehensive child development. At least a dozen departmental or local management offices will be repaired or have computer systems installed. The program will strengthen MIFAMILIA's steering role by financing studies on best practices and harmonization of decrees and laws under the ministry's legal framework. A ministry information system will be installed to register beneficiaries and improve financial controls, and a communications and social marketing strategy will strengthen community outreach.

Panama

In 2004, the Bank approved one technical cooperation grant to Panama. Since 1961, the Bank has made 122 loans totaling $2.1 billion and disbursements have totaled $1.8 billion.

Panama City Wastewater Interception, Treatment and Disposal System
($1.5 million grant from the Japanese Trust Fund for Consultancy Services)

Technical cooperation financed by this grant will support the design of environmental sanitation facilities to reduce contamination of Panama City's bay, river and coastal areas. A study of topographical surveys, alignment, location and right-of-way issues, hydraulic capacity, geotechnical assessments, and equipment and material needs will lay the groundwork for building the pumping stations, interceptors and force mains needed to transport wastewater to a treatment site east of the capital. The program will also finance the design of wastewater and sludge treatment and disposal systems as well as an environmental impact assessment for all of the proposed works.

Paraguay

In 2004, the Bank approved no new loans to Paraguay. Since 1961, the Bank has made 114 loans totaling $1.9 billion and disbursements have totaled $1.6 billion.

In 2004, the Bank approved 14 technical cooperation operations for Paraguay, totaling more than $2.6 million. Eight of these operations, amounting to just over $2 million, support the government's efforts to strengthen institutions and to increase transparency in public administration, restoring confidence and credibility in the workings of the state. Of particular note were projects to support the National Integrity Plan, assistance for *Transparencia Paraguay* and a pioneering initiative to strengthen public policies to combat trafficking of people.

Other operations contributed to the preparation of new projects in the areas of urban development, technical education, science and technology, and assistance to indigenous peoples. Following the tragic fire in a supermarket in Asunción, the Bank moved quickly to provide a financial contribution to efforts to help the families of victims.

Peru

In 2004, the Bank approved four loans and two MIF financings to Peru. Since 1961, the Bank has made 176 loans totaling $7 billion and disbursements have totaled $6.1 billion.

Reform of Poverty Alleviation and Human Capital Development Programs
($300 million sector loan and $5.3 million technical cooperation loan from the OC)

A fast-disbursing, policy-based loan will make social spending more effective and equitable while strengthening the safety net for the poorest of the poor. Resources will be disbursed in tranches based on improvements in transfer and targeting mechanisms, implementation of national and local monitoring systems, protection of critical social services, and adherence to sound macroeconomic policies. The technical cooperation loan will finance consulting services, equipment and training in support of program goals, including the use of census data to better target resource allocation; decentralization of education and other services through improvements in the administration and supervision of programmatic transfers; upgrades to mechanisms to protect low-income workers during periods of unemployment; and reforms to health and nutrition services to ensure that they reach the most vulnerable groups, particularly pregnant and lactating women and children under five years of age.

Youth Labor Training Program
($18 million loan from the OC)

This program aims to better link labor demand and supply by providing vocational training for disadvantaged youths between the ages of 18 and 24. Participants will divide time between studies in selected training institutions and on-the-job trainee positions with businesses. The objective is to improve the labor participation, wages and job quality of young people while also helping businesses identify potential employees with skills specifically targeted to their labor needs. Stipends and direct subsidies will be available to program beneficiaries. A labor liaison and information service will match young job seekers with positions that become available, and a roster of training institutions will be developed in order to assist, monitor and evaluate training processes.

Improving Access to Rural Markets
($15 million loan from the OC)

Nearly a third of the Peruvian population lives in the countryside, most working small plots of land with limited economic potential. This program will provide agricultural information systems and business advisory services to organized groups of rural producers in the areas of Piura, Chiclayo, Trujillo, Ica, Arequipa and Moquegua-Tacna. The objective is to provide small and medium-sized producers with the tools they need to access markets, reduce transaction costs and increase profits. An estimated 300,000 rural families are expected to benefit. The financing will be used to modernize the national agricultural information system, enhancing statistics and data processing and creating a network accessible to producers throughout the country. Technical assistance extended through business advisory centers will develop links between producers and buyers, facilitate access to credit and technology, and promote nontraditional activities such as crafts, ecotourism, aquaculture and forestry.

Strengthening the Comptroller General's Office and National Control System
($12 million loan from the OC)

Peru's National Control System includes the Comptroller General's Office (CGR) and other public entities responsible for ensuring that all levels of government function effectively and transparently. To modernize the CGR, the program will provide consulting services to update internal review processes and products; develop information systems; and upgrade and equip a new headquarters building. The program also will support the control system by strengthening the technical and administrative capacity of other institutional and regional control entities and audit firms, as well as coordination between them. To develop human capital, the academic and management operations of the National Control School will be redesigned to enhance skills development. During preparation of this operation, the Bank supported an exchange of experiences between employees of the CGR and similar institutions in the region, and promoted cooperation between the Peruvian Supreme Court, the Attorney General and the CGR.

Enhancing the Impact of Workers' Remittances from Japan
($7.2 million MIF investment)

This project will enhance the development impact of workers' remittances to Peru from Japan through an innovative, structured transaction to finance the expansion of medium- to long-term credit to the microfinance and SME sectors, and for individual recipients of remittances. A senior loan of up to $7 million from the MIF's Small Enterprise Investment Fund to one of the country's fastest growing banks, *Banco del Trabajo*, will help channel remittances toward increased savings and investment. The loan will be secured in part by future flows of remittances, and will enable the bank to expand its medium- to long-term loan portfolio in Peru. Remittances to Peru from abroad totaled an estimated $1.3 billion in 2003; that same year, Latin Americans working in Japan sent home an estimated $3 billion to the region as a whole.

MiCasita –A Full-service Mortgage Finance Company
($2.1 million MIF investment)

This MIF investment will enable the establishment of *MiCasita Compañía Hipotecaria*, an innovative approach to developing the housing finance industry in Peru. *MiCasita*'s primary business will be to offer mortgage loans to first-time borrowers in the middle to lower income segments of the Peruvian population. The company will offer prompt, low-cost, personalized services not currently offered by government institutions or by commercial banks. *MiCasita*'s target market comprises 74 percent of the Peruvian labor force, primarily in the micro, small and medium-sized enterprise sectors. *MiCasita* plans to securitize its mortgage loans starting in its sixth year of operations and is expected to help develop the country's secondary mortgage finance market. If it becomes a successful business, *MiCasita* will be a model for other countries in the region that have yet to develop specialized full-service mortgage finance companies or secondary markets for mortgage loans.

Suriname

In 2004, the Bank approved two loans to Suriname. Since 1985, the Bank has made 15 loans totaling $102 million and disbursements have totaled $58 million.

Health Sector Reform
($5 million loan from the OC with an IFF interest rate subsidy)

This program will improve the efficiency, equity and quality of primary health care services, particularly those directed to the poor. Technical assistance, training and equipment will be provided to deliver an optimal package of basic health services, with a focus on prevention in the coastal region. The program will also implement joint supervision and monitoring by the various health sector entities, build training capacity in primary and preventive care, support development of quality assurance programs, and make essential medicines more available and affordable. Program goals include reducing child mortality, increasing immunization rates, reducing health sector administrative costs, improving policymaking capacity, and implementing a mechanism to better target health subsidies and extend health insurance to those most in need.

Strengthening Public Sector Management
($5 million loan from the OC with an IFF interest rate subsidy)

This program will improve government efficiency by modernizing procedures for the delivery of public services, streamlining the procurement process, and implementing a ministry-wide human resources strategy. Computerization and networking of central and field offices of the Central Bureau for Civic Affairs will simplify the processing of civil registry records, reducing waiting times for the public. Technical assistance provided to redefine legal regulations and strengthen civil service institutions are expected to lead to human resource reforms that improve personnel performance. Upgrades to the connectivity infrastructure along with installation of information systems in the Ministries of Home Affairs and Finance will enhance the government's e-readiness and speed up its communications network. The loan is expected to kick off a broader, long-term public sector reform process, which is being developed through consultations with key stakeholders supported by technical cooperation funding from the Bank.

Trinidad and Tobago

In 2004, the Bank approved no new loans to Trinidad and Tobago. Since 1967, the Bank has made 35 loans totaling $1.1 billion and disbursements have totaled $830 million.

The Bank continued its close partnership with Trinidad and Tobago in 2004, assigning high priority to improved management and performance of the current portfolio, including the timely completion of older, reform-oriented projects and the smooth start-up of two more recent projects aimed at addressing key challenges in the areas of trade and public sector reform.

Another highlight was the Board of Executive Directors' approval in November of the new country strategy for 2004-2007. The new country strategy, after extensive consultations and dialogue with the government, takes into account the country's main development challenges and builds on lessons learned from previous Bank activities. It sets out three principal areas of focus for Bank support: private sector development, public sector modernization and social development. This strategy framework helped to define, on an indicative basis, a new lending program for the next several years that leaves open the possibility of additional lending opportunities resulting from the public sector reform "road map" exercise underway with Bank support. At the same time, the country's pursuit of "Vision 2020"–achieving developed country status by that year–serves as an overarching goal for the medium to long term.

The Bank commissioned a series of major studies on poverty, fiscal issues, labor, competitiveness, trade and the environment and hosted a workshop in Port of Spain, with the participation of representatives from government, civil society and the business community to discuss their findings. Other examples of the Bank's nonlending support in 2004 include technical assistance to the private sector and establishing the first phase of the electronic Virtual Library of Trinidad and Tobago, to be used as a coordination tool by the Ministry of Planning and Development.

Uruguay

In 2004, the Bank approved one loan and one guarantee to Uruguay. Since 1961, the Bank has made 120 loans totaling $3.8 billion and disbursements have totaled $3.3 billion.

Road Infrastructure Program
($77 million loan from the OC)

This program will reduce transport time and cost and enhance access to domestic and external markets by improving key highways and bridges in the national road system. Nearly 300 kms of primary roads and key integration corridors with Argentina and Brazil, as well as 350 kms of secondary roads connecting departmental capitals and production centers, will be widened or repaved. The program will finance construction and repairs of bridges as well as road safety improvements such as signage, lighting at critical intersections, barriers, sidewalks and pedestrian shelters in school areas, and road safety education programs. To support sustainable highway management, the operation will provide training and technical assistance to the National Highways Department to update the road system status survey and strengthen the monitoring of work projects.

ABN Amro Trade Finance Facility
($22.5 million guarantee from the OC)

This program will address shortfalls in the availability of short-term financing for Uruguayan exporters–particularly exporters of agricultural commodities–by providing a credit enhancement for one of the nation's leading private trade finance banks. The facility consists of a partial credit guarantee in support of pre- and post-export lending by ABN, which has been operating in Uruguay since 1952 and is a branch of the ABN Amro Group, the largest banking group in the Netherlands. The operation will support ABN's plans to expand its lending to the agricultural and livestock subsectors, whose share of GDP has increased in recent years, including the wood, wool, rice, fish, meat, paper, oilseed, dairy and tanning industries.

Venezuela

In 2004, the Bank approved one loan to Venezuela. Since 1961, the Bank has made 77 loans totaling $4 billion and disbursements have totaled $3.8 billion.

Institutional Development of CADAFE
($5 million loan from the OC with cofinancing from the Andean Development Corporation)

This program will support the institutional development of the Electricity Administration and Development Company (CADAFE), a power utility. The focus will be on updating the utility's billing system and developing plans to modernize operations. Loan resources will be used to contract technical services to configure systems, procure computer equipment for data management and transaction processing, train staff in the new systems, update communications infrastructure and customer lists, and purchase portable meter readers and other vital equipment. The modernized system will be piloted in Aragua, Anzoátegui and Carabobo, areas that account for nearly a third of CADAFE customers.

Regional

In 2004, the Bank approved two loans, two technical cooperation grants, 11 MIF financings and one GEF grant at the regional level. Since 1963, the Bank has made 63 loans totaling $2.9 billion and disbursements have totaled $2.4 billion.

Establishment of a Trade Finance Facilitation Program
(authorization of $400 million in guarantees from the OC)

Declines in the availability of credit as a response to financial crises can disrupt a country's capacity to recover and grow. This program will mitigate the effects of volatile international capital flows on Latin American countries by providing financing for short-term credit transactions for importers and exporters. Through a regional revolving credit facility, banks will have access to funds that they can then onlend to companies involved in international trade. Under the program, the IDB will partially guarantee trade-related financing instruments for documentary credit and collections issued by banks and for pre-export financing. The program is expected to facilitate imports of critical capital and intermediary goods into the region.

Inter-American Corporation for Infrastructure Financing
($25 million loan from the OC with a "B" loan of $25 million)

Infrastructure investment needs in Latin America in the years ahead have been estimated at $70 billion annually, yet direct investment in the region actually contracted in 2003. The corporation supported by this loan will provide medium- and long-term financing for critical infrastructure projects, particularly private sector initiatives in the smaller economies. Established in 2001 as a specialized financial institution, the Inter-American Corporation for Infrastructure Financing will provide debt financing for about 10 new projects in six countries in such sectors as telecommunications, transportation, energy and tourism. The IDB will play a catalytic role in mobilizing international resources for capital investments to complement equity contributed by Corporation shareholders, which include international, regional, commercial and multilateral financial institutions, among them the Inter-American Investment Corporation, a member of the IDB group.

Crecera Regional Trade Finance Facility
($15 million loan from the OC with cofinancing from the Netherlands Development Finance Company)

This trade finance fund will provide pre- and post-export financing for medium-sized export firms, initially in Argentina and Brazil and later throughout Latin America. The project aims to mobilize participation by other private sector investors and lenders in regional trade finance. The borrower is a subsidiary of Crecera Finance Company Ltd., a special-purpose company that provides short-term financing to clients in Latin America. As the first trade finance facility ever established at the regional level, Crecera will serve as a critical and stable source of financing for exporters that have difficulty accessing funds. The availability of such financing is expected to make companies not only more competitive, but also more resilient during economic downturns. The operation is part of the IDB's International Trade Finance Reactivation Program, designed to strengthen private sector growth in the region.

Ecosystem Management in Indigenous Communities
($5 million grant from the Global Environment Facility, with parallel GEF grant cofinancing from the World Bank)

This project will strengthen the capacity of Central American indigenous communities to protect and manage their natural and cultural resources, heading off land degradation and conserving biodiversity. Some 45 cultural land use plans for traditional ecosystem management will be developed in six priority project areas within a zone defined as the Mesoamerican Biological Corridor. Technical assistance and training will support development and marketing of environmentally sustainable products and services. Institutional strengthening initiatives will help indigenous communities improve their organizational, technical, administrative and negotiating capacity.

Capacity Building and Outreach to Consolidate Integration
($2 million grant from the FSO)

Greater involvement by business, labor and nongovernmental organizations in support of regional and international integration makes it necessary to broaden efforts to strengthen a process once under the near-exclusive purview of governments. This program will finance public outreach activities such as workshops, publications and Internet sites that disseminate objective information about trade and integration to civil society. Training and technical assistance for governmental and nongovernmental professionals will improve the region's capacity to negotiate and implement trade agreements. The program will finance studies by policy-based research networks that support effective decision-making on trade and integration matters in the private and public sectors. The program will be carried out by the Institute for the Integration of Latin America and the Caribbean (INTAL).

Latin American Research Network
($1.3 million grant from the FSO)

The Latin American Research Network has been working since 1991 to strengthen regional research capacity and enrich the public policy agenda on development issues. The network has conducted hundreds of studies and today has expanded to include some

300 Latin American institutions. This operation will finance studies of the regional institutions that are needed to enhance market performance and improve the effectiveness of government functions. Specific research will cover such topics as labor relations, ways to promote innovation, competitiveness and productivity, and optimal financial structures for banks. This operation marks the fifth round of research network studies supported by the Bank, which incorporates the findings into its programming, lending and technical cooperation operations as well as its dialogue with member countries.

Expanding Financial Services for MSMEs through Women's World Banking Network Affiliates
($8.4 million in revolving lines of credit and grants totaling $1.6 million from the MIF)

This program will provide renewable lines of credit to eight affiliates of the Women's World Banking (WWB) network, five in Colombia and one each in Bolivia, Brazil and the Dominican Republic, leading to an estimated 23,000 new loans to microenterprises and small and medium-sized businesses(MSMEs). Another component, executed and cofinanced by *Stichting-WWB* of the Netherlands, will support the integration of microfinance throughout Latin America and the Caribbean, focusing on training, regulatory reform, the recruitment of traditional banks into the microfinance sector, and development of financing instruments in local currency.

Financing for Microenterprises and SMEs
($8.2 million MIF investment)

This investment will enable *Banco ProCredit* (El Salvador), *Financiera ProCredit* (Nicaragua), S*ociedad Financiera Ecuatorial* (Ecuador), and *Caja Los Andes* (Bolivia) to expand their lending to approximately 7,700 microenterprises and small businesses so that they can obtain the working capital and raw materials needed to build and expand their businesses. It will also broaden remittance distribution channels by installing automatic teller machines and issuing debit cards to current and potential customers of the abovementioned institutions. These steps will have a positive impact on customer welfare and on the financial position of the institutions. Customers will be able to make better use of the flow of remittances for investment purposes, and to improve planning of their future consumption. Intermediaries will be able to diversify their sources of funds and expand their financial service offerings.

Central American Renewable Energy and Cleaner Production Facility (CAREC)
($5.5 million MIF investment)

This project promotes the use of renewable energy technologies for power generation and seeks to improve the use of energy and other inputs for companies' operations in Central America. The purpose of the Facility is to provide mezzanine-type financing for SMEs in proven areas of renewable energy, cleaner production and energy efficiency throughout Central America. CAREC-financed investments will also have a myriad of socioeconomic and environmental benefits: small enterprise development, increased productivity, an alternative to fossil fuel dependence and improved health through reduced levels of harmful emissions.

Mentoring for Young Entrepreneurs
($4.3 million MIF grant)

New businesses play a key role in increasing job opportunities and income generation. However, young people with an entrepreneurial vocation often encounter difficulties in obtaining needed financial backing. Working in partnership with the *Fundación Impulsar* in Argentina, the *Câmara de Dirigentes Lojistas* in Brazil, FMSD in Colombia and JEMAC in Mexico, this project will build on an existing model and extend its use to new areas by helping young entrepreneurs to devise and develop business projects by mobilizing funds and support from the business community. Drawing on the concepts of corporate social responsibility, it will underwrite business mentors who can then provide monitoring, training and financial support for young entrepreneurs' projects.

Soccer and Team Sports Partnership Model for Youth Employment
($3.6 million MIF grant)

This project introduces an innovative approach to improving the employment prospects of young people from disadvantaged backgrounds who face substantial barriers when attempting to enter the workforce. Building on the experience and the special skill development that comes from playing soccer and other team sports, the project connects participation in athletics to job-training activities, improving access to the job market. It establishes a sustainable partnership model providing incentives for employers and sponsors; training for youth in both basic employability skills and market-driven vocational education; and opportunities for participants to exercise their skills in a work setting.

Improving SME Competitiveness in Guyana and Suriname
($2.9 million MIF investment)

This investment will contribute to the development of a robust small and medium-sized enterprise (SME) lending market in Guyana and Suriname, establishing a new institution specialized in SMEs and focused on sustainable lending practices. The project's expected outcomes are: (i) the development and expansion of at least 50 SMEs over the next five years in Guyana and Suriname and (ii) the development of a new SME-specialized financial intermediary.

Strengthening Market Access for SMEs in the Caribbean Agrifood Industry
($2.6 million MIF grant)

As executor of this program, the Caribbean Agribusiness Association (CABA) will help promote the competitiveness and exports of small and medium-sized enterprises in the agrifood industry in CARICOM countries. Hundreds of businesses in the nine CARICOM countries that are members of CABA will participate in awareness-building and training activities and programs to help them develop proposals in market access negotiations. Six specialists, two each from Jamaica, St. Lucia and Trinidad and Tobago, will initially be trained as trainers, passing along to individual businesses participating in Caribbean Advisory Groups on International Trade improved knowledge regarding food safety and standards and trade rules.

Enhancing SME Competitiveness through Technical Standardization
($2.5 million MIF grant)

In partnership with the Technical Standards Institute of Costa Rica (INTECO) and six other agencies in the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama, this program will directly benefit 3,500 small and medium-sized entrepreneurs as well as public setor officials. Participants will be trained in the development of technical standards for products that are directly or indirectly exportable, as well as for inputs in their supply chain. The ultimate goal of the project is to improve SME competitiveness and access to markets, and strengthen the regional integration process.

Development of Rural Tourism in the Andes
($2 million MIF grant)

Rural tourism, a concept recognized by a large number of multilateral organizations and promoted by the World Tourism Organization, represents a new tourism "product" that has the virtues of not requiring large-scale infrastructure investment and that caters to the interests of a new breed of international travelers. This program, to be executed by the *Fundación CODESPA*'s office in Peru, will develop a sustainable model for rural tourism in four potential destinations and tentatively establish buffer zones surrounding nature parks, one each in Argentina, Bolivia, Ecuador and Peru. The program's principal components involve planning for micro, small and medium-sized rural business, including community organization activities; promotion and marketing; and, importantly, a series of evaluation activities, including issuance of a technical manual.

Promoting Small and Medium-sized Business Competitiveness in the Caribbean
($1.3 million MIF grant)

The goal of this project is to help over 500 business owners, government officials and public and private sector experts to develop technical standards for exportable goods and inputs in their production chains. In addition, up to 1,500 business owners and technical specialists will receive training in the administration of those standards. The program will be executed by the CARICOM Regional Organization for Standards and Quality, working through the Bureau of Standards in Jamaica, the Trinidad and Tobago Bureau of Standards, the Barbados National Standards Institute and the Guyana National Bureau of Standards.

Strengthening the Role of the Private Sector in Caribbean Community Trade
($1.1 million MIF grant)

The general objective of this project is to integrate the private sector more fully into the Caribbean's external trade negotiation process, in order to maximize the benefits of resulting agreements for the region as a whole. Working through CARICOM, the project will increase the private sector's awareness of, interest in and capacity to contribute to the region's external trade negotiations. To achieve these objectives, the project will include three components: a campaign to build awareness; sector/industry assessments and consultations; and a trade-related capacity-building program.

Technical Cooperation

In 2004, the Bank approved 340 technical cooperation projects for a total of $56.7 million. The technical cooperation program provides important support for implementation of the Bank's Institutional Strategy. Its activities concentrate on transferring knowledge and sharing experiences in all four areas included in the strategy.

For *social development*, 147 projects were approved for a total of $22.2 million. The sectors in which these projects will be carried out include education, rural development, microenterprise, youth, violence prevention and protection of vulnerable groups, urban development and environmental protection.

For *modernization of the state*, the Bank approved 78 projects for $15.2 million, designed to strengthen the institutional, regulatory and management capacities of government entities and to enhance governance and results-based management in taxation, fiscal accounts, customs and public spending, among other areas. The Bank also provided support for e-government and information technology.

For *competitiveness*, 85 projects were approved for a total of $12.4 million. Noteworthy among them were the second phase of the research centers network that will provide funding for the preparation of high-level research into key issues of the institutional strategy and the second phase of support for economic policy harmonization among countries that are members of the Organization of Eastern Caribbean States.

The Bank also approved operations to support the private sector, through international conferences such as the Public/Private Summit on Investment Climate and a forum on infrastructure in Latin America and the Caribbean. Support is being provided for programs to improve competitiveness in the labor sector by strengthening ministries of labor and for the agriculture sector in association with the World Bank and other major stakeholders.

For *regional integration*, a record 30 projects were approved, totaling $6.9 million. The Bank continued to focus on supporting countries in their integration processes at the subregional, hemispheric and international levels, with special emphasis on trade. At the hemispheric level, the projects focused on institutional strengthening for more efficient participation by IDB borrowing member countries in the various forums on trade negotiation, particularly the Free Trade Area of the Americas. At the subregional level, the projects will help consolidate integration frameworks such as MERCOSUR and the Caribbean Single Market and Economy, and build institutional capacity for negotiating and implementing trade agreements.

In response to *natural disasters* in 2004, the Bank provided a record amount of $1 million for emergency grants to borrowing member countries of the IDB and to the Caribbean Development Bank for its member countries. The grants will assist populations affected by a number of emergencies that occurred during the year, including four major hurricanes that struck the Caribbean region, causing widespread destruction and loss of life.

See www.iadb.org/ar/tc_en

TABLE V • NONREIMBURSABLE AND CONTINGENT-RECOVERY TECHNICAL COOPERATION[1]

(In thousands of U.S. dollars)

Country	2004	1961-04
Argentina	$ 577	$ 69,165
Bahamas	33	21,039
Barbados	222	18,304
Belize	34	7,010
Bolivia	2,050	80,366
Brazil	2,834	161,686
Chile	238	13,600
Colombia	834	58,829
Costa Rica	1,104	47,597
Dominican Republic	1,398	54,974
Ecuador	2,626	67,345
El Salvador	1,928	54,047
Guatemala	1,706	55,956
Guyana	989	52,976
Haiti	2,592	53,886
Honduras	3,231	65,318
Jamaica	1,625	39,226
Mexico	1,005	25,261
Nicaragua	1,534	74,794
Panama	1,019	85,236
Paraguay	1,911	37,206
Peru	3,165	64,081
Suriname	1,431	26,511
Trinidad and Tobago	69	19,717
Uruguay	277	31,844
Venezuela	17	12,009
Regional	22,200	709,504
TOTAL	**$56,651**	**$2,007,487**

[1] Does not include Social Entrepreneurship Program financings. Totals may not add up due to rounding.

Cofinancing

Cofinancing for Bank projects continued to rebound in 2004. After temporarily falling below the $1 billion mark in 2001 and 2002, cofinancing volumes recovered to more than $1.3 billion in 2003 and surpassed the $3 billion mark in 2004, not including PRI, IIC and MIF transactions that are reported separately.

This trend underlines the continuing relevance of the cofinancing instrument. From a development effectiveness point of view, cofinancing enables borrowers to receive a higher net inflow of external resources, often with favorable financial conditions, donor coordination, and technical assistance attached. Borrowing member countries also gain access to a wider group of donor organizations, thus expanding the scope for future cooperation.

Benefits for the donor community include more effective contributions to borrowing members' development processes at lower transaction cost, and improved donor coordination. For the Bank group, the attractions of cofinancing include a larger and more diversified capital inflow to the region, the mitigation of bottlenecks regarding country risk ceilings and local counterpart restrictions, and an expanded platform for more comprehensive policy dialogues between the borrowing member, the donor community and the Bank.

GUATEMALA • Artisans in Chimaltenango benefited from services provided by a private foundation that supports rural women. The European Union Special Fund for Microenterprise provided technical cooperation financing.

The importance of comprehensive policy dialogues was underscored by the Board of Executive Directors' approval of sector-wide approaches (SWAps) to investment lending, as an instrument in which concerted efforts are required in a multidonor environment. Related to this, the progress in harmonization between multilateral and bilateral development agencies and beneficiary countries and the mainstreaming of coordinated programmatic approaches and strategies result in more operations becoming eligible for classification as parallel cofinancing.

The exceptional growth in IDB's cofinancing volumes in 2004 was due to several factors. First, in close cooperation with the World Bank, the IDB expanded its programmatic and sector lending activities in some key member states. Second, the Bank's lending program also attracted more partners, mostly other multilateral organizations, but also bilateral partners, following continued efforts to expand the donor base. Lastly, improved external and internal coordination and data exchange facilitated the timely capturing and reporting of the Bank's cofinancing activities.

In 2004, 24 cofinancing activities in a total amount of just over $3.1 billion were secured for 11 borrowing member countries: Argentina, Bolivia, Brazil, the Dominican Republic, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Peru and Venezuela. These include 11 policy-based and 13 investment operations and a number of special activities such as support for the population and housing census program in Nicaragua, which was supported by six donor organizations. The Bank also obtained several cofinancing grants administered by the Bank, among them contributions from Sweden and the U.K. covering studies for critically important areas such as water and sanitation, and social capacity building through fiscal reforms. The IDB totals for 2004 include major social sector loans for Argentina and Brazil in a total amount of $1.5 billion. Both loans were cofinanced by the World Bank.

TABLE VI • COFINANCING IN 2004

(In millions of U.S. dollars)

Cofinancier	Recipient country	Project	IDB financing[1]	Cofinanced amount
Andean Development Corporation (CAF)	Bolivia	Northern Corridor Highway	$ 33.00	$ 10.00
	Venezuela	Institutional Development CADAFE	5.00	25.00
European Commission	Bolivia	Santa Cruz-Puerto Suárez Corridor	75.00	15.00
Global Environment Facility (GEF)	Honduras	Environmental Management Bay Islands – Phase II	12.00	2.50
	Peru	Urban Transport in Lima	45.00	8.00
International Cooperation and Development Fund (ICDF) of Taiwan	Nicaragua	Rural Production Revitalization Program	60.00	5.00
International Monetary Fund (IMF)	Honduras	Financial Sector Program	25.00	107.60
Government of Japan	Nicaragua	Strengthening the National Statistics System and 2005 Population and Housing Census	6.50	2.72
Japan Bank for International Cooperation (JBIC)	Jamaica	Kingston Water and Sanitation Project	40.00	65.00
Nordic Development Fund (NDF)	Nicaragua	Puebla-Panama Plan Highway Project (Zone 2)	40.00	14.00
Organization of the Petroleum Exporting Countries (OPEC)	Haiti	Program for Rehabilitation of Basic Economic Infrastructure	70.00	6.00
	Honduras	Puebla-Panama Plan Atlantic Corridor Improvement Project	50.00	7.00
Swedish International Development Cooperation Agency (Sida)	Honduras	Poverty Reduction Sector Program	30.00	5.90
	Honduras	Strengthening Fiscal Management	15.00	3.20
	Nicaragua	Strengthening the National Statistics System and 2005 Population and Housing Census	6.50	0.60
UK Department for International Development (DFID)	Nicaragua	Strengthening the National Statistics System and 2005 Population and Housing Census	6.50	0.50
United Nations Development Programme (UNDP)	Nicaragua	Citizen Security	7.00	0.30
	Nicaragua	Strengthening the National Statistics System and 2005 Population and Housing Census	6.50	0.50
United Nations Population Fund (UNFPA)	Nicaragua	Strengthening the National Statistics System and 2005 Population and Housing Census	6.50	0.50
U.S. Agency for International Development (USAID)	Bolivia	Revitalization and Urban Development of La Paz	28.50	10.60
World Bank	Argentina	Social Sector Reform: Argentina Advances	500.00	1,886.00
	Brazil	Support for Social Protection System	1,000.00	527.20
	Dom. Rep.	Financial Sector Consolidation Program	100.00	12.50
	Dom. Rep.	Protection and Sustainability of Social Reforms	200.00	100.00
	Honduras	Financial Sector Program	25.00	28.02
	Honduras	Poverty Reduction Support Program	30.00	58.80
	Mexico	Urban Poverty Reduction	350.00	107.70
	Nicaragua	Global Multisector Credit Program	30.00	7.00
	Nicaragua	Modernization of the State and Fiscal Reform	25.00	23.50
	Nicaragua	Education for Adults and Children	10.00	15.00
	Nicaragua	Strengthening the National Statistics System and 2005 Population and Housing Census	6.50	0.50
	Peru	Urban Transport in Lima	45.00	45.00
TOTAL			**$ 2,757.00**	**$ 3,101.14**

[1] This list represents those projects for which cofinancing was approved in 2004 by the cofinanciers, although IDB approvals may have been in previous years. Total does not add up due to repetition of IDB financing.

The Bank enjoyed the support of 15 cofinancing partners during the year, a measure of the Bank's success in the effort to widen its partner base. Of these partners, nine were multilateral and six were bilateral organizations. Of the multilaterals, the World Bank remains by far the IDB's most frequent and largest partner by volume, cooperating in 12 projects in seven countries. Other multilateral partners include the Global Environment Facility, the International Monetary Fund (IMF) (with a Poverty Reduction and Growth Facility), the European Commission, the Andean Development Corporation (CAF), the Nordic Development Fund (NDF), OPEC Fund, UNDP and UNFPA. Bilateral support amounting to just under $90 million was provided by JBIC of Japan, USAID, the Netherlands, Sweden's SIDA, DFID of the U.K. and ICDF of Taiwan.

In addition, the Bank approved three private sector loans that included a cofinancing component. The joint financing with FMO of the Netherlands to provide a $30 million loan to Crecera Finance Company L.P. represents the first regional operation under the International Trade Finance Reactivation Program. The Bank continued to develop its active cofinancing relationship with the CAF through the approval of a direct loan of $31 million for *Interconexión Eléctrica ISA Bolivia S.A.*, marking the fourth time that CAF and the Bank have jointly financed a private sector operation. Brazil's National Bank for Economic and Social Development provided $268 million in cofinancing for the Campos Novos Hydroelectric Power Project.

In addition to these operational activities, the Bank signed a Memorandum of Understanding with the European Investment Bank (EIB) designed to facilitate future cooperation both at the project and thematic levels. The EIB is a potentially important partner for the implementation of public-private partnerships in infrastructure works in Latin America and the Caribbean. Donor coordination meetings took place with several multilateral and bilateral cofinancing partners, including the European Commission, the Nordic Investment Fund (NIF) and NDF, OPEC Fund, Germany and Japan. In addition, promising initial contacts were established with a number of major European private foundations under the aegis of the European Foundation Center. Special donor coordination documents were prepared for Colombia and Ecuador.

In 2004 the Bank also approved operational guidelines to facilitate the processing of external donations known as Local Counterpart Financings (CLFGs). These are untied nonreimbursable donor contributions to a beneficiary country that are administered by the Bank, which contribute to the funding of local counterpart obligations of Bank projects. Since 2001, the Bank has administered CLFGs from a number of donors, thus permitting the completion of projects that otherwise would have stalled for lack of local resources. The promotion of these operations has proven to be especially beneficial to low-income recipient countries. In addition, new guidelines were established for acceptance of external ad hoc grants that increasingly defray the cost of Bank-sponsored activities such as conferences, seminars and publications.

See www.iadb.org/ar/cof_en

Funds in Administration

During 2004, the Bank administered 55 trust funds for technical cooperation activities. This number includes the Regional Fund for Agricultural Technology (FONTAGRO); the Indigenous Peoples' Fund; trust funds for microenterprise development; independent funds established by Austria, Canada, Japan, Korea, Spain, the United States and Venezuela; the Global Environmental Facility; and 37 funds under the Program for Development of Technical Cooperation among Member Countries of the Bank (TC/Funds Program).

The trust funds have been established by donors to provide support to IDB borrowing member countries through consulting services and training and, in some cases, cofinancing for Bank loans and microenterprise development projects. Among the funds in administration, the TC/Funds Program is currently the largest pool of resources. Since 1991, 48 funds have been established under the TC/Funds umbrella, with total contributions of $228.6 million. The program also encompasses five agreements for the provision of in-kind services.

In 2004, the nonborrowing member countries of the Bank contributed $45.6 million to trust funds. Funds have been established by Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Israel, Italy, Japan, Korea, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

During the year, the United Kingdom, through its Department for International Development (DFID), established two new arrangements with the Bank in support of poverty reduction: the DFID-IDB

Enlace Trust Fund, which focuses on social inclusion in Central America, and the Cooperation Framework Arrangement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Inter-American Development Bank, which stipulates the financial instruments to be used by DFID to fund IDB projects.

In addition, the Bank and the Global Environment Facility (GEF) signed a Memorandum of Understanding outlining the procedures for access to GEF's Full-sized and Medium-sized Projects and Block A and Block C grants under its Project Preparation and Development Facility, along with a Financial Procedures Agreement with the World Bank as GEF trustor.

In conjunction with the agreement reached with the government of the Republic of Korea concerning the conditions for its admission as a new member country of the Bank, it is expected that Korea will participate actively in trust funds, particularly in the areas of technology and poverty reduction.

Trust funds have become the second largest source of financing for the Bank's nonreimbursable technical cooperation projects after the FSO. In 2004, of the total $56.7 million approved under the nonreimbursable technical cooperation program, $24.8 million was financed with trust fund resources to finance 188 technical cooperation operations. In addition to this amount, the trust funds financed eight operations in support of the Bank for $8 million.

See www.iadb.org/ar/tec

Japanese Funds

Since its establishment in 1988, the Japan Special Fund (JSF) has become a major source of untied resources for the Bank's technical cooperation activities. One of the oldest and largest technical cooperation funds administered by the Bank, the JSF approved six projects in 2004 totaling $2.1 million, of which 61 percent targeted the social sectors. New contributions from Japan to the JSF in 2004 totaled approximately $2.6 million, raising the aggregate contribution to approximately $208.2 million.

In 2001, the government of Japan created the Poverty Reduction Program (JPO), setting aside $30 million from the JSF. The JPO uses innovative methods to provide direct assistance to poor and vulnerable groups, encouraging the participation of civil society organizations such as NGOs and community groups to enhance IDB loans.

GUYANA • Sound technicians at a recording studio broadcast educational radio programs designed to supplement school curricula and financed under the Primary Education Improvement Program.

A third initiative, the Japan Program, was created in 1999 with funds mainly from the government of Japan to facilitate the transfer of knowledge and the exchange of best practices between Latin America and Asia. In 2004, the Japan Program approved 12 technical cooperation projects for a total of $1.6 million.

Still another window, the Japanese Trust Fund for Consultancy Services (JCF), was created in 1995. In 2004, the Bank approved six JCF projects for $3 million. JCF funding is tied, requiring that at least 50 percent of project resources be used for Japanese consultants or consulting firms. Any sectors in which Japanese expertise is needed, such as infrastructure and the environment, are eligible for financing. In 2004, Japan contributed approximately $2.1 million to the JCF, bringing cumulative contributions to approximately $30 million (see Box 13).

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TABLE VII • FUNDS IN ADMINISTRATION

Name	Date Established	Entrusted by	Currency	Contributions[1] (US$ millions equivalent)	Sector Concentration or Purpose
Social Progress Trust Fund	1961	United States	USD	525	Agriculture, sanitation, education, social sectors
Canadian Fund	1964	Canada	CAD	47.2	Physical infrastructure and other sectors
Venezuelan Trust Fund	1975	Venezuela	USD VBO	400.0 100.0	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	208.2	Technical assistance, small projects, emergency assistance
Spanish Quincentennial Fund	1990	Spain	EUR	83.8	Technical education, agriculture, health, communications, urban development
Belgian Trust Fund for Consultants	1991	Belgium	EUR	3.1	Technical assistance for the preparation of projects
IDB Graduate Scholarship Program	1991	Japan	JPY	26.6	Scholarship for advanced studies
Special Fund for Small Projects in Latin America	1991	European Commission	EUR	9.9	Small projects and technical cooperation
Austrian Technical Cooperation Trust Fund	1992	Austria	USD	1.0	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	11.0	Sector studies and special programs
Italian Individual Consultant Trust Fund	1992	Italy	USD	7.2	Short-term consultancy for development projects
Norwegian Fund for Women in Development	1993	Norway	USD	9.9	Technical assistance, studies, training and seminars under the Women in Development Program
Norwegian Technical Cooperation Trust Fund for Consulting Services	1994	Norway	USD	8.7	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	5.2	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	30.0	All sectors of activities for project preparation and implementation
USTDA-IDB Evergreen Fund for Technical Assistance	1995	United States	USD	6.5	All sectors, preferably in support of infrastructure and industrial projects
European Special Fund for Technical Assistance in Latin America	1997	European Commission	EUR	3.9	Improve preparation of projects, transfer of technology and development of human resources
European Special Fund for Microenterprise	1997	European Commission	EUR	15.9	Small projects and technical assistance
Finnish Technical Cooperation Trust Fund for Consulting Services	1997	Finland	USD	2.0	Project identification, preparation and implementation, training, sector studies
French Technical Cooperation for Consultancy and Training Activities	1997	France	EUR	19.5	Consultancy services and training activities in all sectors sponsored by the Bank
Norwegian Fund for Innovation in Social Programs	1997	Norway	USD	5.6	Technical cooperation for social sector programs in the poorest countries of IDB Region 2
Indigenous Peoples' Fund	1998	Regional	USD	14.5	Endowment fund for assistance to indigenous peoples
Norwegian Fund for Microenterprise Development	1998	Norway	USD	1.9	Technical cooperation for microenterprise projects in the poorest countries
Portuguese Technical Cooperation Fund	1998	Portugal	EUR	1.2	Technical assistance, scholarships and training
Regional Fund for Agricultural Technology (FONTAGRO)	1998	Regional	USD	34.0	Endowment fund for assistance in agricultural projects

Name	Date Established	Entrusted by	Currency	Contributions[1] (US$ millions equivalent)	Sector Concentration or Purpose
Swedish Trust Fund for Governance, State Reform and Civil Society	1998	Sweden	USD	1.1	Financing of projects for modernization of the State and civil society
Danish Consultants Fund	1999	Denmark	USD	3.7	Prefeasibility and feasibility studies in infrastructure, environment, health and education
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	3.2	Support for the preparation of MIF projects
Swedish Framework-Sida IDB Partnership Program	2000	Sweden	USD	3.0	Social sectors of the poorest countries in Central America affected by Hurricane Mitch
U.S. Department of Energy-Hemispheric Sustainable Energy Fund	2000	United States	USD	1.3	Support clean energy technology projects in all energy-consuming sectors
Partnership Program in Environment	2000	Netherlands	USD	5.0	Support environmental projects
The Netherlands Framework-Program for Women's Leadership for Good Governance	2000	Netherlands	USD	0.7	Support women's leadership in civic and public life
Korean Trust Fund	2000	Korea	USD	1.0	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	11.3	Consultancy services in all sectors with emphasis on social reform
Swedish Fund for Small Projects and Technical Assistance for Latin America	2001	Sweden	USD	5.3	Small project financing for low-income groups
Swedish Trust Fund for Consulting Services and Training Activities	2001	Sweden	USD	2.0	Consulting and training in areas of social and economic development
Korean Trust Fund for the Republic of Colombia	2002	Korea	USD	0.8	Assistance for social projects in Colombia
Netherlands Water Management Partnership Program	2002	Netherlands	USD	4.8	Preparation of projects in water management
Italian Special Trust Fund for the Sustainable Development of the Republic of Argentina	2002	Italy	USD	12.4	Sustainable development for environmental, urban renewal and infrastructure projects in Argentina
Italian Trust Fund for Microenterprise Development	2002	Italy	USD	5.8	Support for microenterprise development projects
IDB-Canada Trade Fund	2003	Canada	CAD	4.7	Preparation of trade projects
Danish Consultants Fund	2003	Denmark	USD	1.3	Projects aimed at poverty reduction
Italian Information and Communication Technology Fund	2003	Italy	USD	3.5	Preparation of information technology projects
Social Inclusion Fund	2003	Norway United Kingdom	USD USD	2.2 0.7	Social inclusion projects
Finnish Technical Assistance Program	2003	Finland	USD	0.8	Preparation of social development, good governance, environment projects
IDB/Global Environment Facility	2004	World Bank	USD	7.5	Environment projects
IDB-DFID *Enlace* Trust Fund	2004	United Kingdom	USD	0.4	Poverty reduction and social inclusion

[1] Amounts reflect historical exchange rates.

Box 13 • Japanese Trust Funds

For more than 15 years, the Government of Japan has been a leading contributor to the Bank's technical cooperation activities in Latin America and the Caribbean. Since the Japan Special Fund (JSF) was established in 1988, it has contributed over $230 million to more than 350 projects in the region.

In order to meet pressing development needs in the beneficiary countries, the Japanese trust funds have recently focused on supporting activities in the social sectors. For the past five years, more than 30 percent of the projects financed have targeted such areas as health, education, housing, domestic violence and other social programs for vulnerable groups.

In 2001, the Government of Japan announced the establishment of the Poverty Reduction Program (JPO), reflecting its strong commitment to poverty-reduction activities. The JPO uses innovative solutions to provide direct assistance to the poor and to vulnerable groups that will foster long-term social development at the community level, and works with NGOs that have significant experience in administering social programs. The JPO demonstrates that empowering NGOs, communities and civil society groups with decision-making authority and resources can be an effective, sustainable way to enhance accountability and ownership.

Using resources from the Japanese Trust Fund for Consultancy Services (JCF), Japanese experts have contributed to the transfer of knowledge. In Uruguay, for example, a pilot project for educational connectivity is being implemented with funding from that source. Japanese consultants are helping to draft a proposal for the educational use of information and communication technology (ICT) in all primary, secondary, technical and teacher training schools throughout the country and providing training in using the Internet for educational purposes. Pilot projects are being carried out to introduce the technology, which will eventually be expanded to all education levels.

Interestingly, the structure of the educational connectivity program originally came from a Japanese education initiative called the "100-School Networking Project." The government-sponsored project examined whether computer networks in 100 primary and secondary schools would enhance learning. The Internet connection also motivated students in those schools to work more productively and enabled them to exchange information with their peers at other schools.

Some 800 schools in Uruguay have now been connected in the ICT network and 3,000 teachers have received training in use of ICT in schools. These pilot activities for the educational network are expected to be expanded nationwide, as well as to other countries in Latin America and the Caribbean.

See www.iadb.org/ar/jsfund

Procurement

Bank policies mandate that the procurement of goods, works and consulting services for IDB-funded projects comply with the principles of economy, efficiency, competition, transparency, equal treatment of all bidders and due process. Procurement must be carried out following a process of open selection and competition. Above specific thresholds, international competitive bidding must be used. 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 award and administration of contracts. IDB Country Offices are responsible for monitoring this process and cooperating with the executing agencies to ensure full compliance with the Bank's policies and procedures.

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

During the year, the Bank continued to work with other multilateral development institutions to harmonize procurement policies, procedures and documents, as well as approaches to country procurement assessment reports. These efforts facilitate the activities of executing agencies, bidders and others involved in the procurement process.

In the area of electronic government procurement (e-GP), the Bank has brought its activities into line with those of the other multilateral development banks through the e-GP Working Group. During the year, the Working Group prepared a common e-GP strategy and launched a joint website at www.mdbegp.org. The website contains a series of e-GP tools such as a worldwide e-GP database, an e-GP readiness assessment questionnaire, a strategic planning guide, a standards framework and a revamped roadmap for the planning and implementation of e-GP solutions by borrowing member countries.

One of the objectives of the e-GP initiatives is to incorporate the use of electronic means into Bank-financed procurement processes, which will significantly increase efficiency and transparency. To foster the exchange of information and cross-fertilization, the Bank organized an e-GP conference in Manila, Philippines, jointly with the World Bank and the Asian Development Bank, at which 25 countries were represented.

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 of competitive bidding requirements and all protests submitted by bidders or potential bidders at any stage of the procurement process. Synopses of decisions rendered by the Committee are posted on the Bank's website at condc05.iadb.org/idbppi/asp/mainpage.asp.

A variety of procurement information, including Specific and General Procurement Notices, is available on the Bank's website, free of charge. As part of the program of outreach to the business community, the Office of External Relations organizes regular seminars for suppliers, contractors and consultants, both in Washington and in many of the Bank's borrowing and nonborrowing member countries. The Bank's website also contains the Procurement Plans for operations approved by the Bank's Board of Executive Directors. The Plans are updated every six months or whenever a significant change occurs.

With a view to improving the Bank's client focus, an independent firm reviewed the Bank's project procurement policies, procedures, systems and functions. Its report was submitted to the Bank's Board of Executive Directors, which late in 2004 approved an action plan to strengthen project procurement. Proposals for changes in the Bank's procurement policies, manuals and systems were sent to the Board, with approval anticipated early in 2005.

Disbursement of convertible currencies for the procurement of goods, works and consulting services under investment and sector loans totaled \$4.2 billion in 2004. Borrowing member countries received \$3.2 billion or 77.6 percent of the value. Local procurement of goods, works and consulting services for projects in the borrowing countries totaled \$2.7 billion, while nonborrowing countries provided a total of \$932 million. Tables VIII, IX and X on Disbursements for Procurement of Goods, Works and Consulting Services by Country of Origin break out disbursements for all Bank lending, sector loans and investment loans. Where applicable, they include a detailed breakdown of local purchases and exports of goods, works and consulting services.

See www.iadb.org/ar/proc

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

(In millions of U.S. dollars)

	1961-2003						2004						1961-2004					
	Local Purchases		Exports		Total		Local Purchases		Exports		Total		Local Purchases		Exports		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES																		
Argentina	3,804.3	9.2	1,958.4	4.1	5,762.7	6.5	361.7	13.5	51.4	3.4	413.1	9.9	4,166.0	9.5	2,009.8	4.1	6,175.8	6.6
Bahamas	37.8	0.1	91.2	0.2	129.0	0.1	3.8	0.1	0.0	0.0	3.8	0.1	41.6	0.1	91.2	0.2	132.8	0.1
Barbados	89.2	0.2	7.7	0.0	96.9	0.1	8.9	0.3	0.3	0.0	9.2	0.2	98.1	0.2	8.0	0.0	106.1	0.1
Belize	52.4	0.1	30.1	0.1	82.5	0.1	6.0	0.2	0.0	0.0	6.0	0.1	58.4	0.1	30.1	0.1	88.5	0.1
Bolivia	930.4	2.2	186.6	0.4	1,117.0	1.3	60.1	2.3	20.2	1.3	80.3	1.9	990.5	2.2	206.8	0.4	1,197.3	1.3
Brazil	12,437.2	30.1	5,194.5	10.9	17,631.7	19.8	574.4	21.5	124.2	8.3	698.6	16.8	13,011.6	29.6	5,318.7	10.9	18,330.3	19.7
Chile	2,393.0	5.9	613.2	1.3	3,006.2	3.4	111.9	4.2	36.6	2.4	148.5	3.6	2,504.9	5.8	649.8	1.3	3,154.7	3.4
Colombia	2,191.5	5.3	462.2	1.0	2,653.7	3.0	115.7	4.3	51.2	3.4	166.9	4.0	2,307.2	5.2	513.4	1.0	2,820.6	3.0
Costa Rica	404.9	1.0	274.6	0.6	679.5	0.8	18.2	0.7	25.2	1.7	43.4	1.0	423.1	1.0	299.8	0.6	722.9	0.8
Dominican Republic	538.0	1.3	37.2	0.1	575.2	0.6	44.8	1.7	0.2	0.0	45.0	1.1	582.8	1.3	37.4	0.1	620.2	0.7
Ecuador	1,706.7	4.1	389.3	0.8	2,096.0	2.4	44.8	1.7	42.4	2.8	87.2	2.1	1,751.5	4.0	431.7	0.9	2,183.2	2.3
El Salvador	838.7	2.0	84.9	0.2	923.6	1.0	56.8	2.1	13.2	0.9	70.0	1.7	895.5	2.0	98.1	0.2	993.6	1.1
Guatemala	631.0	1.5	136.1	0.3	767.1	0.9	31.9	1.2	9.1	0.6	41.0	1.0	662.9	1.5	145.2	0.3	808.1	0.9
Guyana	112.5	0.3	2.7	0.0	115.2	0.1	12.9	0.5	0.4	0.0	13.3	0.3	125.4	0.3	3.1	0.0	128.5	0.1
Haiti	253.4	0.6	9.6	0.0	263.0	0.3	1.8	0.1	0.0	0.0	1.8	0.0	255.2	0.6	9.6	0.0	264.8	0.3
Honduras	579.3	1.4	52.7	0.1	632.0	0.7	67.8	2.5	0.9	0.1	68.7	1.6	647.1	1.5	53.6	0.1	700.7	0.8
Jamaica	259.9	0.6	87.7	0.2	347.6	0.4	12.5	0.5	4.0	0.3	16.5	0.4	272.4	0.6	91.7	0.2	364.1	0.4
Mexico	7,465.6	18.1	1,484.9	3.1	8,950.5	10.1	741.1	27.7	52.1	3.5	793.2	19.0	8,206.7	18.6	1,537.0	3.1	9,743.7	10.5
Nicaragua	462.5	1.1	28.4	0.1	490.9	0.6	83.1	3.1	1.2	0.1	84.3	2.0	545.6	1.2	29.6	0.1	575.2	0.6
Panama	665.8	1.6	112.3	0.2	778.1	0.9	35.3	1.3	2.3	0.2	37.6	1.0	701.1	1.6	114.6	0.2	815.7	0.9
Paraguay	742.6	1.8	162.1	0.3	904.7	1.0	61.0	2.3	3.2	0.2	64.2	1.5	803.6	1.8	165.3	0.3	968.9	1.0
Peru	1,818.1	4.4	240.9	0.5	2,059.0	2.3	97.7	3.7	70.5	4.7	168.2	4.0	1,915.8	4.4	311.4	0.6	2,227.2	2.4
Suriname	2.6	0.0	1.2	0.0	3.8	0.0	2.8	0.1	0.2	0.0	3.0	0.1	5.4	0.0	1.4	0.0	6.8	0.0
Trinidad and Tobago	286.5	0.7	132.8	0.3	419.3	0.5	36.3	1.4	8.5	0.6	44.8	1.1	322.8	0.7	141.3	0.3	464.1	0.5
Uruguay	1,134.8	2.7	281.2	0.6	1,416.0	1.6	42.5	1.6	4.2	0.3	46.7	1.1	1,177.3	2.7	285.4	0.6	1,462.7	1.6
Venezuela	1,521.1	3.7	1,108.6	2.3	2,629.7	3.0	36.3	1.4	45.9	3.1	82.2	2.0	1,557.4	3.5	1,154.5	2.4	2,711.9	2.9
Total Borrowers	**41,359.8**	**100.0**	**13,171.1**	**27.7**	**54,530.9**	**61.5**	**2,670.1**	**100.0**	**567.4**	**37.9**	**3,237.5**	**77.6**	**44,029.9**	**100.0**	**13,738.5**	**28.0**	**57,768.4**	**62.1**
NONBORROWING COUNTRIES																		
Austria			143.1	0.3	143.1	0.2			4.5	0.3	4.5	0.1			147.6	0.3	147.6	0.2
Belgium			268.5	0.6	268.5	0.3			12.6	0.8	12.6	0.3			281.1	0.6	281.1	0.3
Canada			802.6	1.7	802.6	0.9			25.5	1.7	25.5	0.6			828.1	1.7	828.1	0.9
Croatia			5.0	0.0	5.0	0.0			0.0	0.0	0.0	0.0			5.0	0.0	5.0	0.0
Denmark			173.6	0.4	173.6	0.2			4.4	0.3	4.4	0.1			178.0	0.4	178.0	0.2
Finland			139.4	0.3	139.4	0.2			3.7	0.2	3.7	0.1			143.1	0.3	143.1	0.2
France			2,185.4	4.7	2,185.4	2.5			33.8	2.3	33.8	0.8			2,219.2	4.6	2,219.2	2.4
Germany			3,070.7	6.5	3,070.7	3.4			54.4	3.6	54.4	1.3			3,125.1	6.4	3,125.1	3.4
Israel			196.4	0.4	196.4	0.2			8.9	0.6	8.9	0.2			205.3	0.4	205.3	0.2
Italy			3,025.8	6.4	3,025.8	3.4			42.2	2.8	42.2	1.0			3,068.0	6.3	3,068.0	3.3
Japan			2,409.0	5.1	2,409.0	2.7			44.8	3.0	44.8	1.1			2,453.8	5.0	2,453.8	2.6
Netherlands			663.8	1.4	663.8	0.7			10.7	0.7	10.7	0.3			674.5	1.4	674.5	0.7
Norway			58.5	0.1	58.5	0.1			3.0	0.2	3.0	0.1			61.5	0.1	61.5	0.1
Portugal			75.7	0.2	75.7	0.1			1.0	0.1	1.0	0.0			76.7	0.2	76.7	0.1
Slovenia			45.1	0.1	45.1	0.1			0.4	0.0	0.4	0.0			45.5	0.1	45.5	0.0
Spain			1,640.7	3.5	1,640.7	1.7			45.9	3.1	45.9	1.1			1,686.6	3.4	1,686.6	1.8
Sweden			622.8	1.3	622.8	0.7			8.8	0.6	8.8	0.2			631.6	1.3	631.6	0.7
Switzerland			867.4	1.8	867.4	1.0			8.8	0.6	8.8	0.2			876.2	1.8	876.2	0.9
United Kingdom			1,137.1	2.4	1,137.1	1.3			19.5	1.3	19.5	0.5			1,156.6	2.4	1,156.6	1.2
United States			16,765.8	35.3	16,765.8	18.8			599.4	39.9	599.4	14.4			17,365.2	35.3	17,365.2	18.7
Yugoslavia[1]			14.3	0.0	14.3	0.0			0.0	0.0	0.0	0.0			14.3	0.0	14.3	0.0
Total Nonborrowers			**34,310.7**	**72.5**	**34,310.7**	**38.5**			**932.3**	**62.1**	**932.3**	**22.4**			**35,243.0**	**72.2**	**35,243.0**	**37.9**
TOTAL	**41,359.8**	**100.0**	**47,481.7**	**100.0**	**88,841.5**	**100.0**	**2,670.1**	**100.0**	**1,499.7**	**100.0**	**4,169.8**	**100.0**	**44,029.9**	**100.0**	**48,981.4**	**100.2**	**93,011.3**	**100.0**

[1] In 1993, the Socialist Federal Republic of Yugoslavia ceased to be a member of the Bank.

TABLE IX • DISBURSEMENTS FOR PURCHASE OF GOODS AND SERVICES BY COUNTRY OF ORIGIN (SECTOR LOANS)[1]

(In millions of U.S. dollars)

	1990-2003						2004						1990-2004					
	Local Purchases		Exports		Total		Local Purchases		Exports[2]		Total		Local Purchases		Exports		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES																		
Argentina	30.0	40.2	1,075.5	4.2	1,105.5	4.3			35.4	3.4	35.4	3.4	30.0	40.2	1,110.9	4.2	1,140.9	4.3
Bahamas			6.4	0.0	6.4	0.0									6.4	0.0	6.4	0.0
Barbados			5.7	0.0	5.7	0.0			0.3	0.0	0.3	0.0			6.0	0.0	6.0	0.0
Belize			29.9	0.1	29.9	0.1									29.9	0.1	29.9	0.1
Bolivia			102.6	0.4	102.6	0.4			8.2	0.8	8.2	0.8			110.8	0.4	110.8	0.4
Brazil			3,215.9	12.6	3,215.9	12.5			62.4	5.9	62.4	5.9			3,278.3	12.4	3,278.3	12.4
Chile			504.9	2.0	504.9	2.0			34.9	3.3	34.9	3.3			539.8	2.0	539.8	2.0
Colombia			303.2	1.2	303.2	1.2			35.0	3.3	35.0	3.3			338.2	1.3	338.2	1.3
Costa Rica			103.8	0.4	103.8	0.4			11.6	1.1	11.6	1.1			115.4	0.4	115.4	0.4
Dominican Republic			0.6	0.0	0.6	0.0									0.6	0.0	0.6	0.0
Ecuador			330.6	1.3	330.6	1.3			41.8	4.0	41.8	4.0			372.4	1.4	372.4	1.4
El Salvador			45.3	0.2	45.3	0.2			9.1	0.9	9.1	0.9			54.4	0.2	54.4	0.2
Guatemala			59.2	0.2	59.2	0.2			6.1	0.6	6.1	0.6			65.3	0.2	65.3	0.2
Guyana			2.0	0.0	2.0	0.0			0.4	0.0	0.4	0.0			2.4	0.0	2.4	0.0
Haiti	14.6	19.5	0.0	0.0	14.6	0.1			0.0	0.0	0.0	0.0	14.6	19.5	0.0	0.0	14.6	0.1
Honduras			14.8	0.1	14.8	0.1									14.8	0.1	14.8	0.1
Jamaica			3.7	0.0	3.7	0.0									3.7	0.0	3.7	0.0
Mexico			734.1	2.9	734.1	2.9			44.5	4.2	44.5	4.2			778.6	2.9	778.6	2.9
Nicaragua	0.4	0.5	4.2	0.0	4.6	0.0			1.1	0.1	1.1	0.1	0.4	0.5	5.3	0.0	5.7	0.0
Panama	29.7	39.8	68.0	0.3	97.7	0.4			1.1	0.1	1.1	0.1	29.7	39.8	69.1	0.3	98.8	0.4
Paraguay			115.9	0.5	115.9	0.5			1.4	0.1	1.4	0.1			117.3	0.4	117.3	0.4
Peru			129.3	0.5	129.3	0.5			7.0	0.7	7.0	0.7			136.3	0.5	136.3	0.5
Suriname			1.0	0.0	1.0	0.0									1.0	0.0	1.0	0.0
Trinidad and Tobago			75.8	0.3	75.8	0.3									75.8	0.3	75.8	0.3
Uruguay			236.8	0.9	236.8	0.9			1.2	0.1	1.2	0.1			238.0	0.9	238.0	0.9
Venezuela			906.1	3.5	906.1	3.5			34.8	3.3	34.8	3.3			940.9	3.5	940.9	3.5
Total Borrowers	**74.7**	**100.0**	**8,075.3**	**31.6**	**8,150.0**	**31.8**			**336.3**	**31.9**	**336.3**	**31.9**	**74.7**	**100.0**	**8,411.6**	**31.5**	**8,486.3**	**31.8**
NONBORROWING COUNTRIES																		
Austria			70.5	0.3	70.5	0.3			2.5	0.2	2.5	0.2			73.0	0.3	73.0	0.3
Belgium			176.3	0.7	176.3	0.7			9.2	0.9	9.2	0.9			185.5	0.7	185.5	0.7
Canada			442.9	1.6	442.9	1.7			16.9	1.6	16.9	1.6			459.8	1.7	459.8	1.6
Croatia			2.6	0.0	2.6	0.0			0.0	0.0	0.0	0.0			2.6	0.0	2.6	0.0
Denmark			71.8	0.3	71.8	0.3			3.0	0.3	3.0	0.3			74.8	0.3	74.8	0.3
Finland			88.8	0.3	88.8	0.3			3.6	0.3	3.6	0.3			92.4	0.3	92.4	0.3
France			831.9	3.3	831.9	3.2			20.8	2.0	20.8	2.0			852.7	3.2	852.7	3.2
Germany			1,680.2	6.6	1,680.2	6.6			39.8	3.8	39.8	3.8			1,720.0	6.5	1,720.0	6.5
Israel			70.4	0.3	70.4	0.3			3.1	0.3	3.1	0.3			73.5	0.3	73.5	0.3
Italy			993.9	3.9	993.9	3.9			22.9	2.2	22.9	2.2			1,016.8	3.8	1,016.8	3.8
Japan			1,171.5	4.6	1,171.5	4.6			41.1	3.9	41.1	3.9			1,212.6	4.6	1,212.6	4.6
Netherlands			465.6	1.8	465.6	1.8			10.4	1.0	10.4	1.0			476.0	1.8	476.0	1.8
Norway			44.8	0.2	44.8	0.2			2.1	0.2	2.1	0.2			46.9	0.2	46.9	0.2
Portugal			25.9	0.1	25.9	0.1			0.6	0.1	0.6	0.1			26.5	0.1	26.5	0.1
Slovenia			7.2	0.0	7.2	0.0			0.1	0.0	0.1	0.0			7.3	0.0	7.3	0.0
Spain			784.9	3.1	784.9	3.1			28.8	2.7	28.8	2.7			813.7	3.1	813.7	3.1
Sweden			246.6	1.0	246.6	1.0			5.7	0.5	5.7	0.5			252.3	0.9	252.3	0.9
Switzerland			338.7	1.3	338.7	1.3			7.3	0.7	7.3	0.7			346.0	1.3	346.0	1.3
United Kingdom			510.6	2.0	510.6	2.0			14.3	1.4	14.3	1.4			524.9	2.0	524.9	2.0
United States			9,460.0	37.0	9,460.0	36.8			481.8	46.0	481.8	46.0			9,941.8	37.4	9,941.8	37.2
Yugoslavia[3]			0.8	0.0	0.8	0.0			0.0	0.0	0.0	0.0			0.8	0.0	0.8	0.0
Total Nonborrowers	**0.0**	**0.0**	**17,485.9**	**68.4**	**17,485.9**	**68.2**			**714.0**	**68.1**	**714.0**	**68.1**	**0.0**	**0.0**	**18,199.9**	**68.5**	**18,199.9**	**68.2**
TOTAL	**74.7**	**100.0**	**25,561.1**	**100.0**	**25,635.8**	**100.0**			**1,050.3**	**100.0**	**1,050.3**	**100.0**	**74.7**	**100.0**	**26,611.4**	**100.0**	**26,686.1**	**100.0**

[1] Sector lending began in 1990.
[2] Since 1998, the information in this table has reflected adjustment loan disbursements to each borrower as pro rata shares of that borrower's eligible imports from supplying countries, using the latest available import data drawn from United Nations trade statistics.
[3] In 1993, the Socialist Federal Republic of Yugoslavia ceased to be a member of the Bank.

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

(In millions of U.S. dollars)

	1961-2003						2004						1961-2004					
	Local Purchases		Exports		Total		Local Purchases		Exports		Total		Local Purchases		Exports		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES																		
Argentina	3,774.3	9.1	882.9	4.0	4,657.2	7.4	361.7	13.5	16.0	3.6	377.7	12.1	4,136.0	9.4	898.9	4.0	5,034.9	7.6
Bahamas	37.8	0.1	84.8	0.4	122.6	0.2	3.8	0.1			3.8	0.1	41.6	0.1	84.8	0.4	126.4	0.2
Barbados	89.2	0.2	2.0	0.0	91.2	0.1	8.9	0.3			8.9	0.3	98.1	0.2	2.0	0.0	100.1	0.2
Belize	52.4	0.1	0.2	0.0	52.6	0.1	6.0	0.2			6.0	0.2	58.4	0.1	0.2	0.0	58.6	0.1
Bolivia	930.4	2.3	84.0	0.4	1,014.4	1.6	60.1	2.3	12.0	2.7	72.1	2.3	990.5	2.3	96.0	0.4	1,086.5	1.6
Brazil	12,437.2	30.1	1,978.6	9.0	14,415.8	22.8	574.4	21.5	61.8	13.8	636.2	20.4	13,011.6	29.6	2,040.4	9.1	15,052.0	22.7
Chile	2,393.0	5.8	108.3	0.5	2,501.3	4.0	111.9	4.2	1.7	0.4	113.6	3.6	2,504.9	5.7	110.0	0.5	2,614.9	3.9
Colombia	2,191.5	5.3	159.0	0.7	2,350.5	3.7	115.7	4.3	16.2	3.6	131.9	4.2	2,307.2	5.2	175.2	0.8	2,482.4	3.7
Costa Rica	404.9	1.0	170.8	0.8	575.7	0.9	18.2	0.7	13.6	3.0	31.8	1.0	423.1	1.0	184.4	0.8	607.5	0.9
Dominican Republic	538.0	1.3	36.6	0.2	574.6	0.9	44.8	1.7	0.2	0.0	45.0	1.4	582.8	1.3	36.8	0.2	619.6	0.9
Ecuador	1,706.7	4.1	58.7	0.3	1,765.4	2.8	44.8	1.7	0.6	0.1	45.4	1.5	1,751.5	4.0	59.3	0.3	1,810.8	2.7
El Salvador	838.7	2.0	39.6	0.2	878.3	1.4	56.8	2.1	4.1	0.9	60.9	2.0	895.5	2.0	43.7	0.2	939.2	1.4
Guatemala	631.0	1.5	76.9	0.4	707.9	1.1	31.9	1.2	3.0	0.7	34.9	1.1	662.9	1.5	79.9	0.4	742.8	1.1
Guyana	112.5	0.3	0.7	0.0	113.2	0.2	12.9	0.5	0.0	0.0	12.9	0.4	125.4	0.3	0.7	0.0	126.1	0.2
Haiti	238.8	0.6	9.6	0.0	248.4	0.4	1.8	0.1	0.0	0.0	1.8	0.1	240.6	0.5	9.6	0.0	250.2	0.4
Honduras	579.3	1.4	37.9	0.2	617.2	1.0	67.8	2.5	0.9	0.2	68.7	2.2	647.1	1.5	38.8	0.2	685.9	1.0
Jamaica	259.9	0.6	84.0	0.4	343.9	0.5	12.5	0.5	4.0	0.9	16.5	0.5	272.4	0.6	88.0	0.4	360.4	0.5
Mexico	7,465.6	18.2	750.8	3.4	8,216.4	13.0	741.1	27.7	7.6	1.7	748.7	24.0	8,206.7	18.8	758.4	3.4	8,965.1	13.5
Nicaragua	462.1	1.1	24.2	0.1	486.3	0.8	83.1	3.1	0.1	0.0	83.2	2.7	545.2	1.2	24.3	0.1	569.5	0.9
Panama	636.1	1.5	44.3	0.2	680.4	1.1	35.3	1.3	1.2	0.3	36.5	1.2	671.4	1.5	45.5	0.2	716.9	1.1
Paraguay	742.6	1.8	46.2	0.2	788.8	1.2	61.0	2.3	1.8	0.4	62.8	2.0	803.6	1.8	48.0	0.2	851.6	1.3
Peru	1,818.1	4.5	111.6	0.5	1,929.7	3.1	97.7	3.7	63.5	14.1	161.2	5.2	1,915.8	4.5	175.1	0.8	2,090.9	3.2
Suriname	2.6	0.0	0.2	0.0	2.8	0.0	2.8	0.1	0.2	0.0	3.0	0.1	5.4	0.0	0.4	0.0	5.8	0.0
Trinidad and Tobago	286.5	0.7	57.0	0.3	343.5	0.5	36.3	1.4	8.5	1.9	44.8	1.5	322.8	0.7	65.5	0.3	388.3	0.6
Uruguay	1,134.8	2.7	44.4	0.2	1,179.2	1.9	42.5	1.6	3.0	0.7	45.5	1.5	1,177.3	2.7	47.4	0.2	1,224.7	1.8
Venezuela	1,521.1	3.7	202.5	0.9	1,723.6	2.7	36.3	1.4	11.1	2.5	47.4	1.5	1,557.4	3.5	213.6	1.0	1,771.0	2.7
Total Borrowers	**41,285.1**	**100.0**	**5,095.8**	**23.3**	**46,380.9**	**73.4**	**2,670.1**	**100.0**	**231.1**	**51.5**	**2,901.2**	**93.1**	**43,955.2**	**100.0**	**5,326.9**	**23.9**	**49,282.1**	**74.2**
NONBORROWING COUNTRIES																		
Austria			72.6	0.3	72.6	0.1			2.0	0.4	2.0	0.1			74.6	0.3	74.6	0.1
Belgium			92.2	0.4	92.2	0.1			3.4	0.8	3.4	0.1			95.6	0.4	95.6	0.1
Canada			359.7	1.6	359.7	0.6			8.6	1.9	8.6	0.3			368.3	1.6	368.3	0.6
Croatia			2.4	0.0	2.4	0.0									2.4	0.0	2.4	0.0
Denmark			101.8	0.5	101.8	0.2			1.4	0.3	1.4	0.0			103.2	0.5	103.2	0.2
Finland			50.6	0.2	50.6	0.1			0.1	0.0	0.1	0.0			50.7	0.2	50.7	0.1
France			1,353.5	6.2	1,353.5	2.1			13.0	2.8	13.0	0.4			1,366.5	6.1	1,366.5	2.1
Germany			1,390.5	6.3	1,390.5	2.2			14.6	3.2	14.6	0.5			1,405.1	6.3	1,405.1	2.1
Israel			126.0	0.6	126.0	0.2			5.8	1.3	5.8	0.2			131.8	0.6	131.8	0.2
Italy			2,031.9	9.3	2,031.9	3.2			19.3	4.3	19.3	0.6			2,051.2	9.2	2,051.2	3.1
Japan			1,237.5	5.6	1,237.5	2.0			3.7	0.8	3.7	0.1			1,241.2	5.5	1,241.2	1.9
Netherlands			198.2	0.9	198.2	0.3			0.3	0.1	0.3	0.0			198.5	0.9	198.5	0.3
Norway			13.7	0.1	13.7	0.0			0.9	0.2	0.9	0.0			14.6	0.1	14.6	0.0
Portugal			49.8	0.2	49.8	0.1			0.4	0.1	0.4	0.0			50.2	0.2	50.2	0.1
Slovenia			37.9	0.2	37.9	0.1			0.3	0.1	0.3	0.0			38.2	0.2	38.2	0.1
Spain			855.8	3.9	855.8	1.4			17.1	3.8	17.1	0.5			872.9	3.9	872.9	1.3
Sweden			376.2	1.7	376.2	0.6			3.1	0.7	3.1	0.1			379.3	1.7	379.3	0.6
Switzerland			528.7	2.4	528.7	0.8			1.5	0.3	1.5	0.0			530.2	2.4	530.2	0.8
United Kingdom			626.5	2.9	626.5	1.0			5.2	1.2	5.2	0.2			631.7	2.8	631.7	1.0
United States			7,305.8	33.3	7,305.8	11.5			117.6	26.2	117.6	3.8			7,423.4	33.1	7,423.4	11.1
Yugoslavia[1]			13.5	0.1	13.5	0.0									13.5	0.1	13.5	0.0
Total Nonborrowers	**0.0**	**0.0**	**16,824.8**	**76.7**	**16,824.8**	**26.6**			**218.3**	**48.5**	**218.3**	**6.9**	**0.0**	**0.0**	**17,043.1**	**76.1**	**17,043.1**	**25.8**
TOTAL	**41,285.1**	**100.0**	**21,920.6**	**100.0**	**63,205.7**	**100.0**	**2,670.1**	**100.0**	**449.4**	**100.0**	**3,119.5**	**100.0**	**43,955.2**	**100.0**	**22,370.0**	**100.0**	**66,325.2**	**100.0**

[1] In 1993, the Socialist Federal Republic of Yugoslavia ceased to be a member of the Bank.

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2004

Ordinary Capital

COUNTRY	PROJECT	LOAN NUMBER	AMOUNT (Millions of US$)
ARGENTINA	*Argentina Avanza* Social Sector Program	1606/OC-AR	500
	Strengthening Production-related Provincial Institutions and Fiscal Management	1588/OC-AR	18
	Institutional Strengthening of the Argentine Senate	1603/OC-AR	4.8
	Institutional Strengthening of the Economic Policy Secretariat	1575/OC-AR	4.8
BAHAMAS	Land Use Policy and Administration Project	1589/OC-BH	3.5
BOLIVIA	ISA Bolivia Transmission Lines Project	1580/OC-BO	31
BRAZIL	Support for Micro, Small and Medium-sized Enterprises	1608/OC-BR	1,000
	Social Protection System	1609/OC-BR	1,000
	Fortaleza Urban Transport Program	1572/OC-BR	85.2
	Curitiba Urban Transport Program II	1526/OC-BR	80
	Infrastructure Investment Fund	1560/OC-BR	75
	Campos Novos Hydroelectric Power Project	1567/OC-BR	75
	São Bernardo do Campo Urban Transport Program	1571/OC-BR	72
	Telemar Bond Guarantee	1553/OC-BR	68
	Unibanco Trade Finance Facility	1529/OC-BR[1]	50
	Belo Horizonte Environmental Restoration Program	1563/OC-BR	46.5
	Technological and Managerial Innovation in Agricultural Research	1595/OC-BR	33
	Strengthening Fiscal Administration in the State of São Paulo	1543/OC-BR	20
	Social Policy Evaluation and Improvement Project	1611/OC-BR	5
CHILE	Strengthening the Digital Strategy (Phase I)	1585/OC-CH	13.2
	Innovative Interventions for the Elderly	1574/OC-CH	6.5
	Public Building Management Program	1573/OC-CH	3
COLOMBIA	Sector Program for Public Utilities	1578/OC-CO	600
	Reorganization, Redesign and Modernization of Health Service Networks	1525/OC-CO	72
	Rural Low-income Housing Program	1596/OC-CO	30
	National Environmental System (SINA II)	1556/OC-CO	20
	Public Administration Reform Program	1561/OC-CO	10.3
	Support for Private Sector Participation and Concessions in Infrastructure	1594/OC-CO	5
COSTA RICA	Sustainable Development Program for the Sixaola River Binational Watershed	1566/OC-CR	11
DOMINICAN REPUBLIC	Protection and Sustainability of Social Reforms	1527/OC-DR	200
	Financial Sector Consolidation Program	1536/OC-DR[2]	100
	Multiphase Low- and Moderate-income Housing Program	1538/OC-DR	37
ECUADOR	Coastal Resources Management Project, Phase II	1531/OC-EC[2]	12.4
	Strengthening Healthcare under Rural Social Security	1577/OC-EC[2]	5

[1] Complemented by a "B" loan syndication up to $100 million.
[2] Interest rate partially subsidized by the Intermediate Financing Facility.

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2004 (Continued)

Ordinary Capital

COUNTRY	PROJECT	LOAN NUMBER	AMOUNT (Millions of US$)
EL SALVADOR	*Banco de Comercio*- Mortgage Bond Project	1602/OC-ES	20
GUATEMALA	Improving the Quality of Social Expenditure	1598/OC-GU[2]	100
JAMAICA	Kingston Water and Sanitation Project	1559/OC-JA[2]	40
	Irrigation Development Program	1562/OC-JA[2]	16.8
MEXICO	Urban Poverty Program (Phase I)	1583/OC-ME	350
	Hipotecaria Nacional Mortgage-backed Securities Program	1555/OC-ME	75
	Skill-based Human Resources Development (Phase I)	1579/OC-ME	50.4
	Institutional Development in the Water Supply and Sanitation Sector	1540/OC-ME	10
PERU	Reform of Poverty Alleviation and Human Capital Development Programs	1600/OC-PE & 1601/OC-PE	300 5.3
	Youth Labor Training Program	1534/OC-PE	18
	Improving Access to Rural Markets	1586/OC-PE	15
	Strengthening the the Comptroller General's Office Office and National Control System	1591/OC-PE	12
SURINAME	Health Sector Reform	1537/OC-SU[2]	5
	Strengthening Public Sector Management	1547/OC-SU[2]	5
URUGUAY	Road Infrastructure Program	1582/OC-UR	77
	ABN Amro Trade Finance Facility	1610/OC-UR	22.5
VENEZUELA	Institutional Development of CADAFE	1605/OC-VE	5
REGIONAL	Inter-American Corporation for Infrastructure Financing	1581/OC-RG[3]	25
	Crecera Regional Trade Finance Facility	1569/OC-RG	15

[2] Interest rate partially subsidized by the Intermediate Financing Facility.
[3] Complemented by a "B" loan syndication up to $25 million.

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2004

Fund for Special Operations

COUNTRY	PROJECT	LOAN NUMBER	AMOUNT (Millions of US$)
BOLIVIA	Northern Corridor Highway Program	1597/SF-BO	33.1
	Revitalization and Urban Development of La Paz	1557/SF-BO	28.5
GUYANA	Moleson Creek – New Amsterdam Road	1554/SF-GY	37.3
	Fiscal and Financial Management Program	1551/SF-GY	13
		& 1552/SF-GY	15
	Health Sector Program	1548/SF-GY	23
	Agricultural Support Services	1558/SF-GY	22.5
	Public Management Modernization Program	1604/SF-GY	5
HONDURAS	Puebla-Panama Plan Atlantic Corridor Improvement Project	1565/SF-HO	50
	Support for Rural Electrification	1584/SF-HO	35
	Secondary Education and Job Training Program	1552/SF-HO	30.6
	Poverty Reduction Support Program	1532/SF-HO	30
	Financial Sector Program	1533/SF-HO	25
	Central District Municipal Development Program (Phase II)	1592/SF-HO	22.5
	Comprehensive Social Safety Net Program	1568/SF-HO	20
	Strengthening Fiscal Management	1546/SF-HO	15
NICARAGUA	Puebla-Panama Plan Highway Project	1530/SF-NI	40
	Puebla-Panama Plan Highway Project (Zone III)	1599/SF-NI	40
	Improving Maternal and Child Health	1607/SF-NI	30
	Youth and Adult Basic Education Program	1528/SF-NI	10
	Citizen Security Program	1590/SF-NI	7.2
	Support for the Secretariat for Coordination and Strategy	1545/SF-NI	7
	Strengthening the National Statistics System and 2005 Population and Housing Census	1535/SF-NI	6.6
	Strengthening the Ministry of the Family	1576/SF-NI	3

BARBADOS (above) • This sewage treatment plant built under the Coastal Infrastructure Program was one of several initiatives for shoreline conservation, which is critical to the country's tourism-based economy.
BRAZIL (right) • A young patient receives dental care at a health center in Guaiúba under a comprehensive child development program in the state of Ceará that includes preventive health care.

Institutional Aspects

Governance, Transparency and Audit

The Bank is committed to the highest standards of conduct in its operations, administration and management. In 2001 it consolidated its Systemic Framework Against Corruption to ensure the integrity and transparency of its operations, foster an ethical work environment for its employees and safeguard Bank-financed activities from fraud and corruption. Noteworthy among ongoing activities in this connection in 2004 were the startup of the **Office of Institutional Integrity** (OII), establishment of the Audit Committee of the Board of Executive Directors and implementation of the new Policy on Information Disclosure.

The OII was created in October 2003 as an independent unit reporting directly to the President, responsible for receiving allegations and conducting all investigations of alleged fraud and corruption in Bank-financed activities and violations of the Bank's Code of Ethics or policy on Respect in the Workplace.

The OII complies with its mandate through education and training, as well as through the detection, investigation and prevention of fraud, corruption and other misconduct. Allegations of such misconduct involving Bank-financed activities or Bank staff may be reported to the OII in person, by telephone, e-mail, facsimile, regular mail, or through the forms available on the Bank's website at www.iadb.org/oii. Allegations may be made anonymously.

The OII began operations in the first quarter of 2004, adopting a three-pronged strategy to accomplish its mission. First, given that staff must be the front line in the effort to ensure integrity in Bank operations, it developed methods and conducted activities to promote awareness and educate Bank staff about their responsibilities in combating corruption.

For the second prong of the OII strategy, detec-

MEXICO (left) • Machinery works metal at a small manufacturing company in Monterrey. Workers there received training from a local industry association through a Multilateral Investment Fund project to boost the productivity of small businesses.

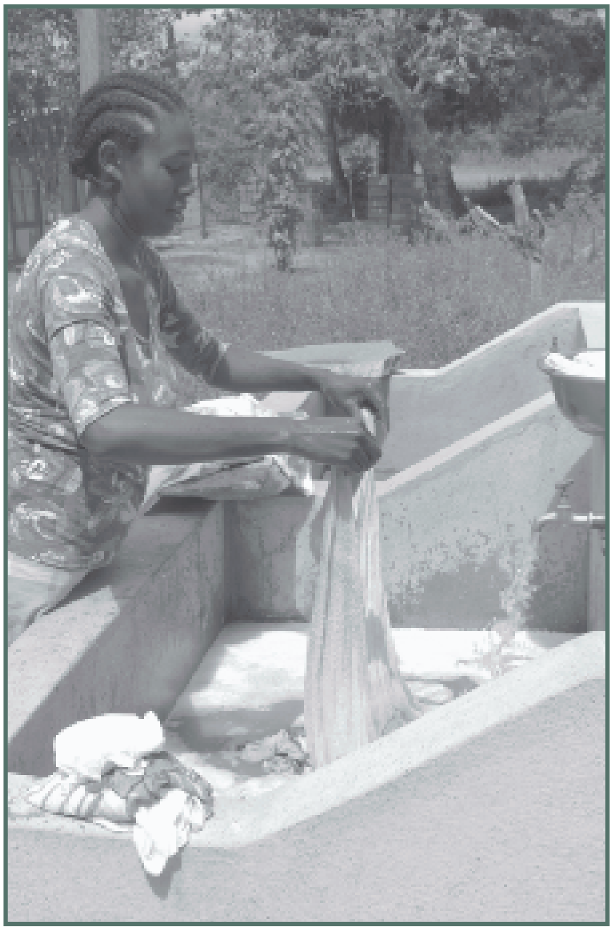
COLOMBIA (below) • The introduction of community policing in Bogotá under a program to strengthen crime prevention has helped cut the city's annual toll of violent deaths by over half in 10 years.

tion and investigation, 2004 was a year of transition. Prior to 2004, all investigations were conducted by the Office of the Auditor General (AUG). The OII has now assumed responsibility not only as the central portal for allegations but also for conducting the investigations themselves.

During 2004, 142 new allegations were received, a 50 percent increase over the same time period the previous year. The OII conducted numerous investigative missions in 2004, including missions to Argentina, Bolivia, Guatemala and Honduras. OII completed investigations of 67 of the new allegations received during 2004. Numerous individual reports of investigation and 12 summaries of new and ongoing investigations were submitted to the Oversight Committee on Fraud and Corruption, which is responsible for ensuring that any allegations of fraud or corruption involving Bank staff or Bank-financed operations are properly addressed. Moreover, working closely with AUG, OII was also able to resolve 48 matters in which investigations had begun prior to 2004.

OII has also focused on improving its capacity and procedures for accomplishing its new investigative function fairly and transparently. During 2004, a new Chief and a new staff member joined OII, each with considerable experience investigating fraud and corruption. Internal rules, procedures and policies developed during the year will improve OII's access to relevant information and enhance the investigative process, while ensuring whistleblower protection. In December 2004, after a meeting at IDB headquarters, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the World Bank and the IDB issued a joint statement reaffirming their commitment to the fight against corruption and to whistleblower protection and took steps to identify opportunities for harmonization of policies and practices.

The Bank policy on Protection for Whistleblowers and Witnesses approved in October 2003 expressly consolidated protections afforded to employees under other Bank policies in exercising their right to report information concerning fraud, corruption and other wrongdoing in Bank activities and to provide evidence in investigations and other administrative proceedings. Bank employees are protected from reprisals or



SURINAME • A Maroon woman in the village of Mooitakki washes clothes in one of the public sinks supplied by the village's first water supply system, which runs on solar power.

other adverse action for their support of the Bank's environment of institutional integrity.

OII has played a significant role in finalizing procedures for debarment and sanctioning of private firms and individuals found to have engaged in fraud or corruption in Bank-financed activities (see Box 14). Additionally, the Office participated in efforts to finalize a revised Code of Ethics for Bank staff, expected to be issued in early 2005. The new Code will be followed by a Bank-wide training and ethics awareness program developed and delivered under the direction of OII.

OII has begun laying the groundwork for the third prong of its strategy, proactive risk prevention and identification. Lessons learned from investigations are being examined to determine how internal controls and practices can be improved to reduce the likelihood of fraudulent or corrupt practices.

See www.iadb.org/oii

In 2004, the Board of Executive Directors established the Audit Committee to take over certain audit-related functions previously carried out by the former Budget, Financial Policies and Audit Committee of the Board. The primary functions of the Audit Committee are to assist the Board of Executive Directors in overseeing the Bank's financial reporting, risk management and internal controls, internal and external auditing, institutional integrity and communications by senior management and the Board of Executive Directors with the external auditors.

During the year, the **Office of the Auditor General (AUG)** continued to support the Bank's initiatives on corporate governance, retooling of Bank operations, Bank-wide risk management, control self-assessment and related activities. At headquarters, AUG continued to monitor and review the selection, implementation, upgrading and operation of significant computer applications and network infrastructure, such as the Budget and Financial Management System, the new Investment Management System, the Data Warehouse and the Events Management System.

In the operations departments and Country Offices, the Auditor General's Office focused on the management oversight system and reviewed the key elements of the Bank's project supervision system, both at headquarters and in the Country Offices, while continuing to review the performance of key operational control functions in specific Country Offices. In addition to its regular Country Office audits, and as requested by the Board, the Office assessed compliance with management's action plan for the implementation of AUG recommendations on procurement and disbursement transactions.

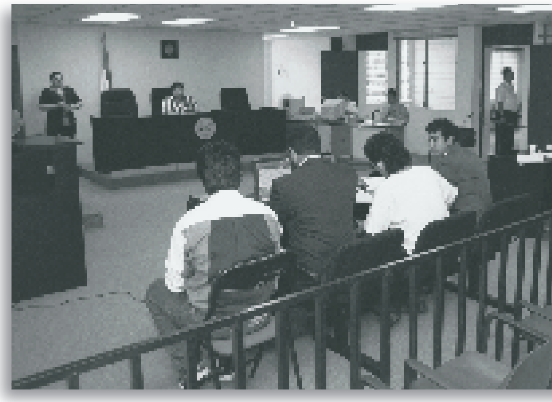
AUG also continued to review the effectiveness of key control features for highly decentralized projects; the adequacy and timeliness of Bank supervision; the responsibilities of external auditors and consultants regarding projects; and the adequacy of current reporting requirements, processes and risk-management issues. In January 2004, AUG began the transfer of responsibility for all fraud and corruption investigations to the OII, but continued to perform investigations related to ethics and potential fraud and corruption, as needed.

See www.iadb.org/ar/aug_en

In January 2004, a new Policy on Information Disclosure became effective, considerably expanding the scope of information regarding Bank activities to be made available to the public. The Policy is based on the principles that information concerning the Bank and its activities will be disclosed in the absence of a compelling reason for confidentiality and in a form and at a time that enhances the transparency and therefore the quality of Bank operations.

For the first time, the Policy explicitly provides for the disclosure of Bank financial and institutional information, as well as information on its projects and operational activities (see Box 15). Instructions were issued in 2004 on implementation of the Policy, stipulating that staff should disclose information concerning the Bank and its activities unless specific restrictions preclude its release. The vast majority of documents subject to the policy is being posted on the IDB website at www.iadb.org through the new document management system, IDBDOCS.

Box 14 • Sanctions Committee and Debarment



The Bank requires that all firms and individuals bidding for or participating in Bank-financed activities adhere to the highest ethical standards. In September 2004, IDB management sent to the Board proposed Sanctions Procedures to deal with allegations of fraud and corruption in Bank-funded activities, including both development projects and corporate procurement. The draft Sanctions Procedures provide for the creation of a Sanctions Committee to review claims of wrongdoing on the part of firms and individuals bidding for or participating in Bank-financed activities, and to determine what sanctions, if any, are appropriate.

The Sanctions Committee would consist of five members appointed by the President of the Bank and would perform its functions in coordination with the Bank's Oversight Committee on Fraud and Corruption (OCFC) and the Office of Institutional Integrity (OII). Allegations of fraud and corruption in Bank-financed activities are directed to the OII, which investigates them and reports its findings to the OCFC. Under the new procedures, if the OCFC determines that allegations concerning firms and individuals bidding for or participating in Bank-financed activities are well founded, the OCFC would refer the matter to the Sanctions Committee.

Special consideration has been given to creating a system that is efficient and flexible, and at the same time affords essential due process protection to a party against whom allegations have been made. Both the OII and the party concerned would have the opportunity to present their respective cases before the Sanctions Committee in a series of written submissions on the basis of which the Sanctions Committee would make its determination. If the Sanctions Committee determines that wrongdoing has been committed, a variety of possible sanctions may be invoked, ranging from a reprimand to the imposition of conditions for future participation in Bank procurement, to temporary suspension or permanent debarment from Bank procurement. As provided in a proposed change in the Bank's Disclosure of Information Policy, the identity of a sanctioned party and the sanction imposed would be publicly disclosed.

See www.iadb.org/oii

Board of Governors

The highest authority of the Bank is vested in the Board of Governors, composed of representatives of all member countries. Governors are usually Ministers of Finance, Ministers of Planning, Presidents of Central Banks or other officials of comparable rank.

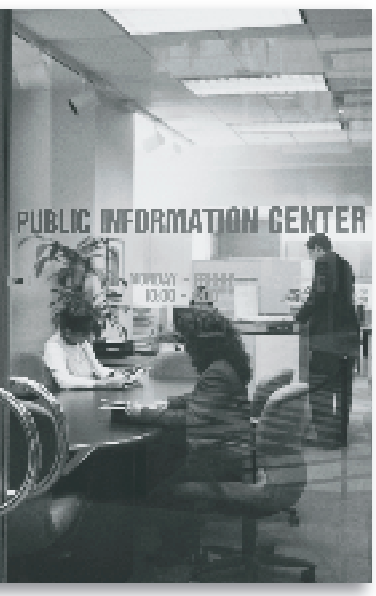
At the Bank's 45th Annual Meeting held March 29-31, 2004 in Lima, Peru, the Board of Governors approved the financial statements of the Ordinary Capital, the Fund for Special Operations, and the Intermediate Financing Facility for 2003, and appointed Ernst & Young LLP to carry out the external audits for the 2004 fiscal year. The board agreed to hold the 46th Annual Meeting in Okinawa, Japan, from April 10-12, 2005 and its 47th Annual Meeting in Nassau, the Bahamas, from March 20-22, 2006.

During its deliberations, and particularly during a special meeting of the governors prior to the formal opening of the Annual Meeting, the Board of Governors reviewed a variety of issues concerning Bank activities and noted the following:

- ***Positive economic environment:*** Highlighted the need to take advantage of the favorable economic

Box 15 • Implementation of the Information Disclosure Policy

In approving sweeping changes in the Bank's Information Disclosure Policy in November 2003, the Board of Executive Directors expressed particular interest not just in what the document said, but also in how it was to be implemented. The Office of External Relations, charged with coordinating implementation of the Policy, developed an implementation plan that included proposals for technical training for staff, consultation with civil society organizations in both borrowing and nonborrowing member countries, and the development of an extensive set of instructions to staff on what should be disclosed, by what means, at what time. The Instructions, developed over the course of 2004, will be transformed into a handbook for the public as well.



The Bank has complied with all aspects of the new Policy, resulting in the availability of greatly increased amounts of information to a variety of different audiences, including project stakeholders, academic researchers and banks, private firms and government agencies involved in project finance. In April 2004, the Bank began to publish minutes of the meetings of the Board of Executive Directors. This was followed shortly by the disclosure of the reports of the chairs of various Board committees (such as the Policy and Evaluation Committee and the Organization, Human Resources and Board Matters Committee) accompanying several key categories of documents, such as country strategies, country program evaluations and drafts of proposed operational policies and strategies. In disclosing these aspects of the work of the Board—in addition to its quarterly and annual work plans and the agendas of future meetings, the IDB became the first of the multilateral development banks to bring this degree of transparency to the workings of its Board.

Other IDB information "products" were disclosed for the first time during the year, notably project completion reports, monthly updates on the status of disbursements and debt service projections for each operation in the active and "closed" portfolios of the Bank, and memoranda prepared by management to request the Board's authorization to release tranches of policy-based lending operations.

One challenge for implementation is the full development and application of the technology delivery system for the greatly increased amounts of information to be disclosed. Staff training is being carried out on both technical and substantive aspects of the policy to ensure timely implementation.

See www.iadb.org/ar/pic_en

scenario to attain sustainable economic growth and voiced concern over the increasing income disparity and poverty in the region.

▶ ***Private sector development:*** Welcomed the recently approved private sector development strategy and the recently launched Business Climate Initiative.

▶ ***The Bank's lending instruments:*** Expressed concern over the underutilization of the Bank's lending capacity and urged the Bank to continue to develop flexible lending instruments. The board also welcomed the new capital adequacy policy.

▶ ***Development effectiveness:*** Welcomed efforts to improve the effectiveness of the Bank's interventions, including the establishment of the Office of Development Effectiveness, and urged the Bank to expeditiously implement its medium-term action plan.

▶ ***Multilateral Investment Fund (MIF) and Inter-American Investment Corporation (IIC):*** Expressed support for the replenishment of the MIF resources and commended the IIC on its improved effectiveness and efficiency.

The board also examined the region's current socioeconomic situation, the future outlook and the potential impact on Bank activities.

During the year, the governors held two other special meetings on the MIF replenishment. A consensus was reached on most of the articles in the draft Agreement for Establishing the MIF II and the vast majority of the Governors in attendance indicated that their countries intended to participate as donors in the MIF II.

The Committee of the Board of Governors held its eighty-eighth meeting in Lima in March. Governors discussed the status of the private sector in the IDB group, a progress report on the status of new lending instruments and operating policies, and Bank actions to strengthen development effectiveness.

In November, the Governors adopted a resolution to admit the Republic of Korea to membership in the Bank. Ordinary Capital shares were to be conferred pending completion of a series of actions outlined in the resolution.

See www.iadb.org/ar/bog_en

Board of Executive Directors

The IDB has 14 executive directors who represent the 46 member countries. Directors serve full-time for a period of three years. In the absence of an executive director, an alternate executive director appointed by the respective director has full authority to represent the constituency.

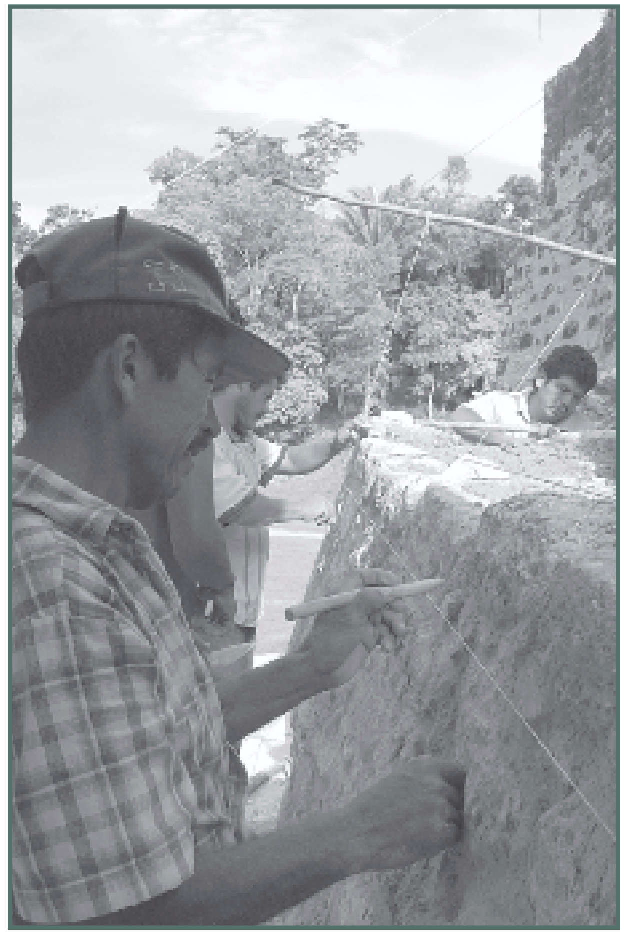
In 2004, the Board of Executive Directors approved the loan and technical cooperation operations detailed in the section of this report on the year's lending. The principal corporate issues resolved by the board are described below.

As mentioned above in the section on governance, transparency and audit, the **Audit Committee** was established in 2004 as part of an overhaul of the Bank's corporate governance, with special provisions on its membership to enhance its independent standing. The purpose of the Audit Committee is to assist the board in overseeing the Bank's financial reporting, risk management and internal controls, internal and external auditing, and the Bank's activities to promote institutional integrity.

During the year, the Audit Committee considered the work of the external auditors on the Bank's annual financial statements and reviewed the Bank's statements on a quarterly basis, instead of semiannually (as had been the board's practice previously). It established its own working procedures, which included an ongoing training program for executive directors to ensure that the board was prepared to undertake the heightened level of scrutiny now required by shareholders and financial markets.

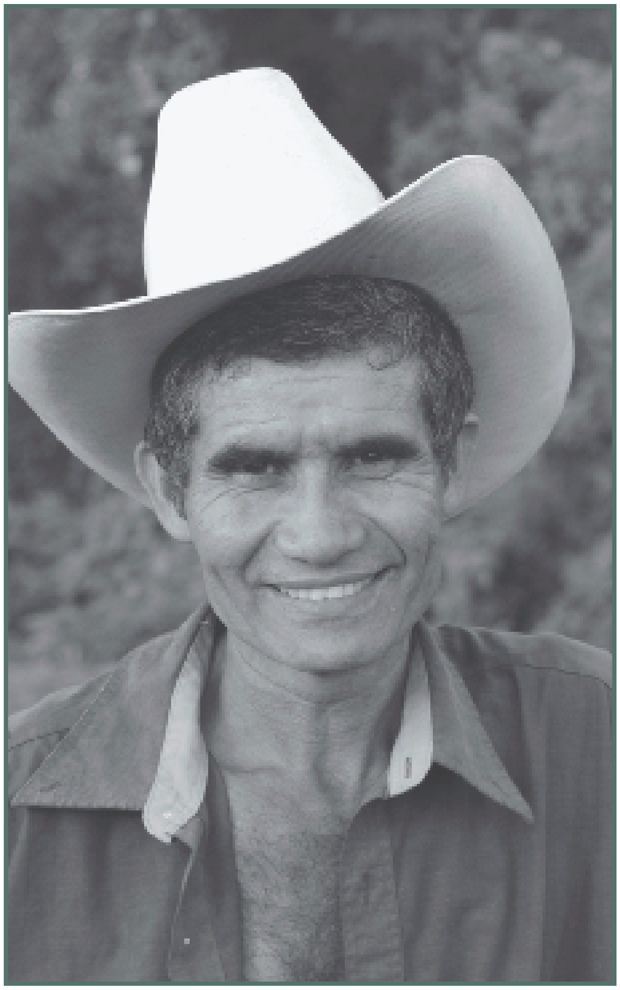
The **Budget and Financial Policies Committee** oversees the preparation and execution of the Bank's administrative and capital budget and reviews the Bank's financial policies. During the year, it conducted intensive activities as part of a broad overhaul of how the Bank carries out the procurement of works, goods and services, both at a corporate level and in relation to the projects it helps finance.

After a detailed review of consultants' reports, the committee asked management to prepare action plans to implement the principal recommendations and ensure that the Bank's policies, practices and institutional arrangements meet the highest standards of transparency, fairness and efficiency. An action plan on reforming corporate procurement was approved by the board. As of the end of the year, management's proposed policies and action plans for project procurement were under review and were expected to be approved early in 2005.



BELIZE • Archeologists excavate the Mayan Caracol site near San Ignacio under a tourism development project to preserve cultural assets, upgrade access roads and improve water and sewerage services.

In past years, one of the committee's main duties has been the semiannual review and approval of the Bank's loan charges and lending rates. Under the new capital adequacy policy, management expected a sharp decrease in volatility so that standard charges would be proposed in most circumstances. This was in fact the case and standard loan charges were readily approved. In line with the new policy, the com-



NICARAGUA • This small farmer received training in agricultural technology under a project to boost the productivity and competitiveness of small-scale farm operations in Matagalpa.

mittee also received a report updating the financial projections of the Bank's total equity to loan ratio and noted that progress towards the target level of 38 percent was on schedule.

To reflect the establishment of the new Audit Committee in 2004, the name of the Budget, Financial Policy and Audit Committee was changed to Budget and Financial Policy Committee. The committee's role in the preparation and approval of the Bank's budget is also set to evolve further. The committee considered a concept paper from management exploring the possibility of moving towards a three-year, rather than a one-year, budget cycle, which would enhance the Bank's efficiency and its ability to link resource allocation to results. More detailed proposals will be brought forward in 2005.

The budget proposal for 2005 had to accommodate an unusually large number of initiatives to strengthen the Bank's internal controls and governance, and to improve its performance in supporting regional development. As a result, a nominal increase in the administrative discretionary budget of 3.8 percent was approved. While the total administrative budget is projected to rise by 8 percent, the capital budget should decline by about 20 percent, for a grand total increase of the overall budget of 6.7 percent.

The **Organization, Human Resources and Board Matters Committee** deals with organizational issues related to board management, adjustments in the structure of the Bank, human resources, the Independent Investigation Mechanism and the Bank's annual meeting.

In the area of board management, the committee recommended approval of the board's first code of ethics. It also discussed a series of recommendations to streamline board deliberations, including a 30-page limit on all board documents. With regard to the Bank's organizational structure, the committee recommended approval of a reorganization to consolidate several independent units into two new departments, the Development Effectiveness and Strategic Planning Department and the Budget and Corporate Procurement Department.

In human resources, the committee continued to discuss headcount and compensation and reviewed the terms of reference for two major Bank studies on these issues to be completed in early 2005.

The committee reviewed two cases under the Independent Investigation Mechanism and discussed a new draft mechanism, which will be available for public comment early in 2005.

The **Policy and Evaluation Committee** considers the policies and strategies that guide Bank operations in the region and the instruments used to implement them; it reviews the reports that assess their success in promoting social and economic development and oversees the work of the Office of Evaluation and Oversight (OVE). During the year, the committee focused on three main issues: enhancing the Bank's development effectiveness, modernizing the Bank's lending instruments and achieving consensus on the new lending framework.

Enhancing the Bank's development effectiveness has been a central mandate for a number of years. The committee carefully reviewed reports by OVE on various aspects of Bank activity, including the poverty

Box 16 • Sector-Wide Approaches (SWAps)

In 2004, the IDB approved the use of sector-wide approaches (SWAps) to investment lending. This enhances existing approaches to project financing by allowing the pooling of resources by the IDB, other development partners and governments, and the use of jointly agreed-upon procedures, in order to achieve greater flexibility, efficiency and effectiveness in attaining development goals.

In a SWAp, all development partners involved in a sector collaborate to support a single government-led sector policy and expenditure program, adopting common approaches across the sector and progressing toward relying on government procedures to disburse and account for all funds. Pooled funding is an arrangement whereby the government and development partners participating in the SWAp deposit their funds into a common account and disburse from that account, rather than using their own special-purpose accounts. Pooled accounts follow common procurement and financial management and disbursement procedures jointly agreed upon by all the participants in the pool. Preference is given to using the borrower's own procurement and financial management rules and procedures when these meet satisfactory fiduciary standards.

The SWAp offers a number of advantages. It strengthens country ownership and focuses on the sector's development program, and ensures development cooperation within a single, agreed-upon sector strategy and expenditure program, reducing duplication of efforts and increasing resource allocation efficiency and development effectiveness. It improves donor coordination and harmonization of procedures, reduces borrower transaction costs, and at the same time strengthens the borrower's own capacity, systems and institutions. In December 2004, the Board approved the Bank's first such operation, a $1 billion loan for the social protection system in Brazil. The loan includes support in particular for *Bolsa Família*, a cash transfer program for low-income families.

See www.iadb.org/ar/swaps_en

reduction strategy, the instruments used to monitor project implementation and the Bank's natural disaster strategy. A key milestone was reached when the Board approved the Medium-Term Action Plan for Development Effectiveness, which laid out a platform for systematic progress in strengthening results-based management in Bank projects, in internal operations and in borrowing countries. Enhancing borrowing member country capacity to manage public policy for results was highlighted when a proposal was submitted to set up a dedicated fund for this purpose.

The committee endorsed a new approach to investment lending, known as sector-wide approaches (SWAps) to allow the Bank to merge its financial resources with those of the borrower in cases where sector-wide objectives have been agreed upon and the borrower's financial management and fiduciary controls have been assessed and found satisfactory (see Box 16).

Equally significant were changes to make existing lending instruments more flexible. A wide-ranging proposal to simplify the Bank's rules on expenditures eligible for financing was examined in detail by the committee and approved by the Board (see Box 17). A parallel recommendation to change Bank regulations concerning counterpart financing was submitted to the Board of Governors for approval.

The efforts to enhance the Bank's development effectiveness and to give greater flexibility to its lending instruments were key inputs into the consideration of a new lending framework. The current lending framework, which sets targets for the Bank's mix of investment, policy-based and emergency loans, was established by the Governors in 2002. The Bank was to report at the 2005 Annual Meeting on performance since 2002 and make recommendations on a framework for the coming years (see Box 18).

The committee's analysis of this issue was

Box 17 • Eligible Expenditures in Investment Loans

During 2004, the Board of Executive Directors approved a new policy regarding eligible expenditures for IDB-financed investment projects. The proposal, entitled "Modernization of Policies and Practices that Restrict the Use of Resources in Investment Loans," resulted in a change in Bank policies to allow more flexibility in the use of resources in investment loans and to lift restrictions that might inadvertently impede the achievement of development objectives.

Prior to the policy change, restrictions on financing expenditures in investment loans included: (i) a limit on the share of total project cost and share of foreign exchange financing of local costs for which Bank resources might be used (the modification of this policy is pending approval by the Board of Governors); (ii) restrictions on financing of taxes and fees; (iii) restrictions on financing of recurrent expenditures; (iv) restrictions on financing of working capital, land and commercial buildings; and (v) restrictions on financing of certain expenditures in institutional reforms, such as severance payments.

In contrast, the revised policy is designed to reorient investment loans away from restrictions and toward development effectiveness, making loans more relevant to the present needs of the Bank's borrowing member countries. More emphasis will now be placed upon demonstrated links between expenditures and achievement of a project's development objective. At the same time, the change in policy brings the Bank more in line with the ongoing harmonization initiatives among multilateral development agencies.

Limits to eligibility of expenditures and the Bank's share of total project cost would be adjusted according to the economic conditions of each borrowing member country and its development program. This new approach will require: (i) weighing country ownership of the overall development program in terms of funding with its own resources, and particularly the financing of the sector in which the Bank resources are targeted; (ii) consideration of the borrowing capacity and fiscal regime of each borrowing country; and (iii) agreement with the authorities of each borrowing country on country financing parameters (CFPs), which will be developed for each borrowing country to provide an overall framework for Bank project financing in a particular country. The CFPs will cover three main aspects: (i) cost sharing and local cost financing; (ii) financing of taxes and duties; and (iii) recurrent cost financing.

At the project level, the eligibility of expenditures to be financed by the Bank will be guided by four principles: (i) any expenditure must be attributable to the project and have a positive impact on its development objective; (ii) the operations under which the expenditures are financed must have an acceptable impact on the borrower's fiscal sustainability; (iii) resources must be used efficiently and solely for the purposes for which the loan was made; and (iv) the projects must be technically, financially and economically viable. Once the Bank establishes a given country's financing parameters and the process of approval has culminated, the new policy may then be applied to future projects under preparation in that country, if the borrower so requests and the Bank agrees.

See www.iadb.org/ar/pol_en

supported by an OVE report on the performance of each lending instrument. By the end of 2004, a consensus had already been reached on a number of recommendations for the new lending framework. A comprehensive proposal was expected to be submitted to the Governors early in 2005.

The **Programming Committee** considers country and regional programming documents, reviews progress reports on the Bank's lending, technical cooperation and nonfinancial product pipelines, and evaluates guidelines for the allocation of concessional resources. It also reviews OVE reports on topics related to country programming and considers new initiatives that concern the Bank's programming function.

In 2004, the committee reviewed and recommended Board approval of the country strategies for Argentina, the Bahamas, Belize, Bolivia, Brazil, Ecuador, Paraguay and Trinidad and Tobago. In its discussions, the committee focused on the quality of targets and indicators so that the strategies can be better evaluated in the future. Committee deliberations also centered on recommendations from evaluations of country programs prepared by OVE.

The committee also considered country strategy updates, which it found useful, although most Directors agreed that the process whereby these annual updates are prepared and presented needs further streamlining.

The **Steering Committee** of the board coordinated the work of the standing committees described above and dealt with administrative issues related to board management. The committee is made up of the chairs of the four standing committees and the Audit Committee, the dean and vice dean of the board, and the director representing the United States.

See www.iadb.org/ar/exd_en

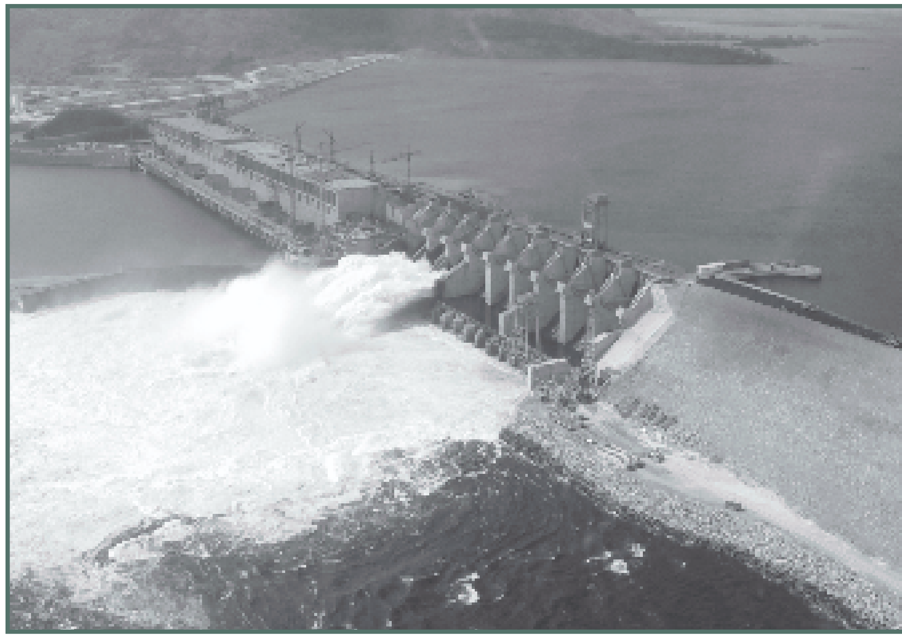
Evaluation

The Bank's increased focus on results has significant implications for both self-evaluation and independent review, as well as for the interactions between the Bank and its borrowing member countries. On the self-evaluation front, results-based management will require the development and implementation of new systems of indicators to track the effectiveness of Bank interventions, measure progress toward results, benchmark institutional and organizational unit performance against external standards and monitor project execution in ways that contribute to improving the results obtained from Bank activities.

The ultimate success of the results agenda actually depends more on the borrowing member countries developing their own systems for managing for results. Without strong and well-institutionalized evaluation practices in the countries, the Bank will have difficulty translating its commitment to effectiveness into projects that consistently deliver results on the ground. The central role of country capacity for managing and evaluating results was emphasized both by OVE in its 2002 report on evaluation capacity development, and by management in its recent discussion of the "external pillar" for the Medium-term Action Plan for Development Effectiveness.

In 2004, OVE carried out a broad range of activities set forth in its multiyear work plan, covering its six areas of activity: oversight, country program evaluation, strategy evaluation, policy and instrument evaluation, ex-post evaluation and evaluation capacity building.

As part of its mandate, OVE performs periodic evaluations of supervision activities and the Bank's overall oversight responsibilities. The studies completed in 2004 included, for example, a report entitled "The Project Supervision System: An Evaluation of Use of its Instruments." This report recommended that the Bank develop an integrated execution supervision system, using a risk-based portfolio management approach that incorporates the best practices of other, similar institutions, adopt an internal control framework to improve corporate governance, report regularly to the Board of Executive Directors and senior management on the progress made in the effectiveness of operations and management and cost efficiency, and develop an integrated reporting system.



VENEZUELA • The 2,160-MW Caruachi hydroelectric facility was built to help meet the growing demand for electricity, by harnessing the water resources of the lower Caroní River *(photo courtesy CVG-EDELCA)*.

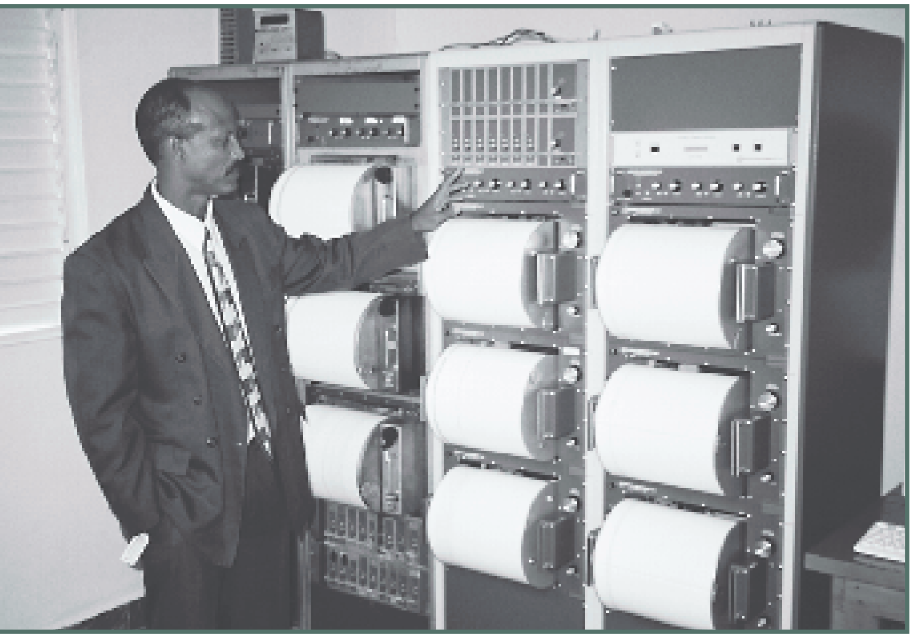
The board asked OVE to conduct country program evaluations before each new country strategy is prepared. In 2004, an unusually high number of countries held elections in the region and 10 country program evaluations had to be conducted, double the number produced in any preceding year. Of the 10, the

Board considered the ones for Argentina, Belize, Brazil, Bolivia, Ecuador and Paraguay; country program evaluations for Barbados, El Salvador, Guatemala and Jamaica will be submitted to the Board in 2005.

Many of the recommendations made in the country program evaluations for the next programming cycle were similar across countries, such as improving the results frameworks in programming documents, addressing debt dynamics, investing more in analytical work to understand the problems of the country and focusing Bank interventions more strategically. They point to persisting issues in how the Bank organizes itself to serve country needs and produce development results.

In 2004 OVE completed evaluations on the Bank's basic education strategy, poverty reduction strategy, the policy on information age technologies and development, and the agricultural sector program. Each of the strategy evaluations provided findings and recommendations on the specific subject area.

During the year, OVE conducted policy and instrument evaluations, such as the report on "Instruments and Development: An Evaluation of IDB Lending Modalities." This review recommended that the Bank deepen substantially the analytical underpinnings of all Bank operations. It also recommended that the Bank focus on countries rather than instruments and seek greater integration of Bank activities with those of the country through program-focused rather than project-focused interventions. This approach could involve joining with other multilateral organizations in developing and applying best practices for assessing country fiduciary management capacity and delegating such functions to those countries whose oversight institutions are deemed adequate.



DOMINICAN REPUBLIC • Modern equipment was purchased for the National Meteorological Office to strengthen disaster prevention as part of a reconstruction program in the wake of Hurricane Georges.

Also noteworthy among the policy and instrument evaluations in 2004 were the "Synthesis of OVE Evaluations of Bank Action for Private Sector Development," which summarized the main points arising from OVE evaluations of Bank actions in private sector development over the past three years, and the evaluation of the Bank's policy and operational practice related to natural and unexpected disasters. The latter report recommended that the Bank revise its operational policy to place disaster risk management at the center of its activities, strengthen the incentives and capacities for risk management in highly vulnerable countries and lay the foundation for efficient forms of risk transfer and financing.

In 2003, the Bank adopted a new policy on ex-post evaluation designed to strengthen the project completion report as an early form of ex-post self-evaluation by management. It established two new types of independent ex-post evaluation to be conducted by OVE: ex-post performance and sustainability assessments and ex-post impact evaluation reports. During 2004, OVE conducted six pilot impact evaluations on projects completed in Argentina, Brazil, Ecuador, Mexico and Peru.

As part of its 2004 capacity-building work, OVE entered into an agreement with the Central American Bank for Economic Integration to support evaluation in that institution, and worked with evaluation agencies and universities in Argentina, Brazil and Peru to conduct evaluations of IDB-financed projects.

OVE has maintained a long-term partnership with the Brazilian Institute for Research in Applied Economics that has produced three comparative studies on the use of evaluation as a tool for public sector administration in Argentina, Brazil, Chile, Colombia and Costa Rica. The findings of these studies were discussed at a seminar held in Brasília in April 2004. As a result of the seminar, agreements were reached to establish a regional observatory on evaluation capacities and further develop evaluation networks in the region. OVE intends to expand and formalize this evaluation network as part of its 2005 work plan.

By the end of 2004, OVE had produced and forwarded to the Board of Executive Directors 45 studies that included a total of 251 recommendations for enhancing the Bank's effectiveness. OVE is tracking their implementation and will report in June of each year on their status.

See www.iadb.org/ove

Country Offices

In 2004, Country Offices continued to play an instrumental role in identifying innovative approaches to providing more effective support to borrowers and executing agencies in portfolio management, project monitoring and supervision. This was particularly important given the increasing demands placed on countries in the region to maximize the use of limited financial and human resources, strengthen results frameworks and make greater strides in demonstrating development effectiveness.

Country Offices promoted dialogue with respect to managing for results and supported national authorities in the restructuring of portfolios as needed in response to changes in the macroeconomic and fiscal environment. Country Offices were also proactive in ensuring that appropriate levels of counterpart resources were made

Box 18 • New Lending Framework

In 2002, the Board of Governors approved a lending framework for the Bank consisting of three basic lending categories—investment, policy-based and emergency—setting limits on loan approvals for the latter two and establishing minimum disbursement periods for investment and policy-based loans. The resolution creating the lending framework also instructed the Board of Executive Directors to review the results of its implementation and provide recommendations for consideration by the Board of Governors at the 2005 Annual Meeting.

Following this mandate, during 2004 the Bank carried out an analysis of the implementation of the current lending framework. The findings and recommendations produced as part of this effort were subsequently discussed with the Board of Executive Directors. A key document prepared by management, entitled "The New Lending Framework: Assessment Report and Recommendations," focused on the areas that formed the original basis for creating the current lending framework, including: (a) measures to enhance the Bank's development effectiveness; (b) measures to enhance the development effectiveness of each lending category, particularly policy-based and emergency lending; and (c) the establishment and utilization of new lending instruments. In addition, other issues considered important for the definition of the IDB framework for the future were analyzed, such as the economic and social development prospects for the region and the net financial flows between the Bank and the borrowing countries.

The review reinforced the importance of continued strengthening of country focus in Bank activities and of assigning the programming process a key role in determining the mix of IDB instruments. In the context of decreasing net financial flows from the IDB to borrowing member countries, the contribution that the Bank can make through its nonfinancial products was noted as critical. The development of more flexible policies and procedures was also recognized as a need, in order to decrease the transaction costs of Bank operations.

The Bank will continue to implement measures to improve the development effectiveness of its programs and projects under the revised lending framework, and to provide support to member countries to strengthen their own monitoring and evaluation systems. The progress observed in the area of development effectiveness will be consolidated into a results-focused corporate system including baseline, implementation and outcome indicators to monitor projects and country programs.

See www.iadb.org/ar/nlf_en

TABLE XI • CONSOLIDATED ADMINISTRATIVE EXPENSES

(In thousands of U.S. dollars)

Category	2002 Actual	2003 Actual	2004 Actual
Board of Governors	$ 3,232.4	$ 3,247.6	$ 2,469.9
Board of Executive Directors	15,598.8	15,745.0	16,332.3
Office of Evaluation and Oversight	4,730.5	5,036.5	5,491.0
Headquarters and Country Offices	338,559.5	348,446.3	373,063.8
Total before Reimbursement[1,2,3]	**362,121.2**	**372,475.5**	**397,357.0**
Reimbursement from Funds in Administration and IIC	(1,885.4)	(2,671.3)	(2,678.1)
Total Administrative	360,235.8	369,804.2	394,678.9
Capital	26,059.9	17,607.4	35,521.6
TOTAL ADMINISTRATIVE AND CAPITAL	**$386,295.7**	**$387,411.7**	**$430,200.5**

[1] Excludes depreciation amounting to $9.6 million in 2002, $11.1 million in 2003, and $11.1 million in 2004.
[2] Net of certain income items in the amount of $11.8 million, $9.2 million, and $9.8 million in 2002, 2003 and 2004, respectively.
[3] Includes prepaid pension benefit costs amounting to $7.8 million in 2002, $9.8 million in 2003, and $11.1 million in 2004.

available for Bank operations and that portfolio performance issues were addressed in a timely manner.

In recognition of the need to better serve the broad range of demands from borrowing member countries, a number of Country Offices carried out “reengineering” exercises and “process consultations” designed to improve the quality and timeliness of their responses to clients and reduce costs. Workshops were held in several countries, including Ecuador, Guyana, Panama, Paraguay, Peru and Trinidad and Tobago, with the participation of Bank staff, country representatives, executing agencies and civil society. More workshops are planned in other countries in 2005.

During the workshops, brainstorming sessions were organized to identify initiatives to shift the focus from routine workload and administrative procedures to more results-oriented project preparation and implementation issues. Each Country Office then developed medium-term action plans for such areas as streamlining internal processes and procedures and developing guidelines for more efficient procurement and financial controls.

Country Offices have also taken a more hands-on role in the responsibilities, shared with borrowers, for project preparation, portfolio management and monitoring practices. For instance, specialists are contributing to project design by providing valuable insight into institutional capabilities and project execution mechanisms. In addition, most Country Offices have established a set of portfolio benchmarks that are tracked throughout the year and reviewed during annual portfolio meetings carried out jointly with each regional operations department. Operational outputs such as project startup, inspection and administration missions and mid-term reviews are monitored year-round and reviewed during the annual portfolio reviews.

As the Bank shifts its emphasis from individual project lending to the programmatic and sector-wide approaches increasingly used by other donors, Country Offices have been instrumental in identifying more efficient, streamlined project execution mechanisms that maximize the use of local human and financial resources. For example, in Brazil, Honduras and Nicaragua, line ministries in the social sectors have been identified and given support to serve as the sole executing agencies for all donor resources channeled to social programs. Such support has reduced the strain on countries with limited resources, improved coordination for all parties involved and helped the countries better track their progress towards the Millennium Development Goals.

See www.iadb.org/ar/countries_en

Nonregional Offices

Office in Europe

The Office in Europe (SOE) works to strengthen relations and cooperation between the Bank and the region and the Bank's nonregional member countries (16 in Europe and Israel), the European Union and international organizations based in Europe. The key elements of its mission are to promote a greater awareness of the IDB's mandate and increase the Bank's visibility and the impact of its efforts to strengthen cooperation with Europe. The Office carries out its mission mainly through conferences, seminars and other outreach activities.

In 2004, most of SOE's activities with the European Commission were geared toward the preparation of the European Union - Latin America Summit held in Guadalajara, Mexico, in May. Also in cooperation with the European Commission, the SOE organized the second meeting of the Working Group on Social Cohesion, held in Brussels, and published a book on democracy and inequality entitled *¿Democracia con desigualdad? Una mirada de Europa hacia América Latina*, which was presented at the Guadalajara Summit.

With the Organization for Economic Co-operation and Development, SOE organized the second meeting of the Latin American Competition Forum at Bank headquarters, with the participation of competition agencies from 21 Latin American and Caribbean countries. During the Forum, Peru's competition law and policy were peer-reviewed.

The second annual conference of the Euro-Latin Network on Governance for Development, held in Barcelona, focused on preparation of national governance profiles, with the first on Bolivia. A seminar on regionalization and globalization was held in Poitiers, France, organized jointly with the Institute of Political Studies and the Organization of American States. In association with Canning House of the United Kingdom and the CIDOB Foundation of Spain, SOE organized a seminar in London on urban crime and citizen security, comparing successful experiences in Latin American and European municipalities.

SOE organized the Second Annual Conference of the Euro-Latin Study Network on Integration and Trade, which brought together over 90 European research centers in Florence.

Noteworthy among SOE outreach activities during the year were the Second Conference on European-Latin American and Caribbean relations, held jointly with the journal *Problèmes d'Amérique Latine* and the French Ministry of Foreign Affairs; a conference on globalization and Latin America held in London, in cooperation with *The Economist* and the Royal Institute of International Affairs; a debate on the future of Latin America and its relations with Europe jointly with the French newspaper *Le Monde*, in Paris, with more than 800 participants; and a consultation on "Assessing and Reviewing the Criteria of Representativeness of Civic NGOs" organized in Brussels with the Active Citizenship Network and the European Commission. SOE also organized seminars on business opportunities and procurement procedures in Brussels, Frankfurt, The Hague, London, and Milan, and published two

PERU • The Camisea natural gas field and pipeline distribution network is providing critical energy resources to Lima and Callao.

books, five working papers and two seminar reports during the year.

See www.iadb.org/europe

Office in Japan

In 2004, the IDB Office in Japan conducted a broad program of outreach and knowledge dissemination activities to advance its mission of strengthening relationships and building development partnerships between the Bank and its borrowing member countries in Latin America and the Caribbean with Japan and East Asia. This year, the Office assigned special priority to increasing public awareness in Japan of the Annual Meetings of the IDB and IIC Boards of Governors, to be held in Okinawa, in April 2005.

The Office provided critical support for a two-day symposium organized by the IDB in close collaboration with the Japan Bank for International Cooperation (JBIC) on "Japan-Latin America and the Caribbean: Global Partnership." The symposium, which attracted some 1,000 participants, including high-ranking policymakers and business executives from both regions, featured presentations on opportunities for Japan in the region in investment, tourism, technology transfer, cultural exchanges, trade and regional integration.

To help promote the annual meeting in Okinawa, the Office held a full-day seminar for Japanese business representatives on business opportunities available through IDB group-financed projects in Latin America and the Caribbean.

Among its activities to promote social development in the region, the Office organized workshops in Tokyo and Okinawa on "Corporate Social Responsibility in the Promotion of Social Development: Experiences from Asia and Latin America and the Caribbean." The workshops, organized in coordination with the Bank's Inter-American Institute for Social Development (INDES) and the Japan Program, brought together corporate executives, policymakers and community leaders from East Asia and Latin America and the Caribbean, as well as from the World Bank and Asian Development Bank, to discuss best practices and lessons learned from successful programs involving corporate social responsibility.

The Office also held a seminar in Okinawa on the contributions of Asian migrants to Latin America and the Caribbean from the 1890s to the 1960s and the more recent reverse flow of Asian descendants from Latin America immigrating to Japan. The seminar emphasized the increasing economic importance of their remittances and the role that Asian descendants can play in strengthening the economic and cultural relations between Latin America and the Caribbean and Asia.

In conjunction with the Asian Development Bank and the JBIC, the Office also organized a "Tokyo Forum on the Operational Dimensions of Supplying Regional Public Goods through Regional Development Assistance." The purpose of the forum was to improve regional programming among agencies, enhance donor-recipient coordination, encourage donor countries to develop innovative technical and financial instruments and encourage civil society and private sector participation in the provision of regional public goods.

The Office maintained a strong focus on the performance and prospects of the economies of Latin America and the Caribbean, Japan and other Asian countries through a series of seminars, conferences, study groups and roundtables with Bank officers, representatives of other international organizations, Japanese academicians and researchers, and private sector organizations. For example, it organized seminars in Tokyo and at Asian Development Bank headquarters in the Philippines on the IDB's 2004 Report on Economic and Social Progress in Latin America entitled *Good Jobs Wanted: Labor Markets in Latin America*.

The challenges and opportunities for Latin America and the Caribbean, Japan and the rest of Asia generated by China's emergence in the world economy in recent years was the central theme of seminars in Beijing and Tokyo organized in conjunction with the Asian Development Bank Institute and the Latin America/Caribbean Asia/Pacific Business and Economic Association.

The Office maintained close contact with Japanese professionals interested in exploring employment opportunities at the Bank. It held seminars at universities and conducted interviews with potential candidates for positions at the Bank, providing guidance about the Bank's employment practices. Five summer interns from Japan were recruited to acquaint Japanese professionals with the region and the role played by the Bank in its development.

See www.iadb.org/japan

Administration

The Bank continued to pursue efficiency in the administration of its resources at the institutional, operational, financial and administrative levels. In 2004 the Bank focused in particular on the headcount reduction, mobility, diversity, workload initiatives, development effectiveness, corporate procurement, corporate risk management, organizational adjustments and business continuity.

Management took several actions to reduce the Bank's headcount, as instructed by the Board of Executive Directors. By the end of 2004, 34 headcount positions were eliminated and an additional 33 positions were identified for elimination by the end of 2005. Management has also been working on the human resources guidelines for turnover positions in order to adjust them more closely to the business needs of the Bank.

As of December 31, 2004, the Bank had 1,884 staff funded by the administrative budget, excluding the Board of Executive Directors, Office of Evaluation and Oversight and Multilateral Investment Fund. Headquarters staff numbered 1,344 and Country Office staff 540. Of the total number of employees, 1,415 were professional staff, of whom 548, or 38.7 percent, were women.

Progress was made in 2004 towards the mobility targets and Country Office strengthening measures. The 2004 mobility exercise resulted in the transfer of 59 staff, for a total of 149 staff transferred under the initiative overall, 89 percent of whom were professional staff. Of the total number, 116 transfers occurred within headquarters, 16 between one Country Office and another and 17 between headquarters and Country Offices.

The new rules and guidelines governing mobility were completed in 2004 to implement the strategic direction approved by the board in 2003. The 2004 mobility exercise for professional staff was carried out under these new rules, including, for the first time, mandatory participation of international staff with five or more years in the same assignment. A total of 136 positions were announced and 144 staff members participated. As a result, 59 staff members were reassigned, 54 percent at headquarters and 46 percent involving an exchange with a Country Office.

Under the Diversity Action Plan, various activities were undertaken to enrich the pool of qualified candidates. These included visits to universities, recruitment missions, and the assignment of a liaison in each Country Office to promote the plan. In addition, a special Diversity Internship Program was launched in 2004, through which 11 interns were hired out of 133 applicants.

BAHAMAS • The Neo-Natal Intensive Care Unit at the Princess Margaret Hospital in Nassau was built under a program to strengthen the health sector, with a view to decreasing infant mortality.

A workload assessment was conducted in 2004 with support from a specialized consulting firm. The core group for this initiative, working with the consultants, gathered and reviewed strategic and business plans and business input and output data to develop workload profiles for the different departments of the Bank. Following a validation process with each department, the workload profiles were analyzed and a baseline created for the workload of the Bank as a whole.

A workload planning computer model, currently being populated, will help replicate this exercise. The model will be used for planning to assist departments in prioritizing their activities and determining the impact of priority changes on staffing requirements. The main findings of this initiative will be included in the final workload assessment report scheduled for delivery to senior management in the first quarter of 2005.

During 2004, an expert consulting firm presented to the Board of Executive Directors its final report on the Bank's corporate procurement and its recommendations for best practices and efficiency, transparency, economy and fairness. A working group chaired by the Vice President for Planning and Administration refined the deliverables and developed an Action Plan. The Board approved the Action Plan for the IDB Corporate Procurement Systems Review and management has been working on each of the deliverables. A status report on the Action Plan will be presented to the Board of Executive Directors during the second half of 2005.

In the area of corporate risk management, the Bank is committed to maintaining the safety and security of its staff and facilities, both at headquarters and in the Country Offices, by the continued review and implementation of physical security measures and emergency procedures. This ongoing exercise continues to have high priority for day-to-day operations. It includes daily analysis of the security situation, adjustments in security measures, review and update of emergency procedures, and daily support for the staff at headquarters and the Country Offices.

The Bank has also developed a Disaster Recovery and Business Continuity Plan and purchased a building in Ashburn, Virginia, that will ensure the Bank's ability to continue critical operations in case of a major event that would render the headquarters building inoperable. Final preparations were made at the end of 2004 for the relocation of the data processing center to handle ongoing business operations in the event of an emergency.

Consistent with the commitment of the Bank to pursue institutional objectives with economy, efficiency and transparency, the board approved organizational adjustments, effective January 2005, to enhance its development effectiveness, elevate the budget and corporate procurement functions in the institution and provide the Office of the Vice President for Planning and Administration with advisory capacity aimed at optimizing performance and results.

The functions pertaining to development effectiveness, portfolio management, project procurement and financial management, strategic planning, and operational policy development were consolidated into a single department. The new Development Effectiveness and Strategic Planning Department will centralize all development effectiveness functions, thereby enhancing the Bank's focus on measuring and monitoring development results and facilitating implementation of the Medium Term Action Plan for Development Effectiveness, specifically its three interrelated pillars (see the Development Effectiveness section under Key Areas).

Since both the budget and corporate procurement processes encompass many activities that cut across the organization and have budgetary and technical dimensions, these functions (formerly housed in separate departments) will be elevated to the department level as the Budget and Corporate Procurement Department. This new department, which will report to the Vice President for Finance and Administration (the title itself was renamed to reflect these organizational adjustments), will have a relatively narrow mandate, but a broad reach, given the major role the budget plays in corporate performance measurement and the wide array of activities that the Bank covers through procurement. In addition, the Budget and Corporate Procurement Department will assist the Vice President for Finance and Administration by providing oversight and review of budget and corporate procurement decisions.

The Organization and Management Services Division, which assists management in decision-making and provides services to optimize Bank performance, will be transferred to the Office of the Vice President for Finance and Administration. The division will advise the Vice President for Finance and Administration in areas that typically cut across departmental boundaries and will continue to provide ongoing analysis of the short-, medium- and long-range plans of the Bank and its organizational units, making recommendations on organizational structure, business processes and resources, as well as establishing and implementing corporate standards and rules.

The Bank does not currently have a single source of information on individuals providing goods and services to the Bank on a regular basis. For business continuity purposes, the Security Advisory Committee decided that all non-staff providing goods and services to the Bank on a regular basis should be tracked in the Bank's Human Resource Information System. Individual consultants are expected to be the first group to be included in the system, in the first quarter of 2005. Contractors and other regular service providers will be added subsequently. Once the implementation is completed, the Bank will have a single source of data for all individuals working at the Bank, each with a unique identification number.

Also of note during the year were the executive appointments of João Sayad as Vice President for Planning and Administration (Finance and Administration effective January 2005), and John R. Hauge as Manager of the Finance Department.

BRAZIL (above) • A new rapid transit line built in metropolitan São Paulo to serve low-income areas is improving public transportation and reducing traffic congestion and pollution.
EL SALVADOR (right) • This 55 MW geothermal generation plant in Berlín was constructed under stage II of the Electric Power Sector Program to help meet growing demand for electricity and contribute to electric power integration in Central America.

Financial Highlights

Ordinary Capital

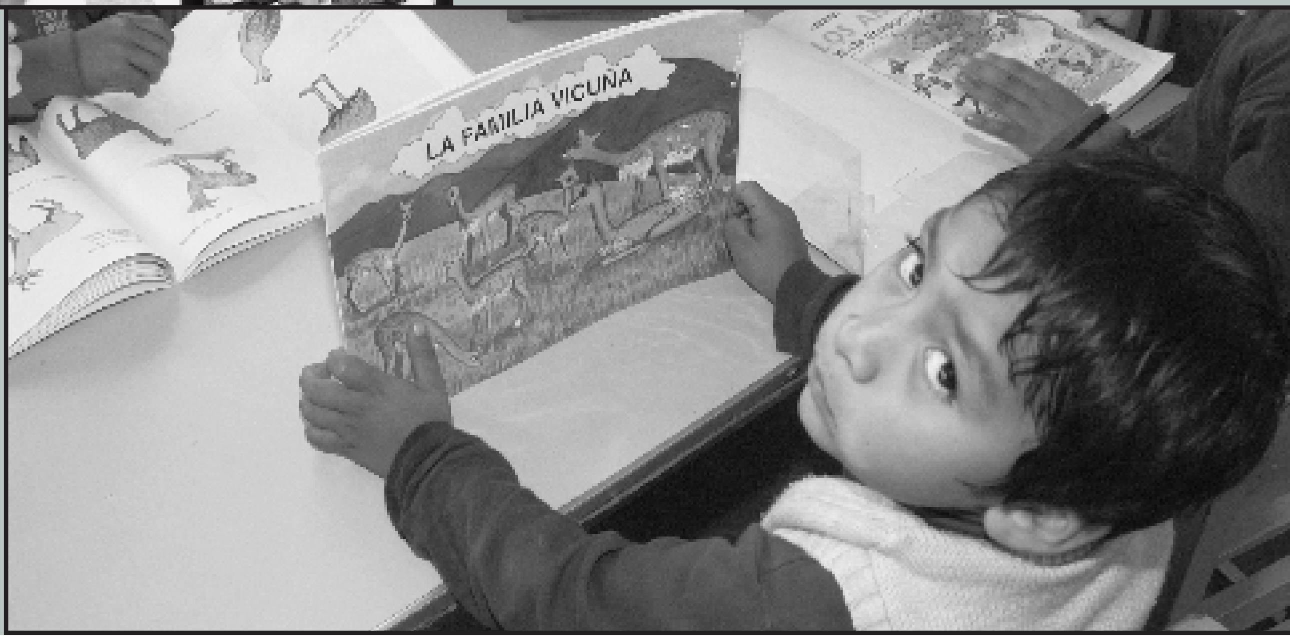
In 2004, the Bank borrowed $4.7 billion equivalent face amount ($4.6 billion net proceeds) in nine different currencies with an average life of 5.5 years. To diversify its sources of funding, bonds were issued in various currencies, maturities, formats and structures to meet the needs of global institutional and retail investors. Borrowings included the inaugural issue of bonds denominated in Brazilian *reais*, Colombian *pesos* and Mexican *pesos*; a global strategic benchmark $1 billion 10-year bond; bonds to satisfy considerable Japanese retail demand; and benchmark securities targeted to institutional Canadian and Australian investors in their respective home currencies. The Bank was again rated AAA by the major rating agencies in 2004, as it has been ever since it was first rated.

During 2004, the Bank approved 56 loans amounting to $5.3 billion from the Ordinary Capital (OC) resources. Since the Bank's inception, there have been no write-offs in the sovereign portfolio of the OC, which as of December 31, 2004, represented over 97 percent of the $49.8 billion loans outstanding. At that date, all OC loans were performing except for certain loans to private sector borrowers without sovereign guarantee, which were classified as impaired, and which were in nonaccrual status.

In 2004, OC operations generated Income before SFAS 133 and currency transaction adjustments (Operating Income) of $862 million, compared with $1.1 billion in 2003, excluding a non-recurring reduction in the allowance for loan losses of $1.4 billion. The decrease was mainly due to the reduction in loan fees and in the net interest margin on loans. Management's Discussion and Analysis of the OC appears on pages 117-136 of this Report and the audited financial statements of

MEXICO (left) • The Mexico City Stock Exchange was among the beneficiaries of a grant from the Japan Special Fund to conduct studies on developing a securities market for medium-sized Mexican companies.

PERU (below) • Under the Educational Quality Improvement Project, 750 new classrooms for preschool education are being constructed, such as this one in Lima. Teacher training and curriculum development are also included.



the OC, Fund for Special Operations and the Intermediate Financing Facility appear on pages 139-187.

The first full year of implementation of the capital adequacy policy and associated lending rate methodology was 2004. The total equity to loans ratio (TELR), the Bank's key measure of risk-based capital adequacy, increased at the end of 2004 to 36.1 percent from 33 percent at the end of 2003. (The target level is 38 percent.) This was largely due to an increase in equity from income during the year and a slight decrease in loans outstanding. As a result of the 2003 adoption of the capital adequacy policy, OC loan charges were reduced by more than 50 percent, to a 44 basis points (bps) lending-spread equivalent from the basic charges that were in effect through mid-2003 of 108 bps. Current standard loan charges are a lending spread of 30 bps and a credit commission of 25 bps, with no inspection and supervision fee.

Effective January 1, 2004, the Bank voluntarily discontinued hedge accounting, while continuing to measure and report all derivatives at fair value, reinforcing the need to focus on Operating Income, as SFAS 133-related volatility is not reflective of the underlying economics of hedged funding transactions. For 2004, the effect of SFAS 133 and currency transaction adjustments was an increase in Income of $314 million.

Fund for Special Operations

During 2004, there were 27 loans approved amounting to $552 million from the Fund for Special Operations (FSO). The loan portfolio of the FSO as of December 31, 2004 amounted to $7 billion and was fully performing. FSO operations generated net income before technical cooperation expense and

TABLE XII • CAPITAL OF THE BANK

(In millions of U.S. dollars)[1]

Country	Subscriptions as of December 31, 2004 Paid-in	Callable	Total
Argentina	$ 465.1	$10,393.8	$ 10,858.9
Austria	6.9	153.7	160.6
Bahamas	11.6	198.3	209.9
Barbados	5.6	124.3	129.9
Belgium	14.2	316.8	331.0
Belize	7.2	103.5	110.7
Bolivia	37.3	834.4	871.7
Brazil	465.1	10,393.8	10,858.9
Canada	173.7	3,866.2	4,039.9
Chile	127.7	2,853.9	2,981.6
Colombia	127.7	2,853.9	2,981.6
Costa Rica	18.7	417.1	435.7
Croatia	2.1	46.4	48.5
Denmark	7.3	163.4	170.8
Dominican Republic	24.9	556.8	581.7
Ecuador	24.9	556.8	581.7
El Salvador	18.7	417.1	435.7
Finland	6.9	153.7	160.6
France	82.3	1,831.4	1,913.7
Germany	82.3	1,831.4	1,913.7
Guatemala	24.9	556.8	581.7
Guyana	7.8	153.8	161.6
Haiti	18.7	417.1	435.7
Honduras	18.7	417.1	435.7
Israel	6.8	151.5	158.3
Italy	82.3	1,831.4	1,913.7
Jamaica	24.9	556.8	581.7
Japan	217.1	4,833.2	5,050.3
Mexico	299.0	6,681.3	6,980.3
Netherlands	14.6	325.6	340.3
Nicaragua	18.7	417.1	435.7
Norway	7.3	163.4	170.8
Panama	18.7	417.1	435.7
Paraguay	18.7	417.1	435.7
Peru	62.3	1,390.7	1,453.0
Portugal	2.3	51.7	54.0
Slovenia	1.3	28.1	29.4
Spain	82.3	1,831.4	1,913.7
Suriname	5.7	82.9	88.6
Sweden	14.1	314.8	328.9
Switzerland	20.4	454.2	474.7
Trinidad and Tobago	18.7	417.1	435.7
United Kingdom	41.8	929.9	971.7
United States	1,303.0	29,006.7	30,309.7
Uruguay	49.9	1,114.3	1,164.2
Venezuela	249.3	5,568.5	5,817.8
Subtotal	4,339.5	96,596.4	100,935.7
Unallocated	0.9	14.8	15.7[2]
TOTAL	**$4,340.2**	**$96,611.2**	**$100,951.4**

[1] Data are rounded to the nearest one million: 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 Socialist Federal Republic of Yugoslavia.

TABLE XIII • CONTRIBUTION QUOTAS TO THE FUND FOR SPECIAL OPERATIONS[1]

(In millions of U.S. dollars)

Country	As of December 31, 2004
Argentina	$ 512.4
Austria	20.9
Bahamas	10.6
Barbados	1.8
Belgium	47.5
Belize	7.6
Bolivia	48.7
Brazil	544.4
Canada	313.3
Chile	157.7
Colombia	153.7
Costa Rica	23.4
Croatia	6.1
Denmark	22.2
Dominican Republic	33.9
Ecuador	30.3
El Salvador	21.4
Finland	19.8
France	245.4
Germany	243.2
Guatemala	32.8
Guyana	8.3
Haiti	21.8
Honduras	26.5
Israel	19.1
Italy	232.4
Jamaica	28.8
Japan	641.7
Mexico	329.0
Netherlands	41.2
Nicaragua	24.2
Norway	20.8
Panama	25.4
Paraguay	27.9
Peru	79.8
Portugal	7.8
Slovenia	3.4
Spain	230.7
Suriname	6.3
Sweden	41.7
Switzerland	69.2
Trinidad and Tobago	20.9
United Kingdom	182.8
United States	4,839.0
Uruguay	55.9
Venezuela	315.3
Subtotal	9,797.0
Unallocated	5.4
TOTAL	**$9,802.4**

[1] After exchange adjustments.

TABLE XIV • OUTSTANDING BORROWINGS BY CURRENCY AS OF DECEMBER 31, 2004[1]

(In millions of U.S. dollars)

Currency	Amount
Australian dollars	$ 4,462
Brazilian reais	275
British pounds sterling	2,597
Canadian dollars	2,575
Colombian pesos	50
Euro	4,778
Hong Kong dollars	289
Hungarian forints	94
Japanese yen	3,583
Mexican pesos	266
New Taiwan dollars	282
New Zealand dollars	1,400
Polish zlotys	50
South African rand	27
Swiss francs	1,237
United States dollars	26,922
TOTAL	**$48,886**

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

Heavily Indebted Poor Countries (HIPC) debt relief of $104 million, compared to $113 million in 2003. The slight decrease was largely due to loans to Haiti coming out of nonaccrual in 2003.

In 2004, $73 million (2003–$75 million) was allocated from the FSO to the Intermediate Financing Facility for its standard operations, for the HIPC Initiative and in connection with the agreement on concessional resources approved by the Board of Governors in 1999.

During 2004, the Bank continued its participation in the HIPC Initiative by providing debt relief to the HIPC eligible countries of the region. Through 2004, the Bank has delivered $175 million net present value (NPV) in total debt relief to Bolivia, $41 million (NPV) to Guyana, $44 million (NPV) to Honduras and $117 million (NPV) to Nicaragua. Bolivia, Guyana and Nicaragua have reached completion point under the Enhanced Initiative. For the Bank, this meant writing off $505 million in FSO loans in 2001 for Bolivia, and $64 million and $409 million in 2004 for Guyana and Nicaragua, respectively, as of the completion date. Honduras was granted interim relief during 2001-2003 up to the one-third limit established by the Bank, and is expected to reach completion point in 2005.

TABLE XV • BORROWINGS,[1] FISCAL YEAR 2004

(Amounts in millions)

Type	Issue	Amount	Amount (US$ equiv.)
Australian dollars	4.35%, due 2006	586	$ 443
	4.25%, due 2006	681	493
	5.04%, due 2007	66	52
	5.75%, due 2011	400	296
Brazilian reais	0.00%, due 2009[7]	550	177
	6.26%, due 2009	200	73
Canadian dollars	4.75%, due 2014	300	251
Colombian pesos	Adjustable, due 2011[2]	119,740	44
Hong Kong dollars	4.20%, due 2014	500	64
Mexican pesos	6.59%, due 2007	3,000	269
New Zealand dollars	5.28%, due 2006	472	306
	5.42%, due 2006	724	497
	5.30%, due 2007	293	205
South African rand	7.00%, due 2015[6]	200	35
	7.00%, due 2015[6]	500	87
United States dollars	1.90%, due 2007	27	27
	3.07%, due 2011	141	141
	Adjustable, due 2014[3,5]	150	150
	4.50%, due 2014	1,000	1,000
	Step up, due 2012[4]	100	100
TOTAL BORROWINGS			**$4,710**

[1] Medium- and long-term borrowings at face value before swaps.
[2] Colombian inflation plus 0.54%.
[3] Six month LIBOR plus 35 basis points subject to a cap of 5.61%.
[4] Annual step-up starting at 3.875% and ending at 5.375%.
[5] The issuer has multiple call options.
[6] Bond negotiated in December 2004 but settled in January 2005.
[7] Zero coupon bond. Proceeds amounted to $94 million.

See www.iadb.org/ar/fin_en

Part II:
Management's Discussion and Analysis and Financial Statements

FINANCIAL OVERVIEW

Unless otherwise indicated, all financial information provided in this Management's Discussion and Analysis refers to the Bank's Ordinary Capital.

The purpose of the Bank is to further the economic and social development of Latin America and the Caribbean by promoting environmentally sustainable growth, as well as poverty reduction and social equity. The Bank is an international institution established in 1959, pursuant to the Agreement Establishing the Inter-American Development Bank (the Agreement), and is owned by its member countries. These members include 26 borrowing member countries and 20 non-borrowing member countries. The five largest members by shareholdings are the United States, Argentina, Brazil, Mexico and Venezuela. On November 17, 2004, the Board of Governors approved the admission of the Republic of Korea to membership in the Bank. Such membership is subject to certain actions required of the Republic of Korea.

The resources of the Bank consist of the Ordinary Capital, the Fund for Special Operations (FSO) and the Intermediate Financing Facility Account (IFF).

The financial strength of the Bank is based on the support it receives from its members and on its financial policies and practices. Member support is reflected in the capital backing received and in the diligence with which borrowing members meet their debt-service obligations. Prudent financial policies and practices have led the Bank to build reserves, diversify its funding sources, hold a large portfolio of liquid investments, and limit a variety of risks, including credit, market and liquidity risks. The objective of the Bank is to earn an adequate level of income to preserve its financial strength and sustain its development activities. **Box 1** presents selected financial data for the last five years.

The principal assets are loans to member countries. As of December 31, 2004, over 97% of loans outstanding were sovereign-guaranteed. Up to 10% of outstanding loans and guarantees, not including emergency loans, may be made directly to private sector entities without a sovereign guarantee, subject to a number of restrictions.

The Bank issues debt securities in a variety of currencies, maturities, structures and formats to investors worldwide. These borrowings, together with the Bank's equity, are used to fund lending and investment activities, as well as general operations.

Assets and liabilities are held primarily in United States dollars, euro, Japanese yen and Swiss francs. The Bank minimizes exchange rate risk by matching the currencies of its liabilities with those of its assets. The reported levels of assets, liabilities, income and expense are affected by exchange rate movements between such major currencies and the reporting currency, the United States dollar. The Bank matches the currencies of its equity with those of its loans, thus fluctuations in exchange rates do not significantly impact its risk-bearing capacity.

Financial Highlights

During 2004, the Bank approved 56 loans amounting to $5.3 billion as compared to 59 loans that totaled $6.1 billion in 2003. The reduction in the amount of loan approvals was due to a decrease in emergency lending that was substantially offset by an increase in investment lending. Also, due largely to the decrease in emergency lending, disbursements in 2004 totaled the equivalent of $3.8 billion, significantly lower than the $8.4 billion disbursed in 2003. The undisbursed portion of approved loans increased to $16.1 billion in 2004 from $15.6 billion in 2003.

As of December 31, 2004, all loans were performing, except for certain loans to some private sector borrowers without sovereign guarantee in the aggregate amount of $216 million (2003—$237 million). The Allowance for loan losses[1] amounted to $199 million compared to $183 million in 2003.

In 2004, the Bank issued debt securities for a total face amount of $4.7 billion equivalent (2003—$9.1 billion), that generated net proceeds of $4.6 billion equivalent (2003—$7.2 billion), and had an average life of 5.5 years (2003—9.5 years). Such debt securities were issued through a strategy of combining large global benchmark bonds with smaller transactions targeted to particular segments of demand. The decrease in 2004 borrowings was primarily attributed to a reduction in net cash outflows due to lower loan disbursements.

The Bank enters into currency and interest rate swaps as part of its borrowing operations. According to SFAS 133, these derivatives are valued at their fair value with changes in fair value recorded in earnings. Management believes that the reported income volatility of applying SFAS 133 is not representative of the underlying economics of the transactions as the Bank generally keeps its derivatives and related bonds to maturity. Accordingly, Income before SFAS 133 and currency transaction adjustments is defined herein as "Operating Income", which is more representative of the net results of the Bank's operations. The effects of SFAS 133 and currency transaction adjustments are shown separately in the Statement of Income and General Reserve and are excluded from the determination of ratios and other financial parameters.

Operating Income was $862 million in 2004 compared with $1,064 million in 2003, excluding a non-recurring reduction in the Allowance for loan losses of $1,370 million. The decrease was largely due to a reduction in loan fees and in the net interest margin on loans. Loan charges approved by the Board

[1] References to captions in the financial statements and related notes are identified by the name of the caption beginning with a capital letter every time they appear in the Management's Discussion and Analysis.

of Executive Directors remained unchanged in 2004 after the reduction approved in the second semester of 2003. Changes in market interest rates generally do not significantly affect Operating Income, as a substantial amount of the loans are cost pass-through loans, and the Bank broadly matches the interest rate structures of its liquid assets and the liabilities funding them.

The Effects of SFAS 133 and currency transaction adjustments for 2004 was substantially higher ($314 million positive) than in the previous year due to the discontinuation of hedge accounting effective January 1, 2004. Upon discontinuance of hedge accounting, the basis adjustments on borrowings (see Borrowings in Note B to the financial statements) recorded in prior years are required to be amortized to earnings through the life of the respective borrowing. In addition, changes in market interest rates now affect the value of derivatives used to hedge borrowings without a corresponding offsetting adjustment to the basis of related borrowings. During 2004, the amortization of basis adjustments on borrowings and the change in market value of swaps due to interest rates amounted to an increase in income of $250 million and $48 million, respectively.

The Bank manages its financial condition by monitoring certain financial ratios, in particular the Total Equity to Loans Ratio or TELR[2]. The TELR at December 31, 2004, was 36.1% compared with 33.0% at December 31, 2003. The increase experienced in 2004 was mostly due to an increase in equity while loans outstanding declined modestly.

[2] The TELR is the ratio of the sum of "Equity" (defined as paid-in capital stock, reserves and the allowance for loan losses, minus borrowing countries' local currency cash balances, net receivable from members, prepaid pension benefit costs and the cumulative impact of SFAS 133 and currency transaction adjustments) to outstanding loans and net guarantee exposure.

The above information is qualified by the detailed information and financial statements appearing elsewhere in Part II of this Annual Report. In addition, the Management's Discussion and Analysis contains forward-looking information, which may be identified by such terms as "believes", "expects", "intends" or words of similar meaning. Such statements involve a number of assumptions and estimates that are based on current expectations, which are subject to risks and uncertainties beyond the Bank's control. Consequently, actual future results could differ materially from those currently anticipated. The Bank undertakes no obligation to update any forward-looking statements.

Box 1: Selected Financial Data

The following information is based upon, and should be read in conjunction with, the detailed information appearing in this Management's Discussion and Analysis and the financial statements for the Ordinary Capital included elsewhere in Part II of this Annual Report.

(Amounts expressed in millions of United States dollars)

	Years ended December 31,				
	2004	2003	2002	2001	2000
Ratios					
Net borrowings [(1)] as a percentage of callable capital stock subscribed by United States, Japan, Canada and the other nonregional members	67.3%	72.1%	70.0%	66.6%	61.9%
Interest coverage ratio [(2)]	1.55	2.49	1.40	1.44	1.33
Total equity [(3)] to loans ratio (TELR)	36.1%	33.0%	30.9%	30.5%	30.3%
Cash and investments as a percentage of borrowings outstanding, after swaps	28.9%	30.1%	30.7%	27.4%	32.4%
Balance Sheet Data					
Cash and investments-net [(4)], after swaps	$13,046	$14,855	$14,780	$11,932	$14,123
Approved loans					
Undisbursed portion of approved loans	16,093	15,619	18,570	20,506	20,876
Loans outstanding	49,842	50,655	47,958	44,951	41,872
Total assets	67,346	69,669	65,031	58,581	69,944
Borrowings outstanding [(5)], after swaps	45,144	49,275	48,179	43,588	43,501
Equity					
Callable capital stock	96,611	96,611	96,611	96,619	96,619
(of which, subscribed by United States, Japan, Canada and the other nonregional members)	48,300	48,300	48,300	48,307	48,307
Paid-in capital stock	4,340	4,340	4,340	4,341	4,341
Reserves [(6)]	14,171	12,772	9,929	8,913	8,103
Total equity	18,511	17,112	14,269	13,254	12,444
Income Statement Data					
Loan income	$ 2,498	$ 2,711	$ 2,639	$ 3,191	$ 3,061
Investment income	288	298	319	541	765
Borrowing expenses, after swaps	1,572	1,636	1,842	2,321	2,570
Loan and guarantee loss provision (credit)	21	(1,370)	100	147	174
Net non-interest expense	331	309	289	254	236
Operating Income	862	2,434	727	1,010	846
Effects of SFAS 133 and currency transaction adjustments [(7)(8)]	314	(1)	(19)	11	—
Net income	1,176	2,433	708	1,021	846
Returns and Costs, after swaps					
Return on:					
Average loans outstanding	5.02%	5.51%	5.73%	7.48%	7.81%
Average liquid investments	2.17%	2.00%	2.28%	4.13%	5.25%
Average earning assets	4.42%	4.70%	4.91%	6.65%	7.08%
Average cost of:					
Borrowings outstanding during the year	3.40%	3.37%	3.97%	5.34%	6.07%
Total funds available	2.53%	2.57%	3.09%	4.17%	4.80%
Term Duration (in years)					
Investments and loans	4.36	4.33	4.13	4.34	n/a
Debt	4.15	4.46	3.66	3.88	n/a

(1) Borrowings (after swaps) and gross guarantee exposure, less qualified liquid assets (after swaps) and the special reserve assets.

(2) The interest coverage ratio is computed using Operating Income and, in 2003, included a one-time reduction in the Allowance for loan losses of $1.4 billion, which was credited to income.

(3) Paid-in capital stock, reserves and the allowance for loan losses, minus borrowing countries' local currency cash balances, net receivable from members, prepaid pension benefit costs and the cumulative effects of SFAS 133 and currency transaction adjustments.

(4) Net of Payable for investment securities purchased.

(5) Net of premium/discount.

(6) Including related Accumulated other comprehensive income.

(7) SFAS 133 refers to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", along with its related amendments.

(8) Effective January 1, 2004, the Bank discontinued the use of hedge accounting, resulting in a higher impact of SFAS 133.

n/a- Means not available.

DEVELOPMENT OPERATIONS

General

The Bank offers loans and guarantees to its borrowing member countries to help meet their development needs. Under certain conditions and a number of restrictions, loans and guarantees may also be made directly to private sector entities carrying out projects in the territories of borrowing member countries without a sovereign guarantee (Private Sector Program).

Development Objectives

The Bank's two main goals are to promote environmentally sustainable growth, as well as poverty reduction and social equity. To attain these goals, the Bank focuses its work on four priority areas:

- Fostering competitiveness through support for policies and programs that increase a country's potential for development in an open global economy.
- Modernizing the state by strengthening the efficiency and transparency of public institutions.
- Investing in social programs that expand opportunities for the poor.
- Promoting regional economic integration by forging links among countries to develop larger markets for their goods and services.

Lending Cycle

The process of identifying and assessing a project and approving and disbursing a loan often extends over several years. However, on numerous occasions the Bank has shortened the preparation and approval cycle in response to emergency situations such as natural disasters or economic crises. Generally, the Bank's operational staff (economists, engineers, financial analysts and other sector and country specialists) assess the projects. With certain exceptions, the Bank's Executive Directors must approve each loan.

Loan disbursements are subject to the fulfillment of conditions set out in the loan agreement. During implementation of the Bank-supported operations, experienced Bank staff review progress, monitor compliance with Bank policies and assist in resolving any problems that may arise. An independent Bank unit, the Office of Evaluation and Oversight, pursuant to an annual work plan approved by the Board of Executive Directors, evaluates some operations to determine the extent to which they have met their major objectives, and these evaluations are reported directly to the Executive Directors.

The Bank's lending operations conform to certain principles that, taken together, seek to ensure that loans made to member countries are for financially and economically sound purposes to which these countries have assigned high priority, and that funds lent are utilized as intended. These principles are detailed in **Box 2** below.

Box 2: Lending Operations Principles

(i) With the exception of the Private Sector Program, the Bank makes loans and guarantees to the public sector: governments, governmental entities and enterprises in the territories of member countries, and development institutions of its members.

(ii) Loan applicants must submit a detailed proposal to the Bank. This proposal must specify the technical, economic, and financial merits of the project as well as provide an evaluation of the project's expected environmental risks or impact and proposed mitigation measures as well as its impact on women and indigenous groups, as applicable.

(iii) The Bank neither renegotiates nor takes part in debt rescheduling agreements with respect to its sovereign-guaranteed loans.

(iv) Loan agreements typically include a negative pledge clause that generally prohibits a borrower from creating any encumbrances on its assets or revenues in respect of foreign currency debt, unless the Bank is equally and proportionally secured. The Board of Executive Directors has granted limited waivers in the past.

(v) In making loans, the Bank evaluates the capacity of the borrower to carry out its financial obligations under the loan contract, the prevailing macroeconomic climate and debt burden of the country, and policy and institutional issues relevant to the loan.

(vi) The Bank considers the ability of the borrower to obtain private financing under reasonable terms and conditions. The Bank serves as a catalyst to promote private investment, not to compete with it.

(vii) The use of loan proceeds is supervised. Through the Bank's Country Offices in each of its 26 borrowing member countries, Bank staff monitor and supervise the on-going progress with respect to the development objectives of each operation, and fiduciary arrangements are in place to ensure proper use of Bank resources to achieve the operation's objectives.

Loans

The Bank's sovereign-guaranteed lending generally falls into one of two categories: investment loans for specific projects or policy-based sector loans. Investment lending is generally used to finance goods, works and services in support of economic and social development projects in a broad range of sectors. Policy-based lending generally supports social, structural and institutional reforms with the aim of improving specific sectors of the borrowers' economies, and promoting sustainable growth. These loans support the following economic sectors: energy, industry and mining, agriculture and fisheries, transportation and communications, trade finance, education, science and technology, water, sanitation and health, tourism, urban development, planning and reform, modernization of the state and the environment, as well as project preparation. The Bank has also instituted a program of emergency lending to address financial or economic crises.

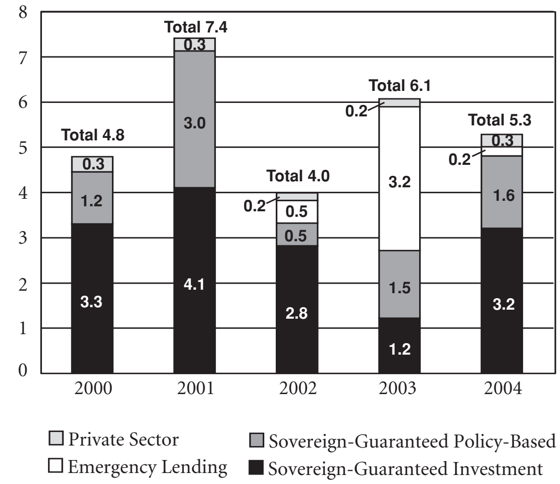
In addition, the Bank has a Private Sector Program under which loans and partial guarantees are provided directly to private sector entities without a sovereign guarantee, primarily for the financing of private investment in infrastructure, capital markets development activities and trade finance. These loans and guarantees are made on the basis of market-based pricing, are subject to certain eligibility requirements and cannot exceed 10% of the Bank's outstanding loans and guarantees, not including emergency lending. Such loans and guarantees are also subject to a number of restrictions, including a ceiling on financing the lesser of 25% (for certain countries, 40%) of the total costs of an individual project or $75 million; the ceiling for partial risk guarantees is the lesser of 50% of the total costs or $150 million.

Figure 1 presents a breakdown of approvals by loan type during the last five years. In 2002, the Board of Governors established a New Lending Framework for the three-year period from 2002–2004 that limits policy-based lending to a total of $4.5 billion resulting in investment lending of $5.2 billion annually. In addition, the Board of Directors authorized an emergency lending facility in a revolving aggregate amount of up to $6 billion outstanding.

Over the past five years, sovereign-guaranteed investment lending per year has fluctuated between $1.2 billion and $4.1 billion. Policy-based lending has also fluctuated, with annual approval amounts of $0.5 billion to $3.0 billion.

Approvals under the Emergency Lending Facility amounted to $500 million and $3.2 billion in 2002 and 2003, respectively. For 2004, approvals were $200 million.

Figure 1: LOAN APPROVALS BY TYPE
For the years ended December 31, 2000 through 2004
(Expressed in billions of United States dollars)



During 2004, loan approvals totaled $5.3 billion (2003—$6.1 billion). A summary of loan approvals by country during 2004 and 2003 appears in **Table 1**. Loan approvals decreased during 2004 as a result of a reduction of $3.0 billion in the amount of emergency loans approved. This reduction was substantially offset by an increase in investment and policy-based loans, the core Bank business.

Table 1: LOAN APPROVALS BY COUNTRY (1)(2)
For the years ended December 31, 2004 and 2003
(Expressed in millions of United States dollars)

COUNTRY	2004	2003
Argentina	$ 528	$1,986
Bahamas	4	—
Bolivia	31	—
Brazil	2,542	339
Chile	23	68
Colombia	737	1,814
Costa Rica	11	6
Dominican Republic	337	31
Ecuador	17	233
El Salvador	—	100
Guatemala	101	113
Jamaica	57	30
Mexico	410	510
Panama	—	53
Paraguay	—	66
Peru	351	515
Suriname	11	12
Trinidad and Tobago	—	10
Uruguay	77	260
Venezuela	6	1
Regional	40	—
Total	$5,283	$6,147

(1) In 2004, one loan was approved under the emergency lending program to the Dominican Republic for $200 million. During 2003, four emergency loans for a total of $3,180 million were approved, including two loans to Argentina ($1,900 million), one loan to Colombia ($1,250 million), and one loan to Paraguay ($30 million).

(2) Includes Private Sector Program lending.

At December 31, 2004, the total volume of outstanding loans was $49.8 billion, $0.9 billion lower than the $50.7 billion at December 31, 2003. This decrease was mainly due to loan collections that were $1.4 billion higher than disbursements, including the collection of $1.3 billion of loans outstanding under the previous emergency lending program and $514 million of loan prepayments, that were partially offset by $624 million of currency translation adjustments. Undisbursed balances at December 31, 2004, totaled $16.1 billion, an increase of $0.5 billion from December 31, 2003. This change was mainly due to new approvals that were partially offset by disbursements and cancellations.

Under the Agreement, the total amount of outstanding loans and guarantees may not exceed, at any time, the total amount of subscribed capital, plus reserves and surplus, exclusive of income assigned to certain reserves, including a special reserve to meet borrowings and guarantee obligations. The Bank's policy, however, is more stringent and limits the total amount of outstanding loans and guarantees to its paid-in capital stock plus the general reserve and the callable capital stock of non-borrowing member countries. At December 31, 2004, the total amount of loans outstanding and gross guarantee exposure as a percentage of the policy limit, after excluding the cumulative effects of SFAS 133 and currency transaction adjustments, was 78.3% compared to 80.9% in 2003.

A summary statement of loans outstanding by country at December 31, 2004 and 2003 is set forth in Appendix I-3 to the financial statements.

Financial Terms of Loans

Currently Available Financial Terms

The Bank currently offers a product mix that provides borrowers with flexibility to select terms that are compatible with their debt management strategy. As of December 31, 2004, the Bank offers the following two basic types of loan terms, each denominated in the currency or currencies chosen by the borrower, as available under the programs: Single Currency Facility (SCF) adjustable rate and LIBOR-based loans. SCF adjustable rate loans, which were introduced in 1996, have an interest rate that is adjusted every six months to reflect the currency-specific effective cost of the pool of borrowings allocated to such loans, plus the Bank's spread. The SCF LIBOR-based loans, introduced in 2003, have an interest rate that is adjusted quarterly, based on the currency-specific three-month LIBOR plus a pool-based margin reflecting the Bank's sub-LIBOR funding cost and the risk mitigation costs, as well as the Bank's spread.

In addition, the Bank offers emergency loans and U.S. Dollar Window Program loans (currently limited to $500 million of loan approvals per calendar year) destined for on-lending to private sector borrowers, both with sovereign guarantee, and Private Sector Program loans without sovereign guarantee, under various terms.

Private Sector Program loans are denominated in United States dollars and borrowers have the option of either LIBOR-based fixed interest rate loans or floating rate loans. For fixed rate loans, the interest rate is fixed upon signature or for each disbursement, for the life of the loan, at a rate based on a LIBOR funding cost plus the lending spread. For floating rate loans, the interest rate resets every one, three or six months based on a LIBOR rate plus the lending spread. Lending spreads and fees are set on a case-by-case basis.

The main financial terms of currently available sovereign-guaranteed loan products are summarized in **Table 2**.

Table 2: CURRENTLY AVAILABLE FINANCIAL TERMS OF LOANS WITH SOVEREIGN GUARANTEE

	Single Currency Facility		**U.S. Dollar Window**		**Emergency Lending**
Interest rate option	**Adjustable rate loans**	**LIBOR-based loans**	**Fixed rate loans**	**LIBOR-based loans**	**LIBOR-based loans**
Currencies offered	USD, EUR, JPY, CHF or a combination of these currencies		USD		USD
Cost base	Weighted average cost of allocated debt	3-month LIBOR	LIBOR-based funding cost	6-month LIBOR	6-month LIBOR
Funding cost margin		Weighted average cost margin of debt allocated to this product		Weighted average cost margin of debt allocated to this product	
Risk mitigation cost (1)	Not applicable	50	Not applicable	Not applicable	Not applicable
Lending spread (1)	30	30	30	30	400
Credit commission (1)	25	25	25	25	75
Front-end fee(1)	Not applicable	Not applicable	Not applicable	Not applicable	100
Supervision and inspection fee (1)	0	0	0	0	Not applicable
Maturity	15–25 years		12 years	20 years	5 years
Grace period	For investment loans: original disbursement period For policy-based loans: 5 years		5 years		3 years

(1) Lending charges provided in basis points.

Previously Available Financial Terms

In previous years, the Bank offered multicurrency loans with a sovereign guarantee, including loans under a Currency Pooling System (CPS) established in 1982 and discontinued in 2003. The Bank maintains a targeted currency composition in the CPS of 50% United States dollars, 25% Japanese yen and 25% European currencies. Loans approved prior to 1989 carry a fixed interest rate while loans approved from 1990 to 2003 carry an adjustable rate. The adjustable 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 the Bank's spread. At December 31, 2004, these loans represented 42.9% (2003—45.6%) of loans outstanding.

Table 3 presents a breakdown of the loan portfolio by loan product. For more information, see Appendix I-4 to the financial statements.

Table 3: LOANS OUTSTANDING BY LOAN PRODUCT
December 31, 2004 and 2003
(Amounts expressed in millions of United States dollars)

	2004		2003	
	Amount	**%**	**Amount**	**%**
Single Currency Facility-adjustable	$21,953	44.0	$20,253	40.0
Single Currency Facility-LIBOR-based	608	1.2	185	0.4
U.S. Dollar Window	850	1.7	889	1.7
Emergency Lending	3,820	7.7	5,004	9.9
Private Sector Program	1,244	2.5	1,204	2.4
Currency Pooling System	21,158	42.5	22,864	45.1
Others	209	0.4	256	0.5
Total	$49,842	100.0	$50,655	100.0

Charges on Loans with Sovereign Guarantee (Excluding Emergency Lending)

The Bank's standard loan charges for loans made under the SCF, the U.S. Dollar Window Program and the CPS consist of a lending spread of 0.30% per annum on the outstanding amount, a credit commission of 0.25% per annum on the undisbursed convertible currency portion of the loan, and no supervision and inspection fee. Standard loan charges are subject to semiannual approval by the Board of Executive Directors, and are expected to remain constant, except under extraordinary circumstances. Prior to July 2003, lending spreads and loan charges were established according to the then applied net income target policy. **Table 4** shows loan charges prevailing during the periods indicated.

Table 4: LOAN CHARGES

	Lending spread %	Credit commission %	Supervision and inspection fee %
2002	0.10	—	—
2003:			
First semester	0.50	0.50	0.50
Second semester	0.30	0.25	—
2004	0.30	0.25	—

Guarantees

The Bank may make partial guarantees either without a sovereign counter-guarantee under the 10% limit for the Private Sector Program mentioned above, or for public sector operations with a member sovereign counter-guarantee. Guarantees under the Private Sector Program are denominated in United States dollars. Guarantees for public sector operations were, until recently, only offered in convertible currencies. Since August 2004, however, the Bank has been authorized to offer guarantees in local currencies for public sector operations with a member sovereign convertible currency counter-guarantee. Regardless of the currency in which a guarantee is denominated, the Bank's exposure is, in all cases, capped at an amount in United States dollars determined at the time each guarantee is approved. As of December 31, 2004, the Bank had not approved any guarantees with a sovereign counter-guarantee.

To date, the Bank has issued, as part of its Private Sector Program, partial guarantees designed to encourage 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 noncommercial factors (such as currency convertibility, transferability of currencies outside the host country and government non-performance). 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 exposure is measured as the future guaranteed cash flows, net of reinsurance, when applicable, discounted to the current period.

During 2004, four Private Sector Program guarantees were approved for a total amount of $185 million compared to two guarantees for a total amount of $85 million in 2003. As of December 31, 2004, guarantees of $331 million (2003—$342 million) were outstanding and subject to call. No guarantees have ever been called. The net present value of guarantee exposure, net of reinsurance, which is the amount counted towards the Private Sector Program's limit, was $191 million at December 31, 2004 (2003—$197 million).

During 2004, the Bank approved a Trade Finance Facilitation Program for up to $400 million under which partial credit guarantees may be issued to local banks on short-term trade-related transactions. As of December 31, 2004, no guarantees had been issued under this program.

LIQUIDITY MANAGEMENT

The Bank invests its liquid assets in highly rated debt securities and deposits. These instruments include obligations of highly rated governments, government agencies, multilateral organizations, financial institutions, and corporate entities, including asset-backed securities. In addition, the Bank uses derivatives, mostly currency and interest rate swaps, to manage its investment portfolios.

Liquidity plays a key role in the management of the Bank's funding risks by addressing the risk that the Bank may not have adequate funds to meet both future loan disbursement and debt service obligations. The objective of liquidity management is to ensure that adequate resources are available to meet anticipated contractual obligations and to ensure uninterrupted financial operations in the event the Bank were to refrain from borrowing in response to unattractive market conditions or other constraints. The Bank's liquidity management principles are set forth in **Box 3** below.

Box 3: Liquidity Management Principles

The primary objective in the management of the Bank's liquidity is to limit exposure to credit, market and liquidity risks. Within the constraints determined by this primary objective, the Bank strives to maximize returns on the invested asset portfolio while limiting the volatility of the Bank's net investment income, which is the spread between investment returns and funding costs.

The Bank manages its liquidity through financial policies, instruments and guidelines, which serve as the rules, procedures and tools that define the Bank's liquidity management. The Investment Resolution approved by the Board of Executive Directors provides the basic authority within which liquidity is invested. The Investment Guidelines approved by management establish the detailed operating, compliance and monitoring conditions for the implementation of the liquidity management. Both are designed to ensure that the Bank assesses market and credit risks, and establishes investment constraints consistent with the Bank's level of risk tolerance. For information concerning the management of risk exposures on liquidity see "Financial Risk Management" below.

The Bank's liquidity policy is to maintain its holdings of liquid assets, excluding special reserve investments and investments funded by the short-term borrowing facility, at a level not to exceed an annual established liquidity ceiling equivalent to the sum of 50% of the estimated undisbursed balance on signed loans at the end of the current year, plus 33% of estimated net cash requirements for the current and the succeeding year. Bank policy calls for the ratio of the actual liquidity amount to the ceiling amount ("Liquidity Ratio") to be within 60% to 100% for each month-end, and within 70% to 90% for the annual average. At December 31, 2004, the Liquidity Ratio was 87%, compared with 74% at December 31, 2003, and the average Liquidity Ratio was 90% and 84% during 2004 and 2003, respectively. During the year, liquid assets averaged $13.4 billion compared to $15.0 billion in 2003.

The Bank has short–term borrowing facilities that consist of a discount note program and uncommitted borrowing lines from various commercial banks. Discount notes are issued in amounts of not less than $100,000, with maturities of no more than 360 days. These short-term funding facilities are used to cover short-term cash flow needs.

Liquid investments are maintained in three distinct subportfolios: transactional, operational, and held-to-maturity (HTM), each with different risk profiles and performance benchmarks. The transactional portfolio is used to meet the day-to-day cash flow requirements. The operational portfolio holds the minimum prudential liquidity as defined by the Liquidity Ratio. The HTM portfolio primarily consists of the special reserve assets.

The returns of the liquid investment portfolios in 2004 and 2003 are shown in **Table 5**. The higher yield levels on the total portfolio in 2004, as compared to 2003, are primarily due to the overall increase in short-term interest rates as more than three quarters of the investments are floating rate (LIBOR-indexed). The yield level on LIBOR-based investments does not affect net income since it is financed with matching LIBOR-indexed debt. HTM yields decreased during the year due to a decline in the reinvestment yield available.

Table 5: LIQUID INVESTMENT PORTFOLIOS (1)
December 31, 2004 and 2003
(Amounts expressed in millions of United States dollars)

	2004		2003	
Portfolio	**Ending Balance**	**Financial Return (%)(2)**	**Ending Balance**	**Financial Return (%)(2)**
Transactional	$ 67	1.41	$ 622	1.12
Operational	8,980	1.74	10,324	1.53
Held-to-Maturity	3,789	3.32	3,562	3.67
Overall Portfolio	$12,836	2.17	$14,508	2.00

(1) After swaps and net of Payable for investment securities purchased.
(2) Combined return for all currencies in each portfolio.

Contractual Obligations

In the normal course of business, the Bank enters into various contractual obligations that require future cash payments. The most significant contractual obligations relate to the repayment of borrowings. The maturity structure of medium- and long-term borrowings outstanding at December 31, 2004 is presented in Appendix I-5 to the financial statements. In addition, the Bank has a number of other obligations to be settled in cash, which are reflected in its financial statements, including undisbursed loans, short-term borrowings, payable for currency and interest rate swaps and payable for investment securities purchased.

SOURCES OF FUNDS

Equity

Total equity, at December 31, 2004, was $18.5 billion compared with $17.1 billion at December 31, 2003. The increase primarily reflects the net income for the year and translation adjustments.

The Bank's equity base plays a critical role in securing its financial objectives. By enabling the Bank to absorb risk out of its own resources, its equity base protects member countries from a possible call on callable capital stock. For risk management purposes, the Bank monitors equity as defined and utilized in the TELR, which measures the adequacy of its risk-bearing capacity. **Table 6** presents the composition of this measure at December 31, 2004 and 2003. See "Financial Risk Management—Credit Risk—Capital Adequacy Framework" below, for more information on the TELR.

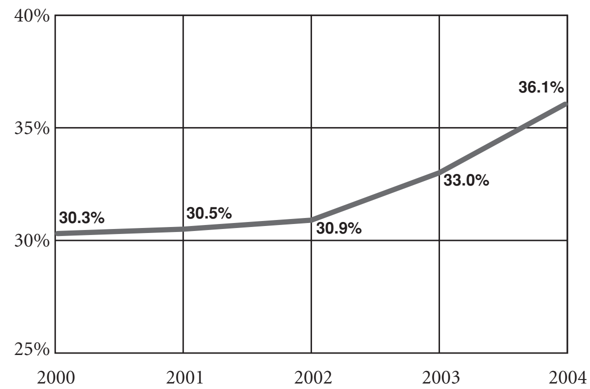
Table 6: TOTAL EQUITY TO LOANS RATIO
December 31, 2004 and 2003
(Amounts expressed in millions of United States dollars)

	2004	2003
Equity		
Paid-in capital stock	$ 4,340	$ 4,340
General reserve [1]	11,636	10,270
Special reserve [1]	2,535	2,502
Plus:		
Allowance for loan losses	199	183
Minus:		
Borrowing countries' local currency cash balances	143	125
Net receivable from members	95	294
Prepaid pension benefit costs	138	126
Cumulative effects of SFAS 133 and currency transaction adjustments	289 [2]	(35)
Equity used in Total Equity to Loans Ratio	$18,045	$16,785
Loans outstanding and net guarantee exposure	$50,033	$50,852
Total Equity to Loans Ratio	**36.1%**	**33.0%**

[1] Including Accumulated other comprehensive income.
[2] Includes an $11 million Reclassification to income-cash flow hedges.

As presented in **Table 6**, the TELR increased from 33.0% at December 31, 2003, to 36.1% at December 31, 2004, which is within the current capital adequacy policy band, established in 2003, of 32% to 38%. The increase was mainly due to an increase in equity in the face of a modest decline in loans outstanding. The TELR has increased steadily during the last five years, as shown in **Figure 2**, reflecting a relatively higher growth in the equity base than in loans. This increase is contemplated in the Bank's capital adequacy policy under which the TELR is projected to reach its upper level of 38% in the medium term.

Figure 2: TOTAL EQUITY TO LOANS RATIO



Capitalization

Shareholders' support for the Bank is reflected in the capital backing it has received from its members. At December 31, 2004, subscribed capital stock was $100.9 billion, of which $4.3 billion had been paid in and $96.6 billion was callable. For a list of the members' subscriptions to capital stock, voting power and number of shares subscribed refer to Appendices I-6 and I-7 to the financial statements.

Paid-in and callable capital stock subscriptions are payable as follows:

Paid-in capital stock: Each subscription to paid-in capital stock has been paid, in whole or in part, in gold, United States dollars, or the currency of the respective member country. In the case of most payments made in the currency of the respective member country, the member country has made arrangements satisfactory to the Bank to assure that, subject to the provisions of the Agreement, its currency will be freely convertible (or the member country has agreed to convert its currency on behalf of the Bank) into the currencies of other countries for the purposes of the Bank's operations. The Bank has accepted non-negotiable, non-interest-bearing demand obligations in lieu of the immediate payment of all or a part of the member's subscription to the paid-in capital stock. Under the Agreement such obligations are accepted where currencies are not required for the Bank's operations.

Callable capital stock: The callable portion of the capital stock subscriptions is subject to call only when required and to the extent necessary to meet the obligations of the Bank on borrowings of funds or guarantees. In the event of a call, payment may be made at the option of the member in gold, United States dollars, 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. Calls are required to be uniform, but obligations of the members of the Bank to make payment upon such calls are independent of each other. Failure of one or more members to make payments on any such call would not excuse any other member from its obligation to make payment, and successive calls could be made on nondefaulting members if necessary to meet the Bank's obligations. However, no member could be required on any such call to pay more than the unpaid balance of its capital stock subscription. No call has ever been made on the Bank's callable capital stock.

At December 31, 2004, the total subscription of the United States, the Bank's largest shareholder, was $30.3 billion, of which the United States had paid $1.3 billion as subscriptions to the Bank's paid-in capital stock. Of the United States' callable capital stock subscription of $29.0 billion, $3.8 billion had been fully authorized and appropriated, without fiscal year limitation, by United States legislation, and no further appropriation is necessary to enable the Secretary of the Treasury to pay this amount if any part were to be called to meet obligations of the Bank. The balance of the United States' callable capital stock subscription, $25.2 billion, has been authorized by the United States Congress but not yet appropriated. In 1979, in connection with the United States' subscription to an increase in the callable capital stock, the Bank obtained an opinion of the General Counsel of the Treasury stating that appropriations were not legally required to back subscriptions to such callable capital stock unless and until payment was required of the United States on a call made by the Bank. The opinion further states that an appropriation is not required to make United States callable capital stock subscriptions, authorized by United States legislation, binding obligations backed by the full faith and credit of the United States, and that an obligation contracted by the United States pursuant to a Congressional grant of authority for constitutional purposes is fully binding on the United States notwithstanding that a future appropriation might be necessary in order to fund that obligation.

Recent Developments in Bank Membership

On November 17, 2004, the Board of Governors approved the admission of the Republic of Korea to membership in the Bank. The membership terms provide for subscription to eight shares of paid-in capital and 176 shares of callable capital. These shares represent a portion of the shares acquired by the Bank from the settlement of accounts with Bosnia, which declined membership accession to the shares of the former Socialist Federal Republic of Yugoslavia. The Republic of Korea must undertake certain actions for the membership in the Bank to become effective.

Borrowings

The Bank raises funds in the international capital markets primarily through the issuance of debt securities. To diversify its sources of funding, the Bank issues its debt securities in various currencies, maturities, formats, and structures to meet the needs of global institutional and retail investors. Under the Agreement, the Bank may borrow only with the approval of the member country in whose markets the debt securities are sold and the member country in whose currency the borrowings are denominated. In addition, the Bank is required to obtain the agreement of each such member country that the proceeds may be exchanged by the Bank for the currency of any other member country without restriction. The Bank's borrowing policy is summarized in **Box 4**.

Box 4: Borrowing Policy

The Bank's policy is to limit the amount of its Net Borrowings to the subscribed callable capital stock of its non-borrowing member countries (the United States, Japan, Canada and the other nonregional members). Net Borrowings is the amount of borrowings plus gross guarantee exposure, less qualified liquid assets and the special reserve assets. Special reserve assets can only be used for meeting the Bank's obligations on borrowings and guarantees. As of December 31, 2004, Net Borrowings represented 67.3% of the subscribed callable capital stock of the non-borrowing member countries compared to 72.1% in 2003.

The objectives of the Bank's borrowing strategy are to secure long-term capital market access, volume and cost effectiveness. The Bank uses derivatives, mostly currency and interest rate swaps, for hedging purposes as part of its liability management to achieve the desired currency composition and interest rate structure as well as to lower its funding costs. The Bank closely monitors and regulates its activities with dealers and counterparties (see "Financial Risk Management—Credit Risk—Commercial Credit Risk" below). The amount and timing of the Bank's borrowings are determined in part by loan disbursements, maturing debt and liquidity levels (see "Liquidity Management" above).

In 2004, net proceeds of medium- and long-term debt raised directly in financial markets amounted to $4.6 billion compared to $7.2 billion in 2003. The decrease in 2004 borrowings was primarily attributed to lower cash flow requirements. Borrowing operations for 2004 and 2003 are summarized in **Table 7**.

Table 7: SUMMARY OF ANNUAL BORROWING OPERATIONS
For the years ended December 31, 2004 and 2003
(Amounts expressed in millions of United States dollars)

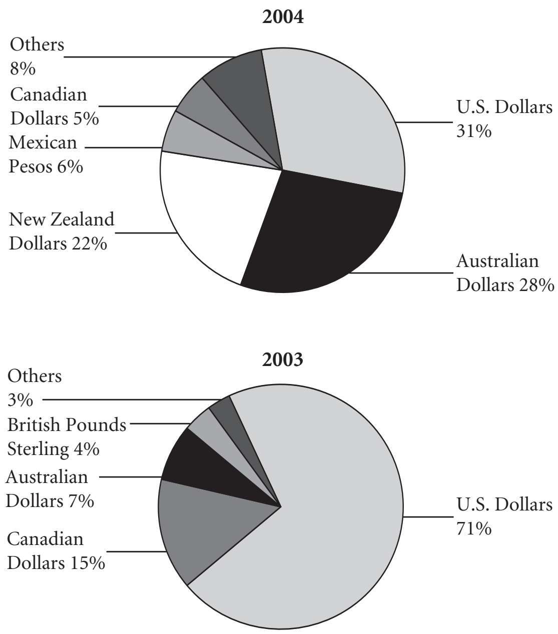
	2004	2003
Total medium- and long-term borrowings [1]	$4,618	$7,158
Average life[2]	5.5	9.5
Number of transactions	19	29
Number of currencies	9	6

[1] Represents net proceeds on a trade date basis.
[2] Average life to the first call date.

Borrowings raised in any given year are used for general operations, including loan disbursements and refinancing of maturing debt. In 2004, the Bank issued its inaugural bonds denominated in Brazilian reais, Colombian pesos and Mexican pesos. The Bank also issued a global $1 billion bond maturing in 2014. In addition, the Bank transacted various bonds denominated in Australian dollars, Canadian dollars, Hong Kong dollars, New Zealand dollars, South African rand and United States dollars.

New medium- and long-term borrowings by currency for 2004, as compared to 2003, are shown in **Figure 3**. In 2004 and 2003, all non-United States dollar borrowings were swapped into United States dollars.

Figure 3: BORROWINGS BY CURRENCY (1)
For the years ended December 31, 2004 and 2003



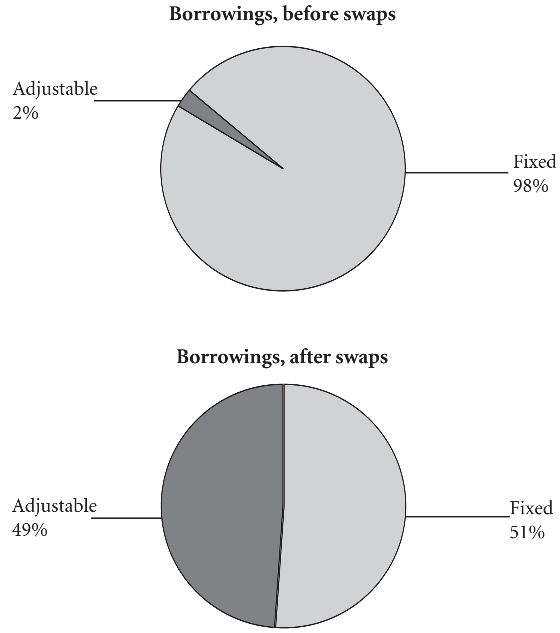
(1) Includes medium- and long-term borrowings, excluding swaps, and represents net proceeds on a trade date basis.

The Bank strategically repurchases, calls or prepays its debt to reduce the cost of borrowings and the exposure to refunding requirements in a particular year, or to meet other operational needs. In response to market conditions, during 2004, the Bank called $183 million of its outstanding borrowings compared to $1.1 billion in 2003.

Use of Derivatives: The Bank may enter into currency and interest rate swaps to convert its borrowings into euro, Japanese yen, Swiss francs or United States dollars and fixed or floating rate funding to meet its loan disbursement obligations. In 2004, all new borrowings were initially swapped into floating rate United States dollars, with conversion to fixed-rate funding being carried out subsequently in accordance with funding requirements. As part of the risk mitigation component of the SCF LIBOR-based loan pricing alternative, the Bank purchases caps to reduce its exposure to sudden increases in interest rates. **Figures 4** and **5** illustrate the effect of swaps on both the interest rate structure and currency composition of the medium- and long-term borrowing portfolio at December 31, 2004.

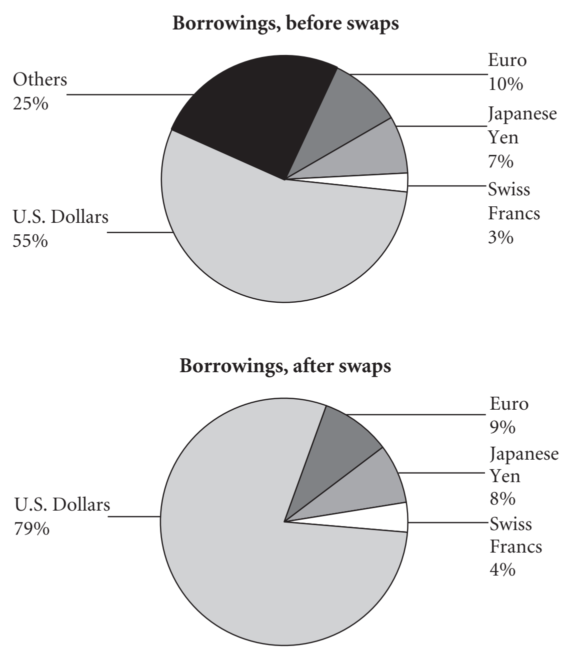
More detailed information with respect to the Bank's borrowings and derivatives is contained in Notes G and H and Appendix I-5 to the financial statements.

Figure 4: EFFECTS OF SWAPS ON INTEREST RATE STRUCTURE OF OUTSTANDING BORROWINGS (1)
December 31, 2004



(1) Medium- and long-term borrowings only.

Figure 5: EFFECTS OF SWAPS ON CURRENCY COMPOSITION OF OUTSTANDING BORROWINGS (1)
December 31, 2004



(1) Medium- and long-term borrowings only.

RESULTS OF OPERATIONS

Operating Income

Operating Income includes the net interest income on earning assets and the income contribution of the Bank's capital, other loan income, the provision for loan and guarantee losses and net non-interest expenses. **Table 8** shows the breakdown of Operating Income during the last three years.

Table 8: OPERATING INCOME
(Expressed in millions of United States dollars)

	2004	2003	2002
Loan interest income	$2,446	$2,602	$2,616
Investment income	288	298	319
	2,734	2,900	2,935
Less:			
Borrowing expenses	1,572	1,636	1,842
Net interest income	1,162	1,264	1,093
Other loan income	52	109	23
(Provision) credit for loan and guarantee losses	(21)	1,370	(100)
Net non-interest expense	(331)	(309)	(289)
Operating Income	$ 862	$2,434	$ 727

Year 2004 versus 2003: In 2004, Operating Income declined to $862 million compared to $1,064 million in 2003, after excluding a non-recurring reduction in the Allowance for loan losses of $1,370 million. The decrease was mainly due to a reduction in net interest income and other loan income as well as an increase in net non-interest expense, which is chiefly comprised of administrative expenses. In 2003, as a result of changes in management's assessment of the risk of loss on loans outstanding, the Bank revised certain estimates used to compute the loan loss allowance. The resulting change in estimates caused the non-recurring reduction referred to above, which was credited to income.

Year 2003 versus 2002: Operating Income for 2003 was $1,064 million, after excluding the reduction in the Allowance for loan losses, $337 million higher than 2002. The majority of this increase was due to an increase in net interest income and other loan income, that was partially offset by an increase in net non-interest expense, which is chiefly comprised of administrative expenses.

Net Interest Income

The average interest-earning asset and interest-bearing liability portfolios, after swaps, and the respective returns and costs for 2004, 2003, and 2002 are shown in **Table 9**.

Year 2004 versus 2003: Net interest income decreased $102 million in 2004 with respect to 2003, primarily due to lower lending spreads, a reduction in emergency loans outstanding, lower returns on the equity funded component of loans, and the six-month lag inherent in the pool-based lending rate calculation. Such decrease was partially offset by an increase in equity resources.

Year 2003 versus 2002: Net interest income increased $171 million in 2003 compared to 2002, primarily due to higher lending spreads, changes in the outstanding loan balances and an increase in equity resources, that was partially offset by lower returns on the equity funded component of loans.

Table 9: ASSET/LIABILITY PORTFOLIOS AND RETURNS/COSTS
(Amounts expressed in millions of United States dollars)

	2004		2003		2002	
	Average Balance	Return/Cost %	Average Balance	Return/Cost %	Average Balance	Return/Cost %
Loans [(1)]	$49,721	4.92	$49,193	5.29	$46,053	5.68
Liquid investments	13,415	2.17	15,014	2.00	14,269	2.28
Total earning assets	63,136	4.34	64,207	4.52	60,322	4.88
Borrowings	46,200	3.40	48,590	3.37	46,347	3.97
Interest rate spread		0.94		1.15		0.91
Net interest margin [(2)]		1.84		1.97		1.81

[(1)] Excludes loan fees.
[(2)] Represents net interest income as a percent of average earning assets.

Net Non-interest Expense

The main components of net non-interest expense are presented in **Table 10**.

Table 10: NET NON-INTEREST EXPENSE
(Expressed in millions of United States dollars)

	2004	2003	2002
Administrative expenses			
Staff costs	$279	$257	$247
Consultant fees	44	43	42
Operational travel	19	19	18
Other expenses	62	67	69
Total gross administrative expenses	404	386	376
Less: Share of Fund for Special Operations	(62)	(58)	(60)
Net administrative expenses	342	328	316
Service fee revenues	(6)	(6)	(7)
Income from pension and postretirement plans	—	(8)	(13)
Other income	(5)	(5)	(7)
Net non-interest expense	$331	$309	$289

Year 2004 versus 2003: Net non-interest expense increased by $22 million in 2004 mainly due to a $20 million increase in pension and postretirement benefit costs (benefit cost of $19 million in 2004 versus net benefit income of $1 million in 2003) that resulted from lower expected investment returns from these plans.

Year 2003 versus 2002: Net non-interest expense increased by $20 million in 2003 mainly due to regular salary increases and lower postretirement benefit income.

FINANCIAL RISK MANAGEMENT

As part of its development banking services, the Bank is exposed to credit risk (loan portfolio or country credit and commercial credit); market risk (interest rate, spread and exchange rate); liquidity risk (funding and liquidation); and operational risk.

Governance

The Bank conducts its operations within a framework of financial policies, uses only financial instruments that have been specifically authorized, and follows a well-defined risk management decision-making process.

The Bank manages its risks in accordance with the Agreement, and such other policies as are approved by its Board of Governors, its Board of Executive Directors and the Finance Committee composed of members of management. Additionally, a Finance Department committee on asset and liability management, chaired by the Finance Manager, develops guidelines and oversees implementation of, and compliance with, the Bank's financial risk management approach in matters of risk, asset and liability management, funding and investments and strategic financial planning.

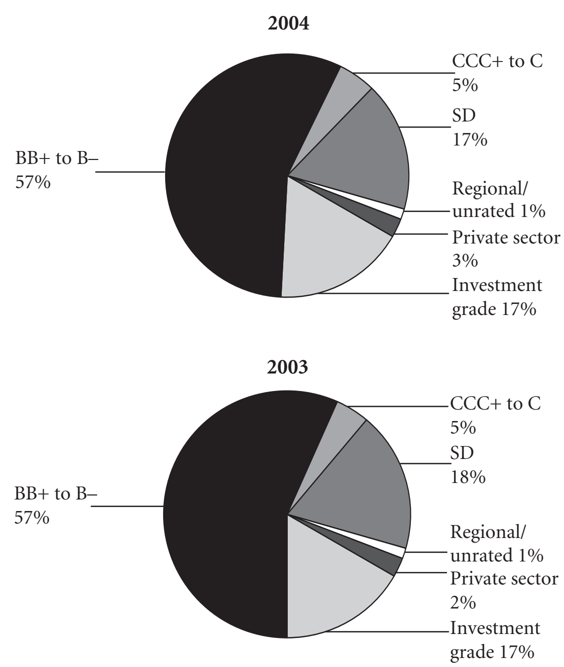
Credit Risk

Credit risk is the potential loss that could result from the default of borrowers, that is loan portfolio credit risk or country credit risk, or from the default/downgrade of investment, trading or swap counterparties, that is commercial credit risk. Almost all of the Bank's loans are sovereign-guaranteed.

Loan Portfolio Credit Risk: Loan portfolio credit risk is the risk that the Bank may not receive repayment of principal and/or interest on one or more of its loans according to the agreed-upon terms. It is directly related to the Bank's core business and is the largest financial risk faced by the Bank. The Bank has multiple sources of protection from loan portfolio credit risk including an overall lending limitation, a comprehensive capital adequacy framework (designed to ensure that the Bank holds sufficient equity at all times given the quality and concentration of its portfolio), a policy for the treatment of nonperforming loans, and a policy for the maintenance of a loan loss allowance. The Bank's loan portfolio credit risk is determined by the credit quality of, and exposure to, each borrower. Overall, these two factors have remained largely unchanged in 2004 from their 2003 levels.

The credit quality of the loan portfolio as of December 31, 2004, as represented by the long-term foreign currency credit ratings assigned to each borrowing country by the rating agencies, is depicted in **Figure 6**. Although, as shown, the overall credit profile has not changed significantly during the past year, the ratings of the borrowing members have demonstrated steady improvement since falling to a low in the first semester of 2003. During 2004, countries holding 40% of the outstanding loans received ratings upgrades, while less than 3% of the outstanding loan balance was held by countries that were downgraded. The ratings of the remaining countries, which account for over 57% of the sovereign portfolio, were unchanged. Of these, Argentina, representing approximately 17% of the portfolio, was rated in selective default. (As of December 31, 2004, Argentina was current on its debt service with the Bank.) Five of the borrowing member countries, totaling more than 17% of the portfolio, hold investment grade ratings. The sovereign portfolio has a weighted average rating of B+, which does not reflect the strong repayment performance of the Bank's borrowers, who hold significant ownership interest in the Bank.

Figure 6: CREDIT QUALITY OF LOAN PORTFOLIO REFLECTED IN RATINGS OF BORROWING MEMBER COUNTRIES
December 31, 2004 and 2003

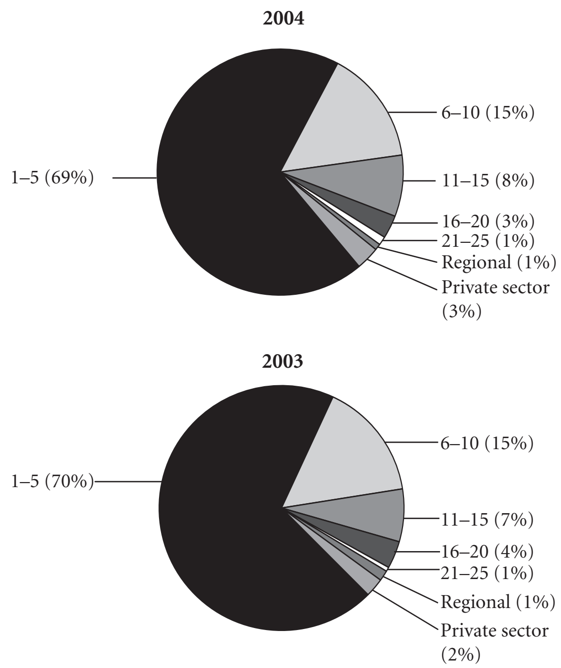


The Bank's exposure reflects the overall size and concentration of the portfolio. Exposure is limited only by the Bank's lending authority; there are no per-country lending limits. Taking into consideration the regional nature of the Bank's operations and the relative sizes of the economies of its borrowing members, the Bank expects to consistently have a concentrated portfolio. As shown in **Figure 7**, as of December 31, 2004, 69% of the portfolio is held by the five largest borrowers. Refer to Appendix I-3 to the financial statements for more information.

Lending Limitation: With respect to the overall lending limitation, the Bank's policy is to limit the total amount of outstanding loans and guarantees to its paid-in capital stock plus the general reserve and the callable capital of the non-borrowing member countries. This lending limit is stricter than that prescribed by the Agreement, which also includes the callable capital of the borrowing members.

Capital Adequacy Framework: The capital adequacy framework of the Bank consists of a credit risk model, a policy on cap-

Figure 7: CONCENTRATION OF LOAN PORTFOLIO December 31, 2004 and 2003



ital adequacy, and an associated lending rate methodology. The framework allows the Bank to manage the risk inherent in its loan portfolio due to the credit quality of its borrowers and the concentration of its loans, while also offering its borrowers low and stable loan charges.

The Bank's economic capital is measured by the TELR, whose desired level, to be reached in the medium term, is 38%. As long as Operating Income is positive and the TELR is growing within a range between 32% and 38%, the Bank will apply standard loan charges. These charges generate sufficient income to cover the Bank's expenses and continue building its reserves. The desired level for the TELR of 38% was determined based on analysis of the Bank's economic capital needs under various hypothetical financial stress scenarios.

Non-performing Loans: Except for non-sovereign-guaranteed loans to private sector borrowers, loan service delays by a borrower in a member country preclude new loan approvals to borrowers in the member country, may lead to suspension of loan disbursements, may result in the loan being placed in nonaccrual status, and the loan be declared due and payable. The Bank exercises its policy under a graduated approach as summarized in **Table 11**.

If loans made to a member country funded with resources of the FSO or of any other fund owned or administered by the Bank are non-performing, all loans made to or guaranteed by that member government are also considered non-performing. The Bank maintains a continuous dialogue with its borrowers to ensure prompt payment on all of its loans.

In the case of direct loans to the private sector, an internal Bank committee determines when the loan is classified in nonaccrual status, which can happen anytime between 30 and 90 days of being overdue or, if special circumstances warrant, at any time prior to the expiry of 30 days. At December 31, 2004, all loans were performing, except for certain Private Sector Program loans, which were classified as impaired and were in nonaccrual (see Note E to the financial statements).

Loan Loss Allowance: Because of the nature of its borrowers and guarantors, the Bank expects that each of its Ordinary Capital sovereign-guaranteed loans will ultimately be repaid. In addition, the Bank has had an essentially fully performing sovereign-guaranteed loan portfolio since its establishment. During the Bank's 45 years of history, only five borrowing countries have been in nonaccrual, for varying times during 1988–1992. The maximum aggregated balance in nonaccrual never exceeded 8% of total loans outstanding, and the Bank ultimately received the full principal and interest due on these loans. The Bank maintains an allowance for loan losses to recognize the probable losses inherent in its loan portfolios, primarily related to private sector loans. Pursuant to Bank policy, a provision of $21 million was charged to income during 2004, for a total allowance of $199 million at December 31, 2004 (2003—$183 million). At December 31, 2004, the Private Sector Program allowance for loan and guarantee losses was 10.5% of the corresponding outstanding portfolio (2003—10.2%).

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 commer-

TABLE 11: TREATMENT OF NON-PERFORMING SOVEREIGN LOANS

30 days after loan due date	The Bank suspends disbursements on the loan in arrears and all other loans to the borrower. The Bank informs the guarantor of the arrears by the borrower and requests prompt payment of the amount in arrears. No loan contract with a borrower in the country in question is signed by the Bank and no loan proposal is approved.
120 days after loan due date	The Bank suspends disbursements on all loans to the guarantor and guaranteed by the guarantor if the guarantor fails to pay the amounts due.
180 days after loan due date	The Bank places in nonaccrual status all loans for the country in question of which the government, the central bank or any government entity is a borrower or guarantor, unless it is determined that all payments of amounts in arrears are in process and will be collected in the immediate future. Placement in nonaccrual status implies a reversal of all accrued income to date and no further income accumulation until all pending amounts are received. All Bank missions to the country intended for the programming, preparing or processing of loans are suspended.

cial credit risk are the financial instruments in which the Bank invests its liquidity. In accordance with its conservative risk policies, the Bank will only invest in high quality debt instruments issued by governments, government agencies, multilateral organizations, financial institutions, and corporate entities, including asset-backed securities. The Bank's process for controlling its commercial credit risk includes: a) specifying authorized investments; b) establishing approved lists of acceptable counterparties, issuers and dealers; c) defining acceptable credit rating limits; and d) specifying exposure limits and term limits for acceptable counterparties, issuers and dealers based on their size and creditworthiness.

As part of its regular investment, funding and asset and liability management activities, the Bank uses derivative instruments, primarily swaps, for hedging purposes. The Bank limits the use of derivatives to authorized dealers and counterparties selected on the basis of conservative risk management policies. The Bank has established exposure limits for each swap counterparty and has entered into master swap agreements that contain enforceable closeout netting provisions. These agreements also provide for collateralization in the event that the mark-to-market exposure exceeds certain contractual limits. Monitoring the Bank's exposures and managing such risks are continuous processes. The Bank does not expect nonperformance by any of its counterparties.

The Bank treats its derivative credit exposure as the replacement cost of the relevant derivative instrument. This is also referred to as replacement risk or the mark-to-market exposure amount. Mark-to-market exposure is a measure, at a point in time, of the value of a derivative contract in the open market. When the mark-to-market is positive, it indicates that the counterparty owes the Bank and, therefore, creates an exposure for the Bank. When the mark-to-market is negative, the Bank owes the counterparty and does not have replacement risk. When the Bank has more than one derivative transaction outstanding with a swap counterparty, the "net" mark-to-market exposure represents the netting of the positive and negative exposures with the same counterparty. If this net mark-to-market is negative, then the Bank's exposure to the counterparty is considered to be zero.

Figure 8 provides details of the estimated credit exposure on investments by issuer rating category. As of December 31, 2004, the credit exposure for the whole investment portfolio amounted to $13.0 billion compared to $14.9 billion at December 31, 2003. The credit quality of the investment portfolio for 2004 continues to be high, as 91% of the issuers were rated AAA and AA, and an additional 4% of the portfolio is comprised of the highest rated short-term asset-backed commercial paper, virtually unchanged from 2003. **Figure 9** provides details of the estimated credit exposure (netted by counterparty) on the swap portfolio, by rating category. As of December 31, 2004, the swap credit exposure increased to $1.8 billion from $1.1 billion a year earlier. The credit quality of the swap portfolio continues to be high, as 92% of the counterparties were rated AAA and AA in 2004, compared to 97% in 2003. The increase in the proportion of single A-rated swap counterparty exposure in 2004 was due to the increase in the positive mark-to-market valuations of the un-

Figure 8: INVESTMENT CREDIT EXPOSURE BY ISSUER RATING
December 31, 2004 and 2003

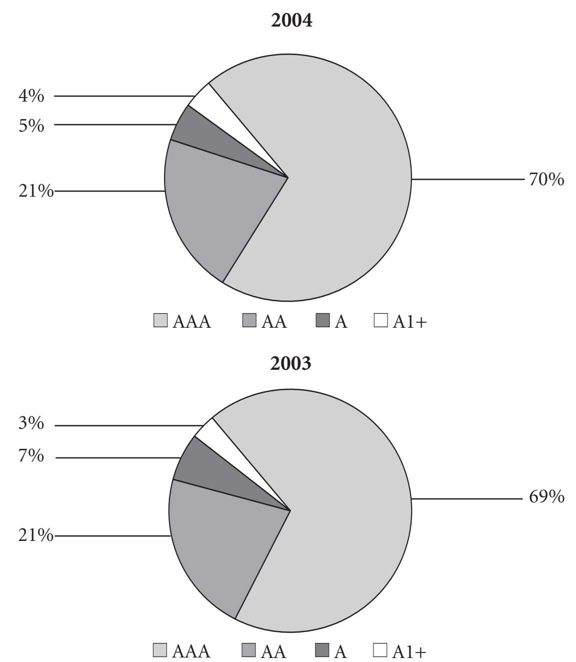
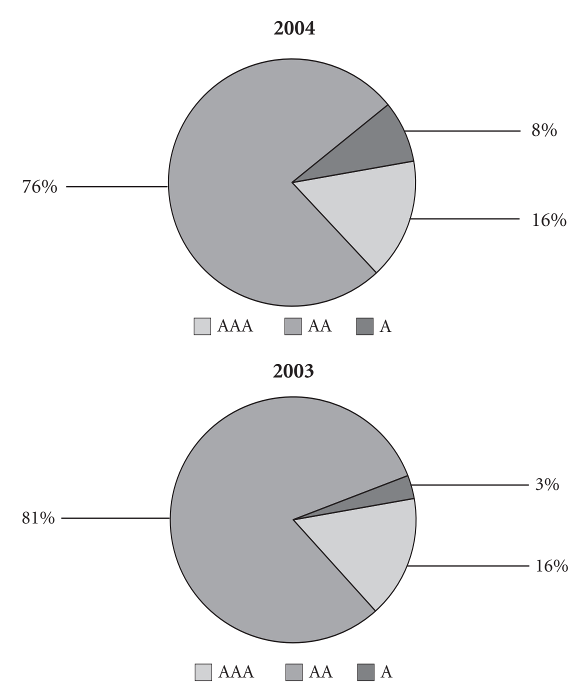


Figure 9: SWAPS CREDIT EXPOSURE BY COUNTERPARTY RATING
December 31, 2004 and 2003



derlying derivative transactions. These swap credit exposures are collateralized. As of December 31, 2004, $1 billion of eligible collateral had been posted with the Bank's custodian (compared to $415 million in 2003), which significantly reduced the credit exposure on swaps discussed above.

Market Risk

The Bank faces risks that result from market movements, primarily changes in interest and exchange rates. However, exposure to market risks is small as the Bank has an integrated asset and liability management framework.

Asset and Liability Management: The objective of asset and liability management is to ensure adequate funding for each product at the most attractive cost available, and to manage the currency composition, maturity profile and interest rate sensitivity characteristics of the portfolio of liabilities supporting each lending product in accordance with the particular requirements for that product and within prescribed risk parameters. The Bank employs derivatives to manage and align the characteristics of its assets and liabilities, enhance investment returns and lower borrowing costs.

Interest Rate Risk: The Bank is exposed to two potential sources of interest rate risk. The first is the interest rate sensitivity associated with the net spread between the rate earned on assets and the cost of borrowings that fund those assets. The second is the interest rate sensitivity of the income earned from funding a portion of its assets with equity.

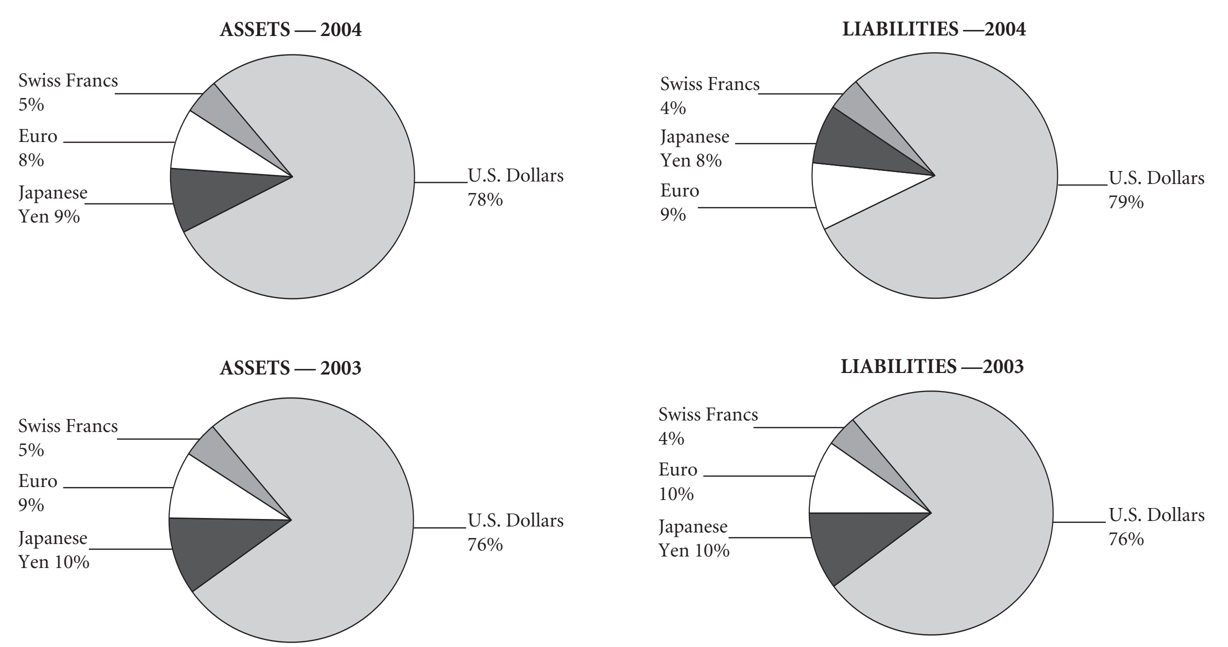
The Bank mitigates its exposure to net spread sensitivity through a cost pass-through formulation incorporated in the lending rates charged on most of the existing loans, in addition to a carefully designed term structure management. These cost pass-through loans account for 85.3% of the existing outstanding loan portfolio as of December 31, 2004; the remaining 14.7% are emergency loans, private sector loans and fixed-rate loans. Some of the cost pass-through loans, primarily the adjustable rate loans, pose some residual interest rate risk given the six-month lag inherent in the lending rate calculation (see "Development Operations—Financial Terms of Loans" above). The Bank funds and invests its liquidity at matching rate structures using specific duration gap constraints, thus avoiding any undue exposure to interest rate risk.

The Bank mitigates its exposure to equity-induced income sensitivity by investing these funds in long-term loan assets, producing relatively stable returns.

Exchange Rate Risk: In order to minimize exchange rate risk in a multicurrency environment, the Bank matches the after-swap borrowing obligations in any one currency with assets in the same currency, as prescribed by the Agreement. In addition, the Bank's policy is to minimize the exchange rate sensitivity of its TELR by performing periodic currency conversions to maintain the currencies underlying its Equity and Allowance for loan losses aligned with those of the outstanding loans and net guarantee exposure. In order to minimize currency misalignments, the Bank also aligns the currency composition of the special reserve assets with that of its outstanding borrowings.

Figure 10 presents the currency composition of the Bank's assets and liabilities (after swaps) at the end of 2004 and 2003.

Figure 10: CURRENCY COMPOSITION OF ASSETS & LIABILITIES
December 31, 2004 and 2003



Liquidity Risk

Liquidity risk arises from the general funding needs of the Bank's activities and in the management of its assets and liabilities. It includes the risk of being unable to fund the portfolio of assets at appropriate maturities and rates, that is funding risk; the risk of being unable to liquidate a position in a timely manner at a reasonable price, that is liquidation risk; and the exacerbation of these two risks from having significant portions of a portfolio of assets or liabilities allocated to a specific type of instrument, that is concentration risk.

The Bank manages liquidity risk through its liquidity policy, asset-liability management policy, and its short-term borrowing program. The Bank's liquidity policy determines a minimum amount of liquidity, which is designed to allow the Bank to refrain from borrowing for a period of time while continuing to meet its own obligations. The asset and liability management of the Bank, in addition to optimizing the allocation of equity and debt to fund the Bank's various assets, determines the proper term-duration gap between loans and debt to both lower funding costs and reduce refunding risk. Finally, under the short-term borrowing program, discount notes with maturities of less than one year are issued to cover short-term cash flow needs whenever the liquidation of a position is not desirable.

Operational Risk

Operational risk is the potential loss arising from internal activities or external events, caused by breakdowns in information, communication, physical safeguards, business continuity, supervision, transactions processing, pricing, cash and securities movements and settlement systems. In addition, operational risk includes fraud and failures in the execution of legal, fiduciary and agency responsibilities.

Within the Bank there are policies and procedures in place covering all significant aspects of operational risk. These include first and foremost the Bank's high standards of business ethics and its established system of internal controls. These are supplemented by the Bank's disaster recovery/contingency planning, the Information Disclosure Policy, client and project integrity due diligence procedures, and procurement and purchasing policies.

ADDITIONAL REPORTING AND DISCLOSURE

Basis of Reporting

The financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP), which requires management to make estimates and assumptions that affect the reported results (see Note B to the financial statements).

Critical Accounting Policies

The Bank believes that some of the more significant accounting policies it uses to present the financial results in accordance with GAAP involve a relatively high degree of judgment and complexity and relate to matters that are inherently uncertain.

Fair Value of Financial Instruments: The Bank uses fair value estimates to account for the trading investments portfolio and all derivatives (mostly interest and currency swaps), and for disclosures of financial instruments. Until December 31, 2003, the Bank also used fair value estimates to determine adjustments to the carrying amounts of hedged loans and borrowings designated in hedge accounting relationships. Fair values are based on market prices when they are available. If market quotes are not available, fair values are based on dealer prices, prices of comparable instruments or discounted cash flows using pricing models. Pricing models use inputs from market sources such as interest rate yield curves, currency exchange rates and option volatility. These assumptions may have a significant effect on the reported fair values of assets and liabilities (including derivatives) and related income and expenses. Management believes its estimates of fair value are reasonable given its processes for obtaining external prices and parameters and the consistent application of this approach from period to period.

Changes in the fair value of trading securities and related derivatives are presented in Income from investments on the Statement of Income and General Reserve. Changes in the fair value of all derivatives other than investment derivatives and, up to December 31, 2003, of those assets and liabilities linked to derivatives and designated as fair value hedges in accordance with SFAS 133, are reported in Effects of SFAS 133 and currency transaction adjustments.

Loan Loss Allowance: The Bank maintains an allowance for losses on its loan and guarantee portfolio at levels management believes to be adequate to absorb estimated losses inherent in the total portfolio at the balance sheet date. Setting the level of the allowance requires significant judgment. The use of different estimates or assumptions as well as changes in external factors could produce materially different provisions and allowance levels. Because of the nature of its borrowers and guarantors, the Bank expects that each of its sovereign-guaranteed loans will ultimately be repaid. Accordingly, the level of its loan loss allowance is relatively small and mainly related to the private sector loan portfolio.

Effects of SFAS 133 and Currency Transaction Adjustments

As required by SFAS 133, the Bank marks to market all derivative instruments with changes in fair value recognized in income. Up to December 31, 2003, the Bank designated in hedging relationships most of the derivatives related to its borrowing and lending activities, following the SFAS 133 criteria. Accordingly, changes in the fair values of hedged assets and liabilities were also recognized in income, substantially offsetting the derivatives mark to market adjustments in previous years. The changes in fair value of both the derivative instrument and the underlying borrowing included changes in fair value due to changes in exchange rates, which offset each other almost entirely under hedge accounting.

Effective January 1, 2004, the Bank elected to discontinue hedge accounting for all its SFAS 133 hedging relationships while continuing to measure all derivatives at fair value, with changes in fair value recognized in income. The discontinuation of hedge accounting resulted in the disassociation of the changes in fair value due to changes in exchange rates of the underlying borrowing, namely currency transaction adjustments according to GAAP, from the corresponding changes in fair value of the related derivative instrument. Management considers that these two elements are economically related and hence are reported together in a separate line in the Statement of Income and General Reserve.

The discontinuation of hedge accounting required the Bank to start amortizing the basis adjustments on borrowings previously recorded under SFAS 133. In addition, a slight decrease in long-term interest rates in 2004 caused a small increase in the value of the borrowing swaps. While economically this increase has been offset by a corresponding increase in the value of the fixed rate borrowings, the Bank's current application of SFAS 133 requires that only derivative instruments be marked to market. During 2004, the amortization of basis adjustments on borrowings and the change in market value of swaps due to interest rates amounted to an increase in income of $250 million and $48 million, respectively (for additional information, see Note H to the financial statements). As a result, Effects of SFAS 133 and currency transaction adjustments was substantially higher in 2004 than in previous years (positive $314 million in 2004, and negative $1 million and $19 million in 2003 and 2002, respectively). Management believes that this reported income volatility is not representative of the underlying economics of the transactions as the Bank generally keeps its borrowing swaps to maturity.

External Auditors

General: The external auditors are appointed by the Board of Governors following a process of international competitive bidding. In 2002, Ernst & Young LLP (E&Y) was appointed as external auditors. Pursuant to an agreement between the Bank and E&Y, the parties may extend, on a yearly basis through 2006, E&Y's existing appointment.

E&Y was paid $387,000 for audit services provided to the Bank in connection with the audit of the 2004 financial statements. In addition, E&Y was paid $126,000 during 2004 for services related to bond issuance and for consulting services related to the possible implementation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework and other consulting services related to Bank financed projects. E&Y also provides audit services to trust funds administered by the Bank and to the Bank's staff retirement plans. Contracted fees expected to be paid for services related to the 2004 audits of such trust funds and plans amount to $366,000.

External Auditors' Independence: The Audit Committee is responsible for, among other matters, assisting the Board of Executive Directors in overseeing the external audit function, including ensuring external auditors' independence. In this regard, the Committee is guided by the following key principles:

- The work plan of the external auditors, including audit and audit-related services, must be approved by the Board of Executive Directors, based on the recommendation of the Audit Committee.
- Any other services to be performed by the external auditors on an exceptional basis may be hired by management following criteria established by the Audit Committee.
- The external auditors' engagement and review partners must rotate, on a staggered basis, at least every five years.
- The performance of the external auditors is evaluated annually.
- The external auditors' independence must be confirmed annually by the Audit Committee.
- The external auditors have full access to the Audit Committee and the Board of Executive Directors.

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, 2004 and 2003, and the related statements of income and general reserve, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank—Ordinary Capital as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Washington, D.C.
February 15, 2005

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31, 2004		December 31, 2003	
ASSETS				
Cash and investments				
Cash	$ 210		$ 347	
Investments				
Trading	9,162		11,372	
Held-to-maturity	3,809	$13,181	3,607	$15,326
Loans outstanding	49,842		50,655	
Allowance for loan losses	(199)	49,643	(183)	50,472
Accrued interest and other charges				
On investments	84		109	
On loans	621		602	
On swaps, net	170	875	188	899
Receivable from members				
Capital subscriptions	—		2	
Non-negotiable, non-interest-bearing demand obligations	393		423	
Amounts required to maintain value of currency holdings	64	457	68	493
Currency and interest rate swaps on borrowings		2,366		1,680
Other assets				
Property, net	318		294	
Unamortized borrowing costs	246		243	
Miscellaneous	260	824	262	799
Total assets		$67,346		$69,669
LIABILITIES AND EQUITY				
Liabilities				
Borrowings				
Short-term	$ 308		$ 1,569	
Medium- and long-term	46,505	$46,813	48,720	$50,289
Currency and interest rate swaps				
Investments—trading	115		306	
Loans	33		47	
Borrowings	697	845	666	1,019
Payable for investment securities purchased		20		165
Amounts payable to maintain value of currency holdings		362		199
Accrued interest on borrowings		683		719
Accounts payable and accrued expenses		112		166
Total liabilities		48,835		52,557
Equity				
Capital stock				
Subscribed 8,368,379 shares	100,951		100,951	
Less callable portion	(96,611)		(96,611)	
Paid-in capital stock	4,340		4,340	
General reserve	10,772		9,623	
Special reserve	2,665		2,665	
Accumulated other comprehensive income	734	18,511	484	17,112
Total liabilities and equity		$67,346		$69,669

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 millions of United States dollars

	Years ended December 31, 2004	2003	2002
Income			
Loans			
Interest	**$ 2,446**	$ 2,602	$2,616
Credit commissions	**32**	60	—
Supervision and inspection and other fees	**20**	49	23
	2,498	2,711	2,639
Investments	**288**	298	319
Other	**11**	19	27
Total income	**2,797**	3,028	2,985
Expenses			
Borrowing expenses			
Interest, after swaps	**1,526**	1,577	1,801
Amortization of borrowing costs	**46**	50	38
Debt repurchase costs	**—**	9	3
	1,572	1,636	1,842
Provision (credit) for loan and guarantee losses	**21**	(1,370)	100
Administrative expenses	**342**	328	316
Total expenses	**1,935**	594	2,258
Income before SFAS 133 and currency transaction adjustments	**862**	2,434	727
Effects of SFAS 133 and currency transaction adjustments	**314**	(1)	(19)
Net income	**1,176**	2,433	708
Allocation to the Fund for Special Operations	**(27)**	(27)	(27)
Addition to general reserve for the year	**1,149**	2,406	681
General reserve, beginning of year	**9,623**	7,217	6,536
General reserve, end of year	**$10,772**	$ 9,623	$7,217

STATEMENT OF COMPREHENSIVE INCOME

Expressed in millionss of United States dollars

	Years ended December 31, 2004	2003	2002
Net income	**$ 1,176**	$ 2,433	$ 708
Other comprehensive income			
Translation adjustments	**239**	449	373
Reclassification to income—cash flow hedges	**11**	—	—
Net loss on cash flow hedges under SFAS 133	—	(11)	(39)
Total other comprehensive income	**250**	438	334
Comprehensive income	**$ 1,426**	$ 2,871	$1,042

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2004	**2003**	**2002**
Cash flows from lending and investing activities			
Lending:			
Loan disbursements (net of participations)	**$(3,768)**	$(8,416)	$(5,522)
Loan collections (net of participations)	**5,199**	7,279	4,106
Net cash provided by (used in) lending activities	**1,431**	(1,137)	(1,416)
Net decrease (increase) in trading investments	**2,076**	470	(2,483)
Gross purchases of held-to-maturity investments	**(4,448)**	(1,291)	(3,112)
Gross proceeds from maturities of held-to-maturity investments	**4,420**	1,582	3,056
Purchase of property	**(34)**	(24)	(25)
Miscellaneous assets and liabilities	**17**	(5)	(21)
Net cash provided by (used in) lending and investing activities	**3,462**	(405)	(4,001)
Cash flows from financing activities			
Medium- and long-term borrowings:			
Gross proceeds	**4,519**	7,295	8,575
Repayments	**(7,798)**	(8,938)	(6,059)
Short-term borrowings:			
Gross proceeds	**6,059**	4,623	898
Repayments	**(7,325)**	(3,795)	(656)
Collections of receivables from members	**35**	82	84
Net cash (used in) provided by financing activities	**(4,510)**	(733)	2,842
Cash flows from operating activities			
Loan income collections	**2,426**	2,876	2,785
Interest and other costs of borrowings, after swaps	**(1,412)**	(1,568)	(1,709)
Income from investments	**273**	296	309
Other income	**10**	10	15
Administrative expenses	**(352)**	(320)	(326)
Net cash provided by operating activities	**945**	1,294	1,074
Cash allocation to the Fund for Special Operations	**(27)**	(27)	(27)
Effect of exchange rate fluctuations on cash	**(7)**	12	51
Net (decrease) increase in cash	**(137)**	141	(61)
Cash, beginning of year	**347**	206	267
Cash, end of year	**$ 210**	$ 347	$ 206

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS

Note A – Origin
The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. Its purpose 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, which is supplemented by the Fund for Special Operations (FSO) and the Intermediate Financing Facility Account (IFF). The FSO was established to make loans on highly concessional terms in the less developed member countries of the Bank. 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 financial statements are prepared in conformity with United States generally accepted accounting principles. The preparation of such 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.

New accounting pronouncements
In May 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 106-2 "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" which supersedes FSP 106-1. This FSP provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) for employers that sponsor postretirement health care plans that provide prescription drug benefits, and requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Act. Management has determined that the provisions of the Act do not affect the Bank's Postretirement Benefit Plan.

Translation of currencies
The 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, to the extent that they are used in those currencies' operations. The Ordinary Capital resources are derived from capital stock, borrowings and accumulated earnings in those various currencies. Assets and liabilities in functional currencies are translated into United States dollars at market exchange rates prevailing at the Balance Sheet dates. Exchange rate fluctuations do not have any effect on the United States dollar equivalent of currencies from paid-in capital stock because of the maintenance of value provisions described below. Net adjustments resulting from the translation of functional currencies derived from borrowings are charged or credited to Translation adjustments[1], and are presented as a separate component of Other comprehensive income in the Statement of Comprehensive Income. Borrowings in non-functional currencies are translated with the gain or loss recorded in Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and General Reserve. Income and expenses are translated at market exchange rates prevailing during each month.

Valuation of capital stock
The Agreement Establishing the Inter-American Development Bank (Agreement) provides that capital stock 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. Consequently, the General Counsel of the Bank rendered an opinion that the Special Drawing Right (SDR) became the successor to the 1959 United States dollar as the standard of value for the Bank's capital stock, and for maintaining the value of its 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 as the basis of valuation the 1959 United States dollar, as valued in terms of United States dollars at July 1, 1974, whose value is equal to approximately 1.2063 of the then current United States dollars.

Maintenance of value (MOV)
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 so held, 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.

[1]References to captions in the financial statements are identified by the name of the caption beginning with a capital letter every time they appear in the notes to the financial statements.

The amount related to MOV on non-borrowing member countries currency holdings is presented as an asset or liability on the Balance Sheet, included in Amounts required/payable to maintain value of currency holdings.

General and special reserves

In accordance with resolutions of the Board of Governors, net income 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 the Agreement, which are held in investments. These investments may be used only for the purpose of meeting liabilities on borrowings and guarantees in the event of defaults on loans made, participated in, or guaranteed with resources of the Ordinary Capital.

Investments

Investment securities are classified based on management's intention on the date of purchase, and are recorded using trade-date accounting. 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 fair value, with changes in fair value included in Income from investments on the Statement of Income and General Reserve.

Loans

The Bank makes loans to its developing member countries, agencies or political subdivisions of such members and 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 outstanding loans and guarantees, not including emergency lending, may be made directly to private sector entities without a sovereign guarantee on the basis of market based pricing (Private Sector Program). These financings are subject to a number of restrictions, including a ceiling on financing of the lesser of 25% (for certain countries, 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 42% of the outstanding balances have repayment obligations in various currencies determined on the basis of a currency pooling system (CPS). The principal amount of CPS loans is repayable, in aggregate, in the currencies lent. 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. Front-end fees on emergency loans are deferred and amortized over the first four years of the loan on a straight-line basis, which approximates the effective interest method.

It is the policy of the Bank to place on nonaccrual status all loans made to, or guaranteed by, a member of the Bank if principal, interest or other charges with respect to any such loan are overdue by more than 180 days. In addition, if loans made to a member country with resources of the FSO or of any other fund owned or administered by the Bank are placed on nonaccrual status, all Ordinary Capital loans made to, or guaranteed by, that member government will also be placed on nonaccrual status. 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 method, 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 does not reschedule sovereign-guaranteed loans and has not written off any such Ordinary Capital loans. The Bank reviews the collectibility of loans and guarantees on a continuous basis, and records, as an expense, provisions for loan and guarantee losses in accordance with its determination of the collectibility risk of the total loan and guarantees portfolio. Such reviews consider the probabilities of default associated with the external credit ratings of each individual borrower, adjusted to reflect the probability of default to the Bank, as well as the potential for loss arising from delay in the scheduled loan repayments.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

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 without a sovereign counter-guarantee under the 10% limit for the Private Sector Program operations mentioned above or for public sector operations with a member sovereign counter-guarantee. To date, the Bank has issued, under its Private Sector Program, partial guarantees designed to encourage 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 loan. Partial risk guarantees cover specific risk events related to non-commercial factors such as currency convertibility, transferability of currencies outside the host country, and government non-performance. 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 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.

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 and MOV obligations.

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 5 to 15 years for equipment).

Borrowings
To ensure funds are available for its lending and liquidity operations, the Bank borrows in the international capital markets, offering its debt securities to private and public investors. The Bank issues debt securities denominated in various currencies and with various maturities, formats, and structures. 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 and designated as a hedge under SFAS 133 (basis adjustment)) and for any unamortized premiums or discounts. Adjustments to the basis of hedged borrowings, if any, are recorded in Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and General Reserve. The Bank starts amortizing basis adjustments when the related hedge is terminated. The amortization of basis adjustments and premiums or discounts is calculated following a methodology that approximates the effective interest method, and is included in Effects of SFAS 133 and currency transaction adjustments and in Interest under Borrowing expenses, respectively, 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 life of the respective debt security. The unamortized balance of the borrowing costs is presented separately under Other assets on the Balance Sheet, and the amortization is presented as a separate element under Borrowing expenses on the Statement of Income and General Reserve.

Derivatives
As part of its asset and liability management, the Bank uses derivatives, mostly currency and interest rate swaps, in its investment, loan and borrowing operations. These derivatives modify the interest rate and/or currency characteristics of the respective operation to produce the desired interest and/or currency type.

The Bank complies with the derivative accounting requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended (hereinafter referred to as SFAS 133). Following SFAS 133, 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. Up to December 31, 2003, the Bank designated derivatives as hedges of the fair value of recognized assets or liabilities or of unrecognized firm commitments (fair value hedges), hedges of the variability of cash flows to be received or paid on recognized assets or liabilities (cash flow hedges), or as held in the trading portfolio (investment derivatives). Changes in the fair value of derivatives that were highly effective, and that were designated and qualified as fair value hedges, along with the gain or loss on the hedged asset or liability attributable to the hedged risk (including gains or losses on firm commitments) were recorded in Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and General Reserve. The effective portion of the changes in fair value of derivatives that were highly effective and that were designated and qualified as cash flow hedges were recorded in Other comprehensive income, until earnings were affected by the variability of cash flows. The ineffective portion was recorded in Effects of SFAS 133 and currency transaction adjustments. Changes in the fair value of investment derivatives are recorded in Income from investments. The interest component of derivatives is recorded, over the life of the derivative contract, as an adjustment to investment income, loan income, or borrowing expense, as applicable, on the Statement of Income and General Reserve.

Effective January 1, 2004, the Bank discontinued hedge accounting for all its SFAS 133 hedging relationships (see Note H). While the Bank continues to measure all derivatives at fair value, changes in fair value of borrowing and lending derivatives are now recognized in Effects of SFAS 133 and currency transaction adjustments without an offset for gains or losses on hedged assets or liabilities.

The Bank occasionally issues debt securities 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 security, that is, 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 and carried at fair value.

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 2004, the effective ratio of administrative expenses charged to the Ordinary Capital was 84.4% and 15.6% to the FSO (2003—84.6% and 15.4%; 2002—83.6% and 16.4%).

Taxes

The Bank, its property, other assets, income and the operations and transactions it carries out pursuant to the Agreement are immune from all taxation and from all customs duties in its member countries.

Note C – Restricted Currencies

At December 31, 2004, Cash includes $143 million (2003—$125 million) in currencies of regional borrowing members. These amounts may be used by the Bank in Ordinary Capital lending operations and for administrative expenses. The amount of $24 million (2003—$23 million) has been restricted by one member, 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, corporate and bank obligations, including time deposits, asset- and mortgage-backed securities, and related financial derivative instruments, primarily currency and interest rate swaps.

For government and agency obligations, including securities issued by an instrumentality of a government or any other official entity, the Bank's policy is to invest only in obligations issued or unconditionally guaranteed by governments of certain countries with a minimum credit quality equivalent to a AA- rating (asset- and mortgage-backed securities require a credit quality equivalent to a AAA rating); however, if such obligations are issued in the currency of a member country, no credit rating is required. Obligations issued by multilateral organizations require a credit quality equivalent to a AAA rating. In addition, the Bank invests in bank obligations issued or guaranteed by an entity with senior debt securities rating of at least A+, and in corporate and asset- and mortgage-backed securities with credit quality equivalent to a AAA rating. The Bank also invests in short-term asset-backed securities and short-term asset-backed commercial paper carrying only the highest short-term credit ratings.

A summary of the trading portfolio instruments at December 31, 2004 and 2003 is shown in the Summary Statement of Trading Investments and Swaps in Appendix I-1. In addition, a summary of the held-to-maturity portfolio and the portfolio's maturity structure at December 31, 2004 and 2003 are shown in the Summary Statement of Held-to-Maturity Investments in Appendix I-2.

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Net unrealized gains (losses) on trading portfolio instruments, held at December 31, 2004, of $(1) million (2003—$5 million; 2002—$(3) million) were included in Income from investments.

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 loan balances, the Bank has entered into irrevocable commitments to disburse approximately $17 million at December 31, 2004.

The loan portfolio includes single currency pool loans (Single Currency Facility (SCF) and U.S. Dollar Window Program) and multicurrency pool loans (CPS loans) with sovereign guarantee, and single currency loans with sovereign guarantee (Emergency Lending Facility) and without sovereign guarantee (Private Sector Program loans).

SCF loans are denominated in one of four currencies: United States dollars, euro, Japanese yen and Swiss francs, or in a combination of such currencies, at the option of the borrower. The interest rate on SCF loans for which a LIBOR–based pricing alternative is not selected resets semi-annually, based on the effective cost during the previous six months of each of the single-currency pools of borrowings allocated to fund such loans, plus the Bank's spread. The interest rate on LIBOR–based SCF loans resets quarterly, based on the currency-specific three-month LIBOR plus a pool-based margin reflecting the Bank's sub-LIBOR funding cost and the risk mitigation cost, and the Bank's spread.

The Bank maintains a targeted currency composition in its CPS of 50% United States dollars, 25% Japanese yen and 25% European currencies. The interest rate on CPS loans made from January 1, 1983 to December 31, 1989 is fixed. The interest rate on CPS loans made after that date is adjusted twice a year based on the effective cost during the previous six months of a pool of borrowings allocated to fund such loans, plus the Bank's spread. Since September 2003, CPS loans are no longer available to borrowers.

Under the Emergency Lending Facility, funding is provided to address financial emergencies in the region for a revolving aggregate amount of up to $6 billion. Loans are denominated in United States dollars, have a term not to exceed five years, and principal repayments begin after three years. These loans carry a six-month LIBOR interest rate plus a spread of 400 basis points.

Private Sector Program loans are denominated in United States dollars and borrowers have the option of either a LIBOR-based fixed or floating-rate loan. The interest rate on fixed-rate loans is 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 on these loans are set on a case-by-case basis.

A summary statement of loans outstanding by country is presented in Appendix I-3 and a summary of the outstanding loans by currency and product type and their maturity structure at December 31, 2004 and 2003 is shown in Appendix I-4.

Inter-American Investment Corporation (IIC)

The Bank has approved a loan to the IIC (a separate international organization whose 42 member countries are also members of the Bank) in the amount of $300 million. Disbursements under this loan are to be made in United States dollars and carry a LIBOR-based interest rate. There were no amounts outstanding as of December 31, 2004 and 2003.

Loan participations and guarantees

Under the loan contracts with its borrowers, the Bank has the right to sell loan participations to commercial banks or other financial institutions, while reserving to itself the administration of the loans. As of December 31, 2004, there were $1,947 million (2003—$2,098 million) in outstanding participations in Private Sector Program loans not included in the Balance Sheet.

As of December 31, 2004, the Bank had approved, net of cancellations and expirations, guarantees without sovereign counter-guarantees in the amount of $745 million (2003—$596 million) of which $331 million (2003—$342 million) was outstanding and subject to call. Outstanding guarantees have a remaining maturity ranging from 1 to 20 years. As of December 31, 2004, no guarantees provided by the Bank have been called.

During 2004, the Bank approved a Trade Finance Facilitation Program for up to $400 million in partial credit guarantees to local banks on short-term trade-related transactions. As of December 31, 2004, no guarantees had been issued under this program.

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 resources of the Ordinary Capital. 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 participates, the IFF subsidizes 100% of certain principal and interest payments on

Ordinary Capital loans. During 2004, the IFF paid $50 million (2003—$63 million; 2002—$69 million) of interest and $8 million (2003—$10 million; 2002—$10 million) of principal on behalf of the borrowers. The IFF is funded primarily from the general reserve of the FSO.

Nonaccrual and impaired loans and allowance for loan losses
At December 31, 2004, all loans were performing except for certain Private Sector Program loans, which were classified as impaired and were in nonaccrual status. The recorded investment in impaired loans at December 31, 2004 was $216 million (2003— $237 million). The average recorded investment in impaired loans during 2004 was $246 million (2003—$302 million). During 2004, income recognized on loans while impaired was $12 million (2003—$5 million; 2002—$7 million). Income that would have been recognized on a cash basis for the period of impairment was $23 million in 2004 (2003—$11 million; 2002—$14 million). All impaired loans have specific allowances for loan losses amounting to $83 million at December 31, 2004 (2003—$70 million).

The changes in the allowance for loan losses for the years ended December 31, 2004 and 2003 were as follows (in millions):

	2004	2003
Beginning balance	$183	$ 1,561
Provision (credit) for loan losses	21	(1,370)
Write-offs—Private Sector Program	(5)	(61)
Translation adjustments	—	53
Ending balance	$199	$ 183

As a result of changes in management's assessment of the risk of loan and guarantees losses, the allowance for loan losses at December 31, 2003 was reduced by $1,370 million. This amount was credited to the Provision (credit) for loan and guarantee losses.

Note F – Property
As of December 31, 2004 and 2003, Property, net consists of the following (in millions):

	2004	2003
Land, buildings, improvements, capitalized software and equipment, at cost	$ 544	$ 510
Less: accumulated depreciation	(226)	(216)
	$ 318	$ 294

Note G – Borrowings
The objective of the Bank's borrowing policy is to secure long term capital market access, volume, and cost effectiveness. Medium- and long-term borrowings at December 31, 2004 consist of loans, notes and bonds issued in various currencies at contracted interest rates ranging from 0.00% to 14.00%, before swaps, and from (0.53%) (equivalent to JPY-LIBOR less 58 basis points) to 12.25%, after swaps, with various maturity dates through 2027. A summary of the medium- and long-term borrowing portfolio and its maturity structure at December 31, 2004 and 2003 is shown in Appendix I-5.

The Bank has short-term borrowing facilities that consist of a discount notes program and uncommitted borrowing lines from various commercial banks. Discount notes are issued in amounts not less than $100,000, with maturities of up to 360 days.

Borrowing expenses have been reduced by the income from swap transactions amounting to $869 million during 2004 (2003—$1,003 million; 2002—$805 million).

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. This strategy consists primarily of designing, implementing, updating, and monitoring its interrelated set of financial policies and guidelines, and 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 enhance its financial efficiency while achieving its risk management objectives. Financial derivative instruments, mostly currency and interest rate swaps, are used primarily for hedging purposes as part of the Bank's asset and liability management. Consequently, through December 31, 2003, whenever the Bank entered into a derivative contract, it identified the specific hedged relationship and designated, documented and evaluated the hedge transaction in accordance with SFAS 133.

The majority of the 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 also uses 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 in which to invest existing cash. In addition, the Bank enters into interest rate caps to protect against sudden interest rate increases on floating rate borrowings funding its LIBOR-based SCF loans. Investment swaps are held in the trading portfolio, carried and reported at fair value. Up to December 31, 2003, the Bank followed hedge accounting under SFAS

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133 for all currency and interest rate swaps, except for a small number of basis swaps and the investment swaps.

Discontinuation of hedge accounting

Effective January 1, 2004, the Bank discontinued the use of hedge accounting and de-designated all hedging relationships established under SFAS 133. Upon discontinuance of hedge accounting, derivatives designated in fair value hedges continued to be carried on the Balance Sheet at fair value. Assets or liabilities previously designated as hedged items in fair value hedges are no longer adjusted for changes in fair value, and the related basis adjustment is amortized over the remaining life of the respective asset or liability. Similarly, derivatives designated in cash flow hedges continued to be carried on the Balance Sheet at fair value, and gains and losses that were accumulated in Other comprehensive income are reclassified to earnings in the period in which the hedged transaction affects earnings.

Hedge Accounting

Up to December 31, 2003, the Bank formally documented all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process included linking all derivatives that were 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 assessed, both at the hedge's inception and on an ongoing basis, whether the derivatives that were used in hedging transactions were highly effective in offsetting changes in fair values or cash flows of hedged items and whether they were expected to continue to be highly effective in the future.

Hedge accounting was followed, 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 exchange rates, 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 2003, the Bank recognized a net loss of $7 million (2002—$10 million) (included in Effects of SFAS 133 and currency transaction adjustments), which represented the ineffective portion of all its fair value accounting hedges.

Cash flow hedges

The Bank enters into currency swap agreements to convert debt into the currencies required while hedging foreign currency fixed-rate medium- and long-term debt against the variability of cash flows resulting from changes in exchange rates. The ineffectiveness of cash flow hedges for the years ended December 31, 2003, and 2002 was not significant. The estimated amount, included in Accumulated other comprehensive income as of December 31, 2004, expected to be reclassified into earnings within the next 12 months to offset the variability of cash flows during this period is not significant.

Effects of SFAS 133 and currency transaction adjustments

Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and General Reserve for the year ended December 31, 2004 comprise the following (in millions):

Change in fair value of derivative instruments:	
Currency transaction gains on borrowing swaps	$ (630)
Change due to interest rate movements	(48)
Total change in fair value of derivatives	(678)
Currency transaction losses on borrowings	603
Amortization of borrowing basis adjustments	(250)
Reclassification to income—cash flow hedges	11
Total	$ (314)

The Bank's borrowings in non-functional currencies are fully swapped to functional currencies, thus protecting the Bank against fluctuations in exchange rates. Currency transaction gains on borrowing swaps amounting to $630 million in 2004 offset currency transaction losses on borrowings of $603 million.

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 financial instruments in which the Bank invests its liquidity. The primary objective in the management of the liquid assets is the maintenance of a conservative exposure to market, credit and liquidity risks. Consequently, the Bank invests only in high quality debt instruments issued by sovereigns, agencies, banks and corporate entities. In addition, the Bank limits its capital market activities to authorized counterparties, issuers and dealers selected on the basis of conservative risk management policies, and establishes exposure and term limits for those counterparties, issuers and dealers based on their size and creditworthiness.

As part of its regular investment, funding and asset and liability management activities, the Bank uses derivative instruments, mostly currency and interest rate swaps, primarily for

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hedging purposes. The Bank has established exposure limits for each swap counterparty and has entered into master swap agreements that contain enforceable close-out netting provisions. These agreements also provide for collateralization in the event that the mark-to-market exposure exceeds certain contractual limits. The Bank does not expect nonperformance by any of its counterparties. As of December 31, 2004, the Bank had received collateral of $1,015 million (2003—$415 million) as required under its master swap agreements.

The derivative credit exposures shown below represent the maximum potential loss, based on the gross fair value of the financial instruments without consideration of close-out netting provisions on master swap agreements, the Bank would incur if the parties to the derivative financial instruments 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, 2004 and 2003, such credit exposures, prior to consideration of any master swap agreements or posted collateral, were as follows (in millions):

	2004	2003
Investments – Trading Portfolio		
Interest rate swaps	$ 2	$ 1
Borrowing Portfolio		
Currency swaps	2,094	1,316
Interest rate swaps	419	558

Note J – Capital Stock and Voting Power

Capital stock

Capital stock consists of "paid-in" and "callable" shares. The subscribed "paid-in" capital stock has been paid in gold and/or United States dollars and in the currency of the respective member, which in some cases has been made freely convertible, in accordance with the terms for the respective increase in capital. Non-negotiable, non-interest-bearing demand obligations have been 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 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 the 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, 2004 and 2003, see Appendix I-6.

The composition of the net receivable from members as of December 31, 2004 and 2003 is as follows (in millions):

	2004	2003
Regional developing members	$ 444	$ 459
United States	—	5
Canada	(66)	(12)
Non-regional members	(283)	(158)
Total	$ 95	$ 294

These amounts are represented on the Balance Sheet as follows (in millions):

	2004	2003
Receivable from members	$ 457	$ 493
Amounts payable to maintain value of currency holdings	(362)	(199)
Total	$ 95	$ 294

Voting power

Under the Agreement, each member country shall have 135 votes plus one vote for each share of the Bank held by that country. The Agreement, as amended by the Eighth General Increase in the Resources of the Inter-American Development Bank, also provides that no increase in the capital stock subscription of any member 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.

Total capital stock subscriptions and the voting power of the member countries as of December 31, 2004 are shown in the Statement of Subscriptions to Capital Stock and Voting Power in Appendix I-7.

Recent Developments in Bank Membership

On November 17, 2004, the Board of Governors approved the admission of the Republic of Korea to membership in the Bank. The membership terms provide for subscription to eight shares of paid-in capital and 176 shares of callable capital. These shares represent a portion of the shares acquired by the Bank from the settlement of accounts with Bosnia, which declined membership accession to the shares of the former Socialist Federal Republic of Yugoslavia. The Republic of Korea must undertake certain future actions for the membership in the Bank to become effective.

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Note K – Allocation of Net Income
The agreement for the Eighth General Increase in the Resources of the Inter-American Development Bank provides for up to $136 million of unallocated special contributions to the FSO to be paid by contributions from members. As stated in the agreement, any unpaid portion was to be paid 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, 2004, no such contributions had been paid by members. Accordingly, the Bank transferred $27.2 million, 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 2004. The 2004 transfer completes the $136 million of unallocated special contributions to the FSO.

Note L – Accumulated Other Comprehensive Income
Other comprehensive income comprises the effects 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 for the years ended December 31, 2004 and 2003 (in millions):

	Translation Adjustments			
	General Reserve	Special Reserve	SFAS 133 Adjustments	Total
Balance at January 1, 2003	$308	$(247)	$ (15)	$ 46
Translation adjustments	365	84	—	449
Net loss on cash flow hedges	—	—	(11)	(11)
Balance at December 31, 2003	673	(163)	(26)	484
Translation adjustments	206	33	—	239
Reclassification to income—cash flow hedges	—	—	11	11
Balance at December 31, 2004	$879	$(130)	$ (15)	$734

Note M – Pension and Postretirement Benefit Plans
The Bank has two defined benefit retirement plans (Plans), the Staff Retirement Plan (SRP) for the pension benefit of its international employees and the employees of the IIC, and the Local Retirement Plan (LRP) for the pension benefit of local employees in the country offices. The Plans are funded by employee and Bank contributions in accordance with the provisions of the Plans. Any and all Bank contributions to the Plans 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 (PRBP). Retirees contribute toward the Bank's health care program based on an established premium schedule. The Bank contributes the remainder of the actuarially determined cost of future health and other benefits. While all contributions and all other assets and income of the PRBP 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 PRBP and are not included on the Balance Sheet.

Obligations and funded status
The Bank uses a December 31 measurement date for the Plans and the PRBP. The following table summarizes the change in benefit obligation, change in plan assets, and funded status of the Plans and the PRBP, and the amounts recognized on the Balance Sheet for the years ended December 31, 2004, 2003 and 2002 (in millions):

	Pension Benefits			Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Change in benefit obligation						
Benefit obligation, beginning of year	$1,696	$1,595	$1,567	$ 703	$645	$624
Service cost	48	45	47	22	20	19
Interest cost	97	98	80	39	40	33
Plan participants' contributions	19	18	17	—	—	—
Actuarial (gain) loss	10	(15)	(68)	(18)	—	(19)
Plan amendment	7	7	—	1	11	—
Benefits paid	(56)	(52)	(48)	(14)	(13)	(12)
Benefit obligation, end of year	1,821	1,696	1,595	733	703	645
Change in plan assets						
Fair value of plan assets, beginning of year	2,045	1,680	1,843	811	663	755
Actual return on plan assets	257	378	(150)	95	161	(80)
Employer contribution	29	19	18	7	—	—
Plan participants' contributions	19	18	17	—	—	—
Benefits paid	(56)	(52)	(48)	(14)	(13)	(12)
Net payments from other plans	—	2	—	—	—	—
Fair value of plan assets, end of year	2,294	2,045	1,680	899	811	663
Funded status	473	349	85	166	108	18
Unrecognized:						
Net actuarial (gain) loss	(350)	(232)	25	(118)	(61)	32
Prior service cost	15	9	6	10	10	(3)
Net amount recognized	$ 138	$ 126	$ 116	$ 58	$ 57	$ 47
Amounts recognized on the Balance Sheet consist of:						
Prepaid benefit cost	$ 138	$ 126	$ 116	$ 58	$ 57	$ 47

The accumulated benefit obligation for the Plans was $1,586 million and $1,456 million at December 31, 2004 and 2003, respectively.

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NOTES TO FINANCIAL STATEMENTS (continued)

Components of net periodic benefit cost

Net periodic benefit cost (income) for the years ended December 31, 2004, 2003 and 2002 consists of the following components (in millions):

	Pension Benefits			Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Service cost	$ 48	$ 45	$ 47	$ 22	$ 20	$ 19
Interest cost	97	98	80	39	40	33
Expected return on plan assets	(129)	(134)	(113)	(53)	(61)	(54)
Amortization of:						
Prior service cost	1	1	1	—	(2)	(2)
Unrecognized net gain	—	(1)	(5)	(2)	(7)	(12)
Net periodic benefit cost (income)	$ 17	$ 9	$ 10	$ 6	$(10)	$(16)
Of which:						
Ordinary Capital's share	$ 14	$ 7	$ 8	$ 5	$ (8)	$(13)
FSO's share	3	2	2	1	(2)	(3)

The Bank allocates the net periodic benefit costs and income between the Ordinary Capital and the FSO in accordance with the allocation method approved by the Board of Executive Directors for administrative expenses. Benefit cost is included in Administrative expenses. Benefit income from the PRBP for prior years is included in Other income.

Actuarial assumptions

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, LRP and PRBP, which approximates 10.5, 13.0 and 11.5 years, respectively.

Unrecognized prior service cost is amortized over 10.5 years for the SRP, 13.0 years for the LRP, and 7.5 years for the PRBP.

The weighted-average assumptions used to determine the benefit obligations and net periodic benefit cost were as follows:

Weighted-average assumptions used to determine benefit obligations at December 31,	Pension Benefits			Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Discount rate	5.50%	5.75%	6.25%	5.50%	5.75%	6.25%
Rate of salary increase SRP	5.10%	5.30%	6.10%			
Rate of salary increase LRP	6.90%	7.20%	7.90%			

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31,	Pension Benefits			Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Discount rate	5.75%	6.25%	5.25%	5.75%	6.25%	5.25%
Expected long-term return on plan assets	6.75%	7.25%	6.00%	6.75%	7.25%	6.00%
Rate of salary increase SRP	5.30%	6.10%	5.10%			
Rate of salary increase LRP	7.20%	7.90%	6.90%			

The expected yearly rate of return on plan assets reflects the historical rate of returns of asset categories employed by the plans and conservatively applying those returns in formulating the Investment Policy asset allocations.

For participants assumed to retire in the United States, the accumulated postretirement benefit obligation was determined using the following health care cost trend rates at December 31:

	2004	2003	2002
Health care cost trend rates assumed for next year:			
Medical	8.00%	8.75%	9.75%
Prescription drugs	11.00%	14.75%	16.75%
Dental	6.50%	7.25%	8.25%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.75%	5.25%
Year that the rate reaches the ultimate trend rate	2013	2013	2013

For those participants assumed to retire outside of the United States, an 8.0% (2003—8.75%; 2002—9.75%) health care cost trend rate was used.

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INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the PRBP. A one-percentage point change in assumed health care cost trend rates would have the following effects as of December 31, 2004 (in millions):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$10	$ (8)
Effect on postretirement benefit obligation	87	(69)

Plan assets

The Plans and PRBP weighted-average asset allocations at December 31, 2004 and 2003, by asset category, are as follows:

	Plans		PRBP	
Asset category	2004	2003	2004	2003
U.S. equities	36%	36%	41%	41%
Non-U.S. equities	32%	32%	32%	32%
Fixed income bonds and funds	18%	18%	18%	17%
U.S. inflation-indexed bonds	6%	6%	9%	9%
Real estate investment funds and equities	5%	6%	—	—
Commodity index futures	2%	2%	—	—
Other	1%	—	—	1%
Total	100%	100%	100%	100%

The assets of the Plans and the PRBP are managed primarily by investment managers employed by the Bank who are provided with investment guidelines that take into account the Plans and PRBP investment policies. Investment policies have been developed so that, consistent with historical returns, there is a high equity allocation with the expectation of sufficient returns to meet long-term funding needs.

Investments maintain an average exposure between 65% and 70% to a well-diversified pool of equities. Assets are also invested in fixed-income securities (20%) to protect against severe dis-inflation, and a mix of other types of investments (10% to 15%) that are expected to react positively to rising inflation to provide protection against loss of purchasing power. The investment policy target allocations as of December 31, 2004 are as follows:

	SRP	LRP	PRBP
U.S. equities	35%	40%	40%
Non-U.S. equities	30%	30%	30%
Fixed income	20%	20%	20%
Inflation-Sensitive investments[(1)]	15%	10%	10%

[(1)] Comprises U.S. inflation-indexed bonds (7%), real estate investment funds and equities (6%), and commodity index futures (2%) for the SRP, U.S. inflation-indexed bonds (5%) and real estate investment funds and equities (5%) for the LRP, and U.S. inflation-indexed bonds (10%) for the PRBP.

Risk management is achieved by the continuous monitoring of each asset category level and investment manager. The investments are rebalanced toward the policy target allocations to the extent possible from cash flows. If cash flows are insufficient to maintain target weights, transfers among the managers' accounts are made at least annually. Investment managers generally are not allowed to invest more than 5% of their respective portfolios in the securities of a single issuer other than the U.S. Government. The use of derivatives by an investment manager must be specifically approved for each instrument.

Cash flows

Contributions

Contributions from the Bank to the Plans and the PRBP during 2005 are expected to be approximately $29 million and $12 million, respectively. All contributions are made in cash.

Estimated future benefit payments

The following table shows the benefit payments, which reflect expected future service, as appropriate, expected to be paid in each of the next five years and in the aggregate for the subsequent five years (in millions). These amounts are based on the same assumptions used to measure the benefit obligation at December 31, 2004.

Year	Plans	PRBP
2005	$ 69	$ 22
2006	74	24
2007	81	26
2008	86	29
2009	92	31
2010–2014	543	192

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Note N – Reconciliation of Net Income to Net Cash Provided by Operating Activities

A reconciliation of Net income to Net cash provided by operating activities, as shown in the Statement of Cash Flows, is as follows (in millions):

	Years ended December 31,		
	2004	2003	2002
Net income	$1,176	$ 2,433	$ 708
Difference between amounts accrued and amounts paid or collected for:			
Loan income	(72)	171	147
Investment income	(1)	2	(11)
Net unrealized (gain) loss on trading investments	(14)	(4)	1
Interest and other costs of borrowings, after swaps	124	(159)	(54)
Administrative expenses, including depreciation	(10)	(1)	(23)
Effects of SFAS 133 and currency transaction adjustments	(279)	222	206
Provision (credit) for loan and guarantee losses	21	(1,370)	100
Net cash provided by operating activities	$ 945	$ 1,294	$1,074
Supplemental disclosure of noncash activities			
Increase (decrease) resulting from exchange rate fluctuations:			
Trading investments	$ 170	$ 383	$ 253
Held-to-maturity investments	194	451	(37)
Loans outstanding	624	1,621	1,591
Borrowings	665	1,883	1,627
Receivable from members-net	(164)	(342)	154

Note O – Segment Reporting

Management has determined that the Bank has only one reportable segment since it 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 2004, 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 $551 million, $440 million and $345 million, respectively.

Note P – 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; otherwise they are based on dealer prices of comparable instruments or discounted cash flows.

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 its lending portfolio.

Swaps: Fair values for interest rate and currency swaps are based on pricing models and represent the estimated cost of replacing these contracts.

Borrowings: The fair values of borrowings are based on quoted market prices, where available; otherwise they are based on dealer prices of comparable instruments or discounted cash flows.

The following table presents the Bank's estimates of fair value for its financial instruments, along with the respective carrying amounts, as of December 31, 2004 and 2003 (in millions):

	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	$ 210	$ 210	$ 347	$ 347
Investments				
Trading	9,162	9,162	11,372	11,372
Held-to-maturity	3,809	3,854	3,607	3,667
Loans, net	49,643	N/A	50,472	N/A
Currency and interest rate swaps receivable on borrowings	2,366	2,366	1,680	1,680
Borrowings				
Short-term	308	308	1,569	1,569
Medium- and long-term	46,505	47,876	48,720	50,351
Currency and interest rate swaps payable				
Investments—trading	115	115	306	306
Loans.	33	33	47	47
Borrowings	697	697	666	666

N/A = Not available

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D

December 31, 2004
Expressed in millions of United States dollars

	Euro	Japanese yen	United States dollars	All currencies
Obligations of the United States Government and its corporations and agencies:				
Carrying value	157	—	253	410
Average balance during year	188	70	258	516
Net gains for the year	2	—	1	3
Obligations of other governments and agencies:				
Carrying value	261	39	240	540
Average balance during year	259	637	255	1,151
Net losses for the year	(1)	(1)	(12)	(14)
Bank obligations and time deposits:				
Carrying value	179	—	2,583	2,762
Average balance during year	581	71	2,401	3,053
Net losses for the year	(1)	—	—	(1)
Corporate securities:				
Carrying value	56	—	165	221
Average balance during year	26	82	190	298
Net losses for the year	—	—	(2)	(2)
Asset- and mortgage-backed securities:				
Carrying value	1,717	—	3,512	5,229
Average balance during year	1,624	68	3,270	4,962
Net gains for the year	4	—	6	10
Total trading investments:				
Carrying value	2,370	39	6,753	9,162
Average balance during year	2,678	928	6,374	9,980
Net gains (losses) for the year	4	(1)	(7)	(4)
Currency swaps receivable:				
Carrying value(1)	—	—	221	221
Average balance during year	—	—	401	401
Net gains (losses) for the year	—	—	—	—
Currency swaps payable:				
Carrying value(1)	(284)	(39)	—	(323)
Average balance during year	(435)	(87)	—	(522)
Net gains for the year	2	—	—	2
Net interest rate swaps:				
Carrying value(1)	(4)	—	(9)	(13)
Average balance during year	(4)	(3)	(16)	(23)
Net gains (losses) for the year	(1)	1	13	13
Total trading investments and swaps:				
Carrying value	2,082	—	6,965	9,047
Average balance during year	2,239	838	6,759	9,836
Net gains for the year	5	—	6	11
Return for the year (%)	2.55	0.12	1.66	1.72

(1) 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, 2003
Expressed in millions of United States dollars

	Euro	Japanese yen	United States dollars	Other currencies	All currencies
Obligations of the United States Government and its corporations and agencies:					
Carrying value	440	80	406	—	926
Average balance during year	348	62	485	—	895
Net losses for the year	(5)	—	—	—	(5)
Obligations of other governments and agencies:					
Carrying value	346	525	289	—	1,160
Average balance during year	329	381	347	1	1,058
Net losses for the year	(9)	(2)	(10)	—	(21)
Bank obligations and time deposits:					
Carrying value	706	83	2,667	—	3,456
Average balance during year	840	77	3,322	88	4,327
Net gains (losses) for the year	(2)	—	6	—	4
Corporate securities:					
Carrying value	12	143	233	36	424
Average balance during year	15	142	313	34	504
Net gains for the year	—	—	2	—	2
Asset- and mortgage-backed securities:					
Carrying value	1,709	78	3,619	—	5,406
Average balance during year	1,032	103	3,721	—	4,856
Net gains for the year	1	—	—	—	1
Total trading investments:					
Carrying value	3,213	909	7,214	36	11,372
Average balance during year	2,564	765	8,188	123	11,640
Net losses for the year	(15)	(2)	(2)	—	(19)
Currency swaps receivable:					
Carrying value [(1)]	—	—	836	—	836
Average balance during year	—	45	884	—	929
Net gains (losses) for the year	—	—	—	—	—
Currency swaps payable:					
Carrying value [(1)]	(980)	(92)	—	(36)	(1,108)
Average balance during year	(1,026)	(71)	(39)	(35)	(1,171)
Net gains for the year	14	1	1	—	16
Net interest rate swaps:					
Carrying value [(1)]	(4)	(2)	(28)	—	(34)
Average balance during year	(3)	(2)	(36)	—	(41)
Net gains for the year	2	1	18	—	21
Total trading investments and swaps:					
Carrying value	2,229	815	8,022	—	11,066
Average balance during year	1,535	737	8,997	88	11,357
Net gains for the year	1	—	17	—	18
Return for the year (%)	2.68	0.23	1.43	0.35	1.48

[(1)] 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, 2004
Expressed in millions 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	178	—	—	5	—	183
Gross unrealized gains	3	—	—	—	—	3
Gross unrealized losses	—	—	—	—	—	—
Fair value	181	—	—	5	—	186
Obligations of other governments and agencies:						
Net carrying amount	631	513	137	368	812	2,461
Gross unrealized gains	11	—	3	4	13	31
Gross unrealized losses	—	—	—	2	1	3
Fair value	642	513	140	370	824	2,489
Bank obligations and time deposits:						
Net carrying amount	399	77	40	79	114	709
Gross unrealized gains	6	—	—	—	—	6
Gross unrealized losses	—	—	—	—	—	—
Fair value	405	77	40	79	114	715
Corporate securities:						
Net carrying amount	—	10	—	14	—	24
Gross unrealized gains	—	—	—	—	—	—
Gross unrealized losses	—	—	—	—	—	—
Fair value	—	10	—	14	—	24
Asset- and mortgage-backed securities:						
Net carrying amount	41	72	—	155	164	432
Gross unrealized gains	1	—	—	4	4	9
Gross unrealized losses	—	—	—	1	—	1
Fair value	42	72	—	158	168	440
Total held-to-maturity investments:						
Net carrying amount	1,249	672	177	621	1,090[(1)]	3,809
Gross unrealized gains	21	—	3	8	17	49
Gross unrealized losses	—	—	—	3	1	4
Fair value	1,270	672	180	626	1,106	3,854
Return for the year (%)	3.77	0.22	1.45	4.25	4.44	3.32

[(1)] The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars	$ 789
British pounds sterling	213
Other	88
Total	$1,090

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2004
Expressed in millions of United States dollars

Year of maturity	Net carrying amount	Fair value
2005	$1,477	$1,483
2006 to 2009	2,313	2,352
2010	19	19
Total	$3,809	$3,854

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-2

SUMMARY STATEMENT OF HELD-TO-MATURITY INVESTMENTS – NOTE D

December 31, 2003
Expressed in millions 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	211	—	—	5	—	216
Gross unrealized gains	3	—	—	—	—	3
Gross unrealized losses	—	—	—	—	—	—
Fair value	214	—	—	5	—	219
Obligations of other governments and agencies:						
Net carrying amount	408	521	145	328	724	2,126
Gross unrealized gains	5	1	4	10	13	33
Gross unrealized losses	2	—	—	1	1	4
Fair value	411	522	149	337	736	2,155
Bank obligations and time deposits:						
Net carrying amount	557	—	90	16	110	773
Gross unrealized gains	11	—	—	—	—	11
Gross unrealized losses	—	—	—	—	—	—
Fair value	568	—	90	16	110	784
Corporate securities:						
Net carrying amount	—	10	—	45	16	71
Gross unrealized gains	—	—	—	1	—	1
Gross unrealized losses	—	—	—	—	—	—
Fair value	—	10	—	46	16	72
Asset- and mortgage-backed securities:						
Net carrying amount	38	23	12	201	147	421
Gross unrealized gains	1	—	—	10	5	16
Gross unrealized losses	—	—	—	—	—	—
Fair value	39	23	12	211	152	437
Total held-to-maturity investments:						
Net carrying amount	1,214	554	247	595	997[1]	3,607
Gross unrealized gains	20	1	4	21	18	64
Gross unrealized losses	2	—	—	1	1	4
Fair value	1,232	555	251	615	1,014	3,667
Return for the year (%)	3.82	0.26	2.67	4.68	4.97	3.67

[1] The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars	$702
British pounds sterling	218
Other	77
Total	$997

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2003
Expressed in millions of United States dollars

Year of maturity	Net carrying amount	Fair value
2004	$1,169	$1,177
2005 to 2008	2,433	2,485
2010	5	5
Total	$3,607	$3,667

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-3

SUMMARY STATEMENT OF LOANS – NOTE E

December 31, 2004 and 2003
Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding 2004[1]	Currency in which outstanding balance is collectible: Non-borrowing country currencies	Borrowing country currencies	Undisbursed	Outstanding 2003[1]
Argentina	$ 8,593	$ 8,512	$ 81	$ 2,816	$ 8,619
Bahamas	71	71	—	53	71
Barbados	165	165	—	99	165
Belize	70	70	—	19	64
Bolivia	366	366	—	—	425
Brazil	10,506	10,464	42	5,211	11,673
Chile	569	567	2	196	619
Colombia	4,824	4,797	27	1,004	4,846
Costa Rica	770	770	—	199	747
Dominican Republic	923	923	—	480	708
Ecuador	1,418	1,418	—	257	1,485
El Salvador	1,101	1,101	—	401	1,115
Guatemala	887	887	—	495	825
Guyana	12	12	—	—	19
Honduras	151	151	—	—	168
Jamaica	647	647	—	225	635
Mexico	7,429	7,429	—	1,281	7,174
Nicaragua	108	108	—	—	114
Panama	777	777	—	343	795
Paraguay	655	655	—	325	632
Peru	3,212	3,211	1	831	2,935
Suriname	42	42	—	44	42
Trinidad and Tobago	437	437	—	239	444
Uruguay	2,241	2,241	—	515	2,281
Venezuela	1,966	1,952	14	274	2,122
Regional	658	658	—	85	728
Private Sector Program	1,244	1,244	—	401	1,204
Inter-American Investment Corporation	—	—	—	300	—
Total 2004	$49,842	$49,675	$167	$16,093	
Total 2003		$50,478	$177	$15,619	$50,655

[1] This table excludes outstanding participated Private Sector Program loans which amounted to $1,947 million at December 31, 2004 (2003—$2,098 million). This table also excludes guarantees outstanding in the amount of $331 million at December 31, 2004 (2003—$342 million).

Private Sector Program loans outstanding have been made in the following countries (in millions):

	December 31, 2004	December 31, 2003
Argentina	$ 161	$ 200
Bolivia	94	77
Brazil	368	377
Chile	35	41
Colombia	9	15
Costa Rica	13	14
Jamaica	30	—
Mexico	$ 316	$ 336
Nicaragua	9	9
Panama	14	16
Peru	88	14
Uruguay	15	12
Regional	92	93
	$1,244	$1,204

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT – NOTE E

December 31, 2004
Expressed in millions of United States dollars

	Multicurrency loans[2]		Single currency loans			Total loans	
Currency/Rate type	Amount	Weighted average rate (%)	Amount	Weighted average rate (%)	Average maturity (years)	Amount	Weighted average rate (%)
Euro							
Fixed	$ 277	7.30	$ —	—	—	$ 277	7.30
Adjustable	2,469	4.62	13	4.63	7.08	2,482	4.62
Japanese yen							
Fixed	513	7.27	—	—	—	513	7.27
Adjustable	4,666	4.62	3	1.65	6.63	4,669	4.62
Swiss francs							
Fixed	293	7.32	—	—	—	293	7.32
Adjustable	2,594	4.62	—	—	—	2,594	4.62
United States dollars							
Fixed	1,031	7.28	—	—	—	1,031	7.28
Adjustable	9,355	4.62	21,937	4.99	8.46	31,292	4.88
LIBOR—based fixed	—	—	975	7.10	4.68	975	7.10
LIBOR—based floating	—	—	5,547	5.16	3.99	5,547	5.16
Others							
Fixed	169	4.02	—	—	—	169	4.02
Loans outstanding							
Fixed	2,283	7.04	—	—	—	2,283	7.04
Adjustable	19,084	4.62	21,953	4.99	8.46	41,037	4.82
LIBOR—based fixed	—	—	975	7.10	4.68	975	7.10
LIBOR—based floating	—	—	5,547	5.16	3.99	5,547	5.16
Total	$21,367	4.88	$28,475	5.10	7.46	$49,842	5.00

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2004
Expressed in millions of United States dollars

	Multicurrency loans[2]		Single currency loans		All loans		
Year of maturity	Fixed	Adjustable	Fixed[1]	Adjustable[1]	Fixed	Adjustable	Total
2005	$ 551	$ 1,912	$ 84	$ 1,152	$ 635	$ 3,064	$ 3,699
2006	433	1,926	123	2,405	556	4,331	4,887
2007	341	1,924	123	3,212	464	5,136	5,600
2008	259	1,929	113	2,488	372	4,417	4,789
2009	182	1,927	105	1,685	287	3,612	3,899
2010 to 2014	466	6,793	382	7,870	848	14,663	15,511
2015 to 2019	43	2,203	45	5,866	88	8,069	8,157
2020 to 2024	8	435	—	2,404	8	2,839	2,847
2025 to 2029	—	35	—	418	—	453	453
Total	$2,283	$19,084	$975	$27,500	$3,258	$46,584	$49,842
Average maturity (years)	3.17	5.62	4.68	7.56	3.62	6.77	6.56

(1) Includes LIBOR-based loans.
(2) Average maturity-Multicurrency loans: The selection of currencies by the Bank for billing purposes does not permit the determination of average maturity for multicurrency loans by individual currency. Accordingly, the Bank discloses the maturity periods for its multicurrency loans and average maturity for the total multicurrency loan portfolio on a combined United States dollar equivalent basis.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT – NOTE E

December 31, 2003
Expressed in millions of United States dollars

	Multicurrency loans(2)		Single currency loans			Total loans	
Currency/Rate type	Amount	Weighted average rate (%)	Amount	Weighted average rate (%)	Average maturity (years)	Amount	Weighted average rate (%)
Euro							
Fixed	$ 426	7.42	$ —	—	—	$ 426	7.42
Adjustable	2,841	4.85	13	4.84	7.85	2,854	4.85
Japanese yen							
Fixed	733	7.39	—	—	—	733	7.39
Adjustable	4,983	4.85	2	1.13	7.62	4,985	4.85
Swiss francs							
Fixed	386	7.43	—	—	—	386	7.43
Adjustable	2,542	4.85	—	—	—	2,542	4.85
United States dollars							
Fixed	1,425	7.40	—	—	—	1,425	7.40
Adjustable	9,607	4.85	20,238	4.96	8.90	29,845	4.92
LIBOR—based fixed	—	—	901	7.11	4.85	901	7.11
LIBOR—based floating	—	—	6,381	4.68	3.46	6,381	4.68
Others							
Fixed	177	4.03	—	—	—	177	4.03
Loans outstanding							
Fixed	3,147	7.21	—	—	—	3,147	7.21
Adjustable	19,973	4.85	20,253	4.96	8.90	40,226	4.91
LIBOR—based fixed	—	—	901	7.11	4.85	901	7.11
LIBOR—based floating	—	—	6,381	4.68	3.46	6,381	4.68
Total	$23,120	5.17	$27,535	4.97	7.51	$50,655	5.06

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2003
Expressed in millions of United States dollars

	Multicurrency loans(2)		Single currency loans		All loans		
Year of maturity	Fixed	Adjustable	Fixed(1)	Adjustable(1)	Fixed	Adjustable	Total
2004	$ 714	$ 1,802	$ 79	$ 2,197	$ 793	$ 3,999	$ 4,792
2005	614	1,857	79	1,112	693	2,969	3,662
2006	478	1,869	115	2,303	593	4,172	4,765
2007	373	1,852	114	2,991	487	4,843	5,330
2008	285	1,854	103	2,248	388	4,102	4,490
2009 to 2013	593	7,450	376	7,277	969	14,727	15,696
2014 to 2018	79	2,648	35	5,557	114	8,205	8,319
2019 to 2023.	11	595	—	2,506	11	3,101	3,112
2024 to 2028	—	46	—	437	—	483	483
2029	—	—	—	6	—	6	6
Total	$3,147	$19,973	$901	$26,634	$4,048	$46,607	$50,655
Average maturity (years)	3.19	6.00	4.85	7.59	3.56	6.91	6.64

(1), (2) See footnotes on previous page.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES G AND H

December 31, 2004
Expressed in millions of United States dollars

	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
Currency/Rate type	Amount	Wgtd. avg. cost (%)	Average maturity (years)	Amount[(2)] payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years)	Amount[(2)] payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years) [(1)]
Euro												
Fixed	$ 3,852	5.42	4.48	$ —	—	—	$ 475	4.22	2.31	$ 4,327	5.29	4.24
	—	—	—	(1,207)	5.33	3.77	(1,535)	3.98	5.77	(2,742)	4.57	4.89
Adjustable	926	5.26	9.73	1,681	1.98	2.26	1,535	2.49	5.77	4,142	2.90	5.23
	—	—	—	(1,019)	4.86	9.02	(475)	1.98	2.31	(1,494)	3.95	6.89
Japanese yen												
Fixed	3,476	3.51	4.47	876	0.93	3.82	49	1.71	3.37	4,401	2.97	4.33
	—	—	—	(585)	3.53	3.25	(1,289)	1.92	4.58	(1,874)	2.42	4.17
Adjustable	107	3.23	6.61	282	(0.29)	3.68	1,269	(0.22)	4.84	1,658	(0.01)	4.76
	—	—	—	(563)	0.31	4.44	(29)	1.23	13.83	(592)	0.36	4.90
Swiss francs												
Fixed	1,237	3.61	2.25	—	—	—	—	—	—	1,237	3.61	2.25
	—	—	—	—	—	—	—	—	—	—	—	—
Adjustable	—	—	—	504	0.40	4.52	—	—	—	504	0.40	4.52
	—	—	—	—	—	—	—	—	—	—	—	—
United States dollars												
Fixed	26,771	5.33	5.52	1,401	5.70	3.73	284	5.45	4.12	28,456	5.35	5.41
	—	—	—	(515)	5.69	3.14	(9,811)	4.43	6.84	(10,326)	4.50	6.66
Adjustable	150	2.46	9.73	9,723	2.09	5.81	10,747	2.10	6.78	20,620	2.10	6.34
	—	—	—	(1,147)	2.19	3.24	(1,220)	1.96	5.67	(2,367)	2.07	4.49
Others												
Fixed	12,367	5.76	6.00	—	—	—	—	—	—	12,367	5.76	6.00
	—	—	—	(12,329)	5.07	5.98	—	—	—	(12,329)	5.07	5.98
Total												
Fixed	47,703	5.27	5.40	2,277			808			50,788	5.20	5.28
	—	—	—	(14,636)			(12,635)			(27,271)	4.62	6.00
Adjustable	1,183	4.72	9.45	12,190			13,551			26,924	2.05	6.04
	—	—	—	(2,729)			(1,724)			(4,453)	2.47	5.35
Principal at face value	48,886	5.26	5.49	(2,898)			—			45,988	3.96	5.29
SFAS 133 —												
Basis adjustment	315									315		
Fair value adjustment [(2)]	—			(119)			(98)			(217)		
Net unamortized discount	(2,696)			1,446						(1,250)		
Total	$46,505	5.26	5.49	$ (1,571)			$ (98)			$ 44,836	3.96	5.29

(1) As of December 31, 2004, 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 receivable from currency swaps of $1,571 million and the net fair value amount receivable from interest rate swaps of $98 million, shown in the above table, are represented by currency and interest rate swap assets at fair value of $2,366 million and currency and interest rate swap liabilities at fair value of $697 million, included on the Balance Sheet.

MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2004
Expressed in millions of United States dollars

Year of maturity	
2005	$ 5,841
2006	6,836
2007	4,982
2008	5,103
2009	4,564
2010 through 2014	$14,607
2015 through 2019	4,815
2020 through 2024	888
2025 through 2027	1,250
Total	$48,886

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES G AND H

December 31, 2003
Expressed in millions of United States dollars

	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
Currency/Rate type	Amount	Wgtd. avg. cost (%)	Average maturity (years)	Amount[2] payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years)	Amount[2] payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years)[1]
Euro												
Fixed	$ 4,047	5.56	4.88	$ —	—	—	$ 440	4.22	3.31	$ 4,487	5.43	4.73
	—	—	—	(649)	5.89	1.67	(1,420)	3.98	6.77	(2,069)	4.58	5.17
Adjustable	857	5.26	10.73	1,555	1.96	3.26	1,420	2.35	6.77	3,832	2.84	6.23
	—	—	—	(942)	4.85	10.02	(440)	1.97	3.31	(1,382)	3.93	7.88
Japanese yen												
Fixed	3,627	3.68	5.08	843	0.93	4.82	47	1.71	4.37	4,517	3.15	5.02
	—	—	—	(563)	3.53	4.25	(1,240)	1.89	5.58	(1,803)	2.40	5.16
Adjustable	103	3.23	7.61	1,083	(0.23)	2.84	1,222	(0.21)	5.84	2,408	(0.07)	4.57
	—	—	—	(75)	4.01	4.90	(28)	1.23	14.83	(103)	3.25	7.60
Swiss francs												
Fixed	1,862	3.49	2.19	334	4.68	0.76	288	2.23	0.74	2,484	3.50	1.83
	—	—	—	(404)	2.17	0.39	(162)	3.33	0.83	(566)	2.50	0.52
Adjustable	—	—	—	288	0.13	0.74	162	0.06	0.83	450	0.10	0.77
	—	—	—	—	—	—	(288)	0.13	0.74	(288)	0.13	0.74
United States dollars												
Fixed	30,519	5.27	5.42	782	6.37	2.95	284	5.45	5.12	31,585	5.30	5.36
	—	—	—	(515)	5.69	4.14	(13,038)	4.49	5.43	(13,553)	4.54	5.38
Adjustable	—	—	—	7,854	1.06	6.69	14,617	1.09	4.99	22,471	1.08	5.58
	—	—	—	(2,090)	1.05	3.19	(1,864)	1.04	1.91	(3,954)	1.05	2.59
Others												
Fixed	9,806	5.51	7.05	—	—	—	—	—	—	9,806	5.51	7.05
	—	—	—	(9,737)	4.68	7.01	—	—	—	(9,737)	4.68	7.01
Total												
Fixed	49,861	5.16	5.55	1,959			1,059			52,879	5.08	5.42
	—	—	—	(11,868)			(15,860)			(27,728)	4.41	5.82
Adjustable	960	5.04	10.40	10,780			17,421			29,161	1.20	5.51
	—	—	—	(3,107)			(2,620)			(5,727)	1.74	3.86
Principal at face value	50,821	5.16	5.64	(2,236)			—			48,585	3.53	5.43
SFAS 133—												
Basis adjustment	608									608		
Fair value adjustment[2]	—			273			(221)			52		
Net unamortized discount	(2,709)			1,170						(1,539)		
Total	$48,720	5.16	5.64	$ (793)			$ (221)			$ 47,706	3.53	5.43

[1] As of December 31, 2003, 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 receivable from currency swaps of $793 million and the net fair value amount receivable from interest rate swaps of $221 million, shown in the above table, are represented by currency and interest rate swap assets at fair value of $1,680 million and currency and interest rate swap liabilities at fair value of $666 million, included on the Balance Sheet.

MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2003
Expressed in millions of United States dollars

Year of maturity	
2004	$ 7,610
2005	5,733
2006	4,964
2007	4,300
2008	5,060

Year of maturity	
2009 through 2013	$15,261
2014 through 2018	5,782
2019 through 2023	861
2024 through 2027	1,250
Total	$50,821

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-6

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK – NOTE J

December 31, 2004 and 2003
Expressed in millions of United States dollars[1]

		Paid-in portion of subscribed capital				
Members	Shares	Freely convertible currencies	Other currencies	Callable portion of subscribed capital	Total 2004	Total 2003
Argentina	900,154	$ 361.1	$104.1	$10,393.8	$ 10,858.9	$ 10,858.9
Austria	13,312	6.9	—	153.7	160.6	160.6
Bahamas	17,398	7.5	4.1	198.3	209.9	209.9
Barbados	10,767	3.9	1.8	124.3	129.9	129.9
Belgium	27,438	14.2	—	316.8	331.0	331.0
Belize	9,178	3.6	3.6	103.5	110.7	110.7
Bolivia	72,258	29.0	8.4	834.4	871.7	871.7
Brazil	900,154	361.1	104.1	10,393.8	10,858.9	10,858.9
Canada	334,887	173.7	—	3,866.2	4,039.9	4,039.9
Chile.	247,163	99.1	28.6	2,853.9	2,981.6	2,981.6
Colombia	247,163	99.2	28.6	2,853.9	2,981.6	2,981.6
Costa Rica	36,121	14.5	4.2	417.1	435.7	435.7
Croatia	4,018	2.1	—	46.4	48.5	48.5
Denmark	14,157	7.3	—	163.4	170.8	170.8
Dominican Republic	48,220	19.3	5.6	556.8	581.7	581.7
Ecuador	48,220	19.3	5.6	556.8	581.7	581.7
El Salvador	36,121	14.5	4.2	417.1	435.7	435.7
Finland	13,312	6.9	—	153.7	160.6	160.6
France	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Germany	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Guatemala	48,220	19.3	5.6	556.8	581.7	581.7
Guyana	13,393	5.2	2.6	153.8	161.6	161.6
Haiti	36,121	14.5	4.2	417.1	435.7	435.7
Honduras	36,121	14.5	4.2	417.1	435.7	435.7
Israel	13,126	6.8	—	151.5	158.3	158.3
Italy	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Jamaica	48,220	19.3	5.6	556.8	581.7	581.7
Japan	418,642	217.1	—	4,833.2	5,050.3	5,050.3
Mexico	578,632	232.1	66.9	6,681.3	6,980.3	6,980.3
Netherlands	28,207	14.6	—	325.6	340.3	340.3
Nicaragua	36,121	14.5	4.2	417.1	435.7	435.7
Norway	14,157	7.3	—	163.4	170.8	170.8
Panama	36,121	14.5	4.2	417.1	435.7	435.7
Paraguay	36,121	14.5	4.2	417.1	435.7	435.7
Peru	120,445	48.3	14.0	1,390.7	1,453.0	1,453.0
Portugal	4,474	2.3	—	51.7	54.0	54.0
Slovenia	2,434	1.3	—	28.1	29.4	29.4
Spain	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Suriname	7,342	3.5	2.2	82.9	88.6	88.6
Sweden	27,268	14.1	—	314.8	328.9	328.9
Switzerland	39,347	20.4	—	454.2	474.7	474.7
Trinidad and Tobago	36,121	14.5	4.2	417.1	435.7	435.7
United Kingdom	80,551	41.8	—	929.9	971.7	971.7
United States	2,512,529	1,303.0	—	29,006.7	30,309.7	30,309.7
Uruguay	96,507	38.7	11.2	1,114.3	1,164.2	1,164.2
Venezuela	482,267	216.0	33.3	5,568.5	5,817.8	5,817.8
Total before unallocated amount	8,367,080	3,870.5	468.8	96,596.4	100,935.7	100,935.7
Unallocated[2]	1,299	0.9	—	14.8	15.7	15.7
Total 2004	8,368,379	$ 3,871	$ 469	$ 96,611	$ 100,951	
Total 2003	8,368,379	$ 3,871	$ 469	$ 96,611		$ 100,951

[1] Data are rounded; detail may not add up to subtotals and totals because of rounding.
[2] Represents the remaining shares of the former Socialist Federal Republic of Yugoslavia. Possible membership of Serbia and Montenegro is still pending.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-7

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

December 31, 2004

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 [2]	1,299	1,434	
GRAND TOTAL	8,368,379	8,374,724	

[1] Data are rounded; detail may not add to subtotals and grand total because of rounding.
[2] Represents the remaining shares of the former Socialist Federal Republic of Yugoslavia. Possible membership of Serbia and Montenegro is still pending.

SPECIAL PURPOSE FINANCIAL STATEMENTS

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, 2004 and 2003, and the related special purpose statements of changes in general reserve, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide 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 accounting principles generally accepted in the United States.

In our opinion, the accompanying special purpose financial statements of the Inter-American Development Bank—Fund for Special Operations as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004, 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 Inter-American Development 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 15, 2005

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

SPECIAL PURPOSE STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE

Expressed in millions of United States dollars

	December 31,			
	2004		2003	
ASSETS				
Cash and investments				
Cash	$ 387		$ 404	
Investments	1,172	$1,559	1,187	$ 1,591
Loans outstanding		7,041		7,216
Accrued interest and other charges				
On investments	4		1	
On loans	37	41	40	41
Receivable from members				
Contribution quotas	1		29	
Non-negotiable, non-interest-bearing demand obligations	727		829	
Amounts required to maintain value of currency holdings	286	1,014	330	1,188
Other assets		7		8
Total assets		$9,662		$10,044
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses	$ 3		$ 24	
Undisbursed technical cooperation projects and other financings	99		100	
Amounts payable to maintain value of currency holdings	366	$ 468	298	$ 422
Fund balance				
Contribution quotas authorized and subscribed	9,802		9,735	
General reserve (deficit)	(562)		(76)	
Accumulated translation adjustments	(46)	9,194	(37)	9,622
Total liabilities and fund balance		$9,662		$10,044

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 millions of United States dollars

	Years ended December 31,		
	2004	**2003**	**2002**
Income			
Loans			
Interest	**$ 131**	$137	$107
Credit commissions	**8**	10	4
Supervision and inspection fees	**6**	6	4
	145	153	115
Investments	**21**	16	23
Other	**—**	2	3
Total income	**166**	171	141
Expenses			
Administrative expenses	**62**	58	60
Total expenses	**62**	58	60
Excess of income over expenses before technical cooperation expense and HIPC debt initiative	**104**	113	81
Technical cooperation expense	**31**	23	31
HIPC debt relief	**486**	37	38
Excess of (expenses over income) income over expenses	**(413)**	53	12
General reserve (deficit), beginning of year	**(76)**	(54)	4
Allocations to Intermediate Financing Facility Account	**(73)**	(75)	(70)
General reserve (deficit), end of year	**$(562)**	$ (76)	$ (54)

SPECIAL PURPOSE STATEMENT OF COMPREHENSIVE INCOME

Expressed in millions of United States dollars

	Years ended December 31,		
	2004	**2003**	**2002**
Excess of (expenses over income) income over expenses	**$(413)**	$ 53	$ 12
Translation adjustments on assets and liabilities	**57**	123	89
Comprehensive (loss) income	**$(356)**	$176	$101

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 millions of United States dollars

	Years ended December 31,		
	2004	**2003**	**2002**
Cash flows from lending and investing activities			
Lending:			
Loan disbursements	**$(463)**	$(486)	$(313)
Loan collections	**294**	296	256
Loan participations, net	**—**	(8)	(7)
Net cash used in lending activities	**(169)**	(198)	(64)
Net decrease (increase) in investments	**29**	(31)	(81)
Miscellaneous assets and liabilities	**—**	—	3
Net cash used in lending and investing activities	**(140)**	(229)	(142)
Cash flows from financing activities			
Collections of receivables from members	**150**	161	132
Net cash provided by financing activities	**150**	161	132
Cash flows from operating activities			
Loan income collections	**136**	131	116
Income from investments	**19**	18	23
Other income	**—**	2	3
Administrative expenses	**(83)**	(44)	(52)
Technical cooperation and other financings	**(31)**	(42)	(45)
Net cash provided by operating activities	**41**	65	45
Cash allocations to the Intermediate Financing Facility Account	**(73)**	(75)	(70)
Effect of exchange rate fluctuations on cash	**5**	—	—
Net decrease in cash	**(17)**	(78)	(35)
Cash, beginning of year	**404**	482	517
Cash, end of year	**$ 387**	$ 404	$ 482

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

Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. Its principal purpose 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 Inter-American Development Bank (Agreement) to make loans on highly concessional terms in the less developed member countries of the Bank. 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 G.

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 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 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. Assets and liabilities denominated in currencies other than the United States dollar are translated at market exchange rates prevailing at the dates of the Special Purpose Statement of Assets, Liabilities and Fund Balance. Income and expenses in such currencies are translated at market rates of exchange prevailing during each month. Exchange rate fluctuations do not have any effect on the United States dollar equivalents of currencies subject to the maintenance of value (MOV) provisions described below. Net adjustments resulting from the translation into United States dollars of assets and liabilities in currencies that do not have MOV protection, which are derived from the 1983, 1990 and 1995 increases in contribution quotas, 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 MOV protection, are charged or credited directly to Accumulated translation adjustments[1] in the Special Purpose Statement of Assets, Liabilities and Fund Balance. Under United States GAAP, the contribution quotas authorized and subscribed should be reported at the historical rates of exchange prevailing at the date of the relevant replenishment's approval.

Investments

Investment securities are recorded using trade-date accounting and are held in a trading portfolio carried at fair value, with changes in fair value included in Income from investments.

Loans

The Bank utilizes FSO resources to make highly concessional loans, denominated in the currencies of non-borrowing member countries, to the least-developed borrowing members, their agencies or political subdivisions. In previous years, the Bank 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 intergovernmental entities, the Bank 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 Bank sells participations in certain loans to the Social Progress Trust Fund, 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%

[1]References to captions in the financial statements are identified by the name of the caption beginning with a capital letter every time they appear in the notes to the financial statements.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

thereafter. The principal amount of loans and accrued interest are repayable in the currencies lent.

It is the policy of the Bank to place on nonaccrual status all loans to a member government if service under any loan to, or guaranteed by, the member government, made from any fund owned or administered by the Bank, is overdue more than 180 days. On the date that a member's loan is placed on nonaccrual status, all loans to that member country are also placed on nonaccrual status. When a loan is placed on nonaccrual status, charges that had been accrued and remain unpaid are deducted from the income of the current period. Charges on nonaccruing loans are included in income only to the extent that payments have actually been received. 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 L, the Bank has never had a write-off on any of its FSO 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.

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 interest 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 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 point (as defined in Note L) 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.

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 contribution quotas and MOV obligations.

Contribution quotas
Recognition: Under United States GAAP, contribution quotas authorized and subscribed should not be recorded until a promissory demand note is received, guaranteed by the member country, as payment of the amount due. To present the full amount of the member country's commitment, management has elected to report contribution quotas under a special accounting basis that provides for the recording of member's contribution quotas 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-upon 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. Notes received in settlement of contribution quotas are encashed as provided in the relevant replenishment resolution.

Valuation: The Agreement provides that contribution quotas 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. Consequently, the General Counsel of the Bank rendered an opinion that the Special Drawing Right (SDR) became the successor to the 1959 United States dollar as the standard of value for member contributions, and for 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 Board of Governors and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using as the basis of valuation the 1959 United States dollar, as valued in terms of United States dollars at July 1, 1974, whose value is equal to approximately 1.2063 of the then current United States dollars.

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

FUND FOR SPECIAL OPERATIONS
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NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

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 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. Currency holdings derived from the 1983, 1990 and 1995 increases in contribution quotas do not have maintenance of value protection.

The amount related to MOV on non-borrowing member countries currency holdings is presented as an asset or liability on the Special Purpose Statement of Assets, Liabilities and Fund Balance, included in Amounts required/payable to maintain value of currency holdings.

Administrative expenses
Substantially all administrative expenses of the Bank, including depreciation, are allocated between the FSO and the Ordinary Capital, pursuant to an allocation method approved by the Board of Executive Directors. Following this allocation method, during 2004 the effective ratio of administrative expenses charged to the FSO was 15.6% and 84.4% to the Ordinary Capital (2003—15.4% and 84.6%; 2002—16.4% and 83.6%).

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 Bank 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; otherwise they are based on dealer prices of comparable instruments or discounted cash flows.

Loans: The Bank 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 is accrued at fixed rates. 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 its lending portfolio.

Note C – Restricted Currencies
As of December 31, 2004, Cash includes $365 million (2003—$386 million) in currencies of regional borrowing members. The amount of $25 million (2003—$29 million) has been restricted by one member 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 in government, agency, corporate and bank obligations, including time deposits, and asset- and mortgage-backed securities. The Bank limits its activities of investing in securities to a list of authorized dealers and counterparties. Credit limits have been established for each counterparty.

For government and agency obligations, including securities issued by an instrumentality of a government or any other official entity, the Bank invests only in obligations issued or unconditionally guaranteed by governments of certain countries with a minimum credit quality equivalent to a AA– rating (asset- and mortgage-backed securities require a credit quality equivalent to a AAA rating); however, if such obligations are issued in the currency of a member country, no credit rating is required. Obligations issued by multilateral organizations require a credit quality equivalent to a AAA rating. In addition, the Bank invests in bank obligations issued or guaranteed by an entity with senior debt securities rating of at least A+, and in corporate and asset- and mortgage-backed securities with credit quality equivalent to a AAA rating. The Bank also invests in short-term asset-backed securities and short-term asset-backed commercial paper carrying only the highest short-term credit ratings.

A summary of the trading portfolio securities at December 31, 2004 and 2003 is shown in the Summary Statement of Investments in Appendix II-1. Net unrealized gains and losses on trading securities are not significant. The average return on investments, including realized and unrealized gains and losses, during 2004 was 1.83% (2003—1.34%; 2002—2.05%).

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. Loans outstanding by country are shown in the Summary

FUND FOR SPECIAL OPERATIONS
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NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

Statement of Loans Outstanding in Appendix II-2. The average maturity for loans outstanding at December 31, 2004 and 2003 was 14.2 years and 13.6 years, respectively, and the average interest rate was 1.71% in both years.

In July 2003, the Bank received payment of all amounts overdue on loans to borrowers in Haiti, and such loans came out of nonaccrual status. As a result, income from loans for 2003 was increased by $12 million corresponding to income that would have been recognized in prior years. As of December 31, 2004, there were no countries in nonaccrual status.

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, 2004 and 2003, see Appendix II-3.

Voting power

In making decisions concerning operations of the FSO, the number of votes and percent of voting power for each member country are the same as those applicable for decisions involving the Ordinary Capital.

Changes for the period

The following table summarizes the changes in Contribution quotas authorized and subscribed for the years ended December 31, 2004 and 2003 (in millions):

	Contribution quotas authorized and subscribed
Balance at January 1, 2003	$9,584
Contribution by Canada— Trust Fund collections	1
Translation adjustment of contributions approved in 1983, 1990 and 1995 due to exchange rate fluctuations	150
Balance at December 31, 2003	9,735
Contribution by Canada— Trust Fund collections	1
Translation adjustment of contributions approved in 1983, 1990 and 1995 due to exchange rate fluctuations	66
Balance at December 31, 2004	$9,802

As of December 31, 2004, the cumulative increase in the United States dollar equivalents of contribution quotas because of exchange rate fluctuations was $20 million (2003—decrease of $46 million).

The composition of the net receivable from members as of December 31, 2004 and 2003 is as follows (in millions):

	2004	2003
Regional developing members	$ 946	$1,013
Canada	13	33
Non-regional members	(311)	(183)
Unallocated	—	27
Total	$ 648	$ 890

These amounts are represented in the Special Purpose Statement of Assets, Liabilities and Fund Balance as follows (in millions):

	2004	2003
Receivable from members	$1,014	$1,188
Amounts payable to maintain value of currency holdings	(366)	(298)
Total	$ 648	$ 890

In 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 of approximately $1,000 million. Encashments of contributions under this increase are due annually through 2005. Under the increase, up to $136 million of unallocated special contributions were to be paid by contributions from members, and any unpaid portion was to be paid 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, 2004, no such contributions had been paid by members. Accordingly, the amount of $27.2 million, representing one fifth of the unallocated special contributions, was transferred from the net income of the Ordinary Capital to the FSO in each of the years 2000 through 2004. In accordance with the Agreement, these transfers were credited to the total contribution quotas of each member in proportion to the number of Ordinary Capital shares held. The 2004 transfer completes the $136 million of unallocated special contributions from the Ordinary Capital.

Note G – General Reserve

In accordance with resolutions of the Board of Governors, the excess of income over expenses is to be added to the general reserve.

FUND FOR SPECIAL OPERATIONS
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NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

In 2004, the Board of Governors allocated the equivalent of $73 million (2003—$75 million; 2002—$70 million) 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, in accordance with various agreements of the Board of Governors, are shown in the following table (in millions):

Year	Capital increases[(1)]	HIPC initiative [(2)]	Concessional resources agreement [(3)]	Total
2005	$ 30	$12	$ 20	$ 62
2006	30	11	20	61
2007	30	11	20	61
2008	30	11	20	61
2009	30	11	20	61
2010 to 2014	60	6	270	336
2015 to 2019	—	—	325	325
Total	$210	$62	$695	$967

(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 L 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 approximatelly $65 million annually from 2012 to 2019 will be necessary to fund the 2000–2008 IFF lending mandated under the Concessional resources agreement. 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, 2004 and 2003 (in millions):

	Enhanced HIPC Initiative	Income, Other than HIPC	Total General Reserve
Balance at January 1, 2003	$ (771)	$717	$ (54)
Allocation to IFF	(14)	(61)	(75)
HIPC debt relief	(37)	—	(37)
Income, excluding HIPC	—	90	90
Balance at December 31, 2003	(822)	746	(76)
Allocation to IFF	(12)	(61)	(73)
HIPC debt relief	(486)	—	(486)
Income, excluding HIPC	—	73	73
Balance at December 31, 2004	$(1,320)	$758	$(562)

Note H – Accumulated Translation Adjustments

The following is a summary of changes in the Accumulated translation adjustments for the years ended December 31, 2004 and 2003 (in millions):

	Assets and liabilities	Contribution quotas authorized and subscribed	Total
Balance at January 1, 2003	$(206)	$ 196	$(10)
Translation adjustments	123	(150)	(27)
Balance at December 31, 2003	(83)	46	(37)
Translation adjustments	57	(66)	(9)
Balance at December 31, 2004	$ (26)	$ (20)	$(46)

Note I – Administrative Expenses

Pursuant to the policy described in Note B, the FSO shares in all of the expenses incurred by the Bank, including those related to the pension and postretirement benefit plans. During 2003 and 2002, the Bank's Postretirement Benefit Plan had benefit income of $10 million and $16 million, respectively. The FSO's share of such income, which is included in Other income, amounted to $2 million and $3 million in 2003 and 2002, respectively.

Note J – 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, 2004 and 2003 (in millions):

	2004	2003
Balance at January 1,	$100	$119
Approvals	36	30
Cancellations	(3)	(5)
Disbursements	(34)	(44)
Balance at December 31,	$ 99	$100

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

Note K – Reconciliation of Excess of (Expenses over Income) Income over Expenses to Net Cash Provided by Operating Activities

A reconciliation of Excess of (expenses over income) income over expenses to Net cash provided by operating activities, as shown in the Special Purpose Statement of Cash Flows, is as follows (in millions):

	Years ended December 31,		
	2004	2003	2002
Excess of (expenses over income) income over expenses	$(413)	$ 53	$ 12
Difference between amounts accrued and amounts paid or collected for:			
Loan income	(8)	(22)	—
Income from investments	(2)	1	—
Net unrealized loss on investments	—	1	—
Administrative expenses	(21)	14	8
Technical cooperation and other financings	(1)	(19)	(13)
HIPC debt relief	486	37	38
Net cash provided by operating activities	$ 41	$ 65	$ 45
Supplemental disclosure of noncash activities			
Increase (decrease) resulting from exchange rate fluctuations:			
Investments	$ 15	$ 22	$ 12
Loans outstanding	131	274	87
Receivable from members—net	(94)	(174)	(10)
Contribution quotas authorized and subscribed	66	150	104

Note L – Heavily Indebted Poor Countries (HIPC) Initiative

The Bank participates in the HIPC Initiative, a concerted international initiative endorsed by the Group of Seven Countries (G-7), the International Bank for Reconstruction and Development (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.

The Bank's participation in the HIPC comprises the HIPC I of 1998 and the Enhanced HIPC Initiative approved in 2001. Eligible member countries are Bolivia, Guyana, Honduras and Nicaragua. Total debt relief is expected to amount to a net present value, calculated as of the HIPC effective date for each country, of approximately $1.1 billion. This debt relief, which is being delivered from 1998 through 2019, is being implemented through a combination of write-offs of FSO loans principal and interest, transfers from the FSO general reserve to the IFF, conversion of a substantial portion of FSO local currency holdings to United States dollars, and grants of member countries through the World Bank HIPC Trust Fund.

As part of HIPC I, in 1998 the Bank charged off FSO loans to Bolivia and Guyana in the amount of $177.1 million. In addition, the Bank is transfering the equivalent of $138 million in convertible currencies during the period 1998 to 2010 from the FSO's 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, $77 million had already been transferred as of December 31, 2004.

Enhanced HIPC Initiative

As part of the Enhanced HIPC Initiative, the Bank delivers debt service relief by forgiving a portion of an eligible country's debt service obligations as they become due. Additional debt service relief, being delivered from 2001 to 2008, is funded by amounts received from the World Bank HIPC Trust Fund. Such amounts, including any investment income thereon, are kept separately from the resources of the FSO in the HIPC Account, and are used solely for the specific purpose of meeting debt service obligations of eligible countries. These resources are not included in the financial statements and do not affect the operations of the FSO.

Under the Enhanced HIPC Initiative, 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 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

FUND FOR SPECIAL OPERATIONS
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NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

in General Reserve. The interest and other charges component of debt relief, if any, is recognized as HIPC debt relief in the period the debt relief is delivered and adjustments to previously recognized amounts, if any, when determined.

During 2004, Guyana and Nicaragua reached completion point. Accordingly, HIPC debt relief was recognized in the amount of $64 million and $409 million, respectively, representing the estimated nominal value of the principal component of the total debt relief for Guyana and Nicaragua remaining upon reaching completion point.

During 2004, 2003 and 2002, the following amounts of HIPC debt relief were recognized as per the accounting policy described above (in millions):

Country	HIPC Status as of December 31, 2004	HIPC Debt Relief 2004	2003	2002
Bolivia	Completion	$ (5)	$ 1	$ 2
Honduras	Decision	—	6	20
Guyana	Completion	68	5	5
Nicaragua	Completion	423	25	11
Total		$486	$37	$38

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-1

SUMMARY STATEMENT OF INVESTMENTS – NOTE D

December 31, 2004 and 2003
Expressed in millions of United States dollars

	2004		2003	
Investments	Cost	Fair value	Cost	Fair value
Obligations of the United States Government and its corporations and agencies	$ 107	$ 107	$ 17	$ 16
Obligations of other governments and agencies	73	73	27	27
Bank obligations and time deposits	504	504	543	543
Corporate securities	56	56	3	4
Asset- and mortgage-backed securities	433	432	597	597
	$1,173	$1,172	$1,187	$1,187

The currencies of the above investments are as follows:

Currencies	2004	2003
British pounds sterling	$ 70	$ 69
Canadian dollars	35	21
Euro	100	79
Swedish kroner	2	—
Swiss francs	2	—
United States dollars	963	1,018
	$1,172	$1,187

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-2

SUMMARY STATEMENT OF LOANS OUTSTANDING – NOTE E

December 31, 2004 and 2003
Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding 2004	Currency in which outstanding balance is collectible: Non-borrowing country currencies	Borrowing country currencies	Undisbursed	Outstanding 2003
Argentina	$ 125	$ —	$ 125	$ 4	$ 137
Barbados	15	15	—	—	16
Bolivia	824	774	50	488	718
Brazil	342	—	342	11	367
Chile	3	1	2	—	4
Colombia	168	45	123	7	189
Costa Rica	96	88	8	—	106
Dominican Republic	403	384	19	—	415
Ecuador	566	506	60	—	585
El Salvador	504	483	21	—	520
Guatemala	374	323	51	1	386
Guyana	371	370	1	274	386
Haiti	509	497	12	324	482
Honduras	1,250	1,207	43	493	1,111
Jamaica	55	46	9	—	59
Mexico	23	—	23	—	27
Nicaragua	845	815	30	468	1,104
Panama	61	51	10	—	70
Paraguay	337	310	27	—	345
Peru	79	37	42	—	89
Suriname	1	—	1	—	1
Trinidad and Tobago	9	—	9	—	10
Uruguay	25	12	13	—	28
Regional	56	53	3	13	61
Total 2004	$7,041	$6,017	$1,024	$2,083	
Total 2003		$6,112	$1,104	$2,000	$7,216

The non-borrowing country currencies in which the outstanding loans balance is collectible are as follows:

Currencies	2004	2003
British pounds sterling	$ 103	$ 97
Canadian dollars	374	354
Danish kroner	38	35
Euro	983	878
Japanese yen	418	409
Norwegian kroner	28	25
Swedish kronor	53	49
Swiss francs	78	71
United States dollars	4,873	4,672
	6,948	6,590
Less: HIPC debt relief not delivered yet (1)	931	478
	$6,017	$6,112

(1) Represents the principal component of loans recognized as HIPC debt relief and as a reduction of Loans outstanding 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, 2004 and 2003
Expressed in millions of United States dollars[1]

	Contribution quotas authorized and subscribed				
	Subject to maintenance of value				
Members	Before adjustments	Adjustments[2]	Not subject to maintenance of value	Total 2004	Total 2003
Argentina	$ 402.8	$ 29.5	$ 80.1	$ 512.4	$ 500.2
Austria	11.0	—	9.9	20.9	20.1
Bahamas	8.8	—	1.8	10.6	10.5
Barbados	1.4	—	0.4	1.8	1.8
Belgium	27.1	—	20.4	47.5	45.9
Belize	—	—	7.6	7.6	7.5
Bolivia	32.5	9.7	6.5	48.7	48.4
Brazil	402.8	62.2	79.4	544.4	541.5
Canada	222.4	12.6	78.3	313.3	306.5
Chile	111.4	24.0	22.3	157.7	156.9
Colombia	111.4	20.1	22.3	153.7	152.9
Costa Rica	16.2	4.0	3.2	23.4	23.2
Croatia	3.1	—	3.0	6.1	5.8
Denmark	11.7	—	10.5	22.2	21.4
Dominican Republic	21.7	7.9	4.4	33.9	33.7
Ecuador	21.7	4.2	4.4	30.3	30.1
El Salvador	16.2	2.0	3.2	21.4	21.3
Finland	11.0	—	8.9	19.8	19.3
France	133.4	—	112.0	245.4	236.7
Germany	136.7	—	106.5	243.2	239.6
Guatemala	21.7	6.8	4.3	32.8	32.7
Guyana	7.0	—	1.3	8.3	8.3
Haiti	16.2	2.4	3.2	21.8	21.7
Honduras	16.2	7.1	3.2	26.5	26.4
Israel	10.8	—	8.3	19.1	18.8
Italy	133.4	—	99.0	232.4	224.7
Jamaica	21.7	2.7	4.4	28.8	28.6
Japan	148.8	—	492.9	641.7	622.3
Mexico	259.2	15.0	54.8	329.0	327.1
Netherlands	20.3	—	20.9	41.2	39.5
Nicaragua	16.2	4.8	3.2	24.2	24.0
Norway	11.7	—	9.1	20.8	20.2
Panama	16.2	5.9	3.3	25.4	25.2
Paraguay	16.2	8.5	3.2	27.9	27.8
Peru	54.5	14.3	11.0	79.8	79.4
Portugal	5.0	—	2.8	7.8	7.7
Slovenia	1.8	—	1.6	3.4	3.4
Spain	133.4	—	97.3	230.7	223.1
Suriname	5.3	—	1.0	6.3	6.2
Sweden	23.7	—	18.0	41.7	40.3
Switzerland	37.6	—	31.6	69.2	66.2
Trinidad and Tobago	16.2	1.5	3.2	20.9	20.8
United Kingdom	133.4	—	49.4	182.8	179.2
United States	4,100.0	243.7	495.3	4,839.0	4,836.3
Uruguay	43.5	3.7	8.7	55.9	55.6
Venezuela	250.1	12.1	53.1	315.3	313.8
Total before unallocated amount	7,223.2	504.6	2,069.2	9,797.0	9,702.6
Unallocated[3]	4.0	—	1.4	5.4	32.5
Total 2004	$ 7,227	$ 505	$ 2,071	$ 9,802	
Total 2003	$ 7,226	$ 505	$ 2,004		$ 9,735

(1) Data rounded; detail may not add to subtotals and total because of rounding.
(2) 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.
(3) In 2003, includes $27 million of remaining unallocated special contributions provided by the Eighth General Increase in Resources of the Bank (Note F). The balance represents the remaining contribution of the former Socialist Federal Republic of Yugoslavia pertaining to Serbia and Montenegro whose possible membership is still pending.

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, 2004 and 2003, and the related statements of changes in fund balance and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank—Intermediate Financing Facility Account as of December 31, 2004 and 2003, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Washington, D.C.
February 15, 2005

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31, 2004		December 31, 2003	
ASSETS				
Cash and investments				
Cash	$ 3		$ 5	
Investments	272	$275	254	$259
Receivable for investment securities sold		1		—
Accrued interest on investments		1		—
Total assets		$277		$259
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable		$ —		$ 1
Fund balance				
Accumulated translation adjustments	$ 44		$ 44	
Other changes in fund balance	233	277	214	258
Total liabilities and fund balance		$277		$259

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in millions of United States dollars

	Years ended December 31, 2004	2003	2002
Additions			
Allocations from Fund for Special Operations	$ 73	$ 75	$ 70
Income from investments	4	4	4
Total additions	77	79	74
Deductions			
Interest and principal paid on behalf of Ordinary Capital borrowers	58	73	79
Change in fund balance, before translation adjustments	19	6	(5)
Translation adjustments	—	6	11
Change in fund balance, after translation adjustments	19	12	6
Fund balance, beginning of year	258	246	240
Fund balance, end of year	$277	$258	$246

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

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2004	**2003**	**2002**
Cash flows from investing activities			
Net (increase) decrease in investments	**$(29)**	$ (2)	$ 6
Net cash (used in) provided by investing activities	**(29)**	(2)	6
Cash flows from operating activities			
Allocations from Fund for Special Operations	**73**	75	70
Income from investments	**14**	1	2
Interest and principal paid on behalf of Ordinary Capital borrowers	**(59)**	(72)	(82)
Net cash provided by (used in) operating activities	**28**	4	(10)
Effect of exchange rate fluctuations on cash	**(1)**	1	1
Net (decrease) increase in cash	**(2)**	3	(3)
Cash, beginning of year	**5**	2	5
Cash, end of year	**$ 3**	$ 5	$ 2

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

IINTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS

Note A – Origin
The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. Its purpose 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 Inter-American Development Bank (Agreement) provides that its operations be conducted through the Ordinary Capital and the Fund for Special Operations (FSO). 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 those applicable for decisions involving the Ordinary Capital, except that the voting authority for decisions to award IFF loan subsidies is determined according to each member country's proportional contribution to the FSO.

Note B – Summary of Significant Accounting Policies
The financial statements are prepared in conformity with United States generally accepted accounting principles (GAAP). The preparation of such 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 financial statements are expressed in United States dollars; however, the IFF operations are conducted in various currencies, including the United States dollar. Assets and liabilities denominated in currencies other than the United States dollar are translated at market rates of exchange prevailing at the Balance Sheet dates. Income and expenses in such currencies are translated at 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.[1]

[1]References to captions in the financial statements are identified by the name of the caption beginning with a capital letter every time they appear in the notes to the financial statements.

Investments
Investment securities are recorded using trade-date accounting and are held in a trading portfolio carried at fair value, with changes in fair value included in Income from investments.

Administrative expenses
Administrative expenses of the IFF are paid by the Bank 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 in estimating the fair value of the 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; otherwise they are based on dealer prices of comparable instruments or discounted cash flows.

Note C – Investments
As part of its overall portfolio management strategy, the Bank invests the IFF resources in government, agency, corporate and bank obligations, including time deposits, and asset- and mortgage-backed securities with credit ratings ranging from A+ to AAA. In 2003, such resources were invested in the same type of securities indirectly through an investment pool managed by the Bank.

The Bank limits IFF's activities of investing in securities to a list of authorized dealers and counterparties. Credit limits have been established for each counterparty.

Investment securities held in the trading portfolio are carried at fair value as shown in the Summary Statement of Investments in Appendix III-1. The average return on investments during 2004, including realized and unrealized gains and losses, was 1.54% (2003—1.32%; 2002—1.70%).

Note D – Contributions
The IFF is funded primarily through transfers from the FSO. The IFF is also authorized to receive additional contributions from any member country.

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

For initial funding purposes, the equivalent of $61 million in convertible currencies of the general reserve of the FSO was transferred to the IFF in 1983. Actual and projected allocations, in accordance with various agreements of the Board of Governors, are shown in the following table (in millions):

Year	Capital increases[(1)]	HIPC initiative [(2)]	Concessional resources agreement [(3)]	Total
Through 2001	$372	$ 44	$ 52	$ 468
2002	23	27	20	70
2003	30	25	20	75
2004	30	23	20	73
2005	30	12	20	62
2006	30	11	20	61
2007	30	11	20	61
2008	30	11	20	61
2009	30	11	20	61
2010 to 2014	60	6	270	336
2015 to 2019	—	—	325	325
Total	$665	$181	$807	$1,653

[(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. To fund these additional subsidy payments, the Bank is making additional annual transfers in convertible currencies from the FSO's 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. 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, 2004 and 2003 (in millions):

	2004	2003
Balance at January 1,	$44	$38
Translation adjustments	—	6
Balance at December 31,	$44	$44

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, 2004, the amounts disbursed and outstanding and undisbursed, classified by country, under loans on which the IFF would pay part of the interest (and principal in the case of Nicaragua) are as follows (in millions):

Country	Disbursed and outstanding	Undisbursed
Barbados	$ 58	$ —
Bolivia	197	—
Costa Rica	119	—
Dominican Republic	296	110
Ecuador	344	85
El Salvador	257	142
Guatemala	273	196
Guyana	12	—
Jamaica	268	172
Nicaragua	108	—
Panama	106	—
Paraguay	199	104
Suriname	42	44
Trinidad and Tobago	110	—
Uruguay	89	—
Regional	45	—
	$2,523	$853

The interest rate subsidy on certain Ordinary Capital loans is set twice a year by the Board of Executive Directors. The subsidy can be no more than 5% per annum, 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 Initiative, the IFF subsidizes 100% of certain debt service payments (both principal and interest) on Ordinary Capital loans to Nicaragua. It is expected that, over time, the Bank will distribute all of the IFF's resources 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

NOTES TO FINANCIAL STATEMENTS (continued)

Note G – Reconciliation of Change in Fund Balance, before Translation Adjustments to Net Cash Provided by (Used in) Operating Activities

A reconciliation of Change in fund balance, before translation adjustments to Net cash provided by (used in) operating activities, as shown on the Statement of Cash Flows, is as follows (in millions):

	Years ended December 31,		
	2004	2003	2002
Change in fund balance, before translation adjustments	$19	$ 6	$ (5)
Difference between amounts accrued and amounts paid or collected for:			
Income from investments	(1)	—	—
Net unrealized (gain) loss on investments	11	(3)	(2)
Interest and principal paid on behalf of Ordinary Capital borrowers	(1)	1	(3)
Net cash provided by (used in) operating activities	$28	$ 4	$(10)
Supplemental disclosure of noncash activities			
Increase resulting from exchange rate fluctuations on investments	$—	$ 5	$ 10

INTERMEDIATE FINANCING FACILITY ACCOUNT APPENDIX III-1
INTER-AMERICAN DEVELOPMENT BANK

SUMMARY STATEMENT OF INVESTMENTS – NOTE C

December 31, 2004 and 2003
Expressed in millions of United States dollars

Investments	2004 Fair value	2003 Fair value
Obligations of the United States Government and its corporations and agencies	$ 41	$ —
Obligations of other governments and agencies	13	—
Bank obligations and time deposits	99	25
Corporate securities	11	—
Asset- and mortgage-backed securities	108	—
Investment pool	—	229
	$272	$254

The currencies of the above investments are as follows:

Currencies	2004	2003
Euro	$ 6	$ 10
Japanese yen	—	9
Swiss francs	2	6
United States dollars	264	229
	$272	$254

Governors and Alternate Governors

Country	Governor	Alternate Governor
ARGENTINA	Roberto Lavagna	Martín P. Redrado
AUSTRIA	Karl-Heinz Grasser	Thomas Wieser
BAHAMAS	James H. Smith, CBE	Ruth Millar
BARBADOS	Owen S. Arthur, MP	Grantley Smith
BELGIUM	Didier Reynders	Franciscus Godts
BELIZE	Assad Shoman	Carla Barnett
BOLIVIA	Horst Grebe López	Luis Carlos Jemio M.
BRAZIL		José Carlos Rocha Miranda
CANADA	Pierre Pettigrew	Alister M. Smith
CHILE	Nicolás Eyzaguirre	María Eugenia Wagner Brizzi
COLOMBIA	Alberto Carrasquilla Barrera	Santiago Montenegro
COSTA RICA	Federico Carrillo Zürcher	Francisco de Paula Gutiérrez
CROATIA	Ivan Suker	Martina Dalic
DENMARK	Carsten Staur	Ole E. Moesby
DOMINICAN REPUBLIC	Héctor Valdez Albizu	Temístocles Montás
ECUADOR	Mauricio Yépez Najas	Javier Game
EL SALVADOR	Eduardo Zablah-Touché	Guillermo López Suárez
FINLAND	Pertti Majanen	Taisto Huimasalo
FRANCE	Hervé Gaymard	Xavier Musca
GERMANY	Uschi Eid	Rolf Wenzel
GUATEMALA	María Antonieta de Bonilla	Lizardo Sosa
GUYANA	Bharrat Jagdeo	Saisnarine Kowlessar
HAITI	Henri Bazin	Roland Pierre
HONDURAS	William Chong Wong	María Elena Mondragón de Villar
ISRAEL	David Klein	Dan Catarivas
ITALY	Domenico Siniscalco	Vincenzo Desario
JAMAICA	Omar Davies, MP	Shirley Tyndall
JAPAN	Sadakazu Tanigaki	Toshihiko Fukui
MEXICO	Francisco Gil Díaz	Alonso P. García Tamés
NETHERLANDS	Gerrit Zalm	Agnes van Ardenne van der Hoeven
NICARAGUA		Mario Alonso
NORWAY	Olav Kjorven	Nils Haugstveit
PANAMA	Ricaurte Vásquez	Héctor Alexander
PARAGUAY	Dionisio Borda	José Ernesto Büttner
PERU	Pedro Pablo Kuczynski	Luis Carranza Ugarte
PORTUGAL	António José de Castro Bagão Felix	Luis Miguel Morais Leitão
SLOVENIA	Andrej Bajuk	Andrej Kavcic
SPAIN	Pedro Solbes Mira	David Vegara Figueras
SURINAME	Humphrey Stanley Hildenberg	Stanley B. Ramsaran
SWEDEN	Ruth Jacoby	Stefan Emblad
SWITZERLAND	Oscar Knapp	Peter Bischof
TRINIDAD AND TOBAGO	Camille R. Robinson-Regis	Victoria Mendez-Charles
UNITED KINGDOM	Hilary Benn	Gareth Thomas
UNITED STATES	John W. Snow	Alan P. Larson
URUGUAY	Isaac Alfie	Ariel Davrieux
VENEZUELA	Nelson J. Merentes D.	Jorge Giordani

As of December 31, 2004

Executive Directors and Alternate Executive Directors

			Number of votes	Percentage of voting power
Charles Bassett, **CANADA** Jill Johnson (Alternate), **CANADA**	**Elected by:** Canada		335,022	4.001
Adina Bastidas, **VENEZUELA** Vacant (Alternate), **PANAMA**	**Elected by:** Panama Venezuela		518,658	6.194
Havelock Brewster, **GUYANA** Jerry Christopher Butler (Alternate), **BAHAMAS**	**Elected by:** Bahamas Barbados Guyana	Jamaica Trinidad and Tobago	126,574	1.511
José Carlos Castañeda, **GUATEMALA** Sandra Regina Midence (Alternate), **HONDURAS**	**Elected by:** Belize Costa Rica El Salvador	Guatemala Honduras Nicaragua	202,692	2.420
Jorge Crespo Velasco, **BOLIVIA** Juan E. Notaro Fraga (Alternate), **URUGUAY**	**Elected by:** Bolivia Paraguay Uruguay		205,291	2.452
Eugenio Díaz-Bonilla, **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
Agustín García-López, **MEXICO** Roberto B. Saladín (Alternate), **DOMINICAN REPUBLIC**	**Elected by:** Dominican Republic Mexico		627,122	7.489
Giorgio Leccesi, **ITALY** Ina-Marlene Ruthenberg (Alternate), **GERMANY**	**Elected by:** Belgium Germany Israel	Italy Netherlands Switzerland	426,204	5.089
Héctor E. Morales, **UNITED STATES** Vacant (Alternate), **UNITED STATES**	**Appointed by:** United States		2,512,664	30.008
Michel Planque, **FRANCE** Marta Blanco (Alternate), **SPAIN**	**Elected by:** Austria Denmark Finland France	Norway Spain Sweden	400,427	4.783
Germán Quintana, **CHILE** Byron Solís (Alternate), **ECUADOR**	**Elected by:** Chile Ecuador		295,653	3.530
Rogério Studart, **BRAZIL** Arlindo Villaschi (Alternate), **BRAZIL**	**Elected by:** Brazil Suriname		907,766	10.841
Yoshihisa Ueda, **JAPAN** Stewart Mills (Alternate), **UNITED KINGDOM**	**Elected by:** Croatia Japan Portugal	Slovenia United Kingdom	510,794	6.101
TOTAL:			**8,373,290**	**100.00***

Office of Evaluation and Oversight
Stephen A. Quick, Director
Sixto Felipe Aquino, Deputy Director

As of December 31, 2004
* The total may not add up due to rounding.

Channels of Communication and Depositories

Member Country	Channel 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	Ministère des Finances	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 Institutions, 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 Relaciones Exteriores	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 del 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, 2004

Principal Officers

President	Enrique V. Iglesias
Executive Vice President	Dennis E. Flannery
Vice President for Planning and Administration	João Sayad
Chief, Office of the Presidency	Euric A. Bobb
Chief Advisor, Office of the Executive Vice President	Joseph Engelhard
Office of the Secretary of the Bank	
Secretary	Carlos Ferdinand
Deputy Secretary	Armando Chuecos P.
Auditor General	Elizabeth Joy Folsom
Office of Institutional Integrity	
Chief	Stephen S. Zimmermann
External Relations Advisor	Mirna Liévano de Marques
Office of the Multilateral Investment Fund	
Manager	Donald F. Terry
Deputy Manager	Noriaki Kishimoto
Regional Operations Department 1	
Manager	Ricardo L. Santiago
Deputy Manager	Luisa C. Rains
Regional Operations Department 2	
Manager	Miguel E. Martínez
Deputy Manager	Jairo Sánchez
Deputy Manager, Financial Support Services	Keisuke Nakamura
Regional Operations Department 3	
Manager	Ciro De Falco
Deputy Manager	Máximo Jeria-Figueroa
Regional Operations Support Office	
Chief	Camille E. Gaskin-Reyes
Finance Department	
Manager	John R. Hauge
Senior Deputy Manager-Treasurer	Eloy B. García
Deputy Manager	Ira J. Kaylin
Deputy Manager	Hiroshi Naka
Legal Department	
General Counsel	J. James Spinner
Deputy General Counsel	José Roberto Nolasco
Deputy General Counsel	Ana-Mita Betancourt
Strategic Planning and Budget Department	
Manager	Manuel Rapoport
Integration and Regional Programs Department	
Manager	Nohra Rey de Marulanda
Deputy Manager	Robert Devlin
Private Sector Department	
Manager	Hiroshi Toyoda
Deputy Manager	Bernardo Frydman
Sustainable Development Department	
Manager	Carlos M. Jarque
Deputy Manager	Marco Ferroni
Deputy Manager	Antonio Vives
Research Department	
Chief Economist	Guillermo Calvo
Information Technology and General Services Department	
Manager	(Vacant)
Deputy Manager and Chief Information Officer	Erico de Oliveira E. Silva
Deputy Manager	Frank G. Vukmanic
Human Resources Department	
Manager	Manuel Labrado
Deputy Manager	(Vacant)

As of December 31, 2004

Books Published in 2004

- ***Agricultural Trade Liberalization—Policies and Implications for Latin America,*** edited by Marcos S. Jank, ISBN: 193100367X, 398 pp.
- ***Citizens in Charge—Managing Local Budgets in East Asia and Latin America,*** edited by Isabel Licha, ISBN: 1931003807, 365 pp.
- ***Reforming Latin American Housing Markets—A Guide for Policy Analysis,*** ISBN: 1931003629, 112 pp.
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