2005 Annual Report

INTER-AMERICAN DEVELOPMENT BANK

FINANCIAL SUMMARY 2001-2005

ORDINARY CAPITAL

(In millions of U.S. dollars)

	2005	2004	2003	2002	2001
Operational Highlights					
Loans and Guarantees Approved	$ 6,738	$ 5,468	$ 6,232	$ 4,143	$ 7,411
Loan Disbursements	4,899	3,768	8,416	5,522	6,037
Loan Repayments	5,224	5,199	7,279	4,106	1,926
Balance Sheet Data					
Cash and Investments–Net, After Swaps	$13,717	$13,046	$14,855	$14,780	$11,932
Loans Outstanding	48,135	49,842	50,655	47,958	44,951
Undisbursed Portion of Approved Loans	17,000	16,093	15,619	18,570	20,506
Total Assets	65,382	67,346	69,669	65,031	58,581
Borrowings Outstanding, After Swaps	43,988	45,144	49,275	48,179	43,588
Equity	18,727	18,511	17,112	14,269	13,254
Income Statement Data					
Loan Income	$ 2,413	$ 2,498	$ 2,711	$ 2,639	$ 3,191
Investment Income	403	288	298	319	541
Borrowing Expenses, After Swaps	1,733	1,572	1,636	1,842	2,321
Operating Income	712	862	2,434	727	1,009
Ratio					
Total Equity to Loans Ratio (TELR)	37.3%	36.1%	33.0%	30.9%	30.5%

FUND FOR SPECIAL OPERATIONS

(In millions of U.S. dollars)

	2005	2004	2003	2002	2001
Operational Highlights					
Loans Approved	$ 410	$ 552	$ 578	$ 406	$ 443
Loan Disbursements	424	463	486	313	422
Loan Repayments	301	294	296	256	268
Balance Sheet Data					
Cash and Investments, Net	$ 1,564	$ 1,559	$ 1,591	$ 1,616	$ 1,559
Loans Outstanding	6,873	7,041	7,216	6,763	6,637
Undisbursed Portion of Approved Loans	2,051	2,083	2,000	1,920	1,844
Total Assets	9,386	9,662	10,044	9,845	9,624
Fund Balance	9,041	9,194	9,622	9,520	9,490
Income Statement Data					
Loan Income	$ 149	$ 145	$ 153	$ 115	$ 135
Technical Cooperation Expense	28	31	23	31	27
HIPC Debt Relief	76	486	37	38	541
Excess of (Expenses Over Income) Income Over Expenses	(3)	(413)	53	12	(440)

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 2005. 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 2005.

In addition, the Report contains a description of the Bank's operations—loans, guarantees, financings for small projects and technical cooperation—, Management's Discussion and Analysis: Ordinary Capital; the financial statements of the Bank; and its general appendices.

February 3, 2006

INTER-AMERICAN DEVELOPMENT BANK

Annual Report 2005

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NOTE: The complete Annual Report, including Management's Discussion and Analysis and the audited Financial Statements, is published in the CD-ROM attached to the inside back cover of this report. The Annual Report is also available on the Bank's website at www.iadb.org.

COVER PHOTO: BRAZIL • A little girl beams as she plays in the new Itamaracá community center playground, located in the central Brazilian city of Goiânia. The center received funding under a program to improve low-income neighborhoods nationwide that is serving nearly 70,000 families.

THIS PAGE: BRAZIL • The Fernão Dias Highway between São Paulo and Belo Horizonte was upgraded under a private-sector concession.

BOXES

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GRAPHS

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

Managing Editor:	John Ferriter
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MESSAGE FROM THE PRESIDENT

IDB PRESIDENT
LUIS ALBERTO MORENO

THANKS TO THE CONTINUED APPLICATION OF SOUND MACROECONOMIC policies and a generally favorable external environment, 2005 marked a second consecutive year of growth for the countries of Latin America and the Caribbean. The 4.3 percent increase in GDP was accompanied by a regionwide decrease in inflation, cuts in fiscal deficits, a drop in unemployment and progress toward the Millennium Development Goal of halving poverty by the year 2015.

At the Inter-American Development Bank Group, there was steady progress as well. This was due in large measure to the leadership of Enrique V. Iglesias, whose significant achievements over many years have left this house in order and poised to take on greater challenges in the years ahead. The IDB's lending volume grew to just over $7 billion in 2005, a 17 percent increase over the previous year. Disbursements increased by nearly 20 percent, to $5.3 billion. Technical assistance support, a measure of the Bank's commitment to ensuring that the future lending program is effective in delivering results and sustainable, also grew, to over $89 million.

Under the new lending framework approved by the Board of Governors in Okinawa, Japan, during the Bank's 46th Annual Meeting, the Bank has a blueprint and a set of tools for maintaining its status as the leading source of finance for the region for the near and medium term. Yet we also face challenges if we are to remain relevant for the region we serve. The heightened commitment to a country focus in our operational program, reflected in the new framework, will require us to make changes in our assumptions about our work and in the organizational setting in which it is carried out.

The approval by the Board of Executive Directors of a framework for lending in local currency, along with other new instruments, will make us a more

flexible and creative institution, but we must align ourselves with shareholder demand and market realities if we are to take full advantage of their promise.

As I begin my first full year of service to the Bank and the Inter-American Investment Corporation, I am gratified to be associated with a conscientious and professional staff. Along with the members of the new management team, I have already profited from steady counsel and warm good wishes. We also begin the year with an agreement in place to replenish the resources of the Multilateral Investment Fund, an extraordinary source of innovation and best practices in such vital areas as marshaling remittance flows, supply chain creation and microcredit.

PRESIDENT LUIS ALBERTO MORENO WITH FORMER PRESIDENT ENRIQUE V. IGLESIAS (LEFT)

Our challenges for the immediate future will be articulated in part by a series of new, democratically elected leaders in the region—12 countries will choose new heads of government in 2006. In addition to the agenda they bring to us, we must demonstrate an increased flexibility and response capacity in terms of our operations with the private sector. Both countries and markets will require us to undertake new approaches to the financing of infrastructure—and the locking in of hemispheric, regional and subregional integration—without which our region cannot make the strides toward greater competitiveness that the global economy demands.

I am optimistic that the IDB Group will continue to make a difference, more than ever, in the lives of the poor and underserved in our region. We can do so with the help of innovative operations in the financing of education and small and medium-sized enterprises, and by redoubling our commitment to financial democracy, providing companies and national and subnational governments with support for fair and easier access to credit. A better life can be brought within the reach of millions of citizens in Latin America and the Caribbean—better housing, better health care and zero tolerance for corruption or discrimination—and it must be the mission of the IDB to help achieve it.

Luis Alberto Moreno
President
Inter-American Development Bank

BOARD OF EXECUTIVE DIRECTORS

Board members: [from left, seated] **Luis Linde, Eugenio Díaz-Bonilla, Rogério Studart, Héctor E. Morales, Jaime Pinto Tabini, Luis Cosenza Jiménez, Jorge Crespo Velasco** and **Giorgio Leccesi.**
[Standing] **Roberto B. Saladín, Agustín García-López, Fernando Eleta Casanovas, Stewart Mills, Ina-Marlene Ruthenberg, Jan E. Boyer, Charles Bassett, Havelock Brewster, Germán Quintana, Tsuyoshi Takahashi, Adina Bastidas, Jill Johnson, Arlindo Villaschi, Martín Bès, Olivier Myard, Nelly Lacayo-Anderson, Hugo Rafael Cáceres Agüero, Luis Guillermo Echeverri, Jerry Christopher Butler** and **Gustavo A. Palacio.**

THE IDB SHAREHOLDERS—ITS 47 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.

LATIN AMERICA AND THE CARIBBEAN IN 2005

The international scenario in 2005 favored the Latin American economies, which benefited from expanding world trade, high commodity prices and unusually attractive lending terms. Estimated growth in Latin America and the Caribbean was 4.3 percent. While high in comparison to past trends, this figure is lower than the 5.9 percent growth in 2004. As economic recovery progressed, domestic demand joined the external sector as a source of growth, with domestic consumption and investment rising as more credit was extended to the local private sectors.

Vigorous export growth, due both to an increase in export volumes (8 percent) and to improvement in the terms of trade (4.8 percent), along with rising remittances, meant a positive current account balance for the region's countries in 2005 for the third year in a row. The average external balance was 1.3 percent of GDP, surpassing the 2004 level (0.9 percent). With the exception of a few small countries, net external financing requirements were modest in 2005, and most countries built up their international reserves.

Inflation stayed under control in 2005, despite renewed domestic demand and cost pressures from high oil prices. Average inflation in the region's countries fell from 6.7 percent to 5.5 percent.

In recent years, most countries have been wielding fiscal policy as a means of achieving stability. This is noteworthy because fiscal management in the region's countries has traditionally been procyclical, and so has heightened instability. The average fiscal deficit in Latin America has shrunk, from 3.3 percent in 2002 to 1.7 percent in 2005.

Monetary policies have also been stability-oriented, in general. The system of inflation targets adopted in recent years by some of the region's largest economies has successfully reduced inflation in an environment of greater monetary policy credibility, thus sacrificing less in terms of growth. Domestic interest rates have tapered off in a low external rate context. Unadjusted for inflation, deposit rates in the last three years have returned to levels similar to those in 1997, before the Russian crisis and the onset of the region's recessionary phase.

Even with the credibility gains of monetary policies, lower inflation rates are also due in part to exchange rate appreciation in a number of countries. The availability of external financing contributed to rising exchange rates, given healthy current account balances.

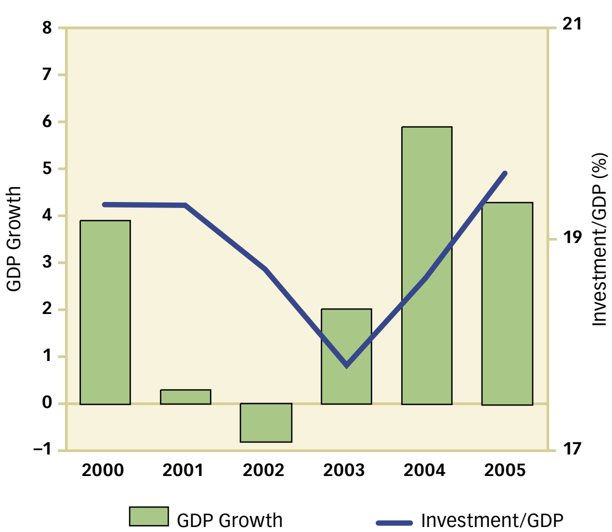
BOLIVIA (left) • A farmer who received credit from the Jesus Nazareno Cooperative examines his bean crop.
NICARAGUA (center) • A social safety net program for the poor included incentives for school attendance by students at the La Seiba primary school in Terrabona.
MEXICO (right) • Clients of *Financiera Compartamos*, a microfinance institution, benefit from group guarantees aimed at lowering risk premiums.

The bilateral real effective exchange rate appreciated by 6.2 percent on average from January to November 2005, compared to the same period a year earlier. The appreciation trends were very strong in Brazil, Colombia, Chile and Uruguay. Despite abundant oil revenues, the exchange rates of Ecuador and Venezuela did not change substantially in real terms over the past year.

Increasingly, financing can also be found now in domestic lending markets, which were slow to react in the early stages of recovery. In the past year (through September) lending grew by 19 percent on average in real terms in the region's seven largest countries.

ECONOMIC GROWTH AND INVESTMENT

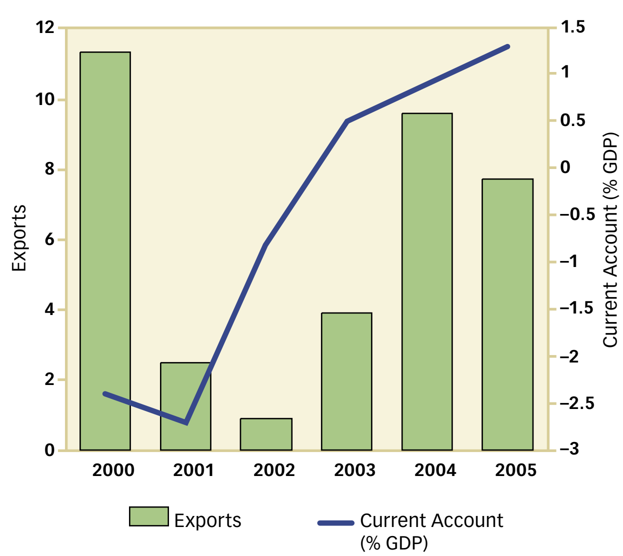
(Annual percentage change in real GDP)



Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean*, 2005.

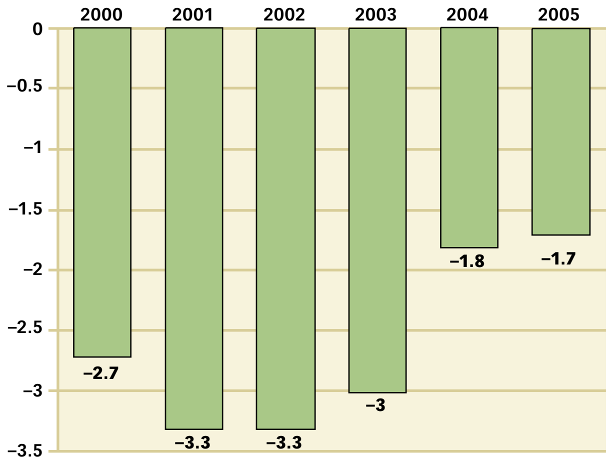
EXPORTS AND CURRENT ACCOUNT BALANCE

(Annual percentage change)



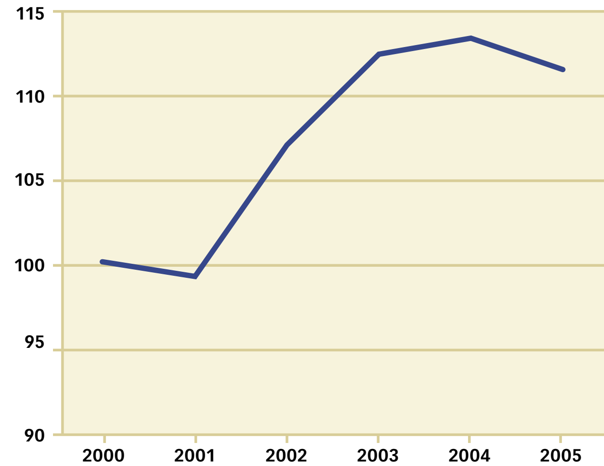
Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean*, 2005.

FISCAL BALANCE
(Percentage of GDP)



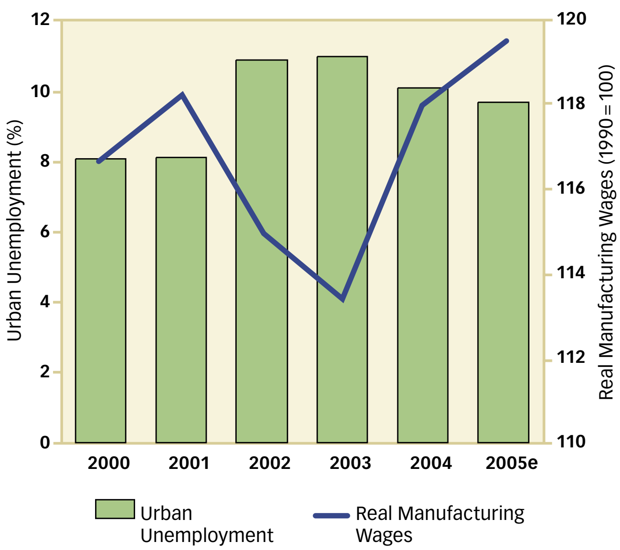
Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean*, 2005.

REAL EFFECTIVE EXCHANGE RATE[1]
(Index: 2000 = 100)



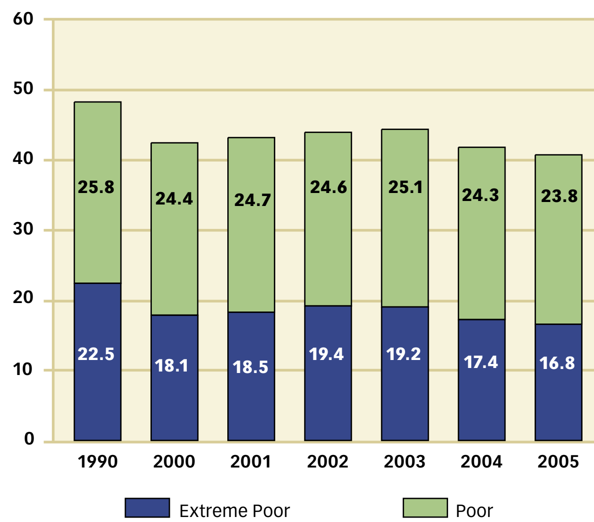
[1] Based on the currencies of Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean*, 2005.

OPEN URBAN UNEMPLOYMENT AND REAL MANUFACTURING WAGES[2]



e = estimate
[2] For Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela
Source: ILO, *Labour Overview*, 2005.

POVERTY
(Percentage of population)



Source: ECLAC, *Social Panorama of Latin America*, 2005.

Social Conditions

The urban open unemployment rate in Latin America, which rose steadily in the 1990s, has fallen in the last two years, from 11.1 percent in 2003, to 10.2 percent in 2004, to under 10 percent in 2005 according to preliminary estimates. A gender analysis indicates no great differential between men and women in this unemployment drop, which means that the gender gap persists. Youth unemployment, generally more volatile than overall employment, has followed the same trend.

Lower unemployment in the region has been accompanied by a slight rise in earnings that varies from country to country and by income bracket. Manufacturing wages rose in Uruguay and Argentina by 8.6 percent and 3.9 percent, respectively, but fell by some 2.2 percent in Venezu-

ela and 7.8 percent in Ecuador. While the annual growth rate of real minimum wages was 6.8 percent in the first half of 2005 for a sample of the region's countries, the corresponding rate for average manufacturing wages was only 1 percent in the same period.

This trend contributed to modest progress in poverty reduction. According to the United Nations Economic Commission for Latin America and the Caribbean, 3 million people rose out of poverty in the region in 2005, joining the 10 million who did so in 2003 and 2004. Thus, the percentage of the poor in the region declined from 44.3 percent in 2003 to 40.6 percent in 2005, while the extreme poverty rate declined from 19.2 percent to 16.8 percent in the same period.

These figures show that the region has advanced 51 percent of the way toward meeting the Millennium Development Goal of cutting the proportion of people living in extreme poverty to half the 1990 level by 2015.

DOMINICAN REPUBLIC • A primary school in Azua gets the finishing touches under a program to improve basic education for children in rural areas.

Outlook for 2006

The overall economic outlook for Latin America and the Caribbean does not differ substantially for 2006 from that one year ago: the market consensus is for growth to continue at roughly 4 percent. While Argentina and Venezuela may lag, Brazil and Mexico will grow at slightly higher rates. Current account balances are expected to weaken somewhat, as domestic demand recovers and the prices of oil and some commodity prices fall back to earlier levels. This means that fiscal trends, favorable until now, will shift in some countries, and any inflationary pressures will be harder to keep under control.

While macroeconomic conditions in the region are good, few countries are immune from external and domestic risk factors. A possible slowdown in international trade caused by an economic downturn in the United States and China is one such factor. Others are oil price instability and deteriorating international finance terms.

On the domestic front, a dozen countries in the region will see transitions of government during 2006. The clustering of election cycles in the region in a single year coincides as seldom before with a wide array of ideological and political options being put before the electorate. Past experience indicates that investors become skittish in the months leading up to elections, market swings are wider, and countries are more vulnerable to shifting international conditions.

The stability-oriented policies underlying the recent recovery have had few parallels in the past. The combination of countercyclical fiscal policies, flexible exchange rates and monetary regimes with inflation targets has so far yielded good economic results, on balance. Yet to shore up progress and brace the region's economies against changes in the international environment, the region must continue to pursue a policy agenda that meets a number of challenges.

First, Latin American and Caribbean countries remain heavily indebted, despite reductions in recent years. Average debt ratios have fallen by 19 percent of GDP in the last three years, from 72 percent of GDP at end-2002 to 53 percent of GDP estimated for end-2005. Exchange rate appreciations account for three percentage points of the debt ratio decline, while stronger fiscal positions are responsible for 9.7 points on average, according to the International Monetary Fund (IMF). While debts are now

ARGENTINA • Owners of a security system company received training under a MIF project for market access and integration through technical standardization.

less vulnerable to exchange rates, the level of indebtedness remains a very high risk factor, especially for the Caribbean and some Central American countries.

The high levels of indebtedness in the region mean that fiscal policies in Latin America and the Caribbean are still vulnerable to external and internal shocks, so countries should take advantage of favorable conditions, while they last, to lower their level of indebtedness and diversify their currency and maturity risk. For petroleum-exporting countries, high crude prices provide an unusual opportunity to strengthen public finances and set aside reserve funds for future contingencies.

Second, the success of inflation target regimes should not suggest that they will prove effective indefinitely. Targeting has been successful because central banks have enjoyed political and operational independence, which should be preserved. Attractive international lending terms and the stability-oriented fiscal management that has predominated recently have also contributed to positive outcomes. Any shift in these factors will test the ability of inflation targeting regimes to preserve price stability without sacrificing countries' fiscal and external sustainability.

Financial sectors in Latin America and the Caribbean are much sounder than in the early 1990s, when the region experienced a similar period of growth. Regulatory and oversight systems have improved, and valuable experience has been gained in risk prevention and management. Yet lending booms are very often periods of lax risk controls and thus are times when the seeds of the next banking crisis are sown. High levels of dollarization in the financial system, assets highly concentrated in government paper, and underregulation of derivatives and other hedging instruments are the principal financial vulnerabilities that require immediate attention.

After more than a decade of intensive reforms to support market functioning and redefine the government's role, the region is now scrutinizing the outcomes of these reforms and deciding what direction to take in various areas of structural reform. These issues must be worked through in order to consolidate the gains made so far and set new objectives, because the effectiveness of economic and social policies often depends less on how well they are technically designed than on the support they can garner in the political arena.

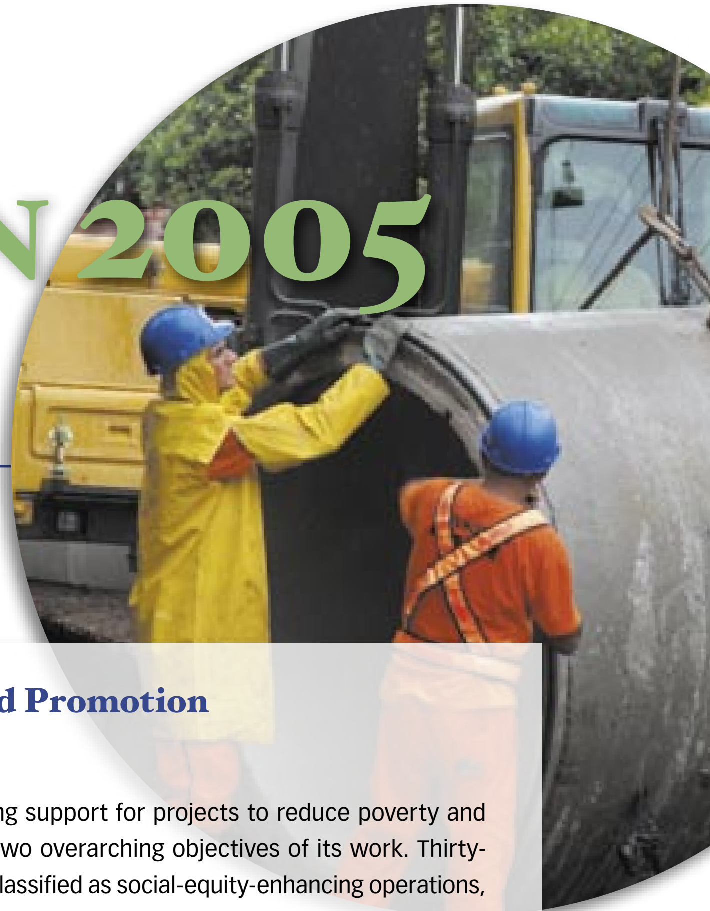
TEN YEARS OF IDB OPERATIONS, 1996–2005

(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
CAPITAL										
Subscriptions (End of Year)										
Ordinary Capital	80,895	87,557	94,219	100,881	100,959	100,959	100,951	100,951	100,951	100,953
Fund for Special Operations	9,679	9,572	9,643	9,646	9,559	9,480	9,584	9,735	9,802	9,671
Other Funds[1]	2,498	2,475	2,572	2,634	2,651	2,730	2,772	2,976	3,066	3,113
Total	**93,072**	**99,604**	**106,434**	**113,161**	**113,169**	**113,169**	**113,307**	**113,662**	**113,819**	**113,737**
BORROWINGS[2]										
Outstanding (End of Year)	26,629	27,331	32,511	38,784	41,394	42,186	47,471	50,821	48,886	46,433
Gross Annual Borrowings	4,250	5,569	5,761	8,865	8,139	7,097	9,340	9,109	4,710	4,937
OPERATIONS										
Loans and Guarantees Approved (Cumulative)[3]										
Ordinary Capital[4]	66,088	68,739	79,742	88,226	89,959	93,518	100,834	110,436	116,799	118,094
Fund for Special Operations	13,363	13,580	14,273	14,663	14,924	15,328	15,774	16,652	17,391	17,486
Other Funds	1,648	1,722	1,735	1,726	1,724	1,719	1,736	1,769	1,747	1,743
Total	**81,099**	**84,041**	**95,750**	**104,615**	**106,607**	**110,565**	**118,344**	**128,857**	**135,937**	**137,323**
Loans and Guarantees Approved (Annual)[5]										
Ordinary Capital[4]	6,376	5,680	9,364	9,061	4,969	7,411	4,143	6,232	5,468	6,738
Fund for Special Operations	374	283	686	417	297	443	406	578	552	410
Other Funds	16	85	13	8	—	—	—	—	—	—
Total	**6,766**	**6,048**	**10,063**	**9,486**	**5,266**	**7,854**	**4,549**	**6,810**	**6,020**	**7,148**
Loan Disbursements (Annual)[5]										
Ordinary Capital[4]	3,696	4,958	6,085	7,947	6,683	6,037	5,522	8,416	3,768	4,899
Fund for Special Operations	600	493	535	430	386	422	313	486	463	424
Other Funds	20	17	15	10	—	—	2	—	1	5
Total	**4,316**	**5,468**	**6,635**	**8,387**	**7,069**	**6,459**	**5,837**	**8,902**	**4,232**	**5,328**
Loan Repayments (Annual)[5]										
Ordinary Capital	2,287	2,244	1,946	1,988	2,312	1,926	4,106	7,279	5,199	5,224
Fund for Special Operations	289	285	283	289	289	268	256	296	294	301
Other Funds	36	40	29	29	15	14	13	12	9	5
Total	**2,612**	**2,569**	**2,258**	**2,306**	**2,616**	**2,208**	**4,375**	**7,587**	**5,502**	**5,530**
Loans Outstanding										
Ordinary Capital	26,028	27,301	32,635	38,552	41,872	44,951	47,958	50,655	49,842	48,135
Fund for Special Operations	6,547	6,734	6,827	6,955	7,025	6,637	6,763	7,216	7,041	6,873
Other Funds	241	209	189	164	146	133	118	104	98	94
Total	**32,816**	**34,244**	**39,651**	**45,671**	**49,043**	**51,721**	**54,839**	**57,975**	**56,981**	**55,102**
Nonreimbursable Technical Cooperation Approved (Annual)[6]										
Ordinary Capital	—	—	—	—	—	—	—	—	—	12
Fund for Special Operations	87	88	64	47	36	39	36	30	36	36
Other Funds	26	21	53	44	34	46	45	47	39	57
Total	**113**	**109**	**117**	**91**	**70**	**85**	**81**	**77**	**75**	**105**
Multilateral Investment Fund Operations Approved (Annual)[7]	76	62	127	141	100	90	99	69	116	113
ADMINISTRATION										
Administrative Expenses										
Total – All Funds	**334**	**348**	**341**	**335**	**342**	**355**	**376**	**386**	**404**	**473**

[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 exchange adjustments.
[4] Net of private sector participations.
[5] Based on original amounts in U.S. dollar equivalent.
[6] Includes Social Entrepreneurship Program financing, special programs and other grants.
[7] Includes technical cooperation, loans and equity investments.

THE BANK IN 2005
KEY AREAS



PARAGUAY (left) • Students at the San Francisco agricultural school in Cerrito practice the beekeeping skills they learned in a training program for young people in rural areas.
BRAZIL (center) • Workers position a storm drainage pipe for a municipal development project in the southern Brazilian city of Porto Alegre.
BAHAMAS (right) • Schoolgirls at Cleveland Primary School in Nassau were among the beneficiaries of a program to improve primary and secondary education.

Poverty Reduction and Promotion of Social Equity

In 2005, the IDB continued providing support for projects to reduce poverty and enhance social equity, one of the two overarching objectives of its work. Thirty-five loans totaling $3.7 billion were classified as social-equity-enhancing operations, accounting for 53 percent of loan volume. Noteworthy among them were conditional cash transfer programs in Mexico, Argentina and El Salvador, in the amounts of $1.2 billion, $700 million and $57 million, respectively (see **Box 1**). The loans often contain supply-side elements; the cash transfer program in El Salvador, for example, includes an infrastructure component to improve access to schools and hospitals.

In the education sector, the Bank approved a loan for $22 million to finance a vocational training program for young people in Haiti and a $125 million loan to Venezuela for the improvement of early childhood and basic (first- through ninth-grade) education. The program in Haiti links training areas to the demands of the labor market by requiring that formal and informal companies provide on-the-job training to at least 80 percent of beneficiaries. The program in Venezuela includes school construction, improvement and equipment, and overall quality improvement of preschool and basic education.

In health, the Bank approved a $107 million loan to Colombia to strengthen and increase coverage of the Expanded Program on Immunization for low-income households. In infrastructure and sanitation, the Bank approved a $50 million loan to Peru for a water and sanitation program and a $20 million loan to Bolivia for a rural electrification program. The purpose of both projects is to increase access to these services for low-income households and raise their standard of living.

During the year, the IDB continued implementing its Strategy for Poverty Reduction and Promotion of Social Equity by providing support for the implementation of national poverty reduction strategies in countries eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. It also developed poverty reduction strategies for other countries, such as Colombia, and completed poverty papers for Chile and Uruguay.

In addition, the Bank has contributed to improving the quality of national policies for poverty reduction and social equity enhancement by organizing meetings of the Regional Policy Dialogue on programs for poverty reduction. The IDB also

continued to support the activities of the joint Research Network on Inequality and Poverty, together with the Latin American and Caribbean Economic Association and the World Bank.

See www.iadb.org/ar/pov_en

Sustainable Economic Growth

The current Strategy for Sustainable Economic Growth (the Bank's second overarching objective) sets out a framework and general principles to guide four priority areas of action—modernization of the state, competitiveness, social development and regional integration—along with the cross-cutting issues of infrastructure, the environment, private sector development and development effectiveness. Each of the four priority areas has a strategy and an action plan, which is put into practice taking into account the specific circumstances and needs of each country. Consequently, all the IDB country strategies approved in 2005 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 cannot be based on a detailed action plan, but must rather be based on a set of guidelines whose effectiveness depends on knowledge of the causes 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 2005, studies on economic growth focused on three particularly relevant issues for the region: the politics of policies, fiscal sustainability and the impact of structural reforms.

The importance of the political process in policymaking in Latin America was the topic selected for the Bank's latest Economic and Social Progress Report, entitled *The Politics of Policies*. In most countries in the region, the interaction between politics and policies is very complex. The process by which policies are discussed, approved and implemented (the policymaking process) has an important impact on the quality of public policies, including the capacity of countries to provide a stable policy environment, adapt policies when needed, implement and enforce policies effectively, and ensure that the policies that are adopted are in the public interest. The report demonstrates that in the countries of the region, careful reform of the political system, civil service and judiciary are imperative and that the political economy of the reforms will be as important for progress as the previous round of reforms, if not more so.

See www.iadb.org/res/ipes/2006

BOX 1 • CONDITIONAL CASH TRANSFER PROGRAMS

To effectively reduce poverty and meet the Millennium Development Goals in Latin America and the Caribbean, one priority for the next decade should be to adapt, implement and scale up successful interventions to build the human capital and consequently the productivity of the poor.

A new generation of programs supported by the IDB provides cash transfers conditional on increased school enrollment and attendance and use of health services by beneficiary families. Conditional cash transfer programs have been particularly successful in reducing poverty levels and promoting human capital accumulation and access to basic social services.

Twelve countries in the region have implemented programs of this type, in most cases with Bank support: Argentina (*Plan Familias*), Brazil (*Bolsa Família*), Colombia (*Familias en Acción*), Costa Rica (*Superémonos*), the Dominican Republic (*Solidaridad*), Ecuador (*Bono de Desarrollo Humano*), El Salvador (*Red Solidaria*), Honduras (PRAF), Jamaica (PATH), Mexico (*Progresa/Oportunidades*), Nicaragua (*Red de Protección Social*) and Peru (*Juntos*). Bank support for cash transfer programs between 2000 and 2005 totaled $4.5 billion. In 2005 alone, the Bank approved loans in the amounts of $1.2 billion for Mexico's *Oportunidades* program, $700 million for Argentina's *Plan Familias* and $57 million for El Salvador's *Red Solidaria.* The biggest programs, *Plan Familias* in Argentina, *Bolsa Família* in Brazil and *Oportunidades* in Mexico, are helping a total of 16.7 million families living in extreme poverty.

The immediate objective of conditional cash transfer programs is to improve nutrition, school attendance and the use of preventive health care among the poor and extremely poor. The expected long-term impacts of the interventions include reductions in poverty and malnutrition, and improvements in health status and school completion rates. These improvements will lead to the accumulation of human capital, as measured by increases in educational attainment and reductions in mortality and morbidity. They will also eventually lead to increased labor market returns and productivity.

Evaluations of the impacts of cash transfer programs show that they can be effective tools for reducing poverty and inequality in the long term and that conditionality is an important component of the programs. For example, evaluations of Mexico's program—a pioneer among conditional cash transfer programs in the world—show that it has had a substantial positive long-term impact on the education, nutrition and health of its beneficiaries, especially children, and has alleviated extreme poverty.

The reviews have also found that successful programs combine cash incentives and mandatory use of education and health services and that there should be an adequate supply-side response to meet the increased demand for services. Program evaluations have generated important lessons for future design and improvements, and in many cases have ensured the continuation of the programs despite political changes.

As in previous years, the fiscal situation is a constant concern in many countries in the region. The main causes of fiscal fragility include external factors, such as financial instability, volatility in the terms of trade, and sudden stops in international financing, as well as domestic factors, such as the currency structure and terms of the public debt, exchange rate fluctuations, and the structure and responsiveness of tax systems. Research in this area in 2005 focused on incorporating these elements into various fiscal projection models to account for unpredictable factors.

Research in 2005 also examined whether countries should make their fiscal systems more progressive—for instance, by focusing expenditures on the universal provision of high-quality basic education and health care. The idea is to give the poor access to assets that will enable them to make and sell things that others will pay to buy. In this context, the poor would be empowered with education, land and credit, which would enable them to earn a living in a market economy. This approach is consistent with research that shows that redistribution of existing resources has a bigger impact when it is channeled

toward more productive economic activity.
See www.iadb.org/ar/ecgrowth_en

According to the Bank's Institutional Strategy, under the objectives of poverty reduction and promotion of social equity, and sustainable economic growth, the Bank pursues four basic areas of activity or "pillars": modernization of the state, social development, competitiveness and integration. At the same time, it addresses the cross-cutting objectives of environmental sustainability and development effectiveness.

Modernization of the State

In 2005, 22 projects for modernization of the state totaling over $1 billion were approved. They encompass a broad range of categories, including fiscal reform, government reform and decentralization, financial sector reform, public sector reform, the administration of justice, modernization of the legislature and other state reform projects. These projects, which involve most of the countries in Latin America and the Caribbean, were financed using policy-based loans, investment loans, programmatic policy-based loans (see **Box 2** on the Bank's new lending framework), sector facility loans, and reimbursable technical cooperation.

The IDB also approved 103 national and regional nonreimbursable technical cooperation projects totaling $23 million for modernization of the state. These projects are designed to introduce innovative concepts and operations into the project pipeline, based on the four main areas of the Modernization of the State Strategy: democratic governance, public management, rule of law, and the interrelations of the state, market and society. They address such issues as citizen security, civil society participation, electronic government, tax administration and fiscal policy, through a variety of activities—project-financed workshops, seminars, training sessions and publications that are designed to build consensus among all stakeholders.

Noteworthy among these innovative projects was a program to strengthen parliamentary functions in Chile. The project will improve the operation of the Chilean parliament not just as a political institution, but also as an eminently technical one. The project is expected to bring the legislature's internal organization and capabilities into line with the legislature's vision, build the information technology architecture needed for the legislature to provide services, redefine support and advisory services for the legislature, and solidify the relationship between parliament and the Chilean people.

In 2005, the IDB disseminated its Modernization of the State Strategy through activities that included a training workshop on strategy implementation, a workshop on political reform led by former Ecuadorian President Osvaldo Hurtado, and an analytical framework for assessing national democratic institutions in IDB member countries. IDB projects also incorporated components that are to be

ECUADOR • Households and businesses benefit from a tax system modernization program that included improvements in taxpayer services and use of information technology.

BOX 2 • NEW LENDING FRAMEWORK AND FLEXIBLE LENDING INSTRUMENTS

Given the region's needs for better tangible development results in the context of tight fiscal constraints, the Bank responded by designing its lending framework for 2005–2008 based on a management-by-results business model that involves a broader programmatic approach. Under this framework, Bank resources may be used to finance part of a larger government effort to enhance performance, improve governance and build institutional capacity, gradually phasing in reliance on national systems for planning, resource management and performance evaluation.

Central to the lending framework are the Bank's three categories of loans—investment, policy-based and emergency—and elimination of the restrictions imposed on disbursement periods and establishment of more flexible lending volumes. As part of the new model, the Bank modernized its approach to investment programs by instituting *performance-driven loans (PDLs)* and the *sector-wide approach (SWAp)*, and lifting restrictions on expenditure eligibility and the cap on the share of total project costs for which Bank resources may be used. These changes allow the Bank to rely increasingly on country systems and enhance incentives for countries to establish robust monitoring systems and focus on outputs and outcomes.

A performance-driven loan is an investment loan that is disbursed in tranches once the program's outcomes are achieved and the Bank verifies the expenditures incurred by the borrower to obtain the results. To date the Bank has approved performance-driven loans in Colombia, Honduras and Nicaragua, all in the health sector.

A sector-wide approach may be used with any of the Bank's investment lending instruments, when development partners collaborate to support a comprehensive government-led program for a sector or subsector in a coordinated manner, with joint review of progress based on sector indicators and annual plans of operation. Donor and government funds may be pooled into a common account and national fiduciary systems may be used in eligible countries. To date two operations that apply this approach have been approved, in Brazil and El Salvador.

Similar to these reforms in investment lending, in April the Board approved the use of a *programmatic approach* for policy-based loans, allowing phased support for a multiyear program of policy reforms and institution building under a clearly defined medium-term framework. The framework serves as an umbrella for a series of single-tranche operations, each building on the preceding loan to contribute to the development objectives, with clearly defined performance triggers for moving from one operation in the series to the next. To date, three such operations have been approved, in Bolivia, Paraguay and Peru.

See www.iadb.org/ar/nlf_en

executed by civil society organizations or that contribute directly to their capacity building, which has become a key area of activity.

Now that the strategies for the Bank's priority areas of activity and the Integrated Strategy Implementation Plan have been approved, they are being incorporated into policy dialogue papers and country strategies. In 2005, the Bank prepared governance studies for Colombia, Costa Rica, Ecuador, Peru and Uruguay, addressing both national and subnational governance issues, as well as operational guidelines for public management, in order to support project design.

The Bank has increased its focus on development effectiveness, adopting a Medium-Term Action Plan to this end. It has reoriented and enhanced its activities for modernization of the state by strengthening the public sector capacity of borrowing member countries through the introduction of techniques for management for development results in agencies responsible for the implementation of IDB-financed projects. The Governance Web

Interactive Tool will provide a user-friendly interface for accessing most of the publicly available indicators related to democratic governance.
See www.iadb.org/ar/mod_en

Competitiveness

In 2005 the Bank approved 48 loans totaling $2.7 billion for projects to enhance competitiveness. The operations covered such areas as air transportation in Ecuador, roads in El Salvador, productive investment in Costa Rica, information and communications in Trinidad and Tobago, and tourism in Honduras.

In recent years competitiveness has become a priority in the region, especially as development strategies have focused increasingly on regional integration. Recent experience shows that liberalizing trade and entering into trade agreements are not enough to achieve satisfactory performance in exports and generate the jobs so badly needed in the region's countries. Measures must also be taken to improve competitiveness through activities to attract foreign direct investment, support small business, promote innovation and develop exports. Several countries in the region are therefore implementing projects that focus on generating higher-paying jobs and boosting growth rates, thereby driving economic development.

The Bank has continued its *Business Climate Initiative*, under which the Bank helps 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 provide a framework for support to promote private sector competitiveness through Bank programs, loans and technical cooperation.

The Bank has been investigating how it could support competitiveness more effectively in the region. An important area being carefully explored is the array of microeconomic interventions undertaken by various countries. Additional lines of research on improving competitiveness in the region have focused on the impact of structural reforms, the role of foreign aid, inequality and informality. Research shows that privatization, although perceived as negative in responses to some opinion surveys, has actually enhanced corporate competitiveness. Furthermore,

PERU • The first locomotive running on natural gas leaves the Chosica train station in northern Peru.

the overall impact of structural reforms has been positive, according to studies, although the lack of a redistributive effect of certain reforms has led to disenchantment among some segments of the population.

Increased competitiveness must go hand in hand with improved welfare, particularly in terms of reducing inequality and poverty. The Bank's research shows that countries should strengthen their institutions as the key intermediaries linking reform and welfare. Whereas the size of the informal sector in a particular country is linked to income inequality in that country, the quality of institutions serves as a buffer and can diminish the transitional negative impact of reforms on the informal sector. Research shows that improved institutions will help decrease inequality.

Productivity and competitiveness depend on the degree to which each country creates enabling conditions by making innovative use of information and com-

TRINIDAD AND TOBAGO • Astrid Edwards, a graduate of the Hospitality and Tourism Institute, fields questions from a colleague at the Hilton Hotel in Port of Spain.

munication technology, building human capital through lifelong learning and strengthening trust between citizens and their public sector representatives. The countries of the region are trying to mobilize resources to expand the knowledge economy as a bridge between sustainable economic growth and poverty reduction with social equity. The Bank is working in partnership with the region's countries to help them leverage their knowledge economies so that they can achieve the levels of regional productivity and competitiveness needed to increase economic growth.

See www.iadb.org/ar/comp_en

Social Development

The Bank's Social Development Strategy sets out four lines of activity to help countries in the region accelerate social progress and achieve the Millennium Development Goals: implement reforms in health, education and housing; promote lifelong human development; promote social inclusion and prevent social ills; and deliver integrated social services geographically targeted to reduce poverty (see **Box 3**). In 2005 the Bank approved 32 loans in these areas totaling $3.4 billion, which represents 48 percent of Bank lending. Most of the loans were for social investment programs, followed by water and sanitation, education, health, environmental protection and urban development.

During the year, the Bank's loan portfolio in *education* reflected emerging trends across the region. Among the year's approvals were an $18 million loan to The Bahamas, with across-the-board investments to increase levels of human capital and competitiveness, and an $85 million loan to support the Basic Education for All project in El Salvador.

Other initiatives sought to raise the profile of education as a regional issue, including ongoing support for assessment and testing, and the promotion and implementation of regional public goods. For example, a regional project to support Internet portals for education ministries was approved, and modules produced as part of the Inter-American Teacher Training Program were piloted in schools across the region. A draft of the new Consolidated Strategy for Education was submitted for public consultation in October.

The IDB approved *health* operations in several countries. The projects included maternal and child health in Honduras, productivity and management in Chilean private hospitals, and institutionalization of national health accounts in Colombia. In addition, 15 grants totaling $5.3 million were approved for projects such as reproductive health accounts in the region and disease prevention in Guatemala. The Bank's Health Strategy was drafted in 2005, in a process that involved sector diagnostics and consultations, among other activities. The strategy will be submitted to the Board of Executive Directors in 2006.

The Bank advanced on a wide range of *social inclusion* initiatives aimed at improving economic and social conditions for the most excluded populations in the region. Afro-descendants, indigenous peoples, persons with disabilities, persons with HIV/AIDS and poor women

are the region's main excluded groups, and those with the region's highest levels of poverty and unemployment. The IDB's activities are detailed in the 2005 progress report on the Action Plan to Combat Social Exclusion based on Race and Ethnicity. The Bank's first multidonor trust fund, the Social Inclusion Trust Fund, entered its third year of operations, providing over $500,000 in grants and introducing a special line of activity to better incorporate social inclusion into IDB country strategies and poverty assessments.

Noteworthy among the social inclusion initiatives were two projects in Brazil, one for rights-based development and another for affirmative action. The IDB has led a series of efforts on rights in development as part of a project in collaboration with the United Nations Economic Commission for Latin America and the Caribbean, the World Bank, and the United Kingdom's Department for International Development, which provided financial support. A rights perspective incorporates the three basic principles of inclusion, participation and accountability, and represents a deepening of the Bank's work on social inclusion and the rights of citizenship.

During 2005, the Bank approved an $11.1 million loan to Honduras to facilitate integrated, culturally relevant and participatory community development and capacity building for indigenous and Afro-descendant populations. Also approved in 2005 were a number of grants for indigenous business development projects, such as the Cuenca Ingapirca Hotel in Ecuador, a joint venture between New York-based indigenous migrants and a large hotel chain using remittances, and a pilot project in the Potosí region of the Bolivian Andes to support the strengthening of a traditional form of organization called *ayllu*, focusing on strengthening productive management and ecosystem conservation.

Following an extensive consultation process, the Operational Policy on Indigenous Peoples and the Strategy on Indigenous Development were submitted to the Policy and Evaluation Committee of the Board of Executive Directors.

To advance *gender equality in development*, during 2005 the Bank continued to earmark considerable resources for implementation of the Gender Action Plan. Outputs included components of 21 loans, six grants and 11 country strategies for gender mainstreaming—for Chile, Colombia, Costa Rica, Dominican Republic, Guyana, Honduras, Jamaica, Nicaragua, Panama, Peru and Suriname. A new multidonor Gender Mainstreaming Trust Fund, established with an initial contribution from Norway, will channel technical support for the incorporation of gender issues into Bank projects and programs.

See www.iadb.org/ar/socdev_en

VENEZUELA • A woman receives a prenatal checkup under a program to strengthen and modernize the health sector that emphasizes care for low-income groups.

BOX 3 • THE IDB'S CONTRIBUTION TO ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS IN LATIN AMERICA AND THE CARIBBEAN

The IDB plays an important role in assisting borrowing member countries in their efforts to monitor, adapt and implement the agenda for the Millennium Development Goals (MDGs). The Bank's mission of accelerating economic and social development and reducing poverty is clearly consistent with the MDGs, and its commitment to development effectiveness and management for development results is relevant to MDG monitoring and achievement.

Since the MDGs were first agreed upon, the IDB has supported countries' efforts by improving institutional capacity, developing sector strategies and policies, building political consensus, promoting country dialogue, providing financial support, monitoring progress and identifying lessons learned. The Bank has been improving its menu of financial instruments, enhancing their flexibility and effectiveness, and has diversified its lending in MDG priority sectors into innovative areas in order to scale up successful interventions. The Bank has also provided support for such successful programs as conditional cash transfers and social investment funds, and lending for projects in urban development, water and sewerage, microfinance, and health and education.

Special emphasis has been placed on helping to build capacity to monitor and evaluate progress in reaching the MDGs, both internally and in borrowing countries. Bank initiatives in this area include new institutional arrangements to better monitor and evaluate its own operations, and programs to improve information systems in regard to socioeconomic conditions in the region, surveys of living conditions (MECOVI program), demographic surveys and programs to strengthen national statistics institutes. The Bank has also contributed to such interagency initiatives as preparation of the *Global Monitoring Report* published by the World Bank and International Monetary Fund.

During the year, the Bank continued to support consensus building around the MDGs at the highest political levels. As a follow-up to the 2003 Brasília International Conference on the MDGs in Latin America and the Caribbean, the Bank launched a broad effort to generate consensus at the subnational level, involving local governments in planning and projects to help meet them. The Bank has also been active in building consensus around a regional social cohesion agenda. For example, it cosponsored a conference on social cohesion in the Andean countries in Lima, Peru, in May 2005, jointly with the Andean Community of Nations and the European Commission.

INDES

The Bank's Inter-American Institute for Social Development (INDES) celebrated its 10th year of academic activities in 2005. By continuing its classroom courses and considerably expanding its online offerings, INDES helped strengthen the management skills of government officials and key social policymakers in Latin America and the Caribbean.

During the year, 19 regional events were held to train more than 600 social sector managers. These included courses in social management for university professors and for managers, as well as joint courses with other units of the Bank. Among the latter were a course on development effectiveness, offered with the Program to Implement the External Pillar of the Medium-Term Action Plan for Development Effectiveness (PRODEV), two courses on poverty reduction policy, and two courses for gender policymakers and managers.

INDES expanded its online course offerings to nine online programs that trained 60 online instructors and more than 450 social program managers, many of whom were from areas outside capital cities. The courses offered were on results-oriented management and social program implementation and leadership, including a course for school principals.

The sixth MDG calls for halting and beginning to reverse the spread of HIV/AIDS. In 2005 the Bank approved a technical cooperation operation for the Caribbean and Andean regions and support for a regional project for Central America financed by the Global Fund for AIDS.

During 2005, the Bank approved 75 technical cooperation operations directly addressing gender issues (goal number 3), mainstreaming gender in program components and/or including women as an important part of their target population. Moreover, significant progress has been achieved in mainstreaming gender issues in eight IDB country strategies. In 2005 the Government of Norway provided the initial contribution to a multidonor Gender Mainstreaming Trust Fund to increase gender mainstreaming throughout the project cycle. Through its women's leadership program (PROLEAD), the Bank has focused on mainstreaming women's leadership in operations for good governance, modernization of the state and civil society participation. The Bank also approved one loan and two grants in 2005 that specifically address the reduction of maternal mortality (goal number 5) in the region.

Specific technical assistance operations in biodiversity conservation, water management, clean energy and climate change are helping to provide countries in Latin America and the Caribbean with new knowledge and tools for advancing the MDG for environmental sustainability. Several loans were approved during the year to increase water and sanitation coverage, mainly in rural areas, and to increase support provided for technical training to improve the quality of water and sanitation services. The seventh MDG calls for reducing by half the number of people lacking sustainable access to safe drinking water by 2015.

In the area of emission reductions and energy efficiency, during the year the Bank began implementing an active agenda in renewable energy and climate change mitigation, and adopted an Action Plan for Greenhouse Gas Mitigation and Carbon Finance. A broader set of Bank activities contributes to the MDG for environmental sustainability by addressing economic development and human health in cross-cutting ways, mainly through initiatives involving urban environmental management, sustainable agriculture, tourism, disaster risk mitigation, and trade and the environment.

See www.iadb.org/ar/mdg_en

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

INDES also continued its regional classroom courses in Peru and Guatemala, as well as courses to train teachers for programs in Chile and Colombia, who then gave INDES courses in their training centers. The programs combined social management courses (such as workshops for high-level authorities) for managers, trainers and key stakeholders in social policy; training for central and municipal government employees; and workshops on specialized topics, such as multiculturalism, decentralization, local development and strategic management. In all, 1,050 people were trained at 33 events.

See www.iadb.org/ar/indes_en

Integration

The Bank continued to provide extensive support to countries for regional integration. Eight loans containing components for regional integration were approved, totaling $205 million, for Argentina, Brazil, Colombia, the Dominican Republic and Ecuador. In addition, 39 grants totaling $10 million were approved, geared mainly toward providing multitiered support for the various subregional, hemispheric and interregional integration initiatives, as well as the multilateral Doha Development Round negotiations.

Other activities were undertaken through the Special Initiative on Trade and Integration and a broad

URUGUAY • Trade and regional integration have gotten a boost from an investment sector reform program.

regional technical cooperation program for regional integration and cooperation. These activities supplement the three loans for trade-related capacity building approved in 2005 for Chile, Panama and Suriname, as well as the supervision of other capacity-building projects in Bolivia, Ecuador, Guatemala, Nicaragua, Peru and Trinidad and Tobago.

The Bank is the first multilateral financial institution to create an instrument through which to provide grants for regional public goods. Through its Initiative for the Promotion of Regional Public Goods, the Bank has renewed its commitment to promoting cooperation among its member countries while also responding to the growing demand for regional public goods in the region.

After the initiative was approved in 2004, an initial group of eight projects totaling $8.8 million was selected for financing. The projects, which are benefiting 21 countries in the region, address environmental and social development, education, modernization of the state and financial markets. A second call for proposals was launched in mid-2005, resulting in requests for $65 million for 44 projects in eight strategic sectors, with the participation of all 26 borrowing member countries. For example, the Network of Education Portals project focuses on building a collaborative community for the exchange of high-quality educational content in order to enhance the quality and accessibility of education in 15 countries throughout the region.

The Regional Technical Cooperation (RTC) program has become a valuable instrument for promoting joint activities among countries in the region. Special emphasis was placed on assistance in strengthening subregional integration programs and processes, such as the MERCOSUR and Central American customs unions, the Caribbean Community (CARICOM) Single Market and Andean integration.

At the hemispheric and international levels, the RTC program helped finance institutional strengthening initiatives to help countries and regional organizations participate more effectively and equitably in trade negotiations, so that they can benefit from the positive impact of trade agreements (see **Box 4** on IDB support for DR-CAFTA).

The Regional Policy Dialogue and its seven networks achieved the goals set for 2005, which were to: (i) create spaces for Latin American and Caribbean countries to expand their dialogue, (ii) share experiences, (iii) learn best practices, and (iv) evaluate areas of regional cooperation that are critically important to an increasingly globalized economy. The networks' primary participants are vice ministers from borrowing member country governments with portfolios in the relevant sectors.

Nine subregional meetings were held in 2005 for the networks for Trade and Integration, Natural Disasters Management, Education and Human Resources Training, Public Policy Management and Transparency, and Environment. In addition, nine hemispheric network meetings were held at the Bank's headquarters on Education, Natural Disasters Management, Environment, Central Banks and Finance Ministries, Trade and Integration, and Public Policy Management and Transparency.

Responding to demand from various countries, the Bank's Special Initiative on Trade and Integration provided grants for various trade-related capacity-building activities and technical studies on such topics as trade tax dependency and the sequencing of regional integration

and training, for instance, on the verification of rules of origin and border security in the Caribbean. Outreach activities under the initiative included presentations in Latin America, Europe, and Japan on the report entitled *The Emergence of China: Opportunities and Challenges for Latin America and the Caribbean*.

See www.iadb.org/ar/int_en

Celebrating its 40th anniversary, the Bank's Institute for the Integration of Latin America and the Caribbean (INTAL) continued its extensive training program with the World Trade Organization to strengthen countries' trade negotiation capacity; supported research networks, including the Latin American/Caribbean and Asia/Pacific Economics and Business Association (LAEBA), Euro-Latin Study Network on Integration and Trade (ELSNIT), and Integration Research Network (RedINT). INTAL also conducted workshops on civil society participation in trade policymaking and continued to serve as secretariat for the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).

See www.iadb.org/ar/intal_en

Environment

A total of 15 loans for over $530 million were approved in 2005 for projects involving the environment, in areas such as urban environmental management for watershed protection and sanitation, rural water supply and sanitation, sustainable tourism and disaster risk management. More than 90 grants in this area totaling over $28 million were also approved during the year, for integrated natural resource management, water and sanitation, environmental policy and institutions and disaster risk management, among other areas. Technical support for the region grew in the areas of biodiversity conservation, renewable energy, energy efficiency, climate change mitigation and urban environmental management.

During 2005, the Bank drafted a new Environment and Safeguards Compliance Policy, which was submitted to the Policy

BOX 4 • BANK SUPPORT FOR THE U.S.–DOMINICAN REPUBLIC–CENTRAL AMERICA FREE TRADE AGREEMENT (DR-CAFTA)

During 2005, the Bank moved from supporting the capacity to negotiate the U.S.–Dominican Republic–Central America Free Trade Agreement (DR-CAFTA) among the six Latin American member countries to helping them implement the agreement. Financial and technical assistance was provided for preparing a White Paper on the Labor Dimension of DR-CAFTA that includes a diagnosis and a plan of action at the national and subregional levels in the six countries. The document was drafted by the countries' Vice-Ministers of Trade and of Labor, and subsequently adopted by the respective Ministers. The White Paper played an important role in the debate on the agreement's approval in the parliaments of the countries involved in the agreement. The Bank expressed a commitment to continue supporting this important initiative through the funding of national and regional projects to implement the recommendations established in the White Paper.

The Bank's extensive financial and technical support included a $116 million loan to foster implementation of the agreement and transition to free trade in Costa Rica. Trade sector facility loans aimed at strengthening government agencies in charge of agriculture, environment, labor, and intellectual property were executed in Guatemala, Nicaragua and the Dominican Republic. Further national and regional support was provided through direct nonreimbursable technical cooperation and MIF operations in such areas as textiles, labor, technical barriers to trade, harmonization of taxation and customs procedures, and sanitary and phytosanitary measures.

A complementary phase of Bank support will help the six countries, as well as other countries that will face similar challenges, to address the critical issue of adopting a domestic policy framework to take full advantage of free trade agreements. This will entail adjustments in such areas as infrastructure, the business climate, social safety nets and tax reform, and restructuring in the industrial, agricultural and services sectors.

See www.iadb.org/ar/cafta_en

COLOMBIA • An expert monitors mangroves under an environment program to promote sustainable natural resource management.

and Evaluation Committee of the Board. The proposed policy focuses on mainstreaming environmental issues to make the Bank more effective and on a risk management approach that promotes socially and environmentally responsible investment. In early 2005, the Blue Ribbon Panel on Environment, composed of a group of prominent experts, made recommendations for repositioning the IDB's environmental agenda in the region.

In support of country strategy formulation and programming, the Bank conducted country environmental analyses in several countries, including Belize, El Salvador and Suriname, and has begun preparing analyses for Ecuador, Honduras, Jamaica, Paraguay, Peru and Uruguay. These studies are designed to identify opportunities for linking environmental priorities with social and economic goals, particularly in the context of enhancing a country's competitiveness.

The Bank is expanding its line of activities in renewable energy, energy efficiency and climate change mitigation, mobilizing technical and financial resources to increase knowledge and investments in these areas. A proposed action plan for renewable energy, energy efficiency, greenhouse gas mitigation and "carbon finance" was endorsed by the Board. The Bank also directed case studies on urban transport and solid waste management.

Meeting water and sanitation needs will remain a priority for investment in the region. Almost one-third of the volume of environment-related loans approved in 2005 targeted this area. The Bank contributed innovative water financing and governance mechanisms through a range of programs and products to help countries close the gaps in these vital services, particularly with a view to meeting the Millennium Development Goal of combating water-borne disease in the region.

The Bank is developing good practices and instruments in support of regional integration initiatives such as the Puebla-Panama Plan and IIRSA. Environmental safeguards and environmental mainstreaming activities are combined with innovative instruments, such as Strategic Environmental Assessments. The Bank is also leveraging resources on regional public goods, opening up new opportunities for investment in biodiversity conservation in critical ecosystems such as the Amazon basin.

In the area of disaster risk management, analytical and technical work has been carried out to guide the Bank in developing innovative financial instruments for disaster risk management, risk-financing techniques for managing the economic impact of natural disasters, checklist systems for incorporating disaster prevention into policy-based loan design and execution, and disaster risk indicators for country programming and project financing. The Bank has also begun implementing its *Action Plan for Improving Disaster Risk Management, 2005–2008,* approved by the Board in March 2005.

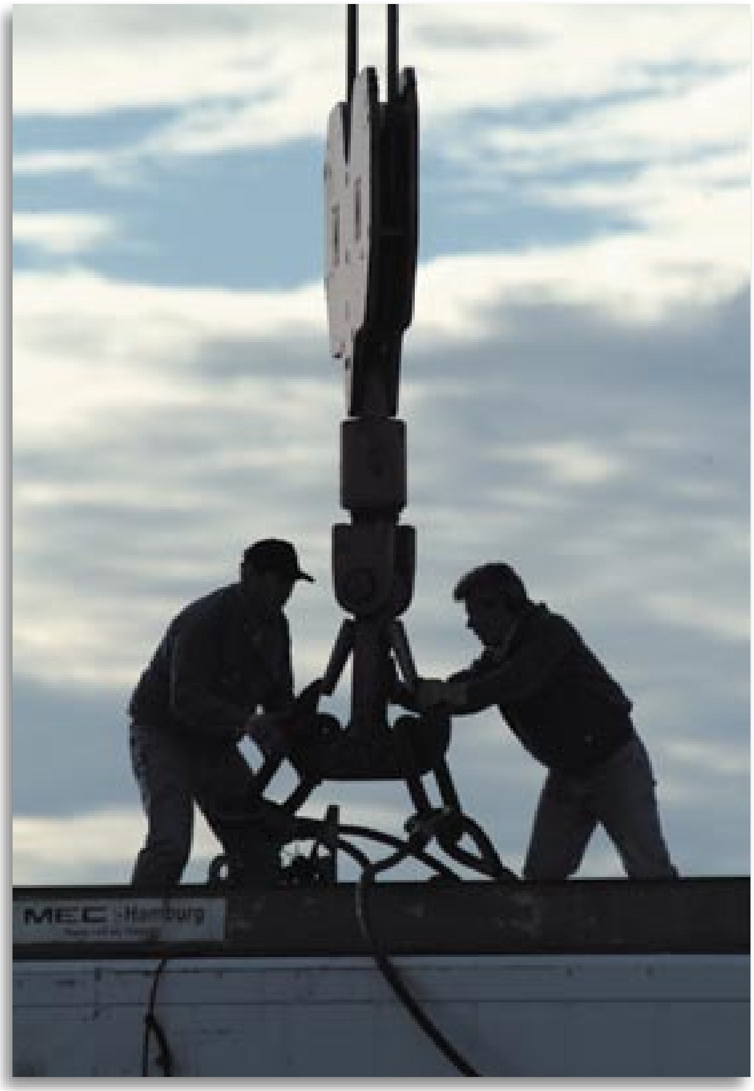
See www.iadb.org/ar/env_en

Infrastructure

The quality, price and coverage of electricity, gas, water and sanitation, telecommunications, and transportation are decisive factors in whether or not a country will succeed in raising the standard of living of the population as a whole and become competitive enough to survive in an increasingly globalized economy.

Between 1995 and 2005, the Bank approved loans and guarantees for 131 infrastructure projects totaling some $8.4 billion. Over that period, an increasing portion of that lending was made directly to the private sector. Noteworthy among the infrastructure operations approved in 2005 is the Integrated Mass Transit System in Cali, Colombia. A $200 million IDB loan will finance a modern bus transportation system that will connect the low- and middle-income areas of Cali with the areas where job-generating activities and social services are concentrated. The project is designed to improve service quality; reduce travel time, accidents and environmental pollution; and increase service efficiency and reliability. Better traffic organization, reduced congestion and better use of urban spaces will improve the quality of life of Cali's population. The system will be implemented and operated through a public-private partnership.

With the Bank's support, IIRSA is promoting sector integration processes related to mitigation of regulatory, institutional and operative bottlenecks in the area of infrastructure. A project to improve security for the port of Callao in Peru was prepared with the support of the French Fund for Consulting and Training Activities. A $20 million technical cooperation fund was created to support the preparation of infrastructure integration projects. One such project was initiation of a study on access to Chilean and Argentine border-crossing infrastructure.



ARGENTINA • Dock workers unload a container at the upgraded port of Puerto Madryn in the province of Chubut.

The Multilateral Investment Fund (MIF) has also played an important part in promoting private participation in infrastructure. Since its inception in 1994, the MIF has made more than 100 grants for over $86.7 million to support legal and regulatory reform, privatization of utilities, sector restructuring and institutional strengthening.
See www.iadb.org/ar/infra_en

Private Sector Development

During the year, the Bank approved $683 million in financing for 17 private sector projects, consisting of six senior A-loans for a total of $385 million (three of which carried corresponding "B-loan" syndications) and 11 guarantees for a total of $298 million. The increase in the number of guarantees over previous years reflects the Bank's ongoing efforts to assist in development of local capital markets and trade finance.

At year's end, the Bank's Board of Governors voted to raise the ceiling on private sector projects from $75 million to $200 million (and under exceptional circumstances, when authorized by the Board of Executive Directors, to $400 million). The maximum percentage of Bank participation in financing a new private sector project remains 25 percent of the total project cost in the Bank's larger borrowing member countries and 40 percent in smaller countries. For expansion projects the limit was raised to 50 percent of the total project cost in all borrowing member countries.

JAMAICA • **This highway connecting tourism hubs Montego Bay and Ocho Rios was improved under a program cofinanced by Japan.**

Three operations for infrastructure financing in the region were approved in 2005: a $75 million loan for the Quito International Airport in Ecuador and two $75 million loans for capital investment in electric power in Brazil, in the states of Mato Grosso and Pará. The Bank also approved a $75 million warehouse facility for a capital markets project in Brazil that will help develop the housing sector. The Brazilian Securities Mortgage Instruments Warehouse Facility will be used to finance the origination and accumulation of mortgage instruments until there is sufficient volume to place mortgage-backed securities in the domestic capital markets. Another private sector operation approved in 2005 was a regional $75 million trade finance facility for Trade Opportunities Fund N.V., which will benefit medium-sized exporters that do not have direct access to the local banking system.

In 2005 the Bank approved $270 million in uncommitted credit lines for 10 banks from six countries in the region under the Trade Finance Facilitation Program. Under this program, the Bank issues partial credit guarantees on eligible trade-related instruments in favor of confirming banks, absorbing the risk on the issuing banks. This program has been fully operational since July 2005 and, as of December 31, 2005, the Bank had outstanding guarantees of approximately $19 million, supporting trade finance transactions of about $25 million.

The IDB Group's private sector activities in 2005 focused on local and regional capital markets, leadership in remittances and support for corporate governance throughout the region. In order to better meet client needs, the Bank approved a Local Currency Facility, which is expected to attract a high level of demand among private sector borrowers given its ability to mitigate foreign exchange risk (see **Box 5**). The Bank continued to increase its trade finance activities and the use of partial credit guarantees that will attract more investment to the region.

By the end of 2005, cumulative approvals since 1994 totaled 83 operations, including 63 senior A-loans and 20 guarantees, for a cumulative total amount of private sector loans and guarantees of $3.5 billion. In addition to the Bank financing, these projects received an additional $3.8 billion in syndicated "B-loans" and coguarantees and mobilized over $19.6 billion in total project costs.

The Bank organized several conferences on corporate social responsibility in 2005, including the Third Ibero-American Conference on Corporate Social Responsibility in Santiago, Chile, and published a study entitled *Corporate Social Responsibility in Small and Medium Enterprises in Latin America.*

See www.iadb.org/ar/pridev_en

Inter-American Investment Corporation

An independent affiliate of the Bank, the Inter-American Investment Corporation (IIC) makes loans and equity investments in private companies in Latin America and the Caribbean. In 2005, it approved 37 projects and programs in 15 countries, plus two regional operations, totaling $341.7 million. Established in 1989, the IIC is the only multilateral development finance institution in the world whose specific mission is to foster economic development by promoting the creation, expansion and modernization of small and medium-sized enterprises.

Such small and medium-sized companies typically do not have access to appropriate sources of credit or capital in the region. The IIC lends to and invests directly in them, and provides financing indirectly through financial intermediaries or equity funds. The IIC does not require sovereign guarantees. To be eligible for financing from the IIC, 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 the economic integration of the region.

In 2005, the IIC made its first local currency loans to five leasing companies in Colombia. These five loans, totaling 150 billion Colombian pesos ($66 million), mark the first time that a multilateral institution operating in Latin America has obtained local currency funding to grant local currency loans. The proceeds of the loans will be used to provide financing to small and medium-sized companies in Colombia through medium- and long-term finance leases for upgrading or purchasing fixed assets. These loan transactions contribute to the Declaration of Nuevo León goal of tripling resources channeled to small and medium-sized enterprises through financial intermediaries. Over 1,000 such companies are expected to benefit from the five operations financed by these loans.

For further information on the IIC's operations, see its 2005 Annual Report, which is published separately. For general information on the IIC and for data on prior-year operations, visit its website at **www.iic.int**

Multilateral Investment Fund

The Multilateral Investment Fund, an independent fund administered by the IDB, approved 133 technical assistance and investment projects totaling $113 million in 2005. Of these, 72 were grants for $72 mil-

BOX 5 • LOCAL CURRENCY FACILITY

In response to increased demand from borrowers for local currency financing as a way to help manage exchange rate risk, in November 2005 the Bank established the Local Currency Facility. Deepening of local capital markets and increased stability in the region's macroeconomic environment provided a backdrop for the Bank's moving forward with this initiative.

Under the facility, the Bank can support borrowers with local currency financing needs—particularly in countries in which the Bank is able to source medium-term local currency funding—as well as assist them in their debt management programs. The Local Currency Facility offers public and private sector borrowers three options for local currency financing: local currency loans through currency conversion of disbursements (and/or outstanding loan balances); direct currency swaps with Bank borrowers against existing Bank debt; and local currency loans/obligations through conversion of called guarantees. Demand for local currency financing is expected to come from central and subnational governments as well as from private sector entities.

In preparation for this initiative, in April 2005 the Board approved a pilot local currency operation for *Banobras*, a Mexican development bank, allowing the borrower to convert disbursements under a United States dollar–denominated loan into Mexican pesos. The first disbursement was successfully made in November 2005, and the Bank expects to continue delivering local currency on attractive terms, subject to market conditions.

Although these innovative solutions may not currently be suited for all clients in all countries, the Bank will continue to work with countries to create the necessary conditions for local currency lending in the future. It hopes to offer this instrument as one of its financial products available to all borrowers. To this end, as part of the initiative, the Bank has established a standing working group on local currency financing that will help deepen local capital markets and develop innovative financing approaches.

lion, 10 were equity or loans for $37 million and 51 were part of MIF's delegation of authority program for $4.1 million. The focus of the MIF is to help introduce new ways to strengthen micro- and small enterprise capacities, stimulate improvements in the business environment and engage the private sector in the development process.

Although primarily a technical assistance grant instrument, the MIF also utilizes an array of loan, quasi-equity and investment mechanisms. Moreover, 80 percent of MIF projects are carried out in direct partnership with private sector business associations, trade groups, foundations and other nongovernmental organizations, which typically cover half the project costs.

While most MIF projects promote socially responsible business models as an integral part of their design, in 2005 the MIF also approved seven projects for $8.5 million with the specific objective of advancing corporate social responsibility, sustainable tourism and cleaner production. The MIF also organized international conferences in Brazil and Mexico to highlight market opportunities for the region's low-income majority and three corporate governance courses in Lima, Mexico City and Buenos Aires.

During the year, the MIF continued its leadership role in remittances through projects to increase the financial resources of those who receive remittances and improve the developmental impact of these funds. The Fund completed 12 studies/surveys, sponsored nine major conferences and published a book on the global impact of remittances on development entitled *Beyond Small Change*.

In 2005, the MIF replenishment process was completed, with donors pledging $502 million. The new MIF II Agreements reinforce the MIF's special development role and position it to maximize its development results. Since its establishment, the MIF has approved 791 technical assistance and investment projects for over $1 billion. Including counterpart funds, some $2 billion has been committed to MIF projects throughout the region.

See www.iadb.org/ar/mif_en

The *Social Entrepreneurship Program (SEP)* is a dynamic and participatory instrument through which the Bank has been able to leverage external resources from other donors, the private sector, NGOs and project beneficiaries, using both long-term loans and technical cooperation resources. In 2005, the Bank approved 20 SEP projects for a total of $13.4 million. Of this amount, $8.3 million was financed by the Fund for Special Operations and $5.1 million by various trust funds administered by the Bank.

The projects financed in 2005 under the SEP continued to have a significant impact on improving the economic and social conditions of low-income micro- and small enterprise sectors. Noteworthy examples of these improvements in the region included the promotion of entrepreneurship among poor Honduran graduates from vocational technical centers; a project to improve the living conditions and incomes of Paraguayan coconut producers, by financing a production plant for biodiesel from vegetable oil; the strengthening of four village banking programs that provide microcredit and savings services to poor women in rural areas in Ecuador; support for a project in Nicaragua that will provide electricity to families in poor rural areas, by financing solar-power equipment and strengthening their technical and management skills; and a loan to a private potable-water provider for rural areas in Bolivia. (Working papers on topics pertaining to small and medium-sized enterprise can be found at **www.iadb.org/ar/micpub_en**.)

Pursuant to the Private Sector Development Strategy approved in 2004, the IDB established the Office of the Private Sector Coordinator as the unit responsible for the coordination and oversight of all of the IDB Group's private sector activities. Reporting directly to the president of the Bank, the coordinator serves as a key advisor on the group's evolving business model for its private sector activities. The new office is working to increase the effectiveness of the group's private sector efforts as a priority area in order to promote growth and reduce poverty in the region. The new Private Sector Committee of the Bank, chaired by the coordinator, will improve coordination among the members of the IDB Group, streamline the approval process for private sector operations and improve responsiveness to clients. Outreach for the IDB Group as a whole has been improved through the newly established Private Sector Advisory Council (see **Box 6**).

Development Effectiveness

The purpose of the Bank is to further the economic and social development of its borrowing member countries. Since their development depends primarily on actions the countries themselves take, the Bank assigns priority to helping countries improve their public sector management with an emphasis on results, ensuring the highest possible levels of support for the countries through effective, high-quality strategies; loan, grant and guarantee operations; and a corporate culture and management practices with a sharp focus on results.

To this end, in 2004 the Bank approved its Medium-Term Action Plan for Development Effectiveness (MTAP).

The plan consists of three interrelated pillars, one for each of the above-mentioned priority areas: external, internal and corporate.

The external pillar helps borrowing member countries strengthen their capacity to manage for results and harmonize procedures, processes and instruments with those of other multilateral development institutions and bilateral aid agencies. In 2005 the Program to Implement the External Pillar of the MTAP (PRODEV) was established and funded at $10 million. The program provides concessional resources to support capacity building for management for results in borrowing member countries. The Bank is engaged in multilateral efforts to enhance development effectiveness, for example, the High-Level Forum on Aid Effectiveness, where participants agreed on principles and indicators for aid effectiveness.

The internal pillar of the MTAP seeks to improve the quality of Bank interventions, which in turn will help countries achieve important development results. Major advances in this connection were made during the year in project quality and strategies. To enhance project cycles, a quality-at-entry exercise was conducted, and the standards and methodology for quality-of-supervision reviews were developed. The guidelines for the preparation of country strategies were updated, and a proposal on the main features of an integrated risk-based framework for strategies and projects was prepared.

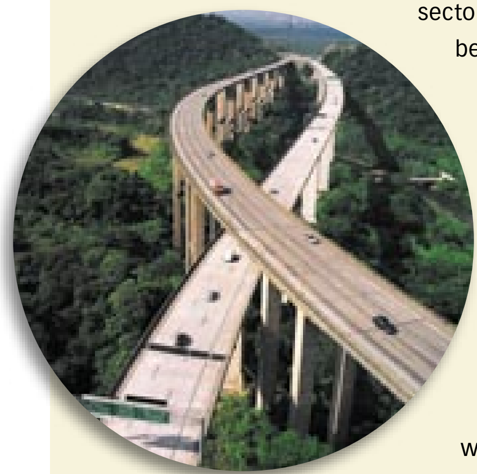
The corporate pillar of the action plan supports the execution of the external and internal pillars through three sets of interconnected activities designed to strengthen Bank incentives—staff incentives and learning, corporate reporting and budgeting, and accountability and oversight. The long-term goal of staff incentives is to develop human resource policies that promote the Bank's focus on results. To this end, a review of current human resource practices was conducted in 2005, including those regarding staff planning, merit pay and promotions.

To improve corporate planning and budgeting, Bank unit business plans are enhancing their focus on results. The Bank's first multiyear budget, when prepared for the 2007–2009 period, will accordingly be based on clear corporate objectives and priorities.

See www.iadb.org/ar/dev_en

BOX 6 • PRIVATE SECTOR ADVISORY COUNCIL

The Private Sector Advisory Council, established by the Private Sector Coordinator in 2005, is made up of 40 business leaders all with outstanding records of accomplishment, from more than 20 countries on four continents. The council meets regularly with IDB officials to discuss development challenges for the private sector in Latin America and the Caribbean and to offer guidance as the IDB Group continues its efforts to support the private sector in the region.



At its first meeting in September, the advisory council exchanged ideas on removing obstacles to private sector growth, enabling the economies of the region to become more competitive with emerging economies in other regions of the world and devising ways to promote corporate social responsibility. The council also addressed several of the most pressing issues for Latin America and the Caribbean, including competitiveness, globalization, continuing social problems and such institutional concerns as reforming the state and the courts.

Council members stressed the need to continue to develop local and regional capital markets in order to mitigate foreign exchange risk and improve access to capital. They considered how to better integrate the region through regional infrastructure projects and public-private partnerships, and discussed the need to refocus on education as an important productivity driver.

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 approved by the Bank in 2005. The summaries and introductory paragraphs for each country refer only to operations over $1 million. The chapter concludes with information on the Bank's lending and technical cooperation program.

The 2005 loans and guarantees approved by the Bank and cumulative totals, as of December 31, 2005, less cancellations, came from the following sources:

▶ **Ordinary Capital** (OC): 72 loans for $6.4 billion and 11 guarantees for $298 million brought the cumulative total of loans to 1,780 for $117.5 billion and the cumulative number of guarantees to 17 totaling $630 million.

▶ **Fund for Special Operations** (FSO): 20 loans totaling $410 million brought the cumulative total of loans to 1,173 for $17.5 billion.

▶ **Other funds**: There were no loans approved in 2005. Cumulative total loans were 209 for $1.7 billion.

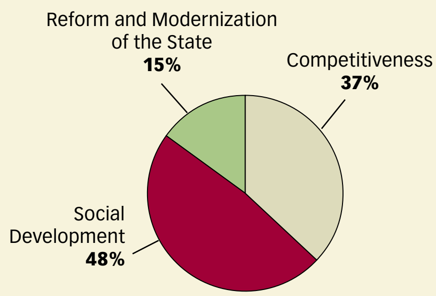
The Bank agreed to partially defray up to five percentage points of the interest on seven loans for $138 million, approved in 2005 from the Ordinary Capital, with funds from the Intermediate Financing Facility (IFF) created under the Sixth Replenishment.

HAITI (left) • Haitian students at Despas Elementary School near Côteaux, constructed in 2004 with IDB funding, previously attended class outdoors.

EL SALVADOR (center) • A worker for CONDUSOL, a small cable manufacturing company, applies quality standards adopted under a MIF project to enhance competitiveness.

PERU (right) • The justice system was modernized by strengthening the judiciary in poor areas, where delays in court procedures were the worst.

LENDING BY SECTOR, 2005



LENDING BY SECTOR, 1961–2005

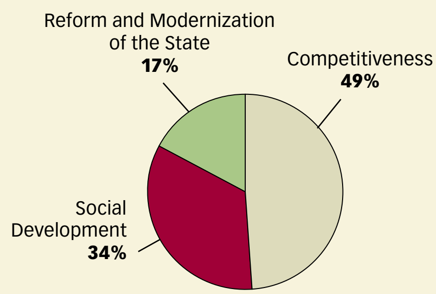


TABLE I • DISTRIBUTION OF LOANS BY SECTOR OF ACTIVITY[1]

(In millions of U.S. dollars)

SECTOR	2005	%	1961–2005	%
Competitiveness	**$ 2,651.6**	**37.1**	**$ 67,765.9**	**49.4**
Energy	1,122.9	15.7	18,723.1	13.6
Transportation and Communication	568.0	7.9	14,844.5	10.8
Agriculture and Fisheries	74.7	1.0	13,334.2	9.7
Industry, Mining and Tourism	68.0	1.0	12,550.4	9.2
Multisector Credit and Preinvestment	0.0	0.0	3,623.1	2.6
Science and Technology	32.3	0.5	1,593.4	1.2
Trade Financing	380.0	5.3	2,011.6	1.5
Productive Infrastructure	227.7	3.2	842.5	0.6
Capital Markets	178.0	2.5	243.3	0.2
Social Development	**3,439.0**	**48.1**	**46,602.0**	**33.9**
Social Investment	2,505.6	35.1	18,857.4	13.7
Water and Sanitation	340.0	4.8	8,978.7	6.5
Urban Development	96.5	1.4	7,295.4	5.3
Education	250.0	3.5	5,500.0	4.0
Health	123.6	1.7	2,816.8	2.1
Environment	123.4	1.7	2,664.2	1.9
Microenterprise	0.0	0.0	489.0	0.4
Reform and Modernization of the State	**1,056.9**	**14.8**	**22,956.4**	**16.7**
Reform and Public Sector Support	99.5	1.4	11,283.3	8.2
Financial Sector Reform	835.2	11.7	6,551.6	4.8
Fiscal Reform	47.9	0.7	3,827.6	2.8
Decentralization Policies	51.6	0.7	720.9	0.5
Modernization and Administration of Justice	4.9	0.1	315.5	0.2
Planning and State Reform	0.0	0.0	118.1	0.1
Parliamentary Modernization	3.9	0.1	76.1	0.1
Civil Society	0.0	0.0	22.0	0.0
Trade Policy Support	13.9	0.2	27.5	0.0
E-Government	0.0	0.0	13.8	0.0
TOTAL	**$ 7,147.6**	**100%**	**$137,323.8**	**100%**

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

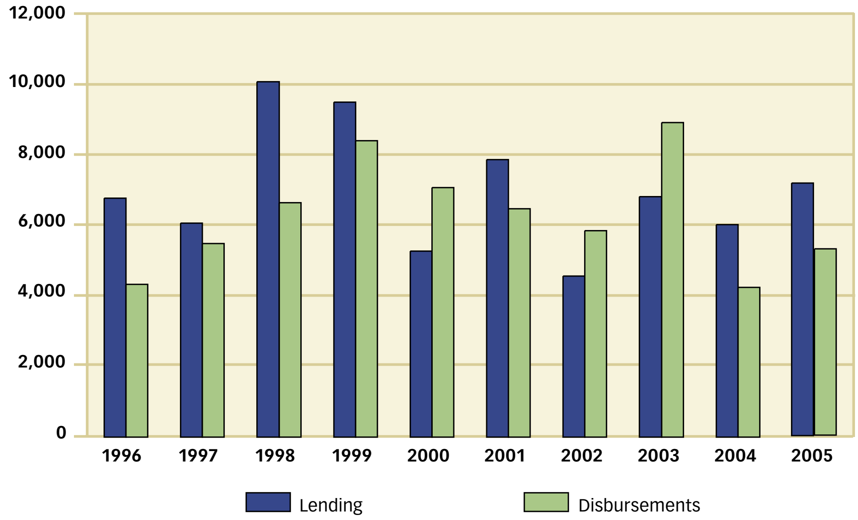
TABLE II • YEARLY (2005) AND CUMULATIVE (1961–2005) LENDING[1]

(In millions of U.S. dollars)

	TOTAL COST OF PROJECTS		LOANS AND GUARANTEES APPROVED[1]					DISBURSEMENTS				
	Total Amount		Total Amount[3]		Ordinary Capital[2]	Fund for Special Operations	Funds in Administration	Total Amount		Ordinary Capital[2]	Fund for Special Operations	Funds in Adminstration
Country	2005	1961–2005	2005	1961–2005	1961–2005	1961–2005	1961–2005	2005	1961–2005	1961–2005	1961–2005	1961–2005
Argentina	$ 1,547.7	$ 45,064.3	$ 1,078.0	$ 20,844.0	$ 20,150.0	$ 644.9	$ 49.1	$ 581.8	$ 17,564.3	$ 16,872.1	$ 643.1	$ 49.1
Bahamas	44.3	586.0	35.5	380.8	378.8	—	2.0	5.0	297.5	295.5	—	2.0
Barbados	5.5	792.0	4.4	414.1	355.7	39.4	19.0	4.4	315.5	257.1	39.4	19.0
Belize	—	145.2	—	87.7	87.7	—	—	2.9	75.5	75.5	—	—
Bolivia	53.5	6,046.5	48.2	3,544.2	1,204.1	2,267.6	72.5	142.3	3,104.5	1,188.4	1,843.6	72.5
Brazil	2,113.3	84,842.4	674.9	27,972.5	26,281.3	1,558.3	132.9	1,493.1	23,741.3	22,060.2	1,548.2	132.9
Chile	95.5	12,461.8	40.8	5,133.8	4,885.8	204.1	43.9	114.3	4,856.0	4,608.0	204.1	43.9
Colombia	1,459.4	24,148.5	601.0	12,048.8	11,228.0	756.5	64.3	362.7	10,804.7	9,988.5	751.9	64.3
Costa Rica	226.3	3,958.0	131.8	2,378.1	1,887.7	352.4	138.0	42.2	2,084.5	1,603.1	352.4	129.0
Dominican Republic	59.8	3,948.9	55.0	2,822.5	2,012.4	722.5	87.6	135.7	2,279.3	1,469.3	722.5	87.6
Ecuador	641.3	8,345.4	103.0	4,193.5	3,158.7	944.7	90.1	36.6	3,874.0	2,839.2	944.7	90.1
El Salvador	341.9	4,773.5	210.9	3,158.6	2,248.0	765.4	145.2	92.1	2,643.7	1,742.2	765.4	136.1
Guatemala	24.0	4,305.1	18.9	2,691.4	1,981.5	639.9	70.0	33.3	2,218.5	1,517.7	639.7	61.1
Guyana	1.8	1,150.5	1.8	954.5	113.2	834.4	6.9	49.6	729.1	113.2	609.0	6.9
Haiti	217.9	1,687.7	201.7	1,166.9	—	1,160.6	6.3	70.0	711.8	—	705.5	6.3
Honduras	70.4	4,498.0	62.7	2,723.3	545.8	2,112.1	65.4	66.1	2,206.8	532.1	1,623.1	51.5
Jamaica	—	2,375.3	—	1,758.0	1,393.1	166.0	198.9	12.8	1,595.7	1,230.7	166.0	198.9
Mexico	3,942.5	49,741.1	2,050.0	18,849.6	18,235.1	559.0	55.5	949.1	16,482.0	15,867.5	559.0	55.5
Nicaragua	90.6	3,611.4	85.1	2,313.0	267.1	1,980.3	65.6	122.6	1,877.7	267.1	1,558.9	51.7
Panama	94.7	4,976.2	74.6	2,105.4	1,777.2	285.6	42.6	80.8	1,761.7	1,442.5	285.6	33.6
Paraguay	46.1	2,738.4	44.7	1,886.0	1,280.1	593.4	12.5	52.4	1,602.9	997.0	593.4	12.5
Peru	558.7	13,391.7	345.0	7,110.8	6,461.0	428.7	221.1	459.9	6,379.9	5,730.1	428.7	221.1
Suriname	4.4	126.1	4.0	104.4	102.4	2.0	—	4.9	61.8	59.7	2.0	—
Trinidad and Tobago	2.3	1,641.7	2.3	1,031.2	975.4	30.6	25.2	52.7	843.4	787.6	30.6	25.2
Uruguay	272.5	5,376.1	268.3	3,980.2	3,834.5	103.9	41.8	242.3	3,425.2	3,279.5	103.9	41.8
Venezuela	3,361.3	16,327.1	910.2	4,800.7	4,626.4	101.4	72.9	74.4	3,663.6	3,489.4	101.4	72.9
Regional	211.1	18,469.3	95.0	2,869.4	2,623.1	232.6	13.7	43.9	2,377.6	2,151.3	212.5	13.7
TOTAL	**$15,486.5**	**$325,528.0**	**$7,147.5**	**$137,323.7**	**$118,094.2**	**$17,486.4**	**$1,743.1**	**$5,328.0**	**$117,578.5**	**$100,464.6**	**$15,434.6**	**$1,679.2**

[1] After cancellations and exchange adjustments. Totals may not add up due to rounding.
[2] Detail includes Private Sector Loans, net of participations.
[3] Includes authorized lines of credit in the aggregate amount of $270 million under the Trade Finance Facilitation Program.

LENDING AND DISBURSEMENTS, 1996-2005
(In millions of U.S. dollars)



Total Cost of Projects

The $7.1 billion in Bank loans and guarantees approved in 2005 will help to finance projects involving a total investment of more than $15.5 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 approved loans amounted to $5.3 billion in 2005, compared with $4.2 billion in 2004. As of December 31, 2005, cumulative disbursements, including exchange adjustments, totaled $117.6 billion, or 86 percent of the loan amounts approved by the Bank. The 2005 disbursements and cumulative totals as of December 31, 2005 by funds include

▶ **Ordinary Capital**: $4.9 billion, bringing the cumulative total to $100.5 billion.

▶ **Fund for Special Operations**: $424 million, bringing the cumulative total to $15.4 billion.

▶ **Other funds**: $5 million, bringing the cumulative total from funds administered by the Bank to $1.7 billion.

Repayments

Loan repayments amounted to $5.5 billion in 2005. Cumulative payments as of December 31, 2005, were $61.2 billion. Repayments received by the Bank during the year, and cumulative as of December 31, 2005, were

▶ **Ordinary Capital**: $5.2 billion, bringing the cumulative total, before repayments to participants, to $52.3 billion.

▶ **Fund for Special Operations**: $301 million, for a cumulative total of $7.3 billion.

▶ **Other funds**: $5 million, bringing the cumulative total to $1.6 billion.

Information on IDB projects is available at **www.iadb.org/projects/**

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2005

Ordinary Capital

COUNTRY	PROJECT	AMOUNT (In millions of U.S. dollars)
Argentina	Support for the *Plan Familias* Program	700
	Social Investment Program in Buenos Aires Province	230
	Productive Sector Development in Mendoza	70
	Program to Enhance Tourism Sector Competitiveness	33
Bahamas	Transforming Education and Training (Phase I)	18
	Immediate Response Facility for Disaster Emergencies	16.7
Barbados	Modernization of Customs Administration	4.4
Brazil	Social and Environmental Protection for the *Igarapés* of Manaus	140
	Brazilian Securities Mortgage Instrument Warehouse Facility	75
	CELPA Capital Investment Program[1]	75
	CEMAT Investment Program[2]	75
	State of Espírito Santo Highway Program	73.5
	Municipal Access Roads in Minas Gerais	50
	Modernization of State and Local Government External Oversight Systems	38.6
	Structured Corporate Bond for *Construtora Norberto Odebrecht S.A.*	28
	Land Regularization and Cadastre Program	10.8
	Ecotourism Development of the Atlantic Forest in the State of São Paulo	9
Chile	Urban Rehabilitation and Development of Valparaíso	25
	Institutional Strengthening of the Office of International Economic Affairs	5
	Strengthening Support for Parliament	3.9
	Institutional Strengthening of the Judicial Branch	3.7
	Strengthening the National Civil Service Directorate	3
Colombia	Cali Mass Transit	200
	Porce III Hydroelectric Power Plant	200
	Strengthening the Expanded Immunization Program	107
	Support for the 2005 General Census	48
	Innovative Intervention Models for the Coffee Sector	6
Costa Rica	Productive Investment Program	116.8
	Sustainable Development of the Atlantic Huetar Region	15
Dominican Republic	Labor Markets and Social Transfers (Phase I)	10
	Strengthening the National Statistics System	10
	Disaster Prevention and Risk Management	5
Ecuador	Quito International Airport	75
	Rehabilitation of Quito Historic Center (Phase II)[3]	8
	Early Warning and Risk Management System[3]	5

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2005

Ordinary Capital

COUNTRY	PROJECT	AMOUNT (In millions of U.S. dollars)
El Salvador	Basic Education for All Project[3]	85
	Solidarity Network[3]	57
	Sustainable Roads in Rural Areas (Phase II)[3]	55.4
	Strengthening the National Statistics System[3]	13.5
Guatemala	Restoration of the Lake Amatitlán Watershed	18.9
Mexico	Consolidation and Expansion of the *Oportunidades* Program (Phase II)	1,200
	Consolidation of the Public Finance System	600
	Sustainability of Rural Water Supply and Sanitation Services (Phase II)	150
	Finance for Small Exporters	100
Panama	Priority Activities in the Panama Canal Watershed	19.9
	Operational Instruments for Low-Cost Housing	10
	Capacity Building for International Trade	4.7
Paraguay	Public Financial Reform	32.7
	Science and Technology Program	6.5
Peru	Public Expenditure Quality and Management Improvement Facility	205
	Departmental Road Program	50
	Sanitation Sector Development Program, Phase II	50
	Science and Technology Program	25
	Fruit Fly Control and Eradication in Coastal Areas	15
Suriname	Trade Sector Support Program[3]	4
Uruguay	Social Sector Program	250
	Support for Productivity and Development of New Livestock Products	15.8
	Debt Management Office	2.5
Venezuela	Tocoma Hydroelectric Plant	750
	Expansion and Improvement of Initial and Basic Education	125
	Modernization of Customs and Tax Administration	18.5
	Integral Management of the Caroní River Watershed	14
	Electric Power Sector Development	2.7
Regional	Trade Finance Facilitation Program	270
	IIG Regional Trade Finance Facility	75
	Crecera Regional Trade Finance Fund[4]	10
SUBTOTAL[5]		**6,738**

[1] Complemented by a "B-loan" syndication up to $141.9 million.
[2] Complemented by a "B-loan" syndication up to $39.5 million.
[3] Interest rate partially subsidized by the Intermediate Financing Facility.
[4] Increase to a $15 million loan (1569A/OC-RG) approved in 2004.
[5] Subtotals and totals also include loans under the Project Preparation and Execution Facility, not listed above.

(Continued on next page)

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2005

Fund for Special Operations

COUNTRY	PROJECT	AMOUNT (In millions of U.S. dollars)
Bolivia	Rural Electrification Program	20
	Improving the Efficiency of Public Management	15
	Support for the National Public Investment System	13
	Use of Collateral Substitutes to Expand Rural Credit	1
Haiti	Transport Infrastructure Rehabilitation Program	62.6
	Urban Rehabilitation Program	50
	Ennery-Quinte Agricultural Intensification Project	27.1
	Fiscal Reform and Governance Program	25
	Vocational Training Program	22
	Institutional Strengthening for Environmental Management	5
	National Early Warning System for Flooding	5
	Strengthening Economic Governance Institutions	5
Honduras	National Sustainable Tourism Program	35
	Improvement of Health Conditions	16.6
	Integrated Development for Indigenous and Afro-Caribbean Groups	11.1
Nicaragua	Municipal Social Investment Program	45
	National Development Plan	40.1
Regional	Grenada Reconstruction, Recovery and Development Program	10
SUBTOTAL[5]		**410**
TOTAL[5]		**7,148**

[5] Subtotals and totals also include loans under the Project Preparation and Execution Facility, not listed above.

PROJECT DESCRIPTIONS

ARGENTINA

In 2005, the Bank approved four loans and two MIF financings to Argentina. Since 1961, the Bank has made 239 loans totaling $20.8 billion and disbursements have totaled $17.6 billion.

Support for the* Plan Familias *Program

($700 million loan from the OC)

Conditional cash subsidies provided under this program will help approximately 500,000 impoverished families keep their children in school and gain access to basic health services. The program will also support incentives for young adults to complete school, as well as job skill development and professional training.

Social Investment Program in Buenos Aires Province

($230 million loan from the OC)

This loan will finance investments in education, health and social services for the most impoverished residents of the metropolitan area of the capital. Construction of schools and computer laboratories will benefit more than 1.2 million students, while investments in the public health system will strengthen primary care and maternal and child health services. The planning, organization and delivery of social services, including court welfare procedures, will be improved, particularly for mothers and children.

Productive Sector Development in Mendoza

($70 million loan from the OC)

This program is designed to reduce barriers to productivity and growth in the province of Mendoza by improving public infrastructure, expanding access to credit for small and medium-sized enterprises for technological modernization, providing technical and professional training to enhance labor force qualifications and employability, and supporting clusters in the food, tourism, manufacturing and service industries.

Program to Enhance Tourism Sector Competitiveness

($33 million loan from the OC)

This project will support development of two strategic tourism circuits, the Lake Circuit in Patagonia and the Iguazú Falls and Jesuit Mission Circuit (a UNESCO world heritage site) in the country's northeast. It includes activities to improve infrastructure, particularly access to national parks and missions; foster an information and marketing system; design competitiveness plans; and strengthen the national tourism authorities.

Exports by Small and Medium-Sized Firms to Asia

($1.6 million MIF grant)

Under this project, a standardized model will be developed and implemented to help small and medium-sized enterprises in Argentina gain access to the East Asian market as new exporters, with a new product, or to a new market. The project will target several Argentine provinces.

Competitiveness of Worker-Run Companies

($1.5 million MIF grant)

In order to improve the competitiveness and sustainability of small worker-run companies, this program will systematize and compare the management models of these firms and help disseminate lessons learned from their experiences.

BAHAMAS

In 2005, the Bank approved three loans to The Bahamas, including one under the Project Preparation and Execution Facility (PROPEF). Since 1977, the Bank has made 21 loans totaling $381 million and disbursements have totaled $298 million.

Transforming Education and Training (Phase I)

($18 million loan from the OC)

This operation will help build the planning and programming systems necessary to improve overall education management and develop policy and regulatory frameworks that align student skills with labor market needs. The initiative will benefit approximately 50,000 students annually at all levels of the education system, including students with special needs.

Immediate Response Facility for Disaster Emergencies

($16.7 million loan from the OC with a total of $2 million in cofinancing from the United States, Trinidad and Tobago, Turks and Caicos, the People's Republic of China, Malta, Japan and Mauritius)

The purpose of this program is to restore basic infrastructure services on the islands most severely affected by Hurricanes Frances and Jeanne. The financing will be used to purchase trailers for temporary housing, repair schools and government buildings such as agricultural storage facilities, stabilize bridges, and clear debris from roadways. This is the first loan operation under the new Immediate Response Facility for Emergencies Caused by Natural and Unexpected Disasters.

BARBADOS

In 2005, the Bank approved one loan to Barbados. Since 1969, the Bank has made 40 loans totaling $414 million and disbursements have totaled $316 million.

Modernization of Customs Administration

($4.4 million loan from the OC with $1 million in cofinancing from Caribbean Regional Technical Assistance Centre)

This loan will strengthen the capacity of the Customs and Excise Department to collect revenue, enforce laws, facilitate foreign trade operations and reduce costs. Training, procedural reforms and upgrades to information technology will reduce clearance times for imports, arrearages in the value-added tax and the number of late tax returns, as well as promote the electronic filing of returns.

BELIZE

In 2005, the Bank approved no new loans to Belize. Since 1992, the Bank has made nine loans totaling $88 million and disbursements have totaled $76 million.

The Bank's activities during 2005 focused on the implementation of key technical cooperation and the preparation of nonfinancial products to enhance the public sector's capacity to foster private sector development and competitiveness. The Bank worked throughout the year with Belizean authorities in the areas of macroeconomic stability, trade facilitation and competitiveness.

A $150,000 grant was approved to improve capacity to negotiate the Free Trade Area of the Americas agreement. A $580,000 MIF grant was approved to improve small business competitiveness in the tourism industry. A second MIF grant of $142,880, designed to strengthen airport security, was also approved. In addition, three diagnostic studies were completed: a tax reform study, a diagnostic study of the financial problems of the Development Finance Corporation and an action plan outlining actions for its immediate liquidation. A fourth study that reviews public expenditures started during the year.

BOLIVIA

In 2005, the Bank approved five loans, including one under the PROPEF, and two MIF financings to Bolivia. Since 1961, the Bank has made 175 loans totaling $3.5 billion and disbursements have totaled $3.1 billion.

Rural Electrification Program
($20 million loan from the FSO with cofinancing for $124 million from the Andean Development Corporation, $32 million from the International Development Association, $6.9 million from the United Nations Development Programme and $6.1 million from Germany)

This program will provide incentives for private investment in rural electrification through power grid extension and decentralized systems using renewable energy or natural gas. Some 44,000 households in rural areas will gain access to electricity, which will help reduce poverty, raise living standards and improve efficiency in the use of public and private resources in the sector.

Improving the Efficiency of Public Management
($15 million loan from the FSO)

This loan will support policy measures to consolidate effective, efficient and transparent results-based public expenditure mechanisms. The program will strengthen the quality and coordination of the budget cycle, integrate financial management systems at the central and subnational levels, help control government spending, enhance transparency and combat corruption. To align policy with resource allocations, training will be provided to better define sector programs, set priorities and introduce functional budget classifications.

Support for the National Public Investment System
($13 million loan from the FSO)

This program will improve the quality and efficiency of social and economic investment projects by national, departmental and municipal governments. The program will build on IDB support for administrative decentralization in Bolivia that has transferred technical and administrative powers to subnational governments and delegated responsibility to them to prioritize, design and carry out an increasing number of investment projects.

Use of Collateral Substitutes to Expand Rural Credit
($1 million loan and $57,000 grant from the FSO)

By promoting the use of family assets such as forests, cattle and machinery as collateral substitutes for securing loans, this project aims to expand the supply of rural credit services for poor, small-scale farmers in the Los Valles region of the department of Cochabamba.

Financing for Rural Productive Activities
($2 million loan and $265,000 in grants from the MIF)

By expanding the provision of financial services, this technical cooperation operation aims to increase income levels and improve the overall competitiveness of the rural economy. The specific objective is to strengthen the institutional capacity of the borrower, *Fundación Agrocapital*, and to increase its lending activity by providing financing for onlending.

Promoting an Entrepreneurial Culture
($1.6 million grant from the MIF)

The general objective of this operation is to provide technical assistance and financing, and to strengthen the use of sustainable information dissemination mechanisms, in order to create and develop new dynamic enterprises and ventures, particularly in the cities of La Paz and El Alto.

BRAZIL

In 2005, the Bank approved 10 loans and six MIF financings to Brazil. Since 1961, the Bank has made 324 loans totaling $28 billion and disbursements have totaled $23.7 billion.

Social and Environmental Protection for the* Igarapés *of Manaus
($140 million loan from the OC)

This operation will address environmental and social problems caused by rapid growth over the years without adequate infrastructure. Focusing on the heavily populated heart of the city in the Educandos-Quarenta watershed, the program will build and repair drainage, drinking water and waste disposal systems as well as implement land use planning, registration and titling measures. *Igarapés* are streams that flood when the level of the Rio Negro rises during the rainy season.

Brazilian Securities Mortgage Instrument Warehouse Facility

($75 million loan from the OC)

The mortgage investment warehouse facility supported by this loan to *Brazilian Securities Companhia de Securitização* will finance the origination and accumulation of mortgage instruments for home acquisitions and improvements, and for the acquisition of office or retail space. The initiative will support the primary and secondary mortgage markets as well as the government's efforts to close the housing gap and promote growth in the construction sector.

CELPA *Capital Investment Program*

($75 million loan from the OC with a "B-loan" of $141.9 million)

Centrais Elétricas do Pará (CELPA) is a private electricity distribution company that serves the state of Pará. Half of its residential customers are low-income earners, who are targeted under this operation. The loan will enable CELPA to provide electricity to new rural and urban customers, achieve productivity gains, reduce costs and improve the quality and reliability of its distribution network. The syndicated "B-loan" consists of resources from financial institutions that subscribe to participation agreements with the IDB.

CEMAT *Investment Program*

($75 million loan from the OC with a "B-loan" of $39.5 million)

This loan will enable *Centrais Elétricas Matogrossenses (CEMAT)*, a private electricity distribution company that serves the state of Mato Grosso, to expand and modernize its electrical network and business management support systems. The program will expand high-voltage distribution lines and electrification, renovate distribution lines and improve the quality of the distribution system. The syndicated "B-loan" consists of resources from financial institutions that subscribe to participation agreements with the IDB.

State of Espírito Santo Highway Program

($73.5 million loan from the OC with $36 million in cofinancing from the World Bank)

This loan will finance repairs to critical sections of the highway system in the southeastern state of Espírito Santo. Vitória, the state capital, is one of the country's leading ports. The operation will reduce vehicle operating costs, shorten travel times, upgrade safety, improve access to markets and basic services, and foster economic development and competitiveness.

Municipal Access Roads in Minas Gerais

($50 million conditional credit line from the OC)

This *conditional credit line* will finance investment projects in remote and impoverished municipalities in the state of Minas Gerais. Roads that link 22 municipalities to the primary road system will be paved, reducing travel times, lowering transportation costs and improving safety and reliability. The municipalities were selected using an innovative multicriteria methodology that takes into account both potential social benefits and economic returns on investments. Conditional credit lines are a new Bank lending instrument for financing operations in which there is a proven record of successful IDB operations in a given country and sector.

Modernization of State and Local Government External Oversight Systems

($38.6 million loan from the OC)

This program will strengthen the system of external oversight and control of state, federal district and local governments by enhancing the flow of information between audit courts and various branches and levels of government, improving the policy framework and information system, and redesigning oversight procedures to ensure full compliance with the Fiscal Accountability Act.

Structured Corporate Bond for Construtora Norberto Odebrecht S.A.

($28 million partial credit guarantee from the OC)

This bond, to be placed by a subsidiary of a leading Brazilian engineering and construction company, would be one of the first structured receivables transactions with a partial guarantee from an international organization to be issued in the Brazilian capital markets. The partial credit guarantee by the IDB would cover up to 25 percent of the bond issue and help the company secure local currency funding at longer tenors than it could normally obtain in the market.

Land Regularization and Cadastre Program
($10.8 million loan from the OC)

This program will help the federal government and selected state governments implement the Land Information and Registry Act in order to improve the quality of information on property and increase the security of property ownership. Some 144,000 properties in five states will be surveyed and registered, opening the way for land use management projects, facilitating government land access programs, and improving collection of the rural property tax.

Ecotourism Development of the Atlantic Forest in the State of São Paulo
($9 million loan from the OC)

This project will finance training, upgrades to facilities, and improved ecotourism management at six state parks in order to enhance their attractiveness as tourist destinations. The initiative will promote conservation of the Atlantic Forest and foster socioeconomic development through sustainable growth of the parks' ecotourism potential. The parks cover a total area of approximately 320,000 hectares in the state of São Paulo.

National Program for the Institutional Development of Public-Private Partnerships
($2.5 million MIF grant)

The aim of this grant operation is to make public infrastructure services more widely available by promoting private sector participation that furthers the efficient allocation of available public funds. The specific objective is to institutionalize the public-private partnership methodology as a new contracting model that fosters private sector participation in the delivery of public and infrastructure services.

Novarum Seed Investment Fund
($2 million equity investment and $60,000 grant from the MIF)

This fund, managed by *Jardim Botânico Partners Investimentos*, provides seed capital for technology-based start-up companies in Brazil. The fund began operations in 2004 and is looking to expand in order to have a greater demonstration effect. The focus will be on innovative companies involved with telecommunications, information technology and life sciences, including new-material development, biotechnology, agribusiness, ecobusiness and ecoenergy.

Estrada Real *Network of Small and Medium-Sized Tourism Firms in Minas Gerais*
($1.7 million MIF grant)

Estrada Real ("King's Road") is a 1,400-kilometer circuit connecting historical sites from Brazil's mining era in the state of Minas Gerais. Some of the locations have been designated as UNESCO world heritage sites. Under the project, a network of small businesses will be organized into a cluster to develop and market targeted tourism products. The project will assess business development needs, provide matching grants and train professionals, benefiting 700 firms.

Dekasegi *Entrepreneurs*
($1.6 million MIF grant)

Brazilians constitute the third-largest immigrant community in Japan. This project will help those émigrés who return home establish businesses in Brazil by providing them with training and support for business startups and development. Some 10,000 *dekasegi* (Brazilian workers in Japan) are expected to benefit.

Competitiveness Program for Small and Medium-Sized Software Firms
($1.3 million MIF grant)

This program is designed to help 3,000 small and medium-sized software enterprises improve their competitiveness in both the domestic and international markets by introducing a quality standard in software development, providing training in internationalization techniques, and developing business linkages.

Corporate Social Responsibility in Small and Medium-Sized Enterprises
($1.3 million MIF grant)

This project will implement corporate social responsibility practices in 120 small and medium-sized enterprises that belong to value chains in selected strategic economic sectors. The aim is to increase the competitiveness and sustainability of Brazilian businesses and expand their market opportunities. An additional 680 companies will learn about the benefits of corporate social responsibility.

CHILE

In 2005, the Bank approved six loans, including one under the PROPEF, and two MIF financings to Chile. Since 1961, the Bank has made 142 loans totaling $5.1 billion and disbursements have totaled $4.9 billion.

Urban Rehabilitation and Development of Valparaíso
($25 million loan from the OC)

This operation will revitalize the historic port of Valparaíso by financing economic, cultural and social investments that draw on the city's cultural heritage. The aim is to improve the quality of life for residents of the city and promote tourism. Resources will be used to integrate heritage neighborhoods, improve services, upgrade public spaces, roads and buildings, and modernize management of urban development. The program also will support public-private cooperation initiatives.

Institutional Strengthening of the Office of International Economic Affairs
($5 million technical cooperation loan from the OC)

This project is designed to help make the country's tradable goods and services more competitive and enhance its trade dealings by modernizing the Office of International Economic Affairs. Project activities will strengthen the organizational structure for trade agreement administration and implementation, support compliance with trade agreements, capitalize on opportunities arising from trade agreements and enhance the office's internal processes and information technology.

Strengthening Support for Parliament
($3.9 million loan from the OC)

The general objective of this *sector facility loan* is to strengthen the capacity of the Library of Congress of Chile to support operation of the legislature and enhance parliamentary relations with citizens. This will be accomplished by developing and implementing a management strategy, information technology services, and advisory services for the legislature and for its citizen outreach.

Institutional Strengthening of the Judicial Branch
($3.7 million loan from the OC)

This program aims to strengthen the country's judiciary by supporting measures to improve the administration of human resources, consolidate the statistical system used to support decision-making processes and reorganize the Administrative Corporation of the Judiciary, including laying the groundwork for administrative decentralization.

Strengthening the National Civil Service Directorate
($3 million loan from the OC)

The purpose of this program is to further modernize and professionalize management of government employees through institutional strengthening of the National Civil Service Directorate (DNSC). The program will bolster the DNSC's management capacity, support the management system for senior staff and modernize human resource management.

Hospital Productivity and Management Tools
($1.7 million MIF grant)

This grant to the University of Chile Hospital will promote the competitiveness of the health care sector by qualifying a range of service providers for public and private insurers. Small and medium-sized private hospitals will become more productive through the introduction of information systems and other modern tools for management and service delivery, enabling them to provide services under the standardized Plan for Universal Care with Explicit Guarantees.

Electronic Invoicing and Tax Portal for Micro-, Small and Medium-Sized Enterprises
($1.3 million MIF grant)

Chile's Internal Revenue Service is partnering under this project with two business associations to develop an electronic invoicing system and tax portal for micro-, small and medium-sized enterprises. Information and training for the firms is also included. Use of such information and communication technology in their accounting and tax management will increase the firms' competitiveness and support their formalization.

COLOMBIA

In 2005, the Bank approved five loans and one MIF financing to Colombia. Since 1961, the Bank has made 207 loans totaling $12 billion and disbursements have totaled $10.8 billion.

Integrated Mass Transit System in Cali

($200 million loan from the OC with $250 million in cofinancing from the World Bank)

The objective of this program is to improve transportation options for the people of Cali, particularly low-income groups. To this end, the program will finance a modern bus transportation system to connect the city's low- and middle-income areas with areas where job-generating activities and social services are concentrated. The program will improve the quality, efficiency and reliability of transportation services and reduce travel time and accidents.

Porce III Hydroelectric Power Plant

($200 million loan from the OC)

This loan to *Empresas Públicas de Medellín* will support construction of a hydroelectric power plant with an installed capacity of 660 megawatts. The output will be connected with the national grid and help meet Colombia's growing demand for power. The loan will finance civil works, electromechanical equipment and transmission lines. The operation will also include a number of important environmental and social measures.

Strengthening the Expanded Immunization Program

($107 million loan from the OC)

This *performance-based loan* will strengthen the country's immunization program for children up to five years of age, focusing on improving the system in 71 low-income municipalities where coverage is below the national average. Impoverished Afro-descendant and indigenous communities, in which vaccination rates are the lowest, will be among the main beneficiaries of the program. Timely vaccination will reduce future outbreaks of vaccine-preventable diseases.

Support for the 2005 General Census

($48 million loan from the OC)

Training and equipment financed by this loan has enabled the government's statistics agency to apply the latest methodologies and techniques in carrying out a reliable, state-of-the-art census of the population, housing and other economic factors. Updated census information is critical to government policymaking, particularly for targeting vulnerable groups and regions for social investments. The Bank is assisting Colombia by coordinating the support of recognized international demographic institutions and by promoting the participation of local experts in census activities.

Innovative Intervention Models for the Coffee Sector

($6 million loan from the OC)

Colombia specializes in high-quality coffee, but its production costs are high and the technological and organizational support system needs improvement. Institutional models and activities developed through this operation will expand access to productive resources and enhance the quality and competitiveness of the industry through technology, modernization and industry-government cooperation. Holding companies called "business incubators" will be established in 10 departments for small business startups and partnerships.

Franchising for Small and Medium-Sized Businesses

($1.4 million MIF grant)

A reliable and efficient franchising system can provide important growth opportunities for small and medium-sized businesses and benefit the overall economy. This program, to be coordinated nationally by the Chamber of Commerce of Medellín, will provide technical assistance, training, information systems and an institutional framework to lay the foundation for a secure, transparent, predictable and sustainable system of commercial franchises.

COSTA RICA

In 2005, the Bank approved two loans and two MIF financings to Costa Rica. Since 1961, the Bank has made 101 loans totaling $2.4 billion and disbursements have totaled $2.1 billion.

Productive Investment Program
($116.8 million loan from the OC)

Designed to ease the transition to free trade, this program will enhance Costa Rica's business climate and competitiveness though investments in strategic sectors, including foreign trade, science and technology and rural roads. Support will be provided for small and medium-sized enterprises, increased productivity and trade management by the public sector, private investment, and upgrading of 3,500 kilometers of rural roads, with participatory local maintenance.

Sustainable Development of the Atlantic Huetar Region
($15 million loan from the OC)

The Huetar region on Costa Rica's Atlantic coast has potential for tourism but also has high levels of poverty and a vulnerability to natural disasters. This *multiphase program* will foster diversification of production and job creation, with an emphasis on the needs of poor and vulnerable groups as well as on disaster prevention and mitigation. The program also includes a component to strengthen local government.

Promotion of the Factoring Industry
($5 million line of credit and $220,000 in grants from the MIF)

Factoring consists of administrative and financial services provided by extending commercial credit based on the borrower's goods or services. This project will develop the supply of and demand for factoring as alternative financing for working capital for small and medium-sized enterprises. By providing long-term financing to two Costa Rican financial institutions with lead positions in the local factoring market that also operate outside the country, the operation will also deepen the factoring market elsewhere in Central America.

Support for Small and Medium-Sized Technological Enterprises
($4.2 million in MIF grants and loans, with cofinancing from the Andean Development Corporation)

To promote entrepreneurship and dynamic business development, this program will provide financing to incubate new software ventures, help firms gain access to international markets, create a network of "angel" investors and develop private sector finance mechanisms. The program will enable *Parque-Tec*, Costa Rica's first private software business incubator, to assist local professionals, technicians, researchers and university graduates in developing their business ideas.

DOMINICAN REPUBLIC

In 2005, the Bank approved three loans and one MIF financing to the Dominican Republic. Since 1961, the Bank has made 90 loans totaling $2.8 billion and disbursements have totaled $2.3 billion.

Labor Markets and Social Transfers (Phase I)
($10 million loan from the OC)

Guided by a commission made up of government, private sector and labor officials, this program will provide job training for young adults, particularly women, lacking a formal education. Courses will cover basic labor skills such as planning, organization and customer service, as well as technical training and internships. Program operations will feature an online job bank, eight regional employment offices and job fairs.

Strengthening the National Statistics System
($10 million loan from the OC)

This program will enhance the management and technical and administrative capacity of the National Statistics Office to produce, analyze and disseminate precise and up-to-date information. The program will train both producers and users of statistics, digitalize the census map, and support the georeferencing of priority statistical data and construction of data processing architecture for the national statistics system.

Disaster Prevention and Risk Management
($5 million loan from the OC)

Like other Caribbean countries, the Dominican Republic is particularly vulnerable to natural disasters, which pose a major risk to life and property. This program will help develop key information on the potential impact of natural threats; support preparation of risk strategies in eight municipalities and at the national level; finance small-scale disaster mitigation projects, information systems and basic emergency equipment; protect school infrastructure; and provide training in emergency response procedures.

Model for Sustainable Tourism Management in Bayahibe
($1.3 million MIF grant)

The goal of this project is to make the Bayahibe region's natural, ecological and cultural attractions more competitive as an international tourist destination. The project will develop and implement a sustainable tourism management model based on best practices in local development, social responsibility and sustainable tourism that integrates local businesses in providing tourism services and preserving resources.

ECUADOR

In 2005, the Bank approved three loans and three MIF financings to Ecuador. Since 1961, the Bank has made 174 loans totaling $4.2 billion and disbursements have totaled $3.9 billion.

Quito International Airport
($75 million loan from the OC)

This private sector loan will finance construction and operation, under a 35-year concession, of a new international airport—the "Quiport"—to serve the Ecuadorian capital. To be built on a plateau near the town of Puembo, 24 kilometers from Quito, the new airport will be bigger, safer and more reliable than the Mariscal Sucre Airport, which is hampered by numerous constraints that cannot be corrected because of its location in the center of this city surrounded by mountains.

Rehabilitation of Quito Historic Center (Phase II)
($8 million loan from the OC with an IFF interest rate subsidy)

Under this project, the municipality of Quito will continue to make investments in infrastructure and social programs to promote economic development, focusing on cultural tourism and commerce. Small and medium-sized enterprises will receive financial and technical assistance, works will be built to reduce traffic congestion, social and community programs will be initiated, and a public information campaign will be carried out.

Early Warning and Risk Management System
($5 million loan from the OC with an IFF interest rate subsidy)

This program will support Ecuador's efforts to strengthen natural disaster risk management by implementing a technical and scientific early warning system that addresses the threat posed by the Cotopaxi and Tungurahua volcanoes, and by modernizing the organizational structure of government agencies, particularly in the area of planning.

Financial Services in Rural Areas
($2 million MIF grant)

This operation will improve access to financial services for micro-, small and medium-sized enterprises in rural areas by establishing a matching grant mechanism for partial project financing. The initiative will expand lending by regulated financial institutions and strengthen unregulated rural savings and loan cooperatives so that they can eventually be mainstreamed. Some 10,000 rural households and enterprises are expected to benefit through greater access to financial services and increased deposits.

Sustainable Productive Sector Development in the Galápagos Islands
($1.9 million MIF grant)

By improving the ability of micro-, small and medium-sized enterprises in local productive sectors to establish links to tourism-based economic development, this project will support the sustainable development of the Galápagos, where livelihoods depend on conservation of the natural environment. The productive sectors involved include fishing, crop and livestock farming, and tourism.

Cooperative Operations by Small and Medium-Sized Floriculture Enterprises
($1.6 million MIF grant)

Using a business supply chain strategy, this project will develop and implement a model to help partnerships of small and medium-sized floriculture enterprises gain access to U.S. and European markets. Areas of activity will include standardization, diversification, technical assistance, transportation logistics and distribution channels.

EL SALVADOR

In 2005, the Bank approved four loans to El Salvador. Since 1961, the Bank has made 107 loans totaling $3.2 billion and disbursements have totaled $2.6 billion.

Basic Education for All Project
($85 million loan from the OC with an IFF interest rate subsidy)

This project will afford greater opportunities to children from the most vulnerable Salvadoran families to enroll in school and complete their basic education. Targeting the poorest rural municipalities and most troubled urban schools, the project will update curriculum to improve student performance, provide training for teachers' professional development, upgrade infrastructure and strengthen the national education evaluation system.

Solidarity Network
($57 million loan from the OC with an IFF interest rate subsidy, and $21 million in cofinancing from the World Bank)

This program will combine conditional cash transfers, greater access to education, health and nutrition services, and upgrades to water and sanitation systems to improve living conditions for the poor. Selected families in targeted municipalities will receive modest stipends as long as they keep their children in school and obtain regular infant and prenatal checkups. Specialized NGOs will provide community health services, and repairs will be made to schools, health facilities and roads.

Sustainable Roads in Rural Areas (Phase II)
($55.4 million loan from the OC)

Under this second phase of a program to rebuild and upgrade rural roads, another 300 kilometers of tertiary gravel roads will be improved. The aim is to better serve rural communities, raise their standard of living and revitalize agriculture. The program also includes a road maintenance system.

Strengthening the National Statistics System
($13.5 million loan from the OC)

This operation will update the country's statistical database by supporting the population, housing and agricultural censuses. The Department of Statistics and the Census, the government agency in charge of coordinating the national statistics system, will be modernized and strengthened.

GUATEMALA

In 2005, the Bank approved one loan and two MIF financings to Guatemala. Since 1961, the Bank has made 113 loans totaling $2.7 billion and disbursements have totaled $2.2 billion.

Restoration of the Lake Amatitlán Watershed
($18.9 million loan from the OC and $5 million in cofinancing from the Organization of the Petroleum Exporting Countries)

To reverse environmental degradation in the Lake Amatitlán watershed and thereby improve the quality of life in the Guatemala City metropolitan area, this loan will finance institutional strengthening and studies for a medium-term environmental management plan, improve garbage collection and disposal services, and stabilize the Villalobos riverbed to reduce the amount of sediment entering the lake.

Enhancing the Development Impact of Workers' Remittances
($5 million subordinated loan and $200,000 grant from the MIF)

This project will enhance the development impact of workers' remittances to Guatemala from the United States through an innovative structured transaction to finance the expansion of medium- to long-term credit for small businesses and the recipients of remittances. The principal vehicle used will be mortgage loans issued to recipients and paid by remittance flows.

Developing Cultural Tourism in Indigenous Communities

($1.2 million MIF grant)

A cultural tourism network created through this program will help Mayan communities manage and benefit from tourism ventures. The operation will strengthen the capacity of indigenous communities and businesses, including many Mayan-owned microenterprises, to provide goods and services directly to visitors. Participants will be trained in developing business and marketing plans and in understanding procedures for gaining access to credit.

GUYANA

In 2005, the Bank approved two loans under the PROPEF to Guyana. Since 1976, the Bank has made 54 loans totaling $955 million and disbursements have totaled $729 million.

Citizen Security Program

($1 million loan from the FSO under the PROPEF)

This loan under the Project Preparation and Execution Facility (PROPEF) will help prepare the country's prospective public safety program, which is part of the IDB's operations program with Guyana. PROPEF is also designed to provide additional support for eventual project startup prior to first disbursement and to ensure institutional sustainability.

HAITI

In 2005, the Bank approved eight loans to Haiti. Since 1961, the Bank has made 58 loans totaling $1.2 billion and disbursements have totaled $712 million.

Transport Infrastructure Rehabilitation Program

($62.6 million loan from the FSO)

This program will finance repairs of primary, secondary and tertiary roads, highways and bridges, and Port-au-Prince's international airport. The aim is to restore an effective transportation infrastructure that will help spur economic recovery and improve the quality of life of the Haitian population through uninterrupted, secure transportation services.

Urban Rehabilitation Program

($50 million loan from the FSO and $8 million in cofinancing from the Canadian International Development Agency)

To help improve living standards and access to government services, this loan will finance the construction of central government offices and facilities for municipal, social and community services in nine departmental capitals and in the municipality of Carrefour in metropolitan Port-au-Prince. The facilities will house different government offices under a single roof. In densely populated Carrefour, the program will also improve access to water and social services, upgrade garbage collection services and public markets, ease traffic congestion and create public parks.

Ennery-Quinte Agricultural Intensification Project

($27.1 million loan from the FSO)

This project will help some 10,000 rural families intensify and diversify their farming practices in ways that will increase their incomes, conserve soil and water resources, and reduce the risks of floods and mudslides. The operation will be carried out in the key watershed of Ennery-Quinte, in the foothills north of the city of Gonaïves, an area subject to flooding because of problems with erosion.

Fiscal Reform and Governance Program

($25 million loan from the FSO and $61 million in cofinancing from the International Development Association)

This *policy-based loan* is designed to improve the efficiency, effectiveness and transparency of public resource management by reforming policies for macroeconomic management, government procurement, budgeting, financial oversight and revenue collection.

Vocational Training Program

($22 million loan from the FSO)

Under this program, poor unemployed or underemployed young people aged 15 to 24 will receive vocational training in trades for which there is market demand, such as construction, carpentry, electricity, plumbing, auto mechanics, metalwork, apparel production and electronics. Particular attention will be paid to training women. The program will also include student internships, teacher training and preparation of teaching materials.

Institutional Strengthening for Environmental Management
($5 million loan from the FSO)

This operation will finance institutional strengthening activities aimed at establishing a functional environmental governance structure. The program will provide professional management training, implement pilot projects in resource management and restoration, and strengthen the national environmental information system, including the design of applications to set management and restoration priorities.

National Early Warning System for Flooding
($5 million loan from the FSO and cofinancing for $12 million from the International Development Association and $500,000 from the United Nations Development Programme)

This *sector facility loan* will be used to set up automated alarms in communities at high risk for flooding. The program will support improvements to flood monitoring and forecasting in 13 priority watersheds, establish a basic communications system for flood warnings, and promote community preparedness and public awareness.

Strengthening Economic Governance Institutions
($5 million loan from the FSO)

The purpose of this operation is to strengthen the institutional capacity of the Ministry of Economic Affairs and Finance by improving economic governance in the short and medium terms. The program will focus on improving the efficiency of management of government procurement in five ministries (public works, education, health, justice and agriculture), enhancing budget capacity in beneficiary agencies, and strengthening customs and tax collection capacity.

HONDURAS

In 2005, the Bank approved three loans to Honduras. Since 1961, the Bank has made 152 loans totaling $2.7 billion and disbursements have totaled $2.2 billion.

National Sustainable Tourism Program
($35 million loan from the FSO and $7 million in cofinancing from the Central American Bank for Economic Integration)

This program will strengthen and diversify tourism services and products in order to improve the country's position as a destination for regional and international markets. The investments will protect public goods that represent the nation's natural, cultural and historic heritage and improve core public services in areas with the greatest potential for tourism, including Copán, the site of major Mayan ruins, and coastal beaches.

Improvement of Health Conditions
($16.6 million loan from the FSO and $20 million in cofinancing from the International Development Association)

This *performance-driven loan* is designed to improve indicators associated with health coverage and the quality of maternal and child health services, such as prenatal checkups and childbirth in medical institutions. The aim is to support progress toward the main health-related Millennium Development Goals to improve maternal health and reduce child mortality rates. Project activities will focus on four departments with health indicators below the national average. Disbursements will be triggered in accordance with the achievement of target indicators such as numbers of prenatal and postpartum checkups and vaccinations.

Integrated Development for Indigenous and Afro-Caribbean Groups
($11.1 million loan from the FSO)

This loan will be used to establish a Human Capital Development Fund accessible to the country's nine indigenous and Afro-Caribbean groups for projects that improve and expand education services and reduce maternal and infant mortality rates and diseases such as malaria and HIV/AIDS. Projects will reflect each community's priorities and will also support sustainable management of native forests, fisheries, ecotourism and microenterprise development.

JAMAICA

In 2005, the Bank approved no new loans to Jamaica. Since 1969, the Bank has made 89 loans totaling $1.8 billion and disbursements have totaled $1.6 billion.

During 2005, the Bank focused on portfolio management while preparing a new country strategy with Jamaica. In February, the Bank participated in the first-ever joint consultation with civil society on the government's medium-term socioeconomic policy framework and the country strategies of the IDB, World Bank and United Kingdom Department for International Development. The Bank also conducted a private sector assessment and a study on political institutions, the policymaking process and policy outcomes to support strategy preparation.

In view of Jamaica's development challenges and government priorities, the strategic pillars of the new IDB country strategy are (i) private sector development, (ii) getting better value for public expenditures, and (iii) reducing vulnerability to natural disasters. The strategy is expected to be distributed to the Board in early 2006.

In collaboration with the World Bank and with support from the United Kingdom National Audit Office, the Bank conducted a Joint Country Financial Accountability Assessment and Country Procurement Assessment Report, which provided the foundation for a technical cooperation grant of $450,000 for strengthening the Government of Jamaica's capacity to manage for results.

MEXICO

In 2005, the Bank approved four loans and four MIF financings to Mexico. Since 1961, the Bank has made 184 loans totaling $18.8 billion and disbursements have totaled $16.5 billion.

Consolidation and Expansion of the* Oportunidades *Program (Phase II)
($1.2 billion loan from the OC and $300 million in cofinancing from the World Bank)

Mexico's *Oportunidades* human development program is an internationally recognized initiative to improve the education, nutrition and health of millions of poor families by offering cash subsidies to mothers, provided they keep their children in school, take them to periodic medical checkups, and attend talks on nutrition, hygiene and family planning. This second phase focuses on enhancing care and advisory services for the families rather than expanding program enrollment. *Oportunidades* already operates in every state in Mexico, reaching some 25 million people.

Consolidation of the Public Finance System
($600 million loan from the OC)

The purpose of this operation is to deepen financial markets in order to help place financial intermediaries on a sounder footing, improve transparency in financial services and increase bank lending to the private sector. New securities market legislation supported by the program is expected to foster the development of bond and stock markets.

Sustainability of Rural Water Supply and Sanitation Services (Phase II)
($150 million loan from the OC and $225.5 million in cofinancing from the World Bank)

This program, which will benefit some 900,000 people in 2,000 rural communities, is designed to ensure sustainable delivery of water and sanitation services using a self-management model that encourages participation by beneficiaries. The program builds on the achievements of a similar IDB-financed operation approved in 1998 that supported the construction or improvement of water and sanitation systems in more than 5,000 communities.

Finance for Small Exporters
($100 million loan from the OC)

This loan to *Bancomext*, Mexico's export bank, will enable an estimated 700 small and medium-sized export firms to gain access to credit to expand or improve operations through equity investments, working capital or technical and management services to support investment and modernization. The resources will be channeled by banks and other financial institutions to businesses that have up to $20 million in annual exports.

Direct Savings by Mexicans Living in the United States to Purchase Housing in Mexico
($5 million loan and $250,000 grant from the MIF)

This loan and grant to the mortgage lender *Hipotecaria Su Casita* will help Mexicans living in the United States finance home purchases in Mexico. The financing will enable *Su Casita*, which has 107 branches across Mexico as well as

offices in the United States, to issue loans denominated in dollars that will carry interest rates below those charged on Mexican–peso–based loans.

New Financial Institution Specialized in Small Farms and Small and Medium-Sized Enterprises
($2.5 million equity investment, $2.5 million subordinated loan and $75,000 grant from the MIF)

The purpose of this project is to expand coverage of the Mexican financial system to small farms and small and medium-sized enterprises by providing equity and subordinated debt financing to a new specialized financial intermediary called *Banco Ve por Más*. The program will test new ways of addressing the issues of funding, transaction costs and risk minimization that constrain lending to these farms and enterprises.

Developing "Base of the Pyramid" Market Opportunities
($2 million grant from the MIF)

This project will encourage micro, small and medium-sized enterprises to pursue what are called "base of the pyramid" market opportunities to provide better products and services to low-income consumers. Resources will be used to develop plans for new products and services and to assist ventures backed by companies, small business associations and nongovernmental organizations. Competitive grants will provide matching funds for eligible initiatives.

Access to Housing Finance for Recipients of Remittances
($1.7 million MIF grant)

This pilot project, to be carried out by *Sociedad Hipotecaria Federal*, a second-tier government mortgage financing institution, will expand access to mortgages and home improvement loans for families in Mexico that receive remittances. The project is designed to address some of the main obstacles that prevent the country from leveraging the economic force of remittances to finance housing.

NICARAGUA

In 2005, the Bank approved two loans and one MIF financing to Nicaragua. Since 1961, the Bank has made 132 loans totaling $2.3 billion and disbursements have totaled $1.9 billion.

Municipal Social Investment Program
($45 million loan from the FSO and $10 million in cofinancing from Germany)

This operation will establish mechanisms for distributing funds to municipalities on a competitive basis for priority projects that target low-income groups. Participating municipalities may propose projects individually or in conjunction with other municipalities, donors, NGOs or businesses in order to improve the quality of basic social services, increase their coverage and eliminate barriers to access.

National Development Plan
($40.1 million loan from the FSO)

By supporting implementation of the national development plan, this loan will foster economic growth, generate jobs, raise incomes and encourage investments and exports. The program will focus on promoting higher productivity in three industries that contribute about one-third of GDP: meat and dairy production, coffee and tourism. Investments will improve roads, airports, storage facilities and other infrastructure; modernize production technology and certification processes; and provide training in business management.

Support for the Factoring Industry
($1 million line of credit, $100,000 equity investment and $235,000 in grants from the MIF)

With a view to increasing the competitiveness of small and medium-sized enterprises, this project will support Nicaragua's factoring industry. Factoring is a form of asset-based finance in which a factoring company (the factor) extends credit to its client (the borrower) on the basis of the value of the borrower's accounts receivable (payments owed to the borrower by its customers). Factoring is especially important for Nicaragua, given the scarcity of credit in the economy.

PANAMA

In 2005, the Bank approved three loans to Panama. Since 1961, the Bank has made 125 loans totaling $2.1 billion and disbursements have totaled $1.8 billion.

Priority Activities in the Panama Canal Watershed
($19.9 million loan from the OC)

This project will finance priority demand-driven investments in local communities and key activities for integrated management of the Panama Canal watershed, such as natural resource protection, conservation and management; natural disaster prevention; basic infrastructure (including rural roads); water supply systems; schools and health clinics; and incentives to adopt sustainable production practices.

Operational Instruments for Low-Cost Housing
($10 million loan from the OC)

This *innovation loan* will help finance pilot projects to test different instruments designed to expand access to housing for low- and moderate-income individuals. The program will include one pilot project to upgrade shantytowns and another to finance the construction of small basic housing units for poor families, who usually build their own homes but tend to live in substandard conditions. Two other projects will help low-income families buy homes through direct subsidies.

Capacity Building for International Trade
($4.7 million loan from the OC with $13.5 million in cofinancing from the World Bank)

The objective of this *sector facility loan* is to improve the management of Panama's foreign trade by strengthening the capacity of government officials to formulate, negotiate and implement effective foreign trade and investment policy.

PARAGUAY

In 2005, the Bank approved seven loans, including three under the PROPEF, to Paraguay. Since 1961, the Bank has made 120 loans totaling $1.9 billion and disbursements have totaled $1.6 billion.

Public Financial Reform
($30 million loan and $2.7 million technical cooperation loan from the OC)

By strengthening the country's financial system, this operation will create medium- and long-term savings and loan instruments for productive sectors such as agriculture and agribusiness. Legal reforms will help establish a second-tier financial entity, and technical cooperation and investments will strengthen the cooperatives sector.

Science and Technology Program
($6.5 million loan from the OC and $750,000 loan under the PROPEF)

The National Council on Science and Technology will carry out this program to enhance research and innovation capacity by financing projects and training. Competitive grants will be awarded to academic institutions for basic and applied research, and to businesses for technological innovation that improves products and processes. The initiative will also strengthen human resources by supporting postgraduate programs and increasing the pool of professionals in science and technological development.

Asunción Coastal Development Program
($3.5 million loan from the OC under the PROPEF)

This program is being financed under the Project Preparation and Execution Facility (PROPEF), which is designed to improve the quality of IDB-financed projects, shorten preparation time, and promote institutional strengthening and project evaluation. Program resources can be used for project preparation, capacity building for project execution, small investments, institutional strengthening of executing agencies, and ex post project evaluations.

Strengthening the Judiciary System

($1.2 million loan from the OC under the PROPEF)

Also being prepared with support under the Project Preparation and Execution Facility (PROPEF), this program will modernize the Supreme Court of Justice and help improve the administration of justice. Program resources can be used for project preparation, capacity building for project execution, small investments, institutional strengthening of executing agencies, and ex post project evaluations.

Global Rural Microcredit Program

($1.2 million loan and $241,000 grant from the Norwegian Development Fund for Latin America)

Small farmers and rural microenterprises often lack access to credit to meet their needs for investment and working capital. This operation will provide training and extend loans to selected nongovernmental organizations with microcredit programs in order to meet growing demand for rural lending. An estimated 5,200 microentrepreneurs and small producers in areas not traditionally served by commercial banks are expected to gain sustainable access to credit through the program.

PERU

In 2005, the Bank approved six loans to Peru. Since 1961, the Bank has made 182 loans totaling $7.1 billion and disbursements have totaled $6.4 billion.

Public Expenditure Quality and Management Improvement Facility

($200 million loan and $5 million institutional sector facility loan from the OC)

This *policy-based operation* will support government efforts to modernize and streamline public investment and budget by results; improve public management quality, expenditure monitoring and administrative and financial management systems; and expand public-private sector partnerships in investment and service delivery. A Fiscal Stabilization Fund will be established as part of a broad effort to strengthen and stabilize the decentralization process. The project is structured using a programmatic approach to promote reforms over the medium and long term. The loan is the first in a planned series of three single-tranche operations.

Departmental Road Program

($50 million loan from the OC with $50 million in cofinancing from the World Bank)

By developing the technical and institutional capacity of subnational governments that are responsible for secondary roads, this program will support decentralization of the road system. Through investments in road rehabilitation and maintenance as well as improvements to the road and transportation management system, the program will improve road integration and connectivity, and reduce transportation costs and travel times.

Sanitation Sector Development Program, Phase II

($50 million loan from the OC and $10 million in cofinancing from Germany)

This program will support public-private partnerships to repair, expand, operate and maintain basic potable water and sanitation systems that benefit poor people living in remote areas. To qualify for financing, municipalities must agree to carry out projects that are efficient and sustainable in the long term and involve specialized public or private sector operators in the administration of services. The first two public-private partnership projects will be carried out in Tumbes and Piura.

Science and Technology Program

($25 million loan from the OC)

This five-year program aims to improve the country's competitiveness by strengthening technological innovation and research capabilities. The program will expand capacity to generate scientific and technological knowledge, promote business innovation and private sector participation in science and technology activities, and promote cooperation among the scientific, academic and productive sectors.

Fruit Fly Control and Eradication in Coastal Areas

($15 million loan from the OC)

This project will control the Mediterranean fruit fly in certain coastal valleys by releasing sterile flies as an environmentally friendly biological insecticide. The objective is to reduce the economic losses caused by the pest and enhance the country's export potential and international competitiveness. The project constitutes the first four years of a 10-year strategic plan to eradicate the fruit fly from coastal agricultural production.

SURINAME

In 2005, the Bank approved one loan to Suriname. Since 1980, the Bank has made 16 loans totaling $104 million and disbursements have totaled $62 million.

Trade Sector Support Program

($4 million loan from the OC with an IFF interest rate subsidy)

This loan will strengthen Suriname's technical and institutional capacity to formulate, negotiate and implement trade policies and agreements. The program will facilitate efforts by the Ministry of Trade and Industry to coordinate and support trade policymaking and establish consultation mechanisms between government and the private sector. It will establish an effective trade information system, provide training for trade-related human resources, and help specialized institutions address trade issues in the areas of agriculture, sanitary and phytosanitary standards and intellectual property.

TRINIDAD AND TOBAGO

In 2005, the Bank approved two loans under the PROPEF to Trinidad and Tobago. Since 1967, the Bank has made 37 loans totaling $1 billion and disbursements have totaled $843 million.

Information and Communications Technology Program

($1.5 million loan from the OC under the PROPEF)

This loan under the Project Preparation and Execution Facility (PROPEF) will help prepare the country's prospective information and communication technology program, which is part of the IDB's operations program with Trinidad and Tobago. PROPEF is also designed to provide additional support for eventual project start-up prior to the first disbursement and to ensure institutional sustainability.

URUGUAY

In 2005, the Bank approved three loans to Uruguay. Since 1961, the Bank has made 123 loans totaling $4 billion and disbursements have totaled $3.4 billion.

Social Sector Program

($250 million loan from the OC with $75.4 million in cofinancing from the World Bank)

This program is designed to help the poorest segments of the population, which were most affected by the economic crises of recent years, especially the young, almost half of whom live in poverty. The program will support measures that promote a stable macroeconomic environment and help launch immediate comprehensive measures to alleviate poverty among the poorest families and a new institutional framework for social policy coordination, monitoring and evaluation.

Support for Productivity and Development of New Livestock Products

($15.8 million loan from the OC with cofinancing for $19 million from the World Bank and $14 million from the International Fund for Agricultural Development)

Increasing the productivity and boosting the incomes of small and medium-sized livestock farmers is the objective of this program. It also aims to develop new products and penetrate new markets by supporting innovation in the entire livestock supply chain. Farmers will receive grants to partially cover the costs of investments for innovative farm management and business plans. Livestock accounts for over half the value of Uruguayan exports.

Debt Management Office

($2.5 million loan from the OC)

This program will support the establishment of a modern system to strengthen the integrated management of internal and external public debt, as well as all the government's liabilities.

VENEZUELA

In 2005, the Bank approved five loans to Venezuela. Since 1961, the Bank has made 82 loans totaling $4.8 billion and disbursements have totaled $3.7 billion.

Tocoma Hydroelectric Plant

($750 million loan from the OC with $300 million in parallel financing from the Andean Development Corporation)

This operation will help meet Venezuela's growing demand for electricity by financing construction of a hydroelectric plant with an installed capacity of 2,160 megawatts in the Lower Caroní River Valley. The plant will be built, operated and maintained by *CVG Electrificación del Caroní S.A.*, a state company. The IDB loan will finance engineering, administration, civil works, equipment, the transmission system, and a sustainable environmental and social management plan.

Expansion and Improvement of Initial and Basic Education

($125 million loan from the OC)

By financing the expansion of early and basic education, this operation will bring greater opportunities to underserved areas and low-income groups. The resources will support construction and repairs of 300 schools in municipalities with the highest levels of poverty and unmet demand. The program will also finance teacher training, school furnishings, computer equipment, and investments in libraries and multimedia classrooms.

Modernization of Customs and Tax Administration

($18.5 million loan from the OC)

This loan will help establish a more modern, integrated and transparent customs and tax agency and increase tax revenue from sources other than oil. It will support efforts to modernize customs and tax institutional management, enhance auditing and enforcement, simplify customs procedures, improve the agency's capacity to prevent and combat fraud, and upgrade its technological infrastructure.

Integral Management of the Caroní River Watershed

($14 million loan from the OC)

Approved in conjunction with the loan for the Tocoma hydroelectric plant, this operation will design and implement the institutional framework to manage the Caroní River watershed, support vulnerable indigenous and non-indigenous communities, implement actions to prevent and control environmental degradation and rehabilitate areas degraded by mining and agricultural activity. Land belonging to indigenous peoples will be demarcated, and the capacity of area residents to respond to sustainable development opportunities will be enhanced. Management instruments will include the establishment of water usage tariffs, a complete cadastre of water users and a system for concessions.

Electric Power Sector Development

($2.7 million technical cooperation loan from the OC)

This technical cooperation loan will enable the Ministry of Energy and Petroleum to conduct a comprehensive assessment of the power sector to identify steps needed to improve operations, regulations, supervision, rate-setting mechanisms, subsidies, system reliability, and consumer and environmental protection. The resources will be used to develop finance plans and consultation activities needed to implement a new model for the sector.

REGIONAL

In 2005, the Bank approved three loans, five technical cooperation operations and eight MIF financings at the regional level. Since 1963, the Bank has made 66 loans totaling $2.9 billion and disbursements have totaled $2.4 billion.

Trade Finance Facilitation Program

(Up to $270 million from the OC)

Under its Trade Finance Facilitation Program, approved in 2004, the IDB authorized new trade finance facility lines of credit for the following issuing banks: *BBVA Banco Francés* and *Banco Río de la Plata S/A* in Argentina; *Unibanco-Brazil, Banco Votorantim* and *Banco Industrial e Comercial S.A.* in Brazil; *BBVA Colombia* in Colombia; *Banco Popular Dominicana C. por A.* and *Banco Hipotecario Dominicano* in the Dominican Republic; *Banco de la Producción, S.A.* in Ecuador; and *Banco del Istmo (Banistmo)* in Panama. Under the program, the Bank partially guarantees risks taken by international banks on trade finance instruments issued by banks in the region. This supports imports of critical capital goods and intermediary goods while enabling issuing banks to extend more financing to local exporters.

IIG Regional Trade Finance Facility
($75 million loan from the OC)

This revolving, five-year credit facility will be used to support a trade finance fund managed by the International Investment Group. This facility represents a new vehicle for providing trade financing outside of the traditional banking system, thereby helping to diversify the sources of financing for medium-sized exporters/importers.

Crecera Regional Trade Finance Fund
(Up to $10 million loan from the OC)

This private sector loan supplements a previous $15 million loan to support a trade finance facility managed by the Crecera Finance Company that provides pre- and post export financing to medium-sized exporters in Latin America. The facility will enable Crecera to provide critical and stable trade financing to exporters during difficult economic periods, complementing financing available from the traditional banking sector.

Grenada Reconstruction, Recovery and Development Program
($10 million loan from the FSO with cofinancing for $42 million from the United States and $20 million from the World Bank)

The purpose of this program is to provide resources to the Caribbean Development Bank for socially and economically viable projects in Grenada to support its economic recovery in the aftermath of Hurricane Ivan. The IDB waived its normal fees and expanded country eligibility to include members of the Caribbean Development Bank that are not members of the IDB.

Promotion of Regional Public Goods
($8.9 million in grants from the Facility for the Promotion of Regional Public Goods)

This initiative supports regional public goods projects involving joint regional management for sustainable use of Amazonian biodiversity, consolidation of the Latin American network of education portals, improvements in public administration through best practices in e-government, increased institutional capacity at public debt management agencies, strengthening of stock markets, improvements in statistics for measuring living conditions, water management in the Upper Lempa River basin, and a single database for the MERCOSUR social security data system.

Environmental Protection and Maritime Transport Pollution Control in the Gulf of Honduras
($4.8 million grant from the Global Environment Facility)

Under a regionally coordinated strategic action plan, this project will prevent pollution caused by maritime transportation in major ports and shipping lanes, improve navigational safety, and reduce land-based sources of pollution draining into the gulf. The aim is to reverse the degradation of coastal and marine ecosystems in the Gulf of Honduras, which is affecting Belize, Guatemala and Honduras.

INDES Training in Social Management
($2.9 million grant from the FSO)

The purpose of this training by the Inter-American Institute for Social Development (INDES) is to enhance the understanding and effective use of best practices in social sector program and policy design and management in the region. Some 2,300 managers, specialists and trainers from all levels of government, nongovernmental organizations and civil society organizations will receive classroom, partially class-based and distance training.

Renewable Energy and Energy Efficiency
($1.2 million grant from the German Federal Ministry for Economic Cooperation and Development, under the Strategic Partnership Agreement for Cooperation on Renewable Energy Development)

This program will develop, assess and disseminate good practices in renewable energy and energy efficiency in the region and provide analytical support for project identification and initial assessment. The goal is to contribute to sustainable development over the medium and long terms through investment in renewable energy and energy efficiency.

Postgraduate Studies Scholarship Program for Mid-Level Public Officials
($1 million grant from the FSO)

Mid-level government officials from Latin America and the Caribbean will receive scholarships under this program to enroll in master's degree programs in priority development-related fields. The goal is to improve the efficiency and effectiveness of governments in the region through specialized technical and managerial training.

Central America Growth Fund L.L.C

($10 million equity investment and $1 million grant from the MIF)

The Central American Growth Fund will provide equity and quasi-equity financing, financial and technical advisory services, and value-added governance to 15 small and medium-sized enterprises in the subregion. The fund is designed to promote private investment in competitive and innovative enterprises through the venture capital industry.

Integrating Low-Income Groups into the Productive System

($3.5 million MIF grant)

A methodology developed in Chile will be used under this program to help institutions in Argentina, Colombia, El Salvador, Mexico, Peru and Uruguay improve housing and develop productive activities for low-income groups in marginal areas. The methodology emphasizes social empowerment, community development, job training and support for business development.

Support for MERCOSUR Trade Liberalization and Integration

($3.2 million grant from the MIF)

This grant will help the Southern Cone Common Market (MERCOSUR) countries strengthen the negotiating capacity of agricultural sector organizations in order to spearhead their involvement in integration processes and international trade agreements. The program will support 14 key agricultural groups in Argentina, Brazil, Paraguay and Uruguay through sector assessments, training seminars and upgrades in information technology.

Government E-Procurement Support for Small and Medium-Sized Enterprises

($1.9 million MIF grant)

Approximately 4,000 small and medium-sized enterprises in Argentina, Chile and Peru will benefit from this program, which will provide training, technical assistance and information services to help the businesses become more competitive and access new markets. The governments of the participating countries will benefit from diversification of suppliers, lower supply costs and greater export activity.

Developing the Agricultural Insurance Market in Central America

($1.8 million MIF grant)

This project is designed to eliminate constraints on developing affordable agricultural insurance in El Salvador, Guatemala, Honduras and Nicaragua, especially for small and medium-scale farmers. Legal and regulatory issues will be addressed, along with the need for timely and accurate data, through an information platform for the analysis, supervision and management of risks in the agricultural sector. Training in innovative agricultural insurance instruments will be provided.

Strengthening Financial Management of Rural Producer Organizations

($1.6 million financing from the MIF)

The aim of this operation is to improve the financial management of small rural producer organizations so that they are better able to consolidate and expand their access to markets. The purpose is to implement and strengthen the use of financial management methods and principles in these organizations.

Integrating Central American Microproducers into International Value Chains

($1.1 million MIF grant)

This project is designed to increase the competitiveness of more than 1,000 artisans in Guatemala, Honduras and Nicaragua and integrate them into value chains that supply interior decoration retailers in foreign markets. The project builds on the experiences of an earlier MIF-backed project that linked three Central American export firms to major global buyers of handcrafted furniture and decoration items.

Improving Central Bank Remittance Reporting and Procedures

($1 million MIF grant)

This project will help central banks in Latin America and the Caribbean strengthen their information and statistics systems for tracking remittances, which are a growing component of the balance of payments for many countries. More reliable data will spotlight the impact of remittances and promote greater transparency in money transfer systems and better access to formal financial services for the families that receive these funds.

Technical Cooperation

In 2005, the Bank funded 427 national and regional technical cooperation (TC) projects for a total of $89.6 million. The technical cooperation program provides important support for implementation of the Bank's lending program and its Institutional Strategy. Its activities transfer knowledge and share experiences in all four areas included in the strategy (see **Box 7**).

As part of the national TC program, 169 projects were approved for social development for a total of $40.9 million. They aim to promote social equity, improve efficiency in social spending and strengthen support systems for social programs. The sectors in which these projects were carried out include education, rural development, microenterprise, youth, violence prevention and protection of vulnerable groups, urban development and environmental protection.

As a part of its social sector reform strategy, the Bank provided $2 million in technical cooperation resources for emergency relief grants to benefit its member countries affected by natural disasters. The Bank responded promptly to emergencies due to heavy rain, hurricanes and flooding that struck the region, causing widespread damage and loss of life.

Technical cooperation in support of competitiveness included 136 projects for a total of $21.2 million. The Bank provided support to its borrowing countries in their initiatives to improve competitiveness through the deployment of productive infrastructure, the use of innovative technology and support to small and medium-sized enterprises. The Bank also provided grant resources to support various trade, integration and sustainable development initiatives.

Under the program on modernization of the state, 95 projects for $23.1 million were approved, including projects to strengthen the institutional, regulatory, and management aspects of public administration, as well as good governance and results-based management in the taxation, fiscal, customs, and public expenditure domains, among others. E-government and information technology support were also important areas supported by the TC program.

In the integration area, 27 projects were approved totaling $4.4 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. Technical assistance was also provided for consolidation of subregional integration schemes.

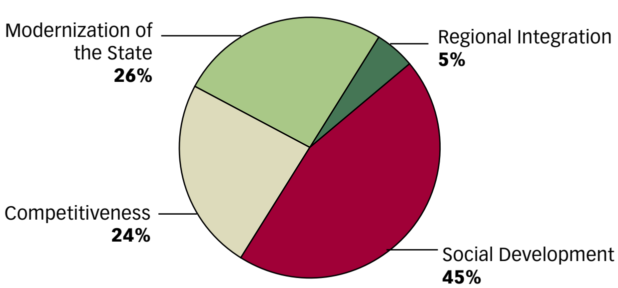
TABLE III • DISTRIBUTION OF NONREIMBURSABLE TECHNICAL COOPERATION[1]

(In thousands of U.S. dollars)

Country	2005	1961–2005
Argentina	$ 189	$ 69,594
Bahamas	445	18,749
Barbados	148	21,187
Belize	149	7,159
Bolivia	2,700	83,066
Brazil	2,560	164,246
Chile	887	14,487
Colombia	1,937	60,766
Costa Rica	1,056	48,654
Dominican Republic	1,602	56,576
Ecuador	3,735	71,080
El Salvador	2,642	56,689
Guatemala	4,906	60,862
Guyana	1,957	54,933
Haiti	2,717	56,603
Honduras	2,594	71,412
Jamaica	242	39,468
Mexico	2,000	27,261
Nicaragua	2,318	77,112
Panama	1,217	38,423
Paraguay	2,081	66,162
Peru	3,566	88,802
Suriname	2,404	28,915
Trinidad and Tobago	816	20,533
Uruguay	814	32,658
Venezuela	290	12,299
Regional	43,578	762,304
TOTAL	**$89,552**	**$2,110,001**

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

NONREIMBURSABLE TECHNICAL COOPERATION BY SECTOR, 2005



BOX 7 • THE ROLE OF GRANTS AT THE IDB

Grants funded by donor countries and Bank resources have played a central role in the Bank's mission since it was founded. They have been used to support a broad range of technical assistance activities, including development research, institutional capacity building, the promotion of global and regional public goods, and feasibility studies for prospective Bank loans. Grants have also been used to fund pilot activities, experimental approaches and innovations in public policy, as well as certain types of investments that generate public externalities but produce economic and social returns only in the medium to long term.

In 2005, grants totaling $89.6 million were approved by the Bank. An additional $76 million in grants was provided by the Multilateral Investment Fund. Because it has the capacity to detect "matches" in development policy priorities between donors and recipients, the Bank is in a unique position as the leading multilateral financial institution in the region to mobilize resources and use them to strengthen and better implement recipient countries' development policies, thereby enhancing the overall effectiveness and relevance of Bank operations.

Since 1999, the Bank has been implementing its Institutional Strategy by retooling and adapting itself to the evolving challenges in the region. It has continued to expand and diversify its trust funds, and to develop other grant mechanisms such as the special cofinancing donations known as COFABs. While grant-funded activities already occupy a significant place in the Bank's toolkit, there is room for the Bank to play a more strategic role as intermediary for grant resources between the international donor community and the recipient countries in Latin America and the Caribbean.

The Bank's country focus and emphasis on development effectiveness have prompted it to update and fine-tune the strategic approach and specific mechanisms through which it mobilizes grant resources and makes them available to support the borrowing member countries' development policies. The Bank is working in close partnership with the donor countries and with the international community, which is aligning and harmonizing development assistance pursuant to the Declarations of Rome (2003) and Paris (2005).

See www.aidharmonization.org

The Regional Technical Cooperation (RTC) program complemented national programs, creating synergies in the handling of challenges affecting groups of countries and the region as a whole. The program also stressed the creation of links between the Bank's lending program and its institutional and operational strategies, and helped the Bank support the region in reaching the Millennium Development Goals in the areas of poverty, education, health and the environment.

As part of the overall TC program, the Bank financed 68 RTC operations in 2005 totaling $15.2 million. RTC program operations focused on integration provided support for integration processes at the subregional, hemispheric and international levels. Particularly notable is the regional public information campaign for the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).

Grants for social sector reforms included both areas in which the Bank's expertise is well established and innovative issues recently added to the Bank's agenda. The first group involves support for strengthening social protection systems, issues connected with educational quality and teacher training and support for the health sector. The newer issues include support for child development initiatives, support for people with disabilities, projects that involve the rights and comprehensive development of children and the elderly, projects involving information technologies and poverty reduction, and efforts to combat human trafficking.

RTC projects focused on modernization of the state addressed two major areas. The first involved continuation of support for human resources training in public administration and social management. The second was financing for projects aimed at identifying and systematizing best practices in public administration and implementation of methods designed to strengthen management for results and development effectiveness.

Competitiveness projects supported by RTC included financing for surveys of business performance in Latin America. Funding for agricultural projects focused on the transfer and implementation of technological innovations in soil management designed to increase banana industry productivity in Latin America and the Caribbean. In the energy sector, the major project involved integration of the Southern Cone gas market through the "energy ring of the South."

See www.iadb.org/ar/tc_en

Cofinancing

Multilateral and bilateral cofinancing transactions, not counting private sector loans, IIC, MIF or trust fund operations, totaled approximately $2.2 billion in 2005, substantially above the $1.6 billion average for the last five years. The numbers of cofinanced projects, beneficiary countries and cofinancing partners all increased substantially. This steady progression in the Bank's cofinancing operations reflects closer relationships with other multilateral institutions, enhanced programmatic cooperation with bilateral partners and growing IDB leadership roles in regional integration, and multiphase-, sector-, and policy-based lending.

Cofinancing benefits all parties involved: borrowing members benefit from larger and more diversified capital inflows with favorable financial conditions and technical assistance, and donors can realize more effective development contributions at lower transaction costs. The Bank's operations are facilitated by raising risk ceilings and/or lowering local counterpart restrictions. Cofinancing also enhances the platform for successful policy dialogues, thus boosting the development effectiveness of sector-wide-approach operations.

During 2005, 29 cofinancing operations were approved for 16 countries. These included 24 investment loans, three policy-based loans, and two emergency operations. Support was received from 21 partners, nine multilateral and 12 bilateral. The World Bank remained the IDB's principal partner, participating in 18 projects in 12 countries. Other important multilateral contributions came from the Andean Development Corporation (CAF), the Central American Bank for Economic Integration (CABEI), the Nordic Development Fund, the Organization of the Petroleum Exporting Countries (OPEC) Fund, the United Nations Development Programme (UNDP), and the International Fund for Agricultural Development (IFAD).

GUATEMALA • This family-owned business in Guatemala City received support under a MIF project for development of micro-, small and medium-sized enterprises.

While bilateral support was mainly provided by the U.S. Agency for International Development (USAID), *Kreditanstalt für Wiederaufbau* (KfW) of Germany, the Canadian International Development Agency (CIDA), the Swedish International Development Cooperation Agency (SIDA), the Department for International Development Cooperation of the Ministry for Foreign Affairs (FINNIDA) of Finland, and the Netherlands. Almost half of the cofinancing volume related to social projects and roughly one-third to infrastructure.

Besides project support, the Bank also received 12 special grant donations (COFABs) in the amount of $2.4 million, supporting development-effectiveness-enhancing activities including governance reviews, guidelines and strategies for indigenous peoples' development, social indicators and equity, and building political consensus for fiscal reforms. These were all cofinanced by the U.K.

TABLE IV • COFINANCING IN 2005[1, 2, 3]
(In millions of U.S. dollars)

Cofinancier	Amount
Multilateral institutions:	
Andean Development Corporation (CAF)	$ 423.80
Canadian International Development Agency (CIDA)	8.00
Caribbean Regional Technical Assistance Centre (CARTAC)	1.00
Central American Bank for Economic Integration (CABEI)	14.00
Global Environment Facility (GEF)	2.35
International Fund for Agricultural Development (IFAD)	14.00
Nordic Development Fund (NDF)	6.40
OPEC Fund for International Development	5.00
United Nations Development Programme (UNDP)	7.39
World Bank Group (IBRD/IDA)	1,566.38
Subtotal	**2,048.32**
Bilateral contributions	
Finland–Department for International Development Cooperation of the Ministry for Foreign Affairs (FINNIDA)	7.10
Germany–*Kreditanstalt für Wiederaufbau* (KfW)	38.41
Japan International Cooperation Agency (JICA)	0.06
Netherlands	10.00
Swedish International Development Cooperation Agency (SIDA)	20.00
Trinidad and Tobago	0.50
U.S. Agency for International Development (USAID)	42.95
Other bilateral contributors[4]	0.48
Subtotal	**119.50**
Total amount contributed in 2005	**$2,167.82**

[1] This list represents projects for which cofinancing was approved in 2005 or earlier, by all cofinancing partners involved.
[2] For detail of cofinanced projects, see the CD-ROM version of the Annual Report.
[3] COFAB operations totaling $2.4 million were not included in this table. Among the main donors were Germany-GTZ, UK-DFID, and Sweden-SIDA.
[4] This concerns nonmember donors: The People's Republic of China ($0.15 million), Turks/Caicos ($0.20 million), Malta ($0.10 million) and Mauritius ($0.03 million).

Department for International Development (DFID), with Sweden subscribing to the fiscal consensus program in addition. The *Gesellschaft für Technische Zusammenarbeit* (GTZ) of Germany made a €1 million donation to a Renewable Energy and Energy Efficiency Program. In addition, numerous private sector contributions sponsored fora on microenterprise development and corporate social responsibility.

Enhanced cooperation with the European Investment Bank, formalized in a Memorandum of Understanding (MoU) signed in December 2004, began with joint seminars on requirements for successfully implementing infrastructure projects and the potential for public-private partnerships. Similar MoUs were signed with the Export-Import Bank of the Republic of Korea, the Bank's newest member country, and the Institute for Official Credit of Spain. Special cofinancing outreach activities included seminars on regional integration projects for public and private sector audiences in various donor countries.

See www.iadb.org/ar/cof_en

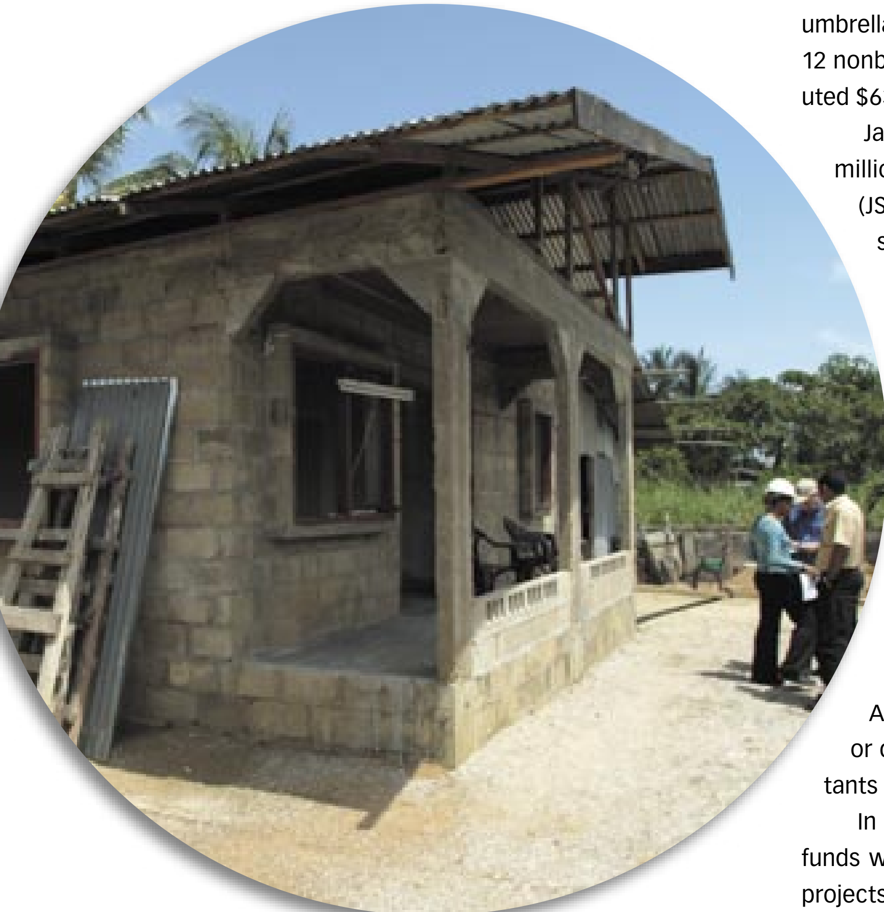
Funds in Administration

During 2005, the Bank administered 47 active 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, Japan, the Republic of Korea, Spain and the United States; the Global Environmental Facility; and 32 funds under the Program for Development of Technical Cooperation among Member Countries of the Bank (TC/Funds Program), in addition to five agreements for the provision of in-kind services. Trust funds have become the

TABLE V • ACTIVE FUNDS IN ADMINISTRATION

Country	Name	Cumulative contributions[1] (US$ millions equivalent)
Austria	Austrian Technical Cooperation Trust Fund	1.0
	IDB Disaster Assistance and Reconstruction Fund	4.1
Belgium	Belgian Trust Fund for Consultants	3.1
Canada	Canadian Technical Cooperation Program	13.2
	IDB-Canada Trade Fund	4.7
Denmark	Danish Consultants Fund	1.9
Finland	Finnish Technical Assistance Program	1.3
France	French Technical Cooperation Fund for Consultancy and Training Activities	19.5
Israel	Israeli Consultant Trust Fund (Bank of Israel)	0.7
Italy	Italian Consulting Firms and Specialized Institutions Fund	15.8
	Italian Individual Consultant Trust Fund	7.2
	Italian Trust Fund for MIF Project Preparation	3.2
	Italian Trust Fund for Microenterprise Development	8.8
	Italian Information and Communication Technology Fund	7.0
	Italian Fund for Cultural Heritage and Sustainable Development	2.1
Japan	Japan Special Fund	216.1
	IDB Graduate Scholarship Program	29.4
	Japanese Trust Fund for Consulting Services	33.5
Korea, Republic of	Korean Trust Fund	1.0
	Korean Trust Fund for the Republic of Colombia	1.0
	Knowledge Partnership Korea Fund for Technology and Innovation	14.0
	Korea Poverty Reduction Fund	14.0
Netherlands	Partnership Program in Environment	7.0
	Netherlands Water Management Partnership Program	7.3
Norway	Norwegian Development Fund for Latin America	2.0
	Norwegian Fund for Women in Development	8.6
	Norwegian Technical Cooperation Trust Fund for Consulting Services	8.7
	Norwegian Fund for Innovation in Social Programs	5.6
	Norwegian Fund for Microenterprise Development	1.9
	Norwegian Consulting Services Trust Fund	1.0
	Social Capital, Ethics and Development Fund	0.9
	Gender Mainstreaming Trust Fund	2.8
Norway and United Kingdom	Social Inclusion Fund	3.1
Portugal	Portuguese Technical Cooperation Fund	1.6
Regional	Indigenous Peoples' Fund	15.7
	Regional Fund for Agricultural Technology (FONTAGRO)	35.1
Spain	Spanish Fund for Consultants (ICEX)	13.8
	Spanish Framework–General Cooperation Fund	44.4
Sweden	Swedish Framework–SIDA–IDB Partnership Program	3.8
	Swedish Fund for Small Projects and Technical Assistance for Latin America	5.3
	Swedish Trust Fund for Consulting Services and Training Activities	3.1
Switzerland	Swiss Consultants Fund	5.2
United Kingdom	IDB-DFID *Enlace* Trust Fund	1.0
United States	USTDA-IDB Evergreen Fund for Technical Assistance	6.6
	U.S. Department of Energy–Hemispheric Sustainable Energy Fund	1.3
	Social Progress Trust Fund	525.0
World Bank	IDB/Global Environment Facility	14.2

[1] Amounts reflect historical exchange rates and do not reflect balance currently available.



SURINAME • One of 4,000 new homes for low- and moderate-income residents nears completion in the neighborhood of Clevia, near the capital city of Paramaribo.

second-largest source of financing for the Bank's nonreimbursable technical cooperation projects after the Fund for Special Operations.

In 2005, of the total $89.6 million approved under the nonreimbursable technical cooperation program, 242 operations were funded with $41.6 million in trust fund resources. Of this total, Japanese trust funds accounted for $12 million for 38 projects. In addition, the trust funds financed 13 special operations in support of the Bank for $6 million.

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 trust funds, the TC/Funds Program is currently the largest pool of resources with 53 trust funds established since 1991 under its umbrella and total contributions of $247.4 million. In 2005, 12 nonborrowing member countries of the Bank contributed $63.7 million to the IDB Trust Funds.

Japan has made cumulative contributions of $278.9 million to several trust funds. The Japan Special Fund (JSF), which was established in 1988, is a major source of untied resources for the Bank's technical cooperation activities and is one of the oldest and largest technical cooperation funds administered by the Bank. The Government of Japan created the Poverty Reduction Program (JPO) in 2001, setting aside $30 million from the JSF. The JPO provides direct assistance to poor and vulnerable groups, encouraging the participation of civil society organizations such as NGOs and community groups. In 1995, another window, the Japanese Trust Fund for Consultancy Services (JCF), was created to mobilize Japanese expertise for development projects in Latin America and the Caribbean. Japanese consultants or consulting firms working jointly with local consultants are eligible for JCF funding.

In 2005, the Republic of Korea established two trust funds with a pledge of $50 million to each in support of projects to promote poverty reduction and technology development. The Knowledge Partnership Korea Fund for Technology and Innovation supports the preparation and implementation of projects for development of technological capacity, and the Korea Poverty Reduction Fund helps fund activities for the most vulnerable and economically disadvantaged groups, including disaster prevention (see **Box 8**).

In addition, the Bank and Norway established three new funds: the Norwegian Consulting Services Trust Fund, with a contribution of $1 million; the multidonor Gender Mainstreaming Trust Fund, with an initial contribution from Norway to help increase the level of gender mainstreaming throughout the project cycle of IDB-financed operations; and the Social Capital, Ethics and Development Fund, which will support technical cooperation for the promotion, creation, consolidation and dissemination of knowledge on the role of ethics and social capital in development.

The U.K. Department for International Development established the Markets and Governance for Poverty Reduction Trust Fund (£3.6 million) to support pro-poor access to markets and international trade, and responsive and accountable public sector management and political systems. The Trade and Poverty Trust Fund was established as a multidonor fund with a catalyst grant

(£850,000) for the design and implementation of pro-poor trade and integration strategies.

See www.iadb.org/ar/tec

Procurement

Bank policies mandate that the procurement of goods, works and consulting services for IDB-funded projects meet four requirements: the need to ensure economy and efficiency in the implementation of projects, access for all eligible bidders in developed and developing countries to the same information and an equal opportunity to compete, development of domestic industries in the borrowing country, and transparency.

Procurement must be carried out following a process of open selection and competition. Above specific thresholds, international competitive bidding must be employed. Only firms from IDB member countries may participate in bidding for IDB-financed projects (with the exception of *sector-wide approach* lending when there is pooled funding).

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

In January 2005, the Bank adopted new policies for the Procurement of Goods and Works and for the Selection and Contracting of Consultants that are fully harmonized with those of the World Bank. This harmonization reduces transaction costs and expedites activities for executing agencies, bidders and other parties involved in the procurement process. A number of seminars were held in various countries and at Bank headquarters to disseminate the new policies. The new policies, along with implementation guides, were published in all four of the Bank's

BOX 8 • KOREA POVERTY REDUCTION FUND

On March 16, 2005, the Republic of Korea became the 47th member country of the Inter-American Development Bank. On this occasion, the Republic of Korea made a commitment to provide $200 million in special contributions to the IDB Group. In July 2005 it established the Korea Poverty Reduction Fund and Knowledge Partnership Korea Fund for Technology and Innovation, with a pledge of $50 million to each. As of December 31, 2005, the Republic of Korea had made cash contributions on $14 million to each fund.

Poverty reduction and promotion of social equity in Latin America and the Caribbean together constitute one of the two overarching goals of the IDB. However, evidence from a number of studies and experience in the fight against poverty show that while sustainable economic growth, macroeconomic stability and governance are key ingredients for poverty reduction, they are not sufficient to ensure it.

Regional averages for social indicators mask wide disparities in income, assets, social welfare and quality of life among countries, as well as disparities within individual countries. These development gaps are a barrier to poverty reduction and economic and social development in the region. First and foremost, concrete measures need to be taken to ensure greater equity and effective poverty reduction.

In this context, the Korea Poverty Reduction Fund will be used to finance nonreimbursable technical cooperation projects and other activities for poverty reduction and social development, including disaster prevention and relief services, targeting the most vulnerable and economically disadvantaged groups in the region, with an emphasis on the less developed countries.

Over the last 30 years, disasters have affected four million people in Latin America and the Caribbean, causing 5,000 deaths and $3.2 billion in damages. With an average of 40 significant disasters annually, Latin America is second only to Asia in disaster frequency. A substantial percentage of at-risk populations are poor. The Korea Poverty Reduction Fund will be instrumental in supporting technical cooperation operations for disaster prevention and postdisaster response in the region.

The Republic of Korea, once underdeveloped, overcame extreme poverty to become a major international trading partner. As a new member country of the Bank, the Republic of Korea will strengthen its cooperation with Latin America and the Caribbean through the Bank.

See www.iadb.org/ar/korea_fund

COSTA RICA • Children race to class in a new school built to provide lower secondary education coverage to an additional 9,000 students nationwide.

official languages, as were a collection of Standard Bidding Documents, a Standard Request for Proposals and Prequalification Documents for Works.

During the year, the Bank also continued to promote the use of electronic government procurement (e-GP) in Bank-financed procurement processes, contributing to significant increases in efficiency and transparency. The Bank has continued to provide assistance to countries seeking to adopt e-GP solutions. As part of an E-GP Working Group with the World Bank and other multilateral development banks, the IDB helped develop a series of e-GP tools for borrowing member countries, such as a database, guidelines, standards and a "road map" for planning of e-GP solutions. All these tools can be found on the joint e-GP website at **www.mdb-egp.org**.

The Bank's Procurement Committee reviews and oversees procurement policies and procedures, including 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 in 2005 are posted on the Bank's website.

Procurement-related information, such as Specific Procurement Notices and General Procurement Notices, is available on the Bank's website free of charge. As part of its business outreach program, the Bank organizes regular business seminars for suppliers, contractors and consultants in Washington and in many of the Bank's borrowing and nonborrowing member countries. To provide the business community and the public at large with timely procurement information, Procurement Plans for operations approved by the Bank's Board of Executive Directors are posted on the Bank's website and updated regularly.

Disbursement of convertible currencies for the procurement of goods, works and consulting services under investment and policy-based loans totaled $4.8 billion in 2005. Borrowing member countries received $3.8 billion or 79.3 percent of the value. Local procurement of goods, works and consulting services for projects in the borrowing countries totaled $3.2 billion. Nonborrowing countries received a total of $985 million.

See www.iadb.org/ar/proc_en

TABLE VI • DISBURSEMENTS FOR PURCHASE OF GOODS AND SERVICES BY COUNTRY OF ORIGIN (INVESTMENT AND POLICY-BASED LOANS)[1]

(In millions of U.S. dollars)

	Local Purchases 2005		Exports[2] 2005		Total 2005		Local Purchases 1961–2005		Exports 1961–2005		Total 1961–2005	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES												
Argentina	456.7	14.3	87.6	5.6	544.3	11.4	4,622.7	9.8	2,097.4	4.1	6,720.1	6.9
Bahamas	4.2	0.1	0.0	0.0	4.2	0.1	45.8	0.1	91.2	0.2	137.0	0.1
Barbados	6.4	0.2	0.6	0.0	7.0	0.1	104.5	0.2	8.6	0.0	113.1	0.1
Belize	2.6	0.1	0.0	0.0	2.6	0.1	61.0	0.1	30.1	0.1	91.1	0.1
Bolivia	75.8	2.4	10.4	0.7	86.2	1.8	1,066.3	2.3	217.2	0.4	1,283.5	1.3
Brazil	989.0	30.9	198.6	12.7	1,187.6	24.9	14,000.6	29.6	5,517.3	10.9	19,517.9	20.0
Chile	106.8	3.3	43.7	2.8	150.5	3.2	2,611.7	5.5	693.5	1.4	3,305.2	3.4
Colombia	174.7	5.5	54.1	3.4	228.8	4.8	2,481.9	5.3	567.5	1.1	3,049.4	3.1
Costa Rica	14.7	0.5	9.9	0.6	24.6	0.5	437.8	0.9	309.7	0.6	747.5	0.8
Dominican Republic	58.8	1.8	0.2	0.0	59.0	1.2	641.6	1.4	37.6	0.1	679.2	0.7
Ecuador	37.8	1.2	37.0	2.4	74.8	1.6	1,789.3	3.8	468.7	0.9	2,258.0	2.3
El Salvador	38.3	1.2	4.3	0.3	42.6	0.9	933.8	2.0	102.4	0.2	1,036.2	1.1
Guatemala	32.2	1.0	9.1	0.6	41.3	0.9	695.1	1.5	154.3	0.3	849.4	0.9
Guyana	17.5	0.5	0.1	0.0	17.6	0.4	142.9	0.3	3.2	0.0	146.1	0.1
Haiti	27.1	0.8	0.0	0.0	27.1	0.6	282.3	0.6	9.6	0.0	291.9	0.3
Honduras	51.6	1.6	0.4	0.0	52.0	1.1	698.7	1.5	54.0	0.1	752.7	0.8
Jamaica	10.9	0.3	1.4	0.1	12.3	0.3	283.3	0.6	93.1	0.2	376.4	0.4
Mexico	622.8	19.5	49.9	3.2	672.7	14.1	8,829.5	18.7	1,586.9	3.1	10,416.4	10.7
Nicaragua	97.6	3.1	1.5	0.1	99.1	2.1	643.2	1.4	31.1	0.1	674.3	0.7
Panama	42.1	1.3	2.5	0.2	44.6	0.9	743.2	1.6	117.1	0.2	860.3	0.9
Paraguay	58.8	1.8	27.9	1.8	86.7	1.8	862.4	1.8	193.2	0.4	1,055.6	1.1
Peru	125.1	3.9	8.0	0.5	133.1	2.8	2,040.9	4.3	319.4	0.6	2,360.3	2.4
Suriname	3.7	0.1	0.6	0.0	4.3	0.1	9.1	0.0	2.0	0.0	11.1	0.0
Trinidad and Tobago	41.0	1.3	9.2	0.6	50.2	1.1	363.8	0.8	150.5	0.3	514.3	0.5
Uruguay	43.3	1.4	4.1	0.3	47.4	1.0	1,220.6	2.6	289.5	0.6	1,510.1	1.5
Venezuela	57.7	1.8	22.0	1.4	79.7	1.7	1,615.1	3.4	1,176.5	2.3	2,791.6	2.9
Total Borrowers	**3,197.2**	**100.0**	**583.1**	**37.2**	**3,780.3**	**79.3**	**47,227.1**	**100.0**	**14,321.6**	**28.3**	**61,548.7**	**62.9**
NONBORROWING COUNTRIES												
Austria			4.0	0.3	4.0	0.1			151.6	0.3	151.6	0.2
Belgium			11.1	0.7	11.1	0.2			292.2	0.6	292.2	0.3
Canada			28.2	1.8	28.2	0.6			856.3	1.7	856.3	0.9
Croatia			0.0	0.0	0.0	0.0			5.0	0.0	5.0	0.0
Denmark			4.2	0.3	4.2	0.1			182.2	0.4	182.2	0.2
Finland			4.6	0.3	4.6	0.1			147.7	0.3	147.7	0.2
France			31.0	2.0	31.0	0.7			2,250.2	4.5	2,250.2	2.3
Germany			62.3	4.0	62.3	1.3			3,187.4	6.3	3,187.4	3.3
Israel			4.5	0.3	4.5	0.1			209.8	0.4	209.8	0.2
Italy			36.8	2.3	36.8	0.8			3,104.8	6.1	3,104.8	3.2
Japan			56.7	3.6	56.7	1.2			2,510.5	5.0	2,510.5	2.6
Korea, Republic of			32.5	2.1	32.5	0.7			32.5	0.1	32.5	0.0
Netherlands			12.2	0.8	12.2	0.3			686.7	1.4	686.7	0.7
Norway			2.0	0.1	2.0	0.0			63.5	0.1	63.5	0.1
Portugal			3.7	0.2	3.7	0.1			80.4	0.2	80.4	0.1
Slovenia			0.2	0.0	0.2	0.0			45.7	0.1	45.7	0.1
Spain			50.1	3.2	50.1	1.1			1,736.7	3.4	1,736.7	1.8
Sweden			8.7	0.6	8.7	0.2			640.3	1.3	640.3	0.7
Switzerland			15.1	1.0	15.1	0.3			891.3	1.8	891.3	0.9
United Kingdom			30.6	2.0	30.6	0.6			1,187.2	2.3	1,187.2	1.2
United States			586.6	37.4	586.6	12.3			17,951.8	35.5	17,951.8	18.4
Yugoslavia[3]			0.0						14.3	0.0	14.3	0.0
Total Nonborrowers			**985.1**	**62.8**	**985.0**	**20.7**	**0.0**	**0.0**	**36,228.1**	**71.7**	**36,228.1**	**37.1**
TOTAL	**3,197.2**	**100.0**	**1,568.2**	**100.0**	**4,765.3**	**100.0**	**47,227.1**	**100.0**	**50,549.7**	**100.0**	**97,776.8**	**100.0**

[1] Policy-based 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 VII • DISBURSEMENTS FOR PURCHASE OF GOODS AND SERVICES BY COUNTRY OF ORIGIN (POLICY-BASED LOANS)[1]

(In millions of U.S. dollars)

	Exports[2] 2005		Total 2005		Local Purchases 1990-2005		Exports 1990–2005		Total 1990-2005	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES										
Argentina	74.9	5.7	74.9	5.7	30.0	40.2	1,185.8	4.2	1,215.8	4.3
Bahamas	0.0		0.0				6.4	0.0	6.4	0.0
Barbados	0.4	0.0	0.4	0.0			6.4	0.0	6.4	0.0
Belize	0.0		0.0				29.9	0.1	29.9	0.1
Bolivia	9.6	0.7	9.6	0.7			120.4	0.4	120.4	0.4
Brazil	165.3	12.6	165.3	12.6			3,443.6	12.3	3,443.6	12.4
Chile	42.9	3.3	42.9	3.3			582.7	2.1	582.7	2.1
Colombia	34.5	2.6	34.5	2.6			372.7	1.3	372.7	1.3
Costa Rica	4.3	0.3	4.3	0.3			119.7	0.4	119.7	0.4
Dominican Republic	0.0	0.0	0.0	0.0			0.6	0.0	0.6	0.0
Ecuador	36.6	2.8	36.6	2.8			409.0	1.5	409.0	1.5
El Salvador	0.4	0.0	0.4	0.0			54.8	0.2	54.8	0.2
Guatemala	6.5	0.5	6.5	0.5			71.8	0.3	71.8	0.3
Guyana	0.1	0.0	0.1	0.0			2.5	0.0	2.5	0.0
Haiti	0.0	0.0	0.0	0.0	14.6	19.5	0.0	0.0	14.6	0.1
Honduras	0.0	0.0	0.0	0.0			14.8	0.1	14.8	0.1
Jamaica	0.0	0.0	0.0				3.7	0.0	3.7	0.0
Mexico	46.8	3.6	46.8	3.6			825.4	3.0	825.4	2.9
Nicaragua	1.3	0.1	1.3	0.1	0.4	0.5	6.6	0.0	7.0	0.0
Panama	0.5	0.0	0.5	0.0	29.7	39.8	69.6	0.2	99.3	0.4
Paraguay	27.9	2.1	27.9	2.1			145.2	0.5	145.2	0.5
Peru	7.5	0.6	7.5	0.6			143.8	0.5	143.8	0.5
Suriname							1.0	0.0	1.0	0.0
Trinidad and Tobago							75.8	0.3	75.8	0.3
Uruguay	3.7	0.3	3.7	0.3			241.7	0.9	241.7	0.9
Venezuela	19.4	1.5	19.4	1.5			960.3	3.4	960.3	3.4
Total Borrowers	**482.6**	**36.7**	**482.6**	**36.7**	**74.7**	**100.0**	**8,894.2**	**31.8**	**8,968.9**	**32.1**
NONBORROWING COUNTRIES										
Austria	3.2	0.2	3.2	0.2			76.2	0.3	76.2	0.3
Belgium	9.8	0.7	9.8	0.7			195.3	0.7	195.3	0.7
Canada	19.2	1.5	19.2	1.5			479.0	1.7	479.0	1.7
Croatia	0.0	0.0	0.0	0.0			2.6	0.0	2.6	0.0
Denmark	3.3	0.3	3.3	0.3			78.1	0.3	78.1	0.3
Finland	4.6	0.3	4.6	0.3			97.0	0.3	97.0	0.3
France	26.9	2.0	26.9	2.0			879.6	3.2	879.6	3.1
Germany	52	4.0	52.0	4.0			1,772.0	6.3	1,772.0	6.4
Israel	3.8	0.3	3.8	0.3			77.3	0.3	77.3	0.3
Italy	31.1	2.4	31.1	2.4			1,047.9	3.8	1,047.9	3.7
Japan	54.5	4.1	54.5	4.1			1,267.1	4.5	1,267.1	4.6
Korea, Republic of	32.4	2.5	32.4	2.5			32.4	0.1	32.4	0.2
Netherlands	11.9	0.9	11.9	0.9			487.9	1.7	487.9	1.7
Norway	1.6	0.1	1.6	0.1			48.5	0.2	48.5	0.2
Portugal	1.1	0.1	1.1	0.1			27.6	0.1	27.6	0.1
Slovenia	0.2	0.0	0.2	0.0			7.5	0.0	7.5	0.0
Spain	31.6	2.4	31.6	2.4			845.3	3.0	845.3	3.1
Sweden	8.3	0.6	8.3	0.6			260.6	0.9	260.6	0.9
Switzerland	12.2	0.9	12.2	0.9			358.2	1.3	358.2	1.3
United Kingdom	17.7	1.3	17.7	1.3			542.6	1.9	542.6	1.9
United States	508	38.7	508.0	38.7			10,449.8	37.4	10,449.8	37.2
Yugoslavia[3]	0.0	0.0	0.0	0.0			0.8	0.0	0.8	0.0
Total Nonborrowers	**833.4**	**63.3**	**833.4**	**63.3**	**0.0**	**0.0**	**19,033.3**	**68.2**	**19,033.3**	**67.9**
TOTAL	**1,316.0**	**100.0**	**1,316.0**	**100.0**	**74.7**	**100.0**	**27,927.5**	**100.0**	**28,002.2**	**100.0**

[1] Policy-based 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 VIII • DISBURSEMENTS FOR PURCHASE OF GOODS AND SERVICES BY COUNTRY OF ORIGIN (INVESTMENT LOANS)

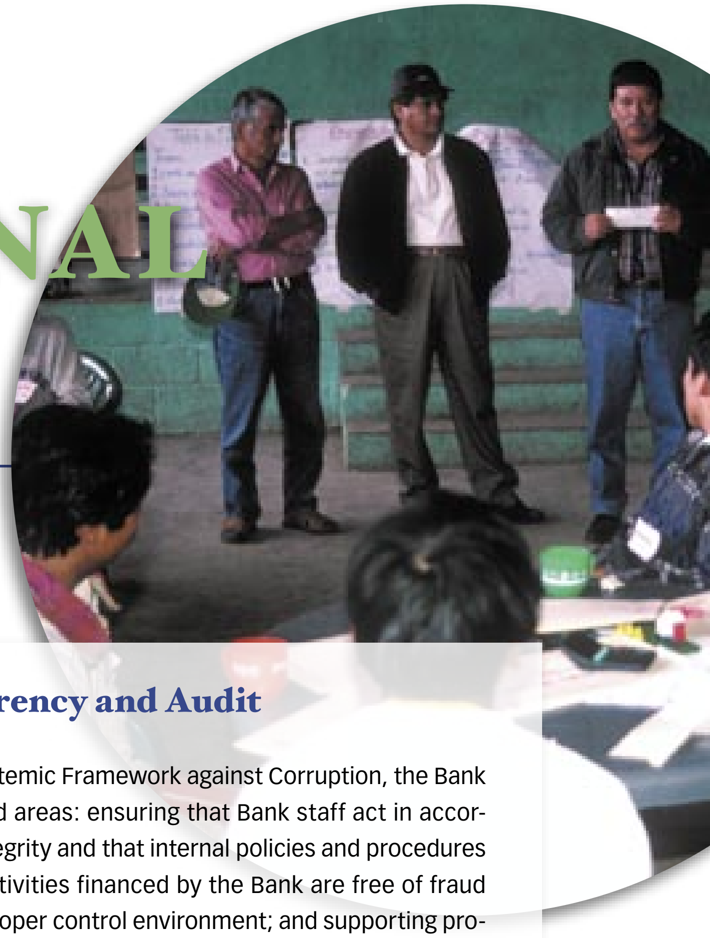
(In millions of U.S. dollars)

	Local Purchases 2005		Exports[1] 2005		Total 2005		Local Purchases 1961–2005		Exports 1961–2005		Total 1961–2005	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES												
Argentina	456.7	14.3	12.7	5.0	469.4	13.6	4,592.7	9.7	911.6	4.0	5,504.3	7.9
Bahamas	4.2	0.1	0.0	0.0	4.2	0.1	45.8	0.1	84.8	0.4	130.6	0.2
Barbados	6.4	0.2	0.2	0.1	6.6	0.2	104.5	0.2	2.2	0.0	106.7	0.2
Belize	2.6	0.1	0.0	0.0	2.6	0.1	61.0	0.1	0.2	0.0	61.2	0.1
Bolivia	75.8	2.4	0.8	0.3	76.6	2.2	1,066.3	2.3	96.8	0.4	1,163.1	1.7
Brazil	989.0	30.9	33.3	13.2	1,022.3	29.6	14,000.6	29.7	2,073.7	9.2	16,074.3	23.0
Chile	106.8	3.3	0.8	0.3	107.6	3.1	2,611.7	5.5	110.8	0.5	2,722.5	3.9
Colombia	174.7	5.5	19.6	7.8	194.3	5.6	2,481.9	5.3	194.8	0.9	2,676.7	3.8
Costa Rica	14.7	0.5	5.6	2.2	20.3	0.6	437.8	0.9	190.0	0.8	627.8	0.9
Dominican Republic	58.8	1.8	0.2	0.1	59.0	1.7	641.6	1.4	37.0	0.2	678.6	1.0
Ecuador	37.8	1.2	0.4	0.2	38.2	1.1	1,789.3	3.8	59.7	0.3	1,849.0	2.6
El Salvador	38.3	1.2	3.9	1.5	42.2	1.2	933.8	2.0	47.6	0.2	981.4	1.4
Guatemala	32.2	1.0	2.6	1.0	34.8	1.0	695.1	1.5	82.5	0.4	777.6	1.1
Guyana	17.5	0.5	0.0	0.0	17.5	0.5	142.9	0.3	0.7	0.0	143.6	0.2
Haiti	27.1	0.8	0.0	0.0	27.1	0.8	267.7	0.6	9.6	0.0	277.3	0.4
Honduras	51.6	1.6	0.4	0.2	52.0	1.5	698.7	1.5	39.2	0.2	737.9	1.1
Jamaica	10.9	0.3	1.4	0.6	12.3	0.4	283.3	0.6	89.4	0.4	372.7	0.5
Mexico	622.8	19.5	3.1	1.2	625.9	18.1	8,829.5	18.7	761.5	3.4	9,591.0	13.7
Nicaragua	97.6	3.1	0.2	0.1	97.8	2.8	642.8	1.4	24.5	0.1	667.3	1.0
Panama	42.1	1.3	2.0	0.8	44.1	1.3	713.5	1.5	47.5	0.2	761.0	1.1
Paraguay	58.8	1.8	0.0	0.0	58.8	1.7	862.4	1.8	48.0	0.2	910.4	1.3
Peru	125.1	3.9	0.5	0.2	125.6	3.6	2,040.9	4.3	175.6	0.8	2,216.5	3.2
Suriname	3.7	0.1	0.6	0.2	4.3	0.1	9.1	0.0	1.0	0.0	10.1	0.0
Trinidad and Tobago	41.0	1.3	9.2	3.6	50.2	1.5	363.8	0.8	74.7	0.3	438.5	0.6
Uruguay	43.3	1.4	0.4	0.2	43.7	1.3	1,220.6	2.6	47.8	0.2	1,268.4	1.8
Venezuela	57.7	1.8	2.6	1.0	60.3	1.7	1,615.1	3.4	216.2	1.0	1,831.3	2.6
Total Borrowers	**3,197.2**	**100.0**	**100.5**	**39.8**	**3,297.8**	**95.6**	**47,152.4**	**100.0**	**5,427.4**	**24.0**	**52,579.8**	**75.4**
NONBORROWING COUNTRIES												
Austria			0.8	0.3	0.8	0.0			75.4	0.3	75.4	0.1
Belgium			1.3	0.5	1.3	0.0			96.9	0.4	96.9	0.1
Canada			9.0	3.6	9.0	0.3			377.3	1.7	377.3	0.5
Croatia			0.0	0.0	0.0	0.0			2.4	0.0	2.4	0.0
Denmark			0.9	0.4	0.9	0.0			104.1	0.5	104.1	0.1
Finland			0.0	0.0	0.0	0.0			50.7	0.2	50.7	0.1
France			4.1	1.6	4.1	0.1			1,370.6	6.1	1,370.6	2.0
Germany			10.3	4.1	10.3	0.3			1,415.4	6.3	1,415.4	2.0
Israel			0.7	0.3	0.7	0.0			132.5	0.6	132.5	0.2
Italy			5.7	2.3	5.7	0.2			2,056.9	9.1	2,056.9	2.9
Japan			2.2	0.9	2.2	0.1			1,243.4	5.5	1,243.4	1.8
Korea, Republic of			0.1	0.0	0.1	0.0			0.1	0.0	0.1	0.0
Netherlands			0.3	0.1	0.3	0.0			198.8	0.9	198.8	0.3
Norway			0.4	0.2	0.4	0.0			15.0	0.1	15.0	0.0
Portugal			2.6	1.0	2.6	0.1			52.8	0.2	52.8	0.1
Slovenia			0.0	0.0	0.0	0.0			38.2	0.2	38.2	0.1
Spain			18.5	7.3	18.5	0.5			891.4	3.9	891.4	1.3
Sweden			0.4	0.2	0.4	0.0			379.7	1.7	379.7	0.5
Switzerland			2.9	1.1	2.9	0.1			533.1	2.4	533.1	0.8
United Kingdom			12.9	5.1	12.9	0.4			644.6	2.8	644.6	0.9
United States			78.6	31.2	78.6	2.3			7,502.0	33.2	7,502.0	10.8
Yugoslavia[2]			0.0	0.0	0.0	0.0			13.5	0.1	13.5	0.0
Total Nonborrowers		**0.0**	**151.7**	**60.2**	**151.7**	**4.4**			**17,194.8**	**76.0**	**17,194.8**	**24.6**
TOTAL	**3,197.2**	**100.0**	**252.2**	**100.0**	**3,449.4**	**100.0**	**47,152.4**	**100.0**	**22,622.2**	**100.0**	**69,774.6**	**100.0**

[1] 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.

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

INSTITUTIONAL ASPECTS



(Left) • The Bank's Office of Institutional Integrity (OII) receives and investigates allegations of fraud or corruption in Bank-financed activities.

GUATEMALA (center) • Indigenous leaders in Jacaltenango receive training under the Community Development for Peace Program.

(Right) • The Bank's Administrative Tribunal hears staff grievances.

Governance, Transparency and Audit

Since 2001, when it adopted its Systemic Framework against Corruption, the Bank has focused on three closely linked areas: ensuring that Bank staff act in accordance with the highest levels of integrity and that internal policies and procedures support this goal; ensuring that activities financed by the Bank are free of fraud and corruption and executed in a proper control environment; and supporting programs that will help borrowing member countries strengthen good governance, enforce the rule of law and combat corruption.

The *Office of Institutional Integrity (OII)* was established in 2003 as an independent office reporting directly to the President. OII receives allegations and conducts all investigations into allegations of fraud or corruption in Bank-financed activities. Upon request by the Ethics Committee or the Conduct Review Committee, OII investigates allegations of violations of the Bank's Code of Ethics or Respect in the Workplace policies. OII also supports the Bank's efforts in assisting governments in enhancing their capacity to prevent and fight corruption.

In 2005, OII received 138 new allegations. As in 2004, most of these allegations concerned fraud and corruption in Bank-financed activities; only about 10 percent were about staff misconduct. The office submitted more than 100 reports on investigations to the Oversight Committee on Fraud and Corruption (OCFC) during the year.

OCFC, which is chaired by the Executive Vice President and also includes the Vice President for Finance and Administration, the General Counsel and the Auditor General, decides what action should be taken as a result of OII investigative findings. If appropriate, it may recommend that a case be referred to appropriate national authorities.

OII also works to prevent fraud and corruption, for example, by increasing awareness. Early in the year, OII issued its first annual report, "On Building Awareness, Investigating Allegations, and Taking Action against Corrupt Practices." The report provides statistical information on the results of the investigations conducted by OII and describes OII activities to enhance the Bank's efforts to prevent corruption through awareness and recommendations.

See www.iadb.org/oii/reports.cfm

During 2005, OII also expanded its outreach activities and efforts to build strong anticorruption entities in the region, organizing a workshop for prosecutors and investigators from 19 Latin American and Caribbean countries to improve their capacity to investigate fraud and corruption. The office hosted the Sixth Annual Conference of International Investigators and convened a meeting with the World Bank, African Development Bank, Asian Development Bank and European Bank for Reconstruction and Development to harmonize guidelines for investigations. OII organized two anticorruption seminars in Buenos Aires with the United Nations Office on Drugs and Crime and the Organisation for Economic Co-operation and Development.

See www.iadb.org/oii

In 2005 the Bank established the Social Capital, Ethics and Development Fund, a multidonor trust fund, with an initial contribution from Norway. Internationally recognized as a pioneering approach under the Inter-American Initiative on Social Capital, Ethics and Development (**www.iadb.org/ar/ethics_en**), the Fund has also received support from Canada. The purpose of the initiative is to promote the development of social capital, volunteerism and ethics in the fight against poverty, social exclusion and discrimination in Bank-financed operations. Under the initiative, a network of 120 universities in 18 countries in the region was organized to help build awareness on the issues of social capital, ethics and development through an information portal and training for economists, managers, engineers, accountants and other key development professionals.

The first half of 2005 was marked by efforts to consolidate and standardize the procedures for implementing the Bank's far-reaching Policy on Information Disclosure, which entered into effect in 2004. Headquarters and Country Office staff were provided with extensive training in use of the Bank's records and archives management system, as a means of ensuring the prompt disclosure of information related to the Bank's operational program, as well as documentation regarding financial and institutional activities, including the deliberations of the Board of Executive Directors. During the year, the Inter-American Investment Corporation's Board approved a new Information Disclosure Policy following a period of public consultation. At year's end, the Board concluded its review of the Independent Investigation Mechanism case involving the Cana Brava Hydroelectric Project in Brazil.

The *Office of the Auditor General (AUG)* contributes to the internal governance of the Bank by providing independent and objective examinations of Bank activities to help ensure effective risk management, internal controls and governance. The Auditor General reports to the President and is also under the oversight of the Audit Committee of the Board. This reporting arrange-

BRAZIL • Students focus on science class at the *Colégio Conjunto Veneza* secondary school, built with IDB funds in the southern Brazilian city of Curitiba.

ment promotes objectivity and adequate consideration of audit results.

In 2005, AUG undertook projects in the areas of finance, administration, information technology and operations to promote risk management practices, improve compliance with Bank policies and procedures, and enhance efficiency and effectiveness in the use of resources throughout the Bank. In addition, as part of its continuing commitment to quality, AUG updated its Internal Audit Charter to take into account changes in the International Standards for the Professional Practice of Internal Auditing. It underwent an external quality assurance review and received the highest possible evaluation rating.

In the operational departments and Country Offices, AUG focused on the Bank's project supervision system. Reviews included key operational processes in Country Offices, such as project inspection visits, administration of revolving funds, responsibility of external auditors regarding audited financial statements for projects and the ex post disbursement review process. In addition, AUG reviewed the adequacy of existing reporting requirements, processes and project risk management.

At headquarters, AUG continued to monitor and review the selection, implementation, upgrading and operations of computer applications and network infrastructure, including PeopleSoft (the Human Resources Information System, and the system for headquarters and Country Office payroll, time and labor, and consultant contracting); Lawson (the Budget and Financial Management System for budgeting, general ledger, accounts payable, purchasing and Country Office accounting); replacement of the Bank's Investment Management System; and migration of the Loan Management System.

AUG conducted reviews of financial derivatives, liquid investments, personnel policies (including policies on hiring and visas), loan billings and collections, consultant contracting, administrative accounting and private sector project monitoring during the year. It also continued to support the Bank's initiatives on corporate governance, retooling of Bank operations, Bank-wide integrated risk management, internal control attestation and related items. AUG provides audit support to OII at its request and frequently works with that office to identify improvements in internal controls that may be necessary as a result of lessons learned from investigations.

See www.iadb.org/ar/aug_en

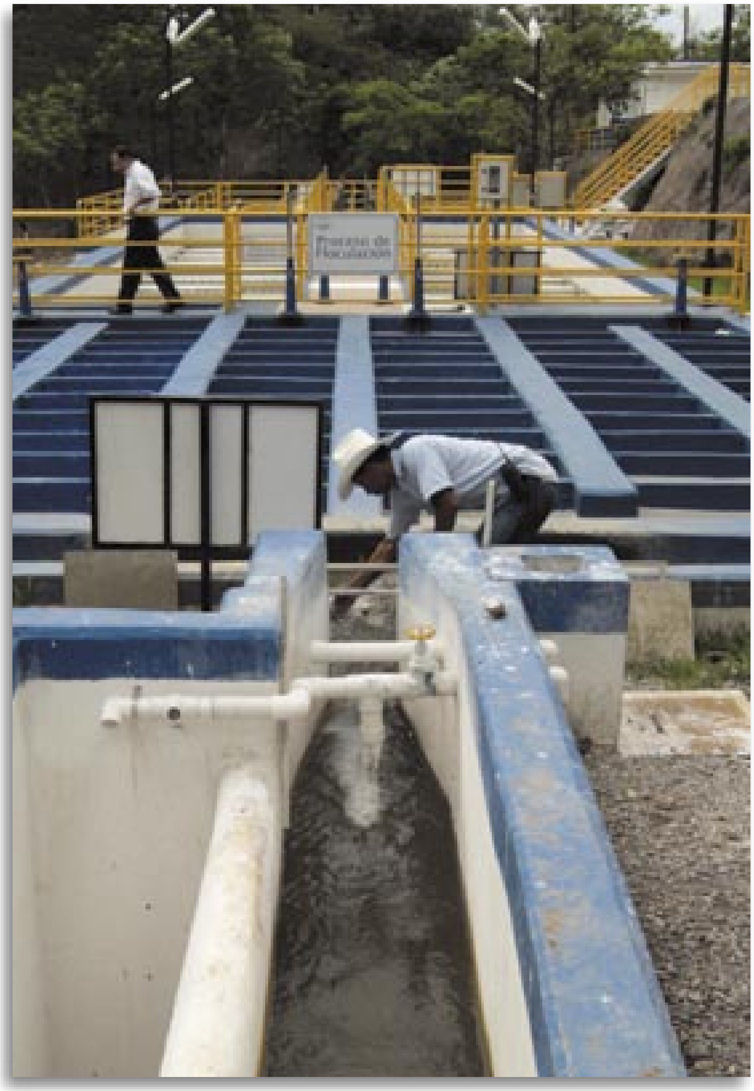
Board of Governors

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 Economy or Finance, presidents of central banks, or other officials of comparable rank.

The 46th Annual Meeting took place in Okinawa, Japan, on April 10–12, 2005. At that time, the Board of Governors approved the financial statements of the Ordinary Capital, the Fund for Special Operations, and the Intermediate Financing Facility for 2004, and selected Ernst & Young LLP to carry out the external audits for the 2005 fiscal year. In addition, the Board of Governors assigned the Intermediate Financing Facility an aggregate amount equivalent to $62.3 million in convertible currency from

the General Reserve of the Fund for Special Operations. It also approved (i) modifications in the financing framework originally approved in 2002, (ii) elimination of the existing limit on the percentage of Bank financing set by the Financing Matrix and (iii) continuation of the International Trade Finance Reactivation Program for the Private Sector. Finally, the Board agreed to hold its 47th Annual Meeting in Belo Horizonte, Brazil, on April 3–5, 2006, and its 48th Annual Meeting in Guatemala City, Guatemala, on March 19–21, 2007.

Two special meetings of the Board of Governors were held in Okinawa prior to the formal opening of the Annual Meeting. One focused on economic links and cooperation between Asia and the Latin American and Caribbean region, while the other centered on replenishing resources for the Multilateral Investment Fund. Negotiations for the latter culminated in the approval and signing of the Agreement Establishing the MIF II and the Agreement for the Administration of the MIF II by the Governors of the donor countries. These Governors had already settled on the text for both agreements at a special meeting held in Windsor, United Kingdom, on January 24–25, 2005, which was also when a majority of the donors announced their contributions to MIF II. Governors who did not announce their contributions at the Windsor meeting did so at the meeting in Okinawa, prior to approving and signing the agreements. Five Bank member countries which were not previously MIF members joined as donors to MIF II: France, Haiti, the United Kingdom, Sweden and Switzerland.



HONDURAS • Operation of this water purification plant in San Pedro Sula was concessioned to the *Aguas de San Pedro S.A. de C.V.* consortium.

In March, the Republic of Korea formally joined the IDB Group, becoming the Bank’s 47th member. Simultaneously, it became a member of the Inter-American Investment Corporation and the Multilateral Investment Fund.

The Committee of the Board of Governors also held its 89th Meeting in Okinawa prior to the formal opening of the Annual Meeting. At that time, the committee discussed the evaluation process and recommendations for the new financing framework approved by the Board of Governors in March 2002. There followed a joint meeting of the Committees of the Boards of Governors of the Bank and of the Inter-American Investment Corporation, in which representatives discussed the role of the IDB Group in private sector development in Latin America and the Caribbean.

On July 27, 2005, a special meeting of the Board of Governors was called in Washington, D.C., to elect the President of the Bank. At the meeting, the Board of Governors accepted Enrique V. Iglesias’s resignation as President and elected Luis Alberto Moreno for a five-year term, beginning on October 1, 2005.

On December 30, 2005, the Board of Governors approved a resolution to increase the financing limits for direct loans and guarantees to the private sector without a government guarantee.

See www.iadb.org/ar/bog_en

PANAMA • Cecilio Castillero Hospital has improved the delivery of services to the poor under a nationwide program for institutional transformation of the health sector.

Board of Executive Directors

The IDB has 14 executive directors who represent the Bank's 47 member countries. Directors serve full time for a period of three years. In 2005, 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.

The *Audit Committee* continued its oversight of the Bank's financial reporting, risk management and internal controls, internal and external auditing, and activities to promote institutional integrity. During the year, the 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. The committee also reviewed documentation associated with the Bank's integrity system, such as the updated Code of Ethics and Sanctions Procedures for the Board of Executive Directors. Additionally, the committee undertook a detailed review of the Bank's audit and investigative mechanisms.

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 reports by the Bank's Office of Evaluation and Oversight (OVE) on topics related to country programming.

In 2005, the committee reviewed country strategies with the Dominican Republic, El Salvador, Guatemala, Honduras and Panama. In its discussions, it focused on the quality of targets and indicators so that the strategies can be better evaluated in the future. To prepare for the new country strategy guidelines, which will be presented to the Board next year, the committee held a series of informal meetings with management to agree on country strategy requirements. The committee also discussed and recommended approval of 2005 allocations for the Fund for Special Operations (FSO) and Intermediate Financing Facility (IFF), and resumed its deliberations on a new methodology for FSO allocation.

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 (IIM) and the Bank's Annual Meeting. In 2005, the committee discussed an external assessment of the Bank's compensation policy and the Bank's ongoing workload assessment exercise. It considered a panel report presented under the IIM and authorized release for public comment of a draft consultation and compliance review to replace the current mechanism.

The *Policy and Evaluation Committee* considers the policies and strategies that guide Bank operations in the region and the instruments used to implement them, and oversees OVE. During the year, it gave particular attention to issues related to the private sector. First it reviewed an OVE report on the Bank's experience with private

sector lending from 1995 to 2003. The report found evidence of substantial success in areas such as innovation and demonstration effects and recommended that an action plan for such lending be developed and implemented. The committee also examined policies setting financial limits on private sector operations. A broad consensus among directors led the Board to recommend that the Governors raise the limits in accordance with management's proposals.

Based on the committee's recommendation, the Board approved proposals to create a facility for lending in local currencies. Discussion among the committee members showed that while the first clients to make use of local currency lending were likely to be subnational governments in Mexico, the new facility was expected to attract considerable interest from the Bank's private sector borrowers.

The committee was active in shifting the Bank's policy on natural disasters to a proactive approach. Following an examination of the Bank's experience in this area by OVE, management developed an action plan to promote the Bank's playing a more proactive part in helping member countries manage risks and vulnerability before disasters strike. The Board approved the plan and subsequently authorized technical cooperation funding to work with three countries as pilot projects for incorporating disaster risk management into the Bank's country strategies.

The *Policy and Evaluation Committee* conducted policy discussions on a number of key issues, such as environmental safeguards, energy sector projects, indigenous peoples and lending to government enterprises without sovereign guarantees. The discussions are expected to be completed in 2006.

The *Budget and Financial Policies Committee* was also actively involved in policy issues. In response to a Board request, management presented a proposal for defining approval criteria for a category of expenditures ("Special Programs and Grants") that would directly support activities in member countries. The Board approved the criteria as well as specific budgetary and financial reporting arrangements for these programs.

The committee also considered a new liquidity policy for the Bank that would give management greater flexibility to time bond issues to take advantage of favorable financial conditions. It also began discussions on financial options that would be available once the Bank exceeded the capital targets set in its capital adequacy policies.

CHILE • A research and development project is helping to develop fisheries in this country, which has thousands of miles of coastline.

The committee's consideration of the 2006 budget led to a consensus on the Board for a nominal increase in the Bank's discretionary administrative budget of 4.2 percent and a capital budget as requested. The Board emphasized that this budget was a transitional effort, responding to changes in many of the governments in the region and in Bank management.

See www.iadb.org/ar/exd_en

Evaluation

The Bank's Office of Evaluation and Oversight (OVE) is independent of Bank management, reporting solely and directly to the Board of Executive Directors. Evaluation drives the Bank's decision-making processes and provides the means to measure the Bank's effectiveness so as to

ensure accountability. During the year, OVE carried out a broad range of activities in five areas: oversight; country program evaluation; sector, thematic and ex post evaluation; policy and instrument evaluation; and evaluation capacity development in the region.

As part of its *oversight* function, OVE reviewed 11 country strategies and validated 20 project completion reports prepared under the new reporting guidelines established by management, bringing the Bank toward compliance with the core standards endorsed by the Evaluation Cooperation Group of the multilateral development banks. Two additional oversight studies, one on country portfolio reviews and one on risk assessment in projects, were undertaken. OVE also provided evaluation services to the Inter-American Investment Corporation to help develop an internal monitoring and evaluation system consistent with good practices as established by the Evaluation Cooperation Group.

BARBADOS • Upgrades in school computer labs, such as this one at the Christ Church Boys School, were part of a program to enhance the education sector.

In 2005, OVE produced eight *country program evaluations*, for Argentina, Barbados, the Dominican Republic, El Salvador, Guatemala, Jamaica, Panama and Uruguay. Country program evaluations are used as input for future Bank country strategies.

In the modernization of the state sector, OVE completed *sector and thematic evaluations* on public sector budgeting, legislative approval, financial administration and control by supreme audit institutions. It undertook two sector evaluations, on health and taxation and fiscal reform, which are expected to be sent to the Board in 2006.

During the year, the Board adopted a new Policy on Ex Post Evaluation designed to strengthen project completion reports as an early form of *ex post evaluation* by management. It decided that OVE would conduct ex post performance and sustainability assessments and ex post impact evaluation reports. During the year, OVE reviewed six completed pilot impact evaluations and 13 ex post performance and sustainability assessments, drawing lessons learned from the first year's implementation of the new policy.

At the end of 2004, OVE completed a major overview *evaluation of the Bank's lending instruments,* which found that Bank lending instruments did not generally contain adequate safeguards to ensure assessment of the future benefits arising from lending projects. These findings led the Bank to deepen substantially the analytical underpinnings of its operations with a view to enhancing their development effectiveness and to focus more on countries than instruments, through program-focused rather than project-focused interventions.

In an evaluation of the Bank's private sector lending program from 1995 to 2003, OVE reviewed 55 loans to the private sector, representing 82 percent of approvals and 91 percent of projects with signed contracts. The evaluation found that the Bank financing combined amounts, tenors and rates that are difficult for enterprises to find in the market, and that it had added value through the implicit assurance or "comfort" afforded by the Bank's involvement.

Instrument evaluations of regional policy dialogues and economic and sector work were completed in 2005. An evaluation of the private sector action plan for C- and D-group countries, examining data for all of 2005, will be completed in 2006.

OVE has contributed to *developing evaluation capacity* in Latin America and the Caribbean by providing technical assistance to project teams, reviewing and commenting on management initiatives in evaluation and results-based management, and forming partnerships with regional and national organizations. Through these partnerships, various studies have been conducted on the state of the evaluation function in the region, and a network of evaluators in the region (REDVAL) is being formalized.

See www.iadb.org/ove

BAHAMAS • Hurricane damage to a sea wall in Nassau was repaired under the Immediate Response Facility for Natural Disasters and Other Emergencies.

Country Offices

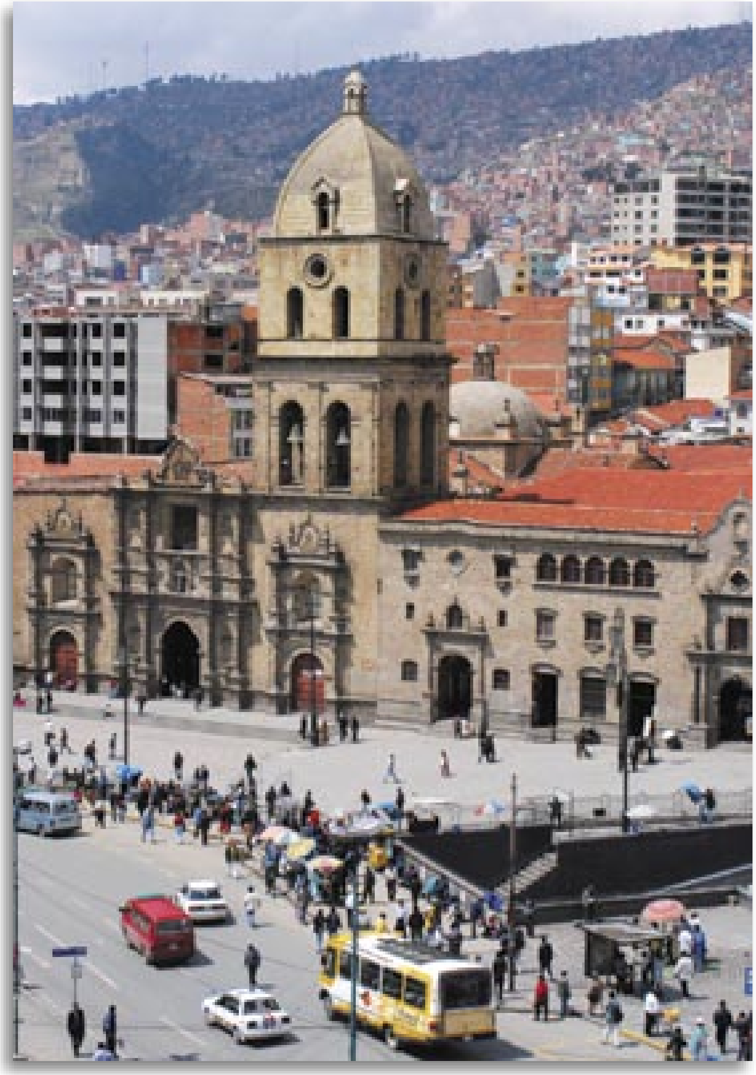
The Bank's Country Offices play an important role in ensuring the effectiveness of Bank operations, notably by supporting borrowers in portfolio management and project monitoring and supervision. Key elements of this function include the proactive promotion of managing for results in the Bank's ongoing strategic dialogue with the countries and strengthening results frameworks used to measure performance at the country, sector and project levels.

Assisting borrowers in supervising the execution of their operations has always been one of the key functions of the Country Offices. However, changes in the way the Bank works with its borrowers, in response to changing borrower needs, have made it necessary to change the way Country Offices operate. The increased emphasis on country focus and country systems implicit in the adoption of the Bank's new lending framework, for example, means that Country Offices must streamline their internal procedures and processes in order to focus more attention on risk management and the development of country capacity.

A number of pilot initiatives have been undertaken to reengineer the Bank's Country Offices so that sector specialists spend less time on routine administrative tasks and more time participating in programming dialogue, project preparation and problem solving on substantive issues in project execution.

The initiatives have typically involved a wholesale review of internal operational and administrative procedures, changes in staff profiles, training and phased-in delegation of routine functions to qualified support personnel. More fundamentally, they have implied the need for a change in "culture," with borrowers assuming greater responsibility for project supervision, while the Country Offices focus greater attention on the Bank's fiduciary responsibilities, such as ensuring that borrowers are appropriately monitoring and reporting on the technical, institutional, financial and development performance of Bank-financed operations.

Specific examples of this retooling process include internal efficiencies generated by employing paraprofessionals to perform routine administrative tasks in Paraguay; temporary reassignments of headquarters personnel to Country Offices to support project supervision;



BOLIVIA • San Francisco Cathedral stands majestically in downtown La Paz, where a public investment program has improved urban environmental quality.

"clustering" of sector specialists to encourage development of a holistic sector approach in Brazil; delegation of additional authority to the Bank's representative in Haiti to accelerate decision-making and project implementation; and the adoption of new project supervision models in several Andean countries, including Ecuador and Peru, that required realignment of the traditional work of the Country Offices and establishing a new partnership with executing agencies. The Bank will apply the lessons learned from these experiences and expand successful initiatives to other Country Offices in the region in the coming years.

See www.iadb.org/ar/countries_en

Nonregional Offices

Office in Europe

The Office in Europe (SOE), located in Paris, works to strengthen cooperation between the Bank, the region and the nonregional member countries of the Bank in Europe, plus Israel, the European Union and international organizations based in Europe. The key elements of its mission are to promote greater awareness of the Bank's mandate, increase its visibility, reinforce cooperation with Europe and promote the exchange of experiences between Europe and Latin America and the Caribbean.

The office has continued to coordinate the Bank's work with the European Commission, placing special emphasis on various joint initiatives for regional integration and social cohesion, such as the commission's program for social cohesion in Latin America known as "EUROsociAL."

During the year, SOE participated in joint initiatives on training and research with the World Trade Organization on issues involving Latin America and with the Organisation for Economic Co-operation and Development, supporting the third Latin American Competition Forum.

The office continued its efforts to support networks of European and Latin American researchers in different fields, such as the Euro-Latin Study Network on Integration and Trade and the Euro-Latin Network on Governance for Development. It also organized seminars on governance and social development, including events on indigenous governance, judicial reform, constitutions and integration, decentralization and social development, criminal justice and the International Criminal Court, corruption and the protection of economic and social rights.

The office further strengthened its outreach activities, staging a conference in Paris on European–Latin American relations held jointly with the journal *Problèmes d'Amérique Latine* and the French government, and a conference in London, in cooperation with *The Economist*, on prospects for democracy in Latin America.

See www.iadb.org/europe

Office in Japan

GUYANA • Nurse Arvil Smith gives a lecture on breastfeeding to expectant mothers as part of a program to improve nutrition among women and children in poor communities.

The IDB Office in Japan works to build development partnerships and cooperation between the Bank and its borrowing member countries in Latin America and the Caribbean, and Japan, the Republic of Korea and other East Asian countries, in line with the Bank's development priorities and operational programs. During the year, the office carried out a broad set of outreach and knowledge dissemination activities, mainly through seminars, conferences, workshops, roundtables, business meetings and publications.

The office's support was pivotal for the effective organization of the Annual Meetings of the IDB and IIC Boards of Governors and the official seminars and events held in Okinawa, Japan, on April 6–12, 2005. Its involvement was particularly important in several official seminars on the Millennium Development Goals.

The office assisted regional integration efforts in Latin America and the Caribbean by supporting several events organized in commemoration of the 70th anniversary of diplomatic relations between Japan and the Central American countries. It also organized public information events on regional infrastructure initiatives and regional trade and held meetings with Japanese companies interested in doing business with the countries of the region through Bank-financed operations.

On the occasion of the office's 10th anniversary, IDB President Luis Alberto Moreno visited Japan and participated in seminars to promote relations between Latin America and Japan and other East Asian countries. Under a partnership agreement with the Asian Development Bank, the office also carried out a number of joint activities in Japan as well as in the Philippines and Argentina. During the year, the office also conducted its first outreach mission to the Republic of Korea.

To mobilize resources for Bank projects, the office organized meetings with the Japan Bank for International Cooperation and the Japan International Cooperation Agency, as well as consultations with Japan's Ministry of Finance and other Japanese financial institutions and private companies.

See www.iadb.org/japan

Administration

Pursuant to the Bank's institutional strategy, Medium-Term Action Plan for Development Effectiveness and new lending framework, in 2005 the Bank continued its efforts to provide its staff with key technical, supervisory and core competencies, while attracting, developing and maintaining a highly qualified and dedicated workforce.

The Bank has continued to implement the Human Resources Strategy, adopted in 2001. To promote diversity among staff, the Bank launched a Diversity Junior Professional Program for Afro-Descendants and Indigenous Peoples, in addition to the Diversity Internship Program it had instituted the previous year. These programs supplement the Bank's regular internship and junior professional programs. Other activities to increase the candidate pool included visits to universities, as well as missions to disseminate information on the IDB in underrepresented countries and to Afro-descendant and indigenous populations.

The Bank has been working to develop a new strategy for career development, analyzing different strategies to align the processes for identification, assessment and development of skills of existing staff with business priorities and succession management needs. During 2005, the Bank focused on mobility by posting lateral transfers, thus minimizing time in the selection process. In 2005, the Bank met the mobility targets established by the Board. Progress was also achieved in strengthening the Country Offices.

The mission of the Bank's Office of Learning is to refresh and develop the technical knowledge and skills of the Bank's staff, both at headquarters and in the Country Offices. In 2005 its primary goal was to align staff skills with the challenges posed by the new lending framework. The office also worked on developing leadership competencies and strengthening human and budgetary resource management and core supervisory competencies. It launched the Support Staff Program, aimed at aligning staff learning more closely with the Bank's business needs, and revamped the program for oral and written communications skills.

Under the workload initiative, during the year the Board of Executive Directors reviewed the results of a Bank-wide workload assessment, which will be used as a baseline against which to measure changes in workload in subsequent years. Data obtained through this exercise will help track potential trade-offs in a multiyear budgeting context and assess competencies and the skills mix among the Bank's employees so that the workload profiles of the current workforce can be gauged and future needs projected based on the Bank's strategic direction.

At the same time, management continued taking actions to reduce the Bank's headcount, as instructed by the Board of Executive Directors. The Bank has been tasked with

BELIZE • Gilbert Miralda proudly displays the certificate for his parcel in Esperanza Village, Cayo District, obtained thanks to a land titling program.

CONSOLIDATED ADMINISTRATIVE EXPENSES

(In thousands of U.S. dollars)

Category	2003 Actual	2004 Actual	2005 Actual
Board of Governors	3,247.6	2,469.9	3,797.5
Board of Executive Directors	15,745.0	16,332.3	17,630.2
Evaluation Office	5,036.5	5,491.0	6,397.3
Headquarters and Country Offices	348,446.3	373,063.8	397,417.8
Total Before Reimbursement [1,2,3,4]	**372,475.5**	**397,357.0**	**425,242.8**
Reimbursement from Funds in Administration and IIC	(2,671.3)	(2,678.1)	(3,776.3)
Total Administrative	**369,804.2**	**394,678.9**	**421,466.5**
Capital	17,607.4	35,521.6	23,904.1
Total Administrative and Capital	**387,411.7**	**430,200.5**	**445,370.7**

[1] Excludes depreciation amounting to $11.1 million in 2003, $11.1 million in 2004 and $15.7 million in 2005.
[2] Net of certain income items in the amount of $9.2 million, $9.8 million and $9.5 million in 2003, 2004 and 2005, respectively.
[3] Excludes accrued pension benefit costs amounting to $7.7 million in 2005. In 2004 and 2003, includes prepaid pension benefit costs amounting to $9.8 million and $11.1 million, respectively.
[4] Excludes $14.8 million of expenses in 2005 related to prior years.

eliminating 100 positions during the period 2004–2006. By the end of 2005, 67 headcount positions had been eliminated and an additional 31 positions had been identified for elimination by the end of 2006. Management has also been working on human resources guidelines for turnover positions in order to align them more closely with the business needs of the Bank.

At year-end 2005, Bank staff funded by the administrative budget, excluding the Board of Executive Directors, the Office of Evaluation and Oversight and the Multilateral Investment Fund, totaled 1,852, of whom 1,411 were professionals and 441 administrative staff. Headquarters staff numbered 1,332 and Country Office personnel 520. As of December 31, 2005, there were 558 professional women at the Bank, constituting 39.5 percent of all professional staff.

During the year, Ciro De Falco was named Executive Vice President of the Bank. Carlos N. Guimarães was appointed to the senior executive position of Private Sector Coordinator.

For purposes of corporate risk management, in September 2005 the Bank opened its new office building in Ashburn, Virginia, as a business continuity/disaster recovery facility that will serve as an alternate site for conducting critical Bank operations in the event of a major business disruption at the headquarters location. As part of establishing the facility, the Bank's computer production environment was moved from headquarters to a new data center in Ashburn, which, together with the network operations center, provides the Bank with redundant data-processing capability in the event of an emergency.

A new Corporate Procurement Policy was approved in April, to provide a framework for enhancing transparency, efficiency, fairness and competition in the Bank's administrative purchases of goods, works and services. A new division was created and staffed within the Department of Budget and Corporate Procurement. Guides for users and suppliers were developed, and training and outreach programs were offered for prospective vendors.

FINANCIAL HIGHLIGHTS

Ordinary Capital

During 2005, the Bank approved 72 loans amounting to $6.4 billion from the Ordinary Capital resources as compared to 56 loans that totaled $5.3 billion in 2004. The increase in the amount of loan approvals was mostly due to an increase in investment lending that was partially offset by a decrease in policy-based lending. Also, due largely to the increase in loan approvals and more flexible disbursement terms under the New Lending Framework approved in 2005, disbursements totaled the equivalent of $4.9 billion, significantly higher than the $3.8 billion disbursed in 2004. Undisbursed loans increased to $17.0 billion in 2005 from $16.1 billion in 2004. The Bank also approved 11 guarantees without sovereign counter-guarantees in the amount of $298 million in 2005 as compared to four guarantees amounting to $185 million in 2004.

Since the Bank's inception, there have been no write-offs in the sovereign-guaranteed loan portfolio, which, as of December 31, 2005, represented over 97 percent of the $48.1 billion loans outstanding. As of that date, all loans were performing, except for certain loans to private sector borrowers without sovereign guarantee in the aggregate amount of $196 million (2004—$216 million), which were classified as impaired, and were in nonaccrual status. The allowances for loan and guarantee losses amounted to $188 million compared to $199 million in 2004.

The Bank issued bonds for a total face amount of $4.9 billion equivalent (2004—$4.7 billion) and net proceeds of $4.9 billion (2004—$4.6 billion) with an average life of 6.3 years (2004—5.5 years). Borrowings raised in any given year are used for general operations, including loan disbursements and refinancing of maturing debt. In 2005, the Bank issued its first-ever bonds denominated in Chilean pesos and Icelandic krónur, and, in addition, it launched a global benchmark $1 billion bond maturing in 2015. Bonds denominated in borrowing member country currencies in the aggregate amount of $496 million were issued during 2005 (2004—$563 million), comprised of the following currencies: Chilean pesos $66 million, Colombian pesos $72 million, and Mexican pesos $358 million (2004—Brazilian reais $250 million, Colombian pesos $44 million, and Mexican pesos $269 million). Bonds denominated in currencies from borrowing member countries were issued on a cost-effective basis for the Bank. The issuance of these bonds contributed, in part, to the development of the local capital markets and

(Left) • The Bank provides guarantees to help develop local capital markets and trade finance throughout the region.
GUATEMALA (center) • The Maya temple complex at Tikal draws tourists to the area of a comprehensive sustainable development program.
MEXICO (right) • A microentrepreneur who received credit from *Financiera Compartamos*, a microfinance institution, sells his wares.

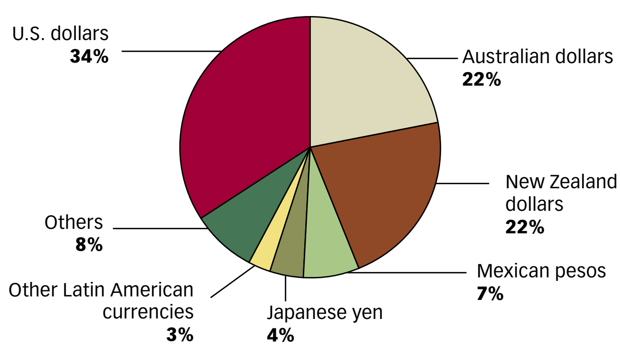
expands effective foreign demand for local currencies. In addition, the Bank transacted bonds denominated in Australian dollars, Japanese yen, New Zealand dollars, South African rand, and United States dollars. Tables IX and X provide more detail on borrowings issued during 2005 and outstanding borrowings by currency before swaps as of December 31, 2005.

The Bank continued to be rated AAA by the major credit agencies in 2005, as it has been since it was first rated.

The following graphs show the Bank's debt issues during 2005 by currency both before and after swaps.

Operating Income was $712 million in 2005 compared with $862 million in 2004. The decrease was largely due to a reduction in net interest income generated by the loan portfolio (partially due to prepayment of a significant emergency loan) and an increase in net non-interest expense, partially offset by lower loan and guarantee losses. For the second semester of 2005 only, the Board of Executive Directors lowered the loan charges for sovereign-guaranteed, nonemergency loans to a 0.10 percent lending spread, 0.10 percent credit commission and no supervision and inspection fee. (The Bank's standard loan charges consist of a lending spread of 0.30 percent per annum on the outstanding amount, a credit commission of 0.25 percent per annum on the undisbursed portion of the loan, and no supervision and inspection fee.)

BORROWINGS ISSUED IN 2005, BEFORE SWAPS



BORROWINGS ISSUED IN 2005, AFTER SWAPS

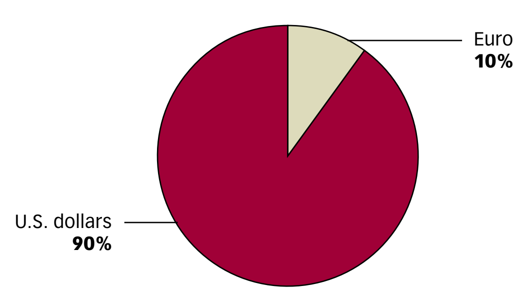


TABLE IX • BORROWINGS,[1] FISCAL YEAR 2005
(Amounts in millions)

Type	Issue	Amount	Amount (US$ equiv.)
Australian dollars	4.82%, due 2007	649	$ 505
	4.89%, due 2008	58	43
	5.00%, due 2008	37	27
	5.75%, due 2010	625	457
	5.75%, due 2011	100	79
Chilean pesos	2.15%, due 2010[2]	36,303	66
Colombian pesos	Adjustable, due 2012[3]	168,547	72
Icelandic krónur	9.00%, due 2007	5,000	79
Japanese yen	2.35%, due 2020[4]	21,000	199
Mexican pesos	9.25%, due 2010	750	69
	7.65%, due 2010	492	45
	8.67%, due 2015	2,000	187
	9.50%, due 2015	500	46
	7.65%, due 2011[5]	118	11
New Zealand dollars	6.50%, due 2007	200	140
	6.07%, due 2007	270	190
	6.24%, due 2008	372	262
	6.25%, due 2015	100	68
	6.00%, due 2017	600	426
South African rand	7.05%, due 2009	600	89
	7.05%, due 2010	1,000	158
	7.25%, due 2010	300	45
	7.30%, due 2012	100	15
United States dollars	4.38%, due 2007	500	500
	3.80%, due 2009	159	159
	4.25%, due 2015	1,000	1,000
Total Borrowings			**$ 4,937**

[1] Medium- and long-term borrowings at face value before swaps.
[2] Chilean peso inflation-linked note.
[3] Colombian inflation plus 0.395%.
[4] Adjustable from February 24, 2006.
[5] Bond negotiated in December 2005 but settled in January 2006.

Since the adoption of the Bank's capital adequacy policy in 2003, the Bank's measure of risk-based capital adequacy, the Total Equity to Loans Ratio (TELR), has continually increased toward its desired level of 38 percent. By the end of 2005, the TELR had reached a level of 37.3 percent.

Significant Developments in 2005

The Board of Governors approved a New Lending Framework (NLF). Among other items, the NLF establishes flexible annual lending up to a maximum cumulative amount of $20.6 billion for investment loans and $9.8 billion for policy-based loans for the period from 2005 to 2008, and limits the outstanding loan balance for emergency loans to $6 billion. The NLF also eliminates minimum disbursement periods for investment and policy-based loans and allows the Bank to offer policy-based loans with single-tranche disbursements (see **Box 2**).

The Bank approved a new Local Currency Facility (LCF) under which public and private sector borrowers have three different options for local currency financing: (i) local currency conversion of future loan disbursements and/or outstanding loan balances; (ii) direct swaps into local currency against existing Bank debt; and (iii) local currency conversion of called guarantees. The use of these modalities is subject to the availability of the respective local currency and the appropriate risk mitiga-

TABLE X • OUTSTANDING BORROWINGS[1] BY CURRENCY AS OF DECEMBER 31, 2005
(In millions of U.S. dollars)

Currency	Amount
Australian dollars	$ 5,035
Brazilian reais	321
British pounds sterling	2,319
Canadian dollars	2,664
Chilean pesos	70
Colombian pesos	113
Euro	3,747
Hong Kong dollars	97
Icelandic krónur	79
Japanese yen	2,798
Mexican pesos	625
New Taiwan dollars	152
New Zealand dollars	2,382
South African rand	450
Swiss francs	760
United States dollars	24,821
Total	**$ 46,433**

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

tion instrument in the financial markets. The Bank performed its initial local currency conversion of a $19 million loan disbursement (see **Box 5**).

The Board of Directors approved an initiative on best practices in internal controls that includes the implementation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control–Integrated Framework, and the establishment of an annual process for management to report on the effectiveness of internal controls over financial reporting, and for the external auditors to attest to management's report. Management's first internal controls report and the auditors' attestation are expected to be issued in February 2007 in connection with financial information as of December 31, 2006.

The Bank adopted a new liquidity policy that establishes yearly minimum and maximum liquidity levels, computed as 20 percent and 40 percent, respectively, of the projected year-end outstanding loan balance, and a desired level of 30 percent. Although the previous liquidity policy had served the Bank well and enabled it to maintain a level of liquidity consistent with its AAA rating, in recent years such a policy no longer reflected the liquidity requirements generated by the Bank's mix of loan products. The new policy is expected to increase liquid holdings in 2006 and 2007, reduce their year-to-year volatility and permit greater flexibility for capital market operations. For 2005, the liquidity range was established between $9.8 billion and $19.6 billion, with a desired level of $14.7 billion. As of December 31, 2005, the Bank's liquidity was $12.6 billion.

Limits on direct loans and guarantees for the private sector were changed by increasing the ceiling on financing to the lesser of $200 million or 50 percent of the total project cost for expansion projects and guarantees, and to

HONDURAS • A coffee taster samples gourmet varieties produced by *Cooperativa Cafetalera Siguatepeque Limitada* (COHORSIL), which received technical assistance under an agroexport program.

TABLE XI • STATEMENT OF LOANS OUTSTANDING AS OF DECEMBER 31, 2005

(In millions of U.S. dollars)

Member in whose territory loans have been made	Ordinary Capital			Fund for Special Operations	Total
	Public Sector	Private Sector	Subtotal		
Argentina	$ 8,474	$ 141	$ 8,615	$ 118	$ 8,733
Bahamas	71	—	71	—	71
Barbados	150	—	150	13	163
Belize	71	—	71	—	71
Bolivia	282	123	405	889	1,294
Brazil	10,820	298	11,118	309	11,427
Chile	535	21	556	1	557
Colombia	3,570	10	3,580	140	3,720
Costa Rica	569	12	581	81	662
Dominican Republic	999	—	999	366	1,365
Ecuador	1,286	—	1,286	525	1,811
El Salvador	1,099	—	1,099	467	1,566
Guatemala	874	—	874	344	1,218
Guyana	9	—	9	402	411
Haiti	—	—	—	550	550
Honduras	120	—	120	1,167	1,287
Jamaica	594	30	624	48	672
Mexico	7,597	275	7,872	20	7,892
Nicaragua	92	8	100	922	1,022
Panama	767	12	779	50	829
Paraguay	627	—	627	311	938
Peru	3,401	92	3,493	66	3,559
Suriname	44	—	44	1	45
Trinidad and Tobago	414	—	414	9	423
Uruguay	2,230	12	2,242	22	2,264
Venezuela	1,723	—	1,723	—	1,723
Regional	579	104	683	52	735
Total	**$46,997**	**$1,138**	**$48,135**	**$6,873**	**$55,008**

25 percent of the total project cost (for certain countries, 40 percent) for new projects. In exceptional circumstances, the Board of Executive Directors may approve project financings of up to $400 million. The Bank's maximum exposure to any single obligor for private sector operations may not exceed 2.5 percent of the Bank's equity.

Fund for Special Operations

In 2005, there were 20 loans approved amounting to $410 million from the Bank's concessional window, the Fund for Special Operations (FSO), as compared to 27 loans amounting to $552 million in 2004. As of December 31, 2005, the loan portfolio amounted to $6.9 billion (2004—$7 billion) and was fully performing. FSO operations generated Excess of Income Over Expenses before Technical Cooperation Expense and Heavily Indebted Poor Countries (HIPC) Debt Relief of $101 million, compared to $104 million in 2004.

The amount of $62 million (2004—$73 million) was allocated from the FSO to the Intermediate Financing Facility Account (IFF) 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 2005, the Bank continued to deliver debt relief to Bolivia, Guyana, Honduras and Nicaragua, according to its commitments under the Original and the Enhanced

TABLE XII • SUBSCRIPTIONS TO CAPITAL STOCK, CONTRIBUTION QUOTAS AND VOTING POWER AS OF DECEMBER 31, 2005

(In millions of U.S. dollars)

	Ordinary Capital Subscribed Capital Stock			% of Total	FSO
Member countries	Paid-in	Callable	Total	Number of Votes[1, 3]	Contribution Quotas
Regional developing members					
Argentina	$ 465.1	$ 10,393.8	$ 10,858.9	10.752	$ 507.7
Bahamas	11.6	198.3	209.9	0.209	10.6
Barbados	5.6	124.3	129.9	0.130	1.8
Belize	7.2	103.5	110.7	0.111	7.6
Bolivia	37.3	834.4	871.7	0.865	48.7
Brazil	465.1	10,393.8	10,858.9	10.752	544.4
Chile	127.7	2,853.9	2,981.6	2.953	157.7
Colombia	127.7	2,853.9	2,981.6	2.953	153.7
Costa Rica	18.7	417.1	435.7	0.433	23.4
Dominican Republic	24.9	556.8	581.7	0.577	33.9
Ecuador	24.9	556.8	581.7	0.577	30.3
El Salvador	18.7	417.1	435.7	0.433	21.4
Guatemala	24.9	556.8	581.7	0.577	32.8
Guyana	7.8	153.8	161.6	0.162	8.3
Haiti	18.7	417.1	435.7	0.433	21.8
Honduras	18.7	417.1	435.7	0.433	26.5
Jamaica	24.9	556.8	581.7	0.577	28.8
Mexico	299.0	6,681.3	6,980.3	6.912	329.0
Nicaragua	18.7	417.1	435.7	0.433	24.2
Panama	18.7	417.1	435.7	0.433	25.4
Paraguay	18.7	417.1	435.7	0.433	27.9
Peru	62.3	1,390.7	1,453.0	1.440	79.8
Suriname	5.7	82.9	88.6	0.089	6.3
Trinidad and Tobago	18.7	417.1	435.7	0.433	20.9
Uruguay	49.9	1,114.3	1,164.2	1.154	55.9
Venezuela	249.3	5,568.5	5,817.8	5.761	315.3
Total regional developing members	**2,170.5**	**48,311.4**	**50,481.1**	**50.016**	**2,544.1**
Canada	**173.7**	**3,866.2**	**4,039.9**	**4.001**	**316.7**
United States	**1,303.0**	**29,006.7**	**30,309.7**	**30.007**	**4,839.0**
Nonregional members					
Austria	6.9	153.7	160.6	0.161	19.6
Belgium	14.2	316.8	331.0	0.329	44.8
Croatia	2.1	46.4	48.5	0.050	5.7
Denmark	7.3	163.4	170.8	0.171	20.8
Finland	6.9	153.7	160.6	0.161	19.0
France	82.3	1,831.4	1,913.7	1.896	230.9
Germany	82.3	1,831.4	1,913.7	1.896	237.7
Israel	6.8	151.5	158.3	0.158	18.6
Italy	82.3	1,831.4	1,913.7	1.896	219.6
Japan	217.1	4,833.2	5,050.3	5.001	580.0
Korea, Republic of	0.1	2.1	2.2	0.004	—
Netherlands	14.6	325.6	340.3	0.338	38.4
Norway	7.3	163.4	170.8	0.171	20.1
Portugal	2.3	51.7	54.0	0.055	7.6
Slovenia	1.3	28.1	29.4	0.031	3.4
Spain	82.3	1,831.4	1,913.7	1.896	218.1
Sweden	14.1	314.8	328.9	0.327	38.8
Switzerland	20.4	454.2	474.7	0.472	64.9
United Kingdom	41.8	929.9	971.7	0.964	177.6
Total nonregional members	**692.4**	**15,414.3**	**16,106.9**	**15.976**	**1,965.6**
Total before unallocated amount	**4,339.4**	**96,598.5**	**100,937.9**		**9,665.4**
Unallocated[2]	0.9	14.8	15.7		5.2
GRAND TOTAL	**$ 4,340**	**$ 96,613**	**$ 100,953**	**100.000**	**$9,671**

[1] Data are rounded; detail may not add to subtotals and grand total because of rounding.
[2] Represents the remaining shares and contribution quotas of the former Socialist Federal Republic of Yugoslavia.
[3] Each member country's voting power is the same in making decisions concerning the operations of the Ordinary Capital and the FSO. Except where otherwise expressly provided in the Agreement Establishing the Bank, all matters are decided by a majority of the total voting power of the member countries.

ARGENTINA • Microfinance institution *FIE Gran Poder* expanded its services for microentrepreneurs, many of them immigrants from neighboring countries.

HIPC initiatives. The Bank is financing its participation in these initiatives as originally designed, through local currency conversions from borrower member countries, contributions from the HIPC Trust Fund received from nonborrowing member countries and FSO internal resources. Through 2005, the nominal amount of debt relief delivered as part of the Original and Enhanced Initiatives was $648 million: $297 million for Bolivia, $111 million for Guyana, $71 million for Honduras and $169 million for Nicaragua.

All borrowing member countries currently eligible for HIPC debt relief have reached the completion point under the Enhanced Initiative; as a result, the Bank wrote off FSO loans of $505 million, $64 million, $85 million and $409 million, for Bolivia, Guyana, Honduras and Nicaragua, respectively. These figures represented the estimated principal portion of debt relief remaining to be provided from FSO internal resources under the Enhanced Initiative, net of debt relief previously delivered. For the Original Initiative, loan write-offs of $177 million were recognized in 1998.

Significant Developments in 2005

The Group of Eight Countries has proposed the Multilateral Debt Relief Initiative (MDRI) whereby HIPC debt to the World Bank's International Development Association, the International Monetary Fund, and the African Development Fund would be forgiven. The MDRI does not include the Bank. Management is analyzing the implications of different options that could lead to a proposal to the Board of Executive Directors, and subsequently to the Board of Governors, which could include additional debt relief and a realignment of the concessional window of the Bank. The Board of Executive Directors has formed an Ad Hoc Committee to study this matter.

See www.iadb.org/ar/fin_en

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 21 non-borrowing member countries. The five largest members by shareholdings are the United States, Argentina, Brazil, Mexico and Venezuela.

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 its retained earnings, 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. 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. As of December 31, 2005, over 97% of loans outstanding were sovereign-guaranteed and less than 3% was private sector lending without a sovereign guarantee.

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

In 2005, the Board of Governors approved the 2005–2008 New Lending Framework (NLF). Among other items, the NLF establishes flexible annual lending up to a maximum cumulative amount of $20.6 billion for investment loans and $9.8 billion for policy-based loans for the period from 2005 to 2008, and limits the outstanding loan balance for emergency loans to $6 billion. The NLF also eliminates minimum disbursement periods for investment and policy-based loans and allows the Bank to offer policy-based loans with single-tranche disbursements.

The Bank approved a new Local Currency Facility (LCF) under which public and private sector borrowers have the option to receive local currency financing under three different modalities: i) local currency conversion of future loan disbursements and/or outstanding loan balances; ii) direct swaps into local currency against existing Bank debt; and iii) local currency conversion of called guarantees. The use of these modalities is subject to the availability of the respective local currency and the appropriate risk mitigation instrument(s) in the financial markets. During 2005, the Bank performed its initial local currency conversion of a $19 million loan disbursement.

On December 30, 2005, the Board of Governors approved changes to the lending limits applicable to the Private Sector Program, including an increase in the ceiling on individual projects to the lesser of $200 million or 50% of the total project cost for expansion projects and guarantees, and 25% of the total project cost (certain countries 40%) for new projects. In exceptional circumstances, the Board of Executive Directors may approve financings of up to $400 million. In addition, the Bank's maximum exposure to any single obligor for private sector operations cannot exceed 2.5% of the Bank's equity.

During 2005, the Bank approved 72 loans amounting to $6.4 billion as compared to 56 loans that totaled $5.3 billion in 2004. The increase in the amount of loan approvals was substantially due to an increase in investment lending that was partially offset by a decrease in policy-based lending. Due largely to the increase in loan approvals and more flexible disbursement terms under the NLF, disbursements in 2005 totaled the equivalent of $4.9 billion, significantly higher than the $3.8 billion disbursed in 2004. The undisbursed portion of approved loans increased to $17.0 billion at year-end 2005 from $16.1 billion at year-end 2004.

As of December 31, 2005, all loans were performing, except for certain loans to some private sector borrowers without sovereign guarantee in the aggregate amount of $196 million (2004—$216 million). The allowances for loan and guarantee losses amounted to $188 million compared to $199 million in 2004.

In 2005, the Bank issued medium- and long-term debt securities for a total face amount of $4.9 billion equivalent (2004—$4.7 billion), that generated net proceeds of $4.9 billion equivalent (2004—$4.6 billion) and had an average life of 6.3 years (2004—5.5 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 slight increase in 2005 borrowings was primarily attributable to greater flexibility in the Bank's capital markets operations resulting from the new liquidity policy approved in 2005.

The Bank enters into currency and interest rate swaps to manage its interest and exchange rate exposures 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 income. 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 holds its derivatives and related bonds to maturity. Accordingly, Income before SFAS 133 and currency transaction adjustments[1] 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 Retained Earnings and are excluded from the determination of ratios and other financial parameters.

Operating Income was $712 million in 2005 compared with $862 million in 2004. The decrease was largely due to a reduction in net interest income generated by the loan portfolio (partially due to the prepayment of a significant emergency loan) and an increase in net non-interest expenses, partially offset by lower loan and guarantee losses. For the second semester of 2005 only, the Board of Executive Directors lowered the loan charges for sovereign-guaranteed, non-emergency loans to 0.10% lending spread, 0.10% credit commission and no supervision and inspection fee due to the steady growth in recent years in the Total Equity to Loans Ratio or TELR[2] , which temporarily reached a level above 38% during this period. 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 2005 was substantially lower than in the previous year ($50 million versus $314 million) mostly due to a decrease in the amortization of borrowing and loan basis adjustments arising from previous accounting hedges, the appreciation of the United States dollar against other major currencies (prior year depreciation), and long-term interest rate movements during the year. During 2005, the amortization of basis adjustments on borrowings and loans, the net impact of exchange rates on borrowing transactions and the impact of interest rates on borrowing and lending swaps amounted to an increase (decrease) in income of $85 million, ($32) million, and $5 million, respectively, compared to $250 million, $27 million, and $48 million, respectively, in 2004.

The Bank manages its financial condition by monitoring certain financial ratios, in particular the TELR. The TELR at December 31, 2005, was 37.3% compared with 36.1% at December 31, 2004, with the increase mostly due to a decline in loans outstanding. According to the Bank's capital adequacy policy, as long as Operating Income is positive and the TELR is within a range between 32% and 38% and increasing over the medium term, the Bank will apply standard loan charges, equal to a lending spread of 0.30%, a credit commission of 0.25%, and no supervision and inspection fee. Management has presented to the Board of Executive Directors a consultation document on options for the use of equity exceeding the upper bound of the TELR band (32%–38%) established in the Bank's capital adequacy policy. The Board of Executive Directors has the matter under consultation.

[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 this Management's Discussion and Analysis.

[2]The TELR is the ratio of the sum of "Equity" (defined as paid-in capital stock, retained earnings and the allowances for loan and guarantee 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,				
	2005	2004	2003	2002	2001
Balance Sheet Data					
Cash and investments-net[(1)], after swaps	$13,717	$13,046	$14,855	$14,780	$11,932
Approved loans					
Loans outstanding	48,135	49,842	50,655	47,958	44,951
Undisbursed portion of approved loans	17,000	16,093	15,619	18,570	20,506
Total assets	65,382	67,346	69,669	65,031	58,581
Borrowings outstanding[(2)], after swaps	43,988	45,144	49,275	48,179	43,588
Equity					
Callable capital stock	96,613	96,611	96,611	96,611	96,619
(of which, subscribed by United States, Japan, Canada and the other nonregional members)	48,302	48,300	48,300	48,300	48,307
Paid-in capital stock	4,340	4,340	4,340	4,340	4,341
Retained earnings[(3)]	14,387	14,171	12,772	9,929	8,913
Total equity	18,727	18,511	17,112	14,269	13,254
Income Statement Data					
Loan income	$ 2,413	$ 2,498	$ 2,711	$ 2,639	$ 3,191
Investment income	403	288	298	319	541
Borrowing expenses, after swaps	1,733	1,572	1,636	1,842	2,321
Loan and guarantee loss provision (credit)[(4)]	(14)	21	(1,370)	100	147
Net non-interest expense	385	331	309	289	254
Operating income	712	862	2,434	727	1,010
Effects of SFAS 133 and currency transaction adjustments[(5)(6)]	50	314	(1)	(19)	11
Net income	762	1,176	2,433	708	1,021
Ratios					
Net borrowings[(7)] as a percentage of callable capital stock subscribed by United States, Japan, Canada and the other nonregional members	63.5%	67.3%	72.1%	70.0%	66.6%
Interest coverage ratio[(4)]	1.41	1.55	2.49	1.40	1.44
Total equity[(8)] to loans[(9)] ratio (TELR)	37.3%	36.1%	33.0%	30.9%	30.5%
Cash and investments as a percentage of borrowings outstanding, after swaps	31.2%	28.9%	30.1%	30.7%	27.4%
Returns and Costs, after swaps					
Return on:					
Average loans outstanding	5.04%	5.02%	5.51%	5.73%	7.48%
Average liquid investments	3.29%	2.17%	2.00%	2.28%	4.13%
Average earning assets	4.68%	4.42%	4.70%	4.91%	6.65%
Average cost of:					
Borrowings outstanding during the year	4.07%	3.40%	3.37%	3.97%	5.34%
Total funds available	2.92%	2.53%	2.57%	3.09%	4.17%
Term Duration (in years)					
Investments and loans	4.41	4.36	4.33	4.13	4.34
Debt	4.00	4.15	4.46	3.66	3.88

(1) Net of Payable for investment securities purchased.

(2) Net of premium/discount.

(3) Includes Accumulated other comprehensive income.

(4) 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.

(5) SFAS 133 refers to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", along with its related amendments.

(6) Effective January 1, 2004, the Bank discontinued the use of hedge accounting, resulting in a higher impact of SFAS 133.

(7) Borrowings (after swaps) and gross guarantee exposure, less qualified liquid assets (after swaps) and the special reserve assets.

(8) Paid-in capital stock, retained earnings and the allowances for loan and guarantee 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.

(9) Includes loans outstanding and net guarantee exposure.

DEVELOPMENT OPERATIONS

General

The Bank offers loans and guarantees to the governments, as well as governmental entities, enterprises, and development institutions of 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). In addition, the Bank provides financing to borrowing member countries for non-reimbursable and contingent recovery assistance that is aligned with its overall strategy for the region.

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 Board of 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 Board of Executive Directors.

The Bank's lending operations conform to certain principles that, when combined, 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) The Bank makes loans and guarantees primarily to the public sector governments, as well as governmental entities, enterprises, and development institutions of its borrowing members. In addition, the Bank makes loans to private sector entities through its Private Sector Program.

(ii) Loan applicants must submit a detailed proposal to the Bank specifying the technical, economic and financial merits of the project. The proposal must include 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 with respect to its 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. Bank staff monitor and supervise the on-going progress with respect to the development objectives of each operation through the Bank's Country Offices in each of its 26 borrowing member countries, and fiduciary arrangements are in place to ensure proper use of Bank resources to achieve the operation's objectives.

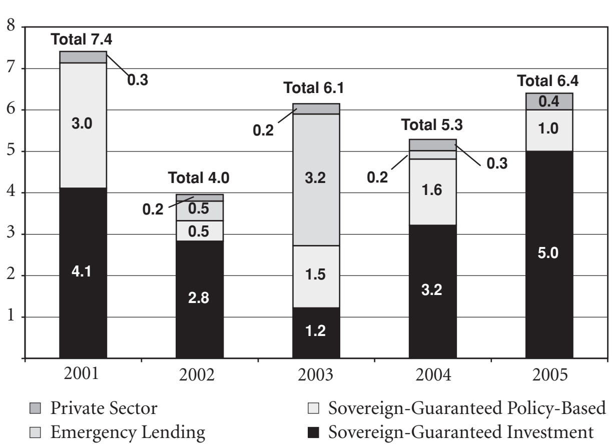
Loans

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, excluding emergency lending. Such loans and guarantees are also subject to a number of restrictions, including a ceiling on financing the lesser of $200 million or 50% of the total project cost for expansion projects and guarantees, and 25% of the total project cost (certain countries 40%) for new projects. In exceptional circumstances, the Board of Executive Directors may approve project financings of up to $400 million. In addition, the Bank's maximum exposure to any single obligor for private sector operations cannot exceed 2.5% of the Bank's equity.

Figure 1 presents a breakdown of approvals by loan type during the last five years. Over the past five years, sovereign-guaranteed investment lending per year has fluctuated between $1.2 billion and $5.0 billion, and policy-based lending between $0.5 billion and $3.0 billion. Approvals under the Emergency Lending Facility amounted to $0.5 billion, $3.2 billion and $0.2 billion in 2002, 2003, and 2004, respectively, with no approvals in 2001 and 2005.

Figure 1: LOAN APPROVALS BY TYPE
For the years ended December 31, 2001 through 2005
(Expressed in billions of United States dollars)



Under the recently approved NLF, the Bank will have more flexible lending up to a maximum cumulative amount of $20.6 billion for investment loans and $9.8 billion for policy-based loans for the period from 2005 to 2008 and a $6 billion limit for outstanding emergency loans. Minimum disbursement periods are eliminated for investment and policy-based loans and the Bank can offer policy-based loans with single-tranche disbursements.

During 2005, loan approvals totaled $6.4 billion (2004—$5.3 billion). A summary of loan approvals by country during 2005 and 2004 appears in **Table 1**. Loan approvals increased during 2005 as a result of an increase of $1.8 billion in the amount of investment loans approved, partially offset by a $0.6 billion decrease in policy-based loans.

Table 1: LOAN APPROVALS BY COUNTRY [(1)(2)]
For the years ended December 31, 2005 and 2004
(Expressed in millions of United States dollars)

COUNTRY	2005	2004
Argentina	$1,033	$ 528
Bahamas	35	4
Barbados	4	—
Bolivia	—	31
Brazil	547	2,542
Chile	41	23
Colombia	561	737
Costa Rica	132	11
Dominican Republic	25	337
Ecuador	88	17
El Salvador	211	—
Guatemala	19	101
Jamaica	—	57
Mexico	2,050	410
Panama	35	—
Paraguay	45	—
Peru	345	351
Suriname	4	11
Trinidad and Tobago	2	—
Uruguay	268	77
Venezuela	910	6
Regional	85	40
Total	$6,440	$5,283

(1) Under the Emergency Lending Facility, one loan was approved to the Dominican Republic for $200 million in 2004 and no loans were approved in 2005.
(2) Includes Private Sector Program lending.

At December 31, 2005, the total volume of outstanding loans was $48.1 billion, $1.7 billion lower than the $49.8 billion at December 31, 2004. This decrease was mainly due to a higher level of loan collections ($5.2 billion, including prepayments of $1.7 billion, mostly related to emergency lending) than disbursements ($4.9 billion), and currency translation adjustments of $1.4 billion. Undisbursed balances at December 31, 2005, totaled $17.0 billion, an increase of $0.9 billion from December 31, 2004. This change was mainly due to new approvals, only 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, 2005, the total amount of loans outstanding and gross guarantee exposure as a percentage of the policy limit of $64.2 billion, after excluding the cumulative effects of SFAS 133 and currency transaction adjustments, was 75.4% compared to 78.3% in 2004.

A summary statement of loans outstanding by country at December 31, 2005 and 2004 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, 2005, the Bank offers two basic types of loans, each denominated in the currency or currencies chosen by the borrower, as available under the programs: Single Currency Facility (SCF) adjustable rate and SCF LIBOR-based loans. SCF adjustable rate loans, 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, 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.

Under the recently approved LCF, public and private sector borrowers have the option to receive local currency financing under three different modalities: i) local currency conversion of future loan disbursements and/or outstanding loan balances; ii) direct swaps into local currency against existing Bank debt; and iii) local currency conversion of called guarantees. The use of these modalities is subject to the availability of the respective local currency and the appropriate risk mitigation instrument(s) in the financial markets. Outstanding loan balances in the LCF can carry a fixed, floating or inflation-linked interest rate that represents the local currency equivalent of the sum of: i) the Bank's projected U.S. dollar funding cost, ii) a risk premium for funding and refinancing risk, and iii) the lending spread on sovereign-guaranteed, non-emergency loans or a project specific credit risk spread for loans without sovereign guarantee.

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[3]

	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][2]	30	30	30	30	400
Credit commission [1][2]	25	25	25	25	75
Front-end fee[1]	Not applicable	Not applicable	Not applicable	Not applicable	100
Supervision and inspection fee [1][2]	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 (bps).

[2] Loan charges on sovereign-guaranteed, non-emergency loans are subject to semi-annual approval by the Board of Executive Directors.

[3] Under the LC2F, borrowers have the option to convert future loan disbursements and/or outstanding loan balances to local currency under certain terms and conditions.

Previous Available Financial Terms

In previous years, the Bank offered 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, 2005, these loans represented 36.9% (2004—42.5%) 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, 2005 and 2004
(Amounts expressed in millions of United States dollars)

	2005		2004	
	Amount	%	Amount	%
Single Currency Facility-adjustable	$23,293	48.4	$21,953	44.0
Single Currency Facility-LIBOR-based	2,478	5.1	608	1.2
U.S. Dollar Window	777	1.6	850	1.7
Emergency Lending	2,520	5.2	3,820	7.7
Private Sector Program	1,138	2.4	1,244	2.5
Currency Pooling System	17,753	36.9	21,158	42.5
Others	176	0.4	209	0.4
Total	$48,135	100.0	$49,842	100.0

Of the $17.0 billion undisbursed loan balances at December 31, 2005, 50% pertains to the SCF-adjustable and 35% to the SCF-LIBOR-based portfolios.

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 amount of the loan, and no supervision and inspection fee. Loan charges are subject to semi-annual approval by the Board of Executive Directors, and are expected to remain constant, except under extraordinary circumstances. For the second semester of 2005 only, the Board of Executive Directors approved lower loan charges due to the steady growth in recent years of the TELR, which temporarily reached a level above 38% during this period. 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 %
2003:			
First semester	0.50	0.50	0.50
Second semester	0.30	0.25	—
2004	0.30	0.25	—
2005:			
First semester	0.30	0.25	—
Second semester	0.10	0.10	—

Guarantees

The Bank may make partial political risk and partial credit 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 country sovereign counter-guarantee. Guarantees under the Private Sector Program are denominated in United States dollars. Guarantees for public sector operations are offered in convertible and local currencies. Guarantees in local currencies require a member country 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, 2005, the Bank had not approved any guarantees with a sovereign counter-guarantee.

As part of its Private Sector Program, the Bank has issued partial political risk and partial credit guarantees designed to encourage private sector infrastructure investments, local capital market development, and trade finance. The partial political risk guarantees and partial credit guarantees may be offered on a stand-alone basis or in conjunction with a Bank loan. Partial political 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 infrastructure project borrowings, debt issuances or trade-finance transactions. The terms of

all guarantees are specifically set in each guarantee agreement and are primarily tied to a project, the terms of debt issuances or trade-finance transactions. 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 2005, one Private Sector Program non-trade-related guarantee was approved for $28 million compared to four guarantees for a total of $185 million in 2004. In addition, the Bank has a Trade Finance Facilitation Program to provide partial credit guarantees without sovereign counter-guarantees on trade-finance transactions. This program, which began to operate in July 2005, authorizes up to $40 million in credit support per approved trade-finance bank, and an aggregate of no more than $400 million outstanding at any time. Ten trade-finance guarantee lines of credit in the aggregate amount of $270 million were authorized, while nine guarantees for a total of $19 million were issued during the year.

As of December 31, 2005, guarantees of $319 million (2004—$331 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 10% limit, was $203 million at December 31, 2005 (2004—$191 million).

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.

LIQUIDITY MANAGEMENT

The Bank invests its liquid assets in highly rated debt securities and bank 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**.

In 2005, a new liquidity policy was adopted chiefly to permit greater flexibility for the Bank's capital market operations. The new policy establishes yearly minimum and maximum liquidity levels, computed at 20% and 40%, respectively, of the projected year-end outstanding loan balance, and a desired level of 30%. It is expected that the new policy will increase liquid holdings and borrowing requirements in 2006 and 2007 and reduce the year-to-year volatility of liquid holdings. For 2005, the liquidity level was established to range between $9.8 billion and $19.6 billion, with the mid-point of $14.7 billion being the desired level. At December 31, 2005, the Bank's liquidity (largely comprised of net cash and investments, after swaps, minus short-term borrowings and borrowing countries local currency cash balances) was $12.6 billion. During the year, liquidity averaged $11.9 billion compared to $13.0 billion in 2004.

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 majority of the Bank's liquid holdings. The HTM portfolio consists primarily of the special reserve assets.

The returns of the liquid investment portfolios in 2005 and 2004 are shown in **Table 5**. The higher yield levels on the total portfolio in 2005, as compared to 2004, 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 they are financed with matching LIBOR-indexed debt. HTM yields remained substantially unchanged during the year.

Table 5: LIQUID INVESTMENT PORTFOLIOS [1]
December 31, 2005 and 2004
(Amounts expressed in millions of United States dollars)

	2005		2004	
Portfolio	Ending Balance	Financial Return (%)[2]	Ending Balance	Financial Return (%)[2]
Transactional	$ 267	3.32	$ 67	1.41
Operational	9,851	3.28	8,980	1.74
Held-to-Maturity	3,376	3.33	3,789	3.32
Overall Portfolio	$13,494	3.29	$12,836	2.17

(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, 2005 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, 2005, was $18.7 billion compared with $18.5 billion at December 31, 2004. The increase primarily reflects the net income for the year, that was substantially offset by negative translation adjustments of $554 million.

The Bank's equity base plays a critical role in securing its financial objectives, enabling the Bank to absorb risk out of its own resources and protecting 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, 2005 and 2004. See "Financial Risk Management—Credit Risk—Capital Adequacy Framework" below, for more information on the TELR.

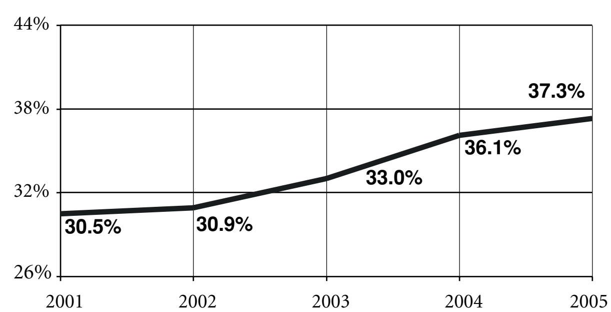
As presented in **Table 6**, the TELR increased from 36.1% at December 31, 2004, to 37.3% at December 31, 2005, which is within the current capital adequacy policy band, established in 2003, of 32% to 38%. The increase was mainly due to a decline of $1.7 billion in loans outstanding. The TELR has increased steadily during the last five years, as shown in **Figure 2**, reflecting a relatively higher growth rate in the equity base than in loans.

Table 6: TOTAL EQUITY TO LOANS RATIO
December 31, 2005 and 2004
(Amounts expressed in millions of United States dollars)

	2005	2004
Equity		
Paid-in capital stock	$ 4,340	$ 4,340
Retained earnings:		
General reserve [1]	11,921	11,636
Special reserve [1]	2,466	2,535
Plus:		
Allowances for loan and guarantee losses	188	199
Minus:		
Borrowing countries' local currency cash balances	137	143
Net receivable from members	255	95
Prepaid pension benefit costs	136	138
Cumulative effects of SFAS 133 and currency transaction adjustments[2]	348	289
Equity used in Total Equity to Loans Ratio	$18,039	$18,045
Loans outstanding and net guarantee exposure	$48,338	$50,033
Total Equity to Loans Ratio	37.3%	36.1%

(1) Including Accumulated other comprehensive income.
(2) Includes Reclassification to income-cash flow hedges for $8 million and $11 million in 2005 and 2004, respectively.

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, 2005, subscribed capital stock was $100.9 billion, of which $4.3 billion had been paid in and $96.6 billion was callable.

On March 16, 2005, the Republic of Korea became the 47th member of the Bank and subscribed to eight shares of paid-in capital and 176 shares of callable capital. 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 non-defaulting 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, 2005, 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.

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, 2005, Net Borrowings represented 63.5% of the subscribed callable capital stock of the non-borrowing member countries compared to 67.3% in 2004.

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 2005, net proceeds of medium- and long-term debt raised directly in financial markets amounted to $4.9 billion compared to $4.6 billion in 2004. The slight increase in 2005 borrowings was primarily attributed to greater flexibility in the Bank's capital markets operations resulting from the new liquidity policy. Borrowing operations for 2005 and 2004 are summarized in **Table 7**.

Table 7: SUMMARY OF ANNUAL BORROWING OPERATIONS
For the years ended December 31, 2005 and 2004
(Amounts expressed in millions of United States dollars)

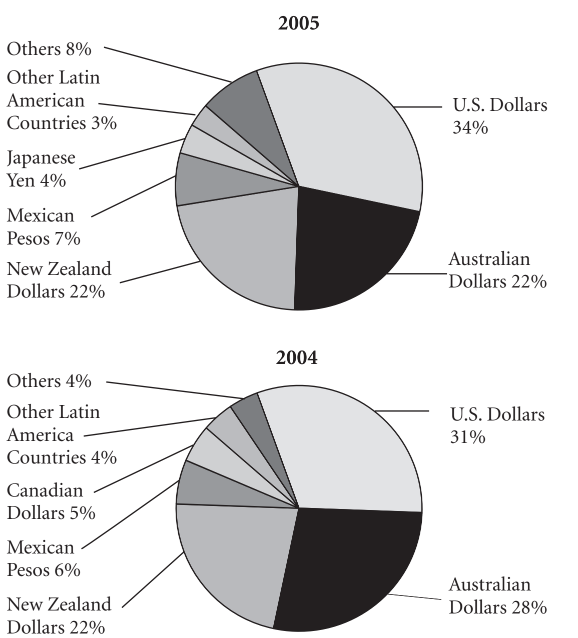
	2005	2004
Total medium- and long-term borrowings(1)	$4,922	$4,618
Average life (years)(2)	6.3	5.5
Number of transactions	32	19
Number of currencies	9	9

(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 2005, the Bank issued its first-ever bonds denominated in Chilean pesos and Icelandic krónur. The Bank also issued a global benchmark $1 billion bond maturing in 2015. Bonds denominated in borrowing member country currencies in the aggregate amount of $496 million were issued during 2005 (2004—$563 million), comprised of the following currencies: Mexican pesos $358 million, Colombian pesos $72 million, and Chilean pesos $66 million (2004—Mexican pesos $269 million, Colombian pesos $44 million, and Brazilian reais $250 million). In addition, the Bank transacted various bonds denominated in Australian dollars, Icelandic krónur, Japanese yen, New Zealand dollars, South African rand, and United States dollars.

New medium- and long-term borrowings by currency for 2005, as compared to 2004, are shown in **Figure 3**. In 2005, most non-United States dollar borrowings were swapped into United States dollars and euros (2004—all swapped into United States dollars).

Figure 3: BORROWINGS BY CURRENCY (1)
For the years ended December 31, 2005 and 2004



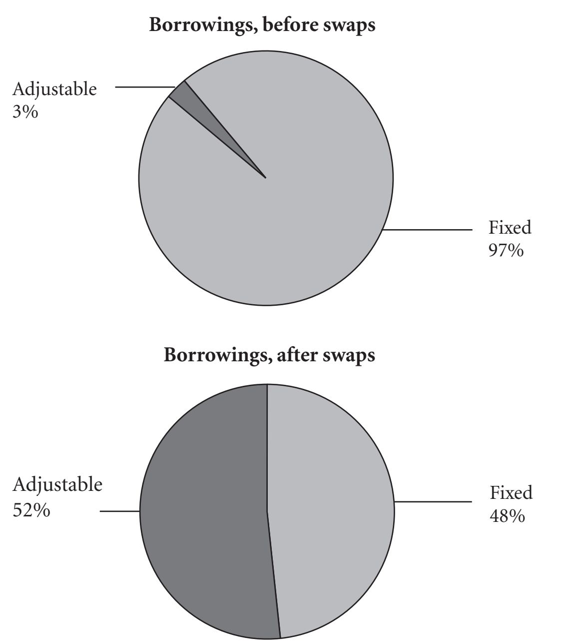
(1) Includes medium- and long-term borrowings, excluding swaps, and represents net proceeds on a trade date basis.

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 2005, the Bank called $28 million of its outstanding borrowings compared to $183 million in 2004.

Use of Derivatives: The Bank may enter into currency and interest rate swaps contemporaneously with borrowing transactions in order to convert the proceeds into euro, Japanese yen, Swiss francs or United States dollars and fixed or floating rate funding to meet its loan disbursement obligations. In 2005, 84% of new borrowings were initially swapped into United States dollars and 10% were swapped into euros both at floating rates, 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, 2005.

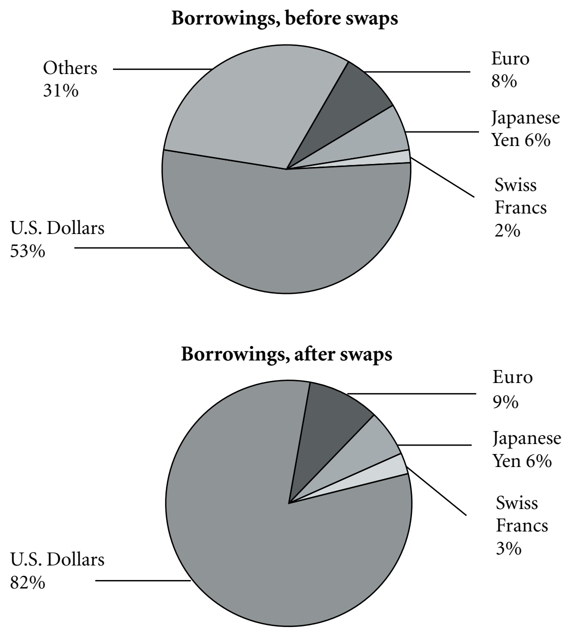
More detailed information with respect to the Bank's borrowings and derivatives is contained in Notes G and H and Appendix I-5 to the financial statements.

Figure 4: EFFECTS OF SWAPS ON INTEREST RATE STRUCTURE OF OUTSTANDING BORROWINGS (1)
December 31, 2005



(1) Medium- and long-term borrowings only.

Figure 5: EFFECTS OF SWAPS ON CURRENCY COMPOSITION OF OUTSTANDING BORROWINGS [(1)] **December 31, 2005**



(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 (credit) for loan and guarantee losses and net non-interest expense. **Table 8** shows the breakdown of Operating Income during the last three years.

Year 2005 versus 2004: In 2005, Operating Income was $150 million lower than the previous year due to a reduction in the net interest income generated by the loan portfolio (partially due to the prepayment of a significant emergency loan and lower lending spreads on sovereign-guaranteed, non-emergency loans) and an increase in net non-interest expense, which is chiefly comprised of administrative expenses, partially offset by lower loan and guarantee losses.

Table 8: OPERATING INCOME
(Expressed in millions of United States dollars)

	2005	2004	2003
Loan interest income	$2,368	$2,446	$2,602
Investment income	403	288	298
	2,771	2,734	2,900
Less:			
Borrowing expenses	1,733	1,572	1,636
Net interest income	1,038	1,162	1,264
Other loan income	45	52	109
Other Expenses:			
(Credit) provision for loan and guarantee losses	(14)	21	(1,370)
Net non-interest expense	385	331	309
Total	371	352	(1,061)
Operating Income	$ 712	$ 862	$2,434

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 the income generated by the loan portfolio 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.

Net Interest Income

The average interest-earning asset and interest-bearing liability portfolios, after swaps, and the respective returns and costs for 2005, 2004, and 2003 are shown in **Table 9**.

Year 2005 versus 2004: Net interest income decreased $124 million in 2005 with respect to 2004, primarily due to a reduction in emergency loans outstanding (which generate an

Table 9: ASSET/LIABILITY PORTFOLIOS AND RETURNS/COSTS
(Amounts expressed in millions of United States dollars)

	2005		2004		2003	
	Average Balance	Return/Cost %	Average Balance	Return/Cost %	Average Balance	Return/Cost %
Loans [(1)]	$47,837	4.95	$49,721	4.92	$49,193	5.29
Liquid investments	12,341	3.29	13,415	2.17	15,014	2.00
Total earning assets	60,178	4.61	63,136	4.34	64,207	4.52
Borrowings	42,609	4.07	46,200	3.40	48,590	3.37
Interest rate spread		0.54		0.94		1.15
Net interest margin [(2)]		1.72		1.84		1.97

(1) Excludes loan fees.
(2) Represents net interest income as a percent of average earning assets.

interest rate margin of 4%), lower lending spreads on sovereign-guaranteed, non-emergency loans, and a decline in the amount of, and the net interest margin generated by, the Bank's regular loans. This decrease was partially offset by the increase in equity resources and a change in the classification of income collections on private sector loans classified as impaired and/or in nonaccrual status (see Note E to the financial statements).

The increase in investment income was primarily due to the overall increase in short-term interest rates. This increase was substantially offset by a corresponding increase in borrowing expenses as LIBOR-based investments (comprising more than three-quarters of the investments) are financed with matching LIBOR-indexed debt.

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.

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)

	2005	2004	2003
Administrative expenses			
Staff costs	$331	$279	$257
Consultant fees	47	44	43
Operational travel	21	19	19
Other expenses	74	62	67
Total gross administrative expenses	473	404	386
Less: Share of Fund for Special Operations	(86)	(62)	(58)
Net administrative expenses	387	342	328
Service fee revenues	(6)	(6)	(6)
Income from pension and postretirement plans	—	—	(8)
Special programs	12	—	—
Other income	(8)	(5)	(5)
Net non-interest expense	$385	$331	$309

Year 2005 versus 2004: Net non-interest expense increased by $54 million in 2005 mainly due to an increase in pension and postretirement benefit costs ($20 million), regular salary and related benefits increases ($11 million), additional employee benefit accruals ($8 million), and expenditures under special programs approved by the Board of Executive Directors ($12 million).

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.

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 specifically authorized financial instruments 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.

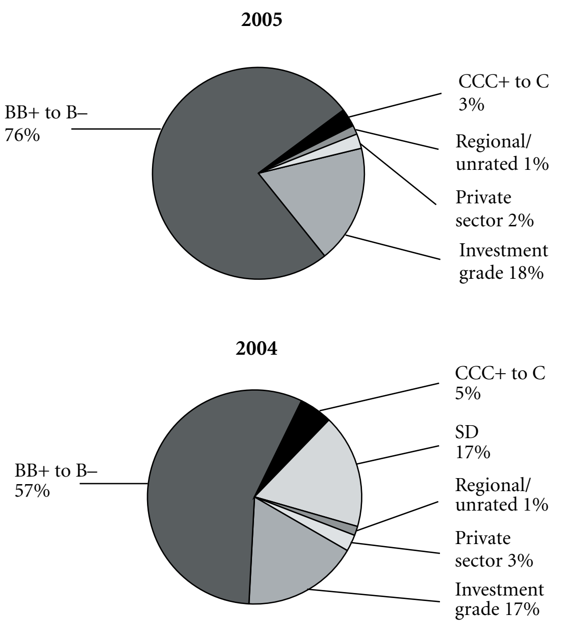
Credit Risk

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 non-performing 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.

The credit quality of the loan portfolio as of December 31, 2005, as represented by the long-term foreign currency credit ratings assigned to each borrowing country by the rating agencies, is depicted in **Figure 6**. Since December 31, 2004, the credit quality of the Bank's loan portfolio has improved. Five countries received rating upgrades in 2005, the most significant being the emergence of Argentina, representing approximately 17% of the portfolio, from selective default (SD) to a rating of B–. Only one country was downgraded during the year.

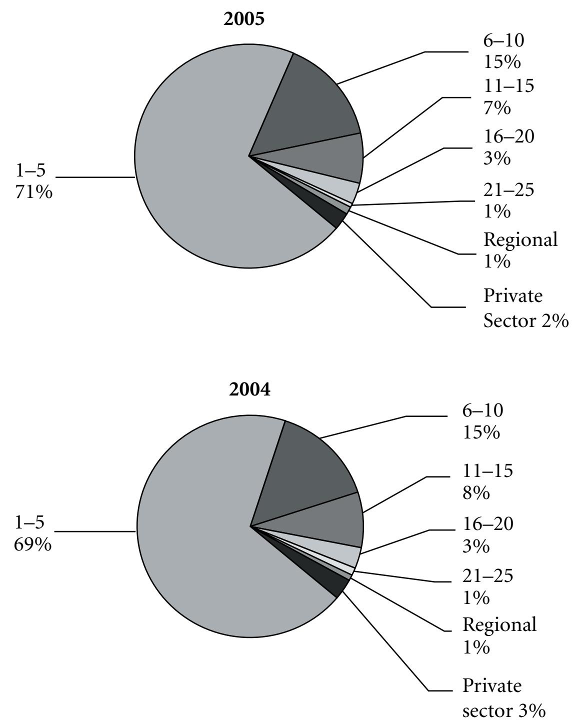
Figure 6: CREDIT QUALITY OF LOAN PORTFOLIO REFLECTED IN RATINGS OF BORROWING MEMBER COUNTRIES
December 31, 2005 and 2004



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, 2005, 71% 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.

Figure 7: CONCENTRATION OF LOAN PORTFOLIO
December 31, 2005 and 2004



Capital Adequacy Framework: The capital adequacy framework of the Bank consists of a credit risk model, a policy on capital adequacy and an associated loan pricing 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 of 38% was determined based on an analysis of the Bank's economic capital needs under various hypothetical financial stress scenarios. As long as Operating Income is positive and the TELR is within a range between 32% and 38% and increasing over the medium term, the Bank will apply standard loan charges. These charges generate sufficient income to cover the Bank's expenses and continue building its retained earnings.

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 the suspension of loan disbursements, may result in the loan being placed in non-accrual status, and may cause the loan to be declared due and payable. The Bank exercises its policy under a graduated approach as summarized in **Table 11**.

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.

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, 2005, all loans were performing, except for certain Private Sector Program loans, which were classified as impaired and were in nonaccrual status (see Note E to the financial statements).

Loan and Guarantee Loss Allowances: 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 46 years of history, only five borrowing countries have been in nonaccrual, for varying times during 1988–1992. The maximum aggregate 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 allowances for loan and guarantee losses to recognize the probable losses inherent in its loan and guarantee portfolios, primarily related to private sector loans. Pursuant to Bank policy, a credit for loan and guarantee losses of $14 million was recognized in income during 2005, for total allowances of $188 million at December 31, 2005 (2004—$199 million). At December 31, 2005, the Private Sector Program allowances for loan and guarantee losses were 12.3% of the corresponding combined outstanding portfolios (2004—10.5%).

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. 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 use of derivatives is limited 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 thresholds. Master swap agreements with swap counterparties have been amended to make risk mitigation provisions consistent with more conservative levels required under a new derivatives credit risk management policy. Counterparty exposure limits are calculated and monitored on the basis of potential credit exposures modeled throughout the life of each counterparty's portfolio. Full simulation is used to model the complex interactions of market risk factors, the dynamics of the portfolio, and the impact of risk mitigation mechanisms such as collateral thresholds and termination triggers, in order to come up with estimates of potential credit exposure. 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 current 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, 2005, the credit exposure for the whole investment portfolio amounted to $13.6 billion compared to $13.0 billion at December 31, 2004. The credit quality of the investment portfolio for 2005 continues to be high, as 85% of the issuers were rated AAA and AA, and an additional 10% of the portfolio carried the highest short-term ratings, compared to 91% and 4%, respectively, in 2004. **Figure 9** provides details of the estimated credit exposure (netted by counterparty) on the swap portfolio, by rating category. As of December 31, 2005, the swap credit exposure decreased to $1.3 billion from $1.8 billion a year earlier. The credit quality of the swap portfolio continues to be high, as 93% of the counterparties were rated AAA and AA in 2005, compared to 92% in 2004. These swap credit exposures are collateralized. As of December 31, 2005, $885 million of eligible collateral had been posted with the Bank's custodian (compared to $1 billion in 2004), which significantly reduced the credit exposure on swaps discussed above.

Figure 8: INVESTMENT CREDIT EXPOSURE BY ISSUER RATING
December 31, 2005 and 2004

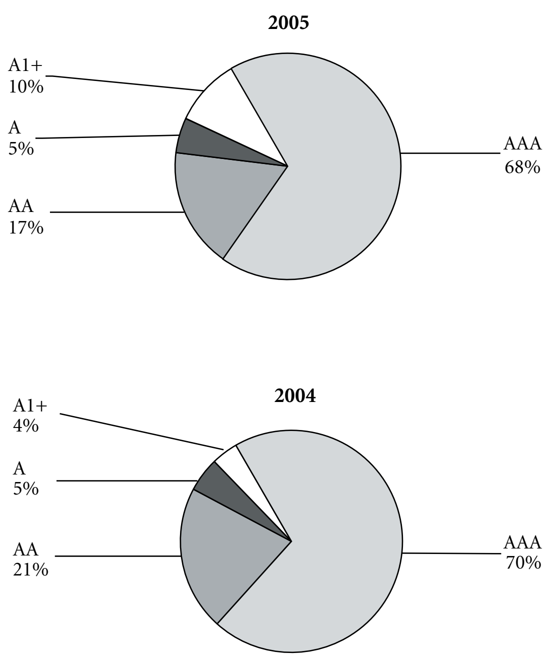
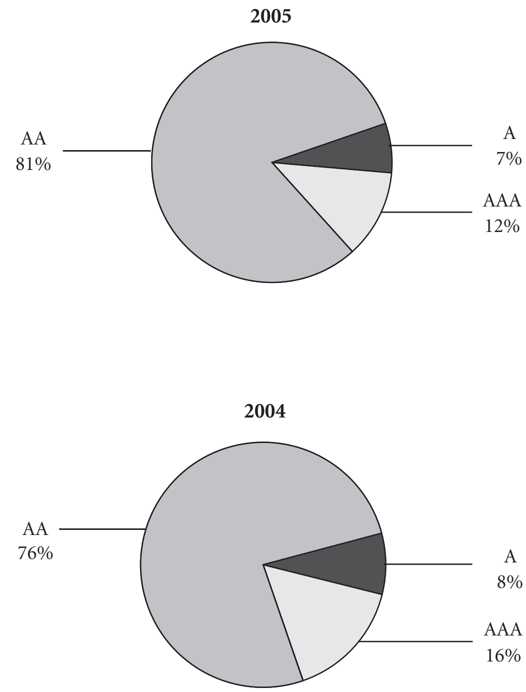


Figure 9: SWAPS CREDIT EXPOSURE BY COUNTERPARTY RATING
December 31, 2005 and 2004



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 its existing loans, in addition to a carefully designed term structure management. These cost pass-through loans account for 88.5% of the existing outstanding loan portfolio as of December 31, 2005; the remaining 11.5% 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 allowances for loan and guarantee 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 2005 and 2004.

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 by having significant portions of a portfolio of assets or liabilities allocated to a specific type of instrument (that is, concentration risk).

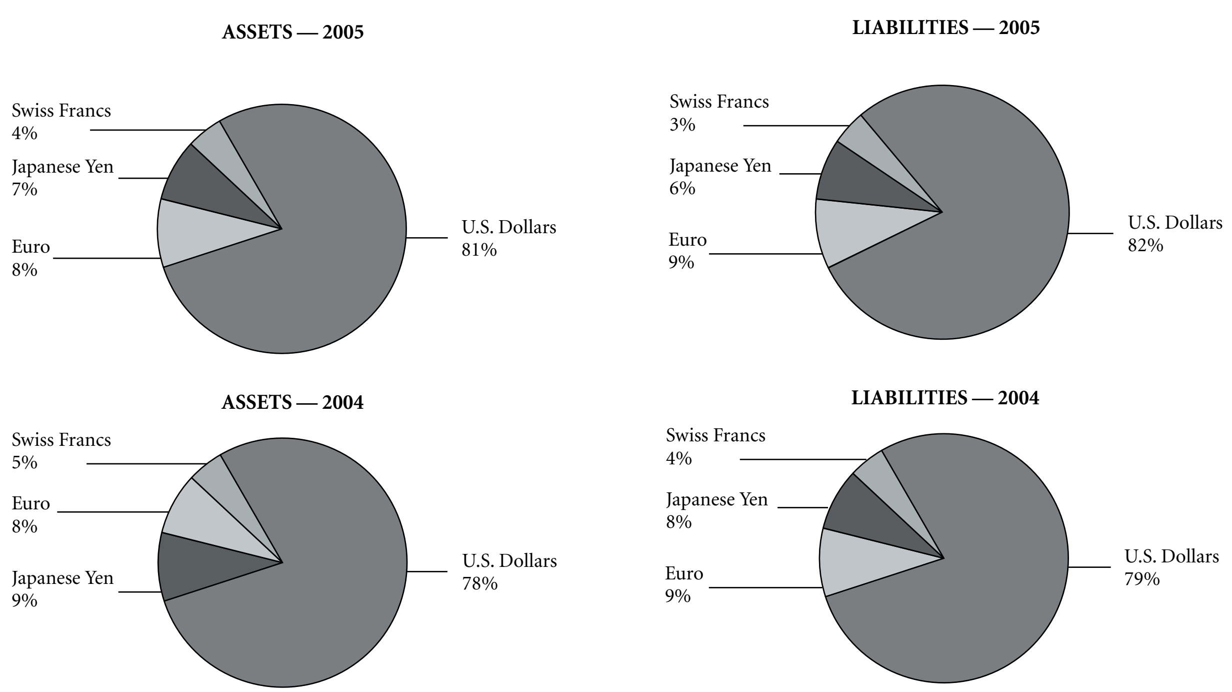
The Bank manages liquidity risk through its liquidity policy, asset-liability management policy and its short-term borrowing program. The Bank's liquidity policy determines a minimum amount of liquidity, which is designed to allow the Bank to refrain from borrowing for a period of time while continuing 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

Figure 10: CURRENCY COMPOSITION OF ASSETS & LIABILITIES
December 31, 2005 and 2004



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.

The Bank is currently implementing the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework, and is establishing an annual process for management to report on the effectiveness of internal controls over financial reporting, and for the external auditors to attest to management's report. Management's first internal controls report and auditors' attestation are expected to be issued in February 2007 in connection with financial information as of December 31, 2006.

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 its 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 (namely the loan and bond basis adjustments, respectively). 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 Retained Earnings. 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. See "Effects of SFAS 133 and Currency Transaction Adjustments" below.

Loan and Guarantee Loss Allowances: The Bank maintains allowances for losses on its loan and guarantee portfolios 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 allowances 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 and guarantee loss allowances 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. In addition, the effect of exchange rate changes that had been included in the borrowings' fair value adjustments is now recognized as currency transaction adjustments. Management considers that these two elements are economically related and hence are reported together in a separate line in the Statement of Income and Retained Earnings.

The discontinuation of hedge accounting required the Bank to start amortizing the previously recorded basis adjustments on borrowings and loans. In addition, the Bank's current application of SFAS 133 requires that only derivative instruments be marked to market. During 2005, the amortization of basis adjustments on borrowings and loans, the net impact of exchange rates on borrowing transactions, and the impact of interest rates on borrowing and lending swaps amounted to an increase (decrease) in income of $85 million, ($32) million, and $5 million, respectively (2004—$250 million, $27 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 2005 and 2004 than in previous years (positive $50 million and $314 million in 2005 and 2004, respectively, and negative

$1 million in 2003). Management believes that this reported income volatility is not representative of the underlying economics of the transactions as the Bank generally holds its 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.

Contracted fees for audit services provided to the Bank by E&Y in connection with the audit of the 2005 financial statements amount to $424,000. In addition, E&Y was paid $161,000 during 2005 for services related to bond issuance, advisory services related to the implementation of the 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 2005 audits of such trust funds and plans amount to $388,000.

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 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, 2005 and 2004, and the related statements of income and retained earnings, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2005. 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. We were not engaged to perform an audit of the Bank's internal control over financial reporting. Our audits included 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, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Washington, D.C.
February 9, 2006

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31, 2005		December 31, 2004	
ASSETS				
Cash and investments				
Cash	$ 223		$ 210	
Investments				
Trading	10,183		9,162	
Held-to-maturity	3,414	$13,820	3,809	$13,181
Loans outstanding	48,135		49,842	
Allowance for loan losses	(175)	47,960	(199)	49,643
Accrued interest and other charges				
On investments	85		84	
On loans	587		621	
On swaps, net	73	745	170	875
Receivable from members				
Non-negotiable, non-interest-bearing demand obligations	370		393	
Amounts required to maintain value of currency holdings	73	443	64	457
Currency and interest rate swaps				
Investments—trading	3		—	
Loans	5		—	
Borrowings	1,596	1,604	2,366	2,366
Other assets				
Property, net	326		318	
Unamortized borrowing costs	218		246	
Miscellaneous	266	810	260	824
Total assets		$65,382		$67,346
LIABILITIES AND EQUITY				
Liabilities				
Borrowings				
Short-term	$ 926		$ 308	
Medium- and long-term	44,167	$45,093	46,505	$46,813
Currency and interest rate swaps				
Investments—trading	61		115	
Loans	10		33	
Borrowings	491	562	697	845
Payable for investment securities purchased		45		20
Amounts payable to maintain value of currency holdings		188		362
Accrued interest on borrowings		607		683
Accounts payable and accrued expenses		160		112
Total liabilities		46,655		48,835
Equity				
Capital stock				
Subscribed 8,368,563 shares (2004—8,368,379 shares)	100,953		100,951	
Less callable portion	(96,613)		(96,611)	
Paid-in capital stock	4,340		4,340	
Retained earnings	14,199		13,437	
Accumulated other comprehensive income	188	18,727	734	18,511
Total liabilities and equity		$65,382		$67,346

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF INCOME AND RETAINED EARNINGS

Expressed in millions of United States dollars

	Years ended December 31,		
	2005	**2004**	**2003**
Income			
Loans			
Interest	**$ 2,368**	$ 2,446	$ 2,602
Other loan income	**45**	52	109
	2,413	2,498	2,711
Investments	**403**	288	298
Other	**14**	11	19
Total income	**2,830**	2,797	3,028
Expenses			
Borrowing expenses			
Interest, after swaps	**1,678**	1,526	1,577
Amortization of borrowing costs	**55**	46	50
Debt repurchase costs	**—**	—	9
	1,733	1,572	1,636
(Credit) provision for loan and guarantee losses	**(14)**	21	(1,370)
Administrative expenses	**387**	342	328
Special programs	**12**	—	—
Total expenses	**2,118**	1,935	594
Income before SFAS 133 and currency transaction adjustments	**712**	862	2,434
Effects of SFAS 133 and currency transaction adjustments	**50**	314	(1)
Net income	**762**	1,176	2,433
Allocation to the Fund for Special Operations	**—**	(27)	(27)
Addition to Retained earnings for the year	**762**	1,149	2,406
Retained earnings, beginning of year	**13,437**	12,288	9,882
Retained earnings, end of year	**$14,199**	$13,437	$12,288

STATEMENT OF COMPREHENSIVE INCOME

Expressed in millions of United States dollars

	Years ended December 31,		
	2005	**2004**	**2003**
Net income	**$ 762**	$1,176	$2,433
Other comprehensive income			
Translation adjustments	**(554)**	239	449
Reclassification to income—cash flow hedges	**8**	11	—
Net loss on cash flow hedges under SFAS 133	**—**	—	(11)
Total other comprehensive (loss) income	**(546)**	250	438
Comprehensive income	**$ 216**	$1,426	$2,871

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,		
	2005	**2004**	**2003**
Cash flows from lending and investing activities			
Lending:			
Loan disbursements (net of participations)	**$(4,899)**	$(3,768)	$(8,416)
Loan collections (net of participations)	**5,224**	5,199	7,279
Loan recoveries	**9**	—	—
Net cash provided by (used in) lending activities	**334**	1,431	(1,137)
Gross purchases of held-to-maturity investments	**(2,392)**	(4,448)	(1,291)
Gross proceeds from maturities of held-to-maturity investments	**2,531**	4,420	1,582
Purchase of property	**(24)**	(34)	(24)
Miscellaneous assets and liabilities	**(6)**	17	(5)
Net cash provided by (used in) lending and investing activities	**443**	1,386	(875)
Cash flows from financing activities			
Medium- and long-term borrowings:			
Gross proceeds	**5,039**	4,519	7,295
Repayments	**(5,711)**	(7,798)	(8,938)
Short-term borrowings:			
Gross proceeds	**8,602**	6,059	4,623
Repayments	**(7,969)**	(7,325)	(3,795)
Collections of receivables from members	**26**	35	82
Net cash used in financing activities	**(13)**	(4,510)	(733)
Cash flows from operating activities			
Gross purchases of trading investments	**(14,670)**	(15,901)	(22,017)
Gross proceeds from sale or maturity of trading investments	**13,329**	17,977	22,487
Loan income collections	**2,405**	2,426	2,876
Interest and other costs of borrowings, after swaps	**(1,544)**	(1,412)	(1,568)
Income from investments	**395**	273	296
Other income	**14**	10	10
Administrative expenses	**(335)**	(352)	(320)
Special programs	**(1)**	—	—
Net cash (used in) provided by operating activities	**(407)**	3,021	1,764
Cash allocation to the Fund for Special Operations	**—**	(27)	(27)
Effect of exchange rate fluctuations on cash	**(10)**	(7)	12
Net increase (decrease) in Cash	**13**	(137)	141
Cash, beginning of year	**210**	347	206
Cash, end of year	**$ 223**	$ 210	$ 347

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 (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. Significant judgments have been made in the valuation of certain financial instruments, the determination of the adequacy of the allowances for loan and guarantee losses, the determination of the net periodic benefit cost from pension and postretirement benefit plans, and the present value of benefit obligations.

New accounting pronouncements
In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 154 "Accounting Changes and Error Corrections", which modifies the requirements for the accounting for and reporting of a change in accounting principle. For the Bank, SFAS 154 will be effective for accounting changes and corrections of errors made in 2006 and subsequent years; however, this pronouncement requires that a change in accounting principle in future years, including the adoption of a new standard that does not include specific transition provisions, be retroactively applied.

In November 2005, the FASB issued FASB Staff Position (FSP) FAS 115-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", which addresses the determination as to when an investment is impaired, whether this impairment is other-than-temporary, and the measurement of an impairment loss. FSP FAS 115-1 is effective for reporting periods beginning after December 15, 2005. Management believes that the provisions of this pronouncement will not have a material impact on the Bank's financial position and results of operations.

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

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 the operations are conducted in those currencies. 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. Except for currency holdings derived from paid-in capital stock, that have maintenance of value as described below, net adjustments resulting from the translation of functional currencies 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 Retained Earnings. 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

[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.

ORDINARY CAPITAL
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NOTES TO FINANCIAL STATEMENTS (continued)

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.

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.

Retained earnings
Retained earnings comprise the general reserve and the special reserve. The general reserve consists of income from prior years, which have been retained for the Bank's operations. 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 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. The allocation of such commissions to the special reserve was discontinued in 1998 and no further additions are being made to it.

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 Retained Earnings.

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. Prior to December 30, 2005, these restrictions included 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 was also a ceiling on partial risk guarantees of the lesser of 50% of the total costs of an individual project or $150 million. On December 30, 2005, the Board of Governors approved changes to these limits, including an increase in the ceiling on individual projects to the lesser of $200 million or 50% of the total project cost for expansion projects and guarantees, and 25% of the total project cost (certain countries 40%) for new projects. In exceptional circumstances, the Board of Executive Directors may approve financings of up to $400 million. In addition, the Bank's maximum exposure to any single obligor for private sector operations cannot exceed 2.5% of the Bank's equity.

Loans representing approximately 37% 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.

Income on loans is recognized following the accrual basis of accounting. 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

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NOTES TO FINANCIAL STATEMENTS (continued)

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 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 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 recognized on a cash basis.

The Bank does not reschedule sovereign-guaranteed loans and has not written off any such Ordinary Capital loans. The Bank periodically reviews the collectibility of loans and guarantees and, if applicable, 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. Because of the nature of its borrowers and guarantors, the Bank expects that each of its sovereign-guaranteed loans will ultimately be repaid.

Guarantees

The Bank may make partial political risk and partial credit guarantees either 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 country sovereign counter-guarantee. To date, the Bank has issued partial political risk and partial credit guarantees designed to encourage private sector infrastructure investments, local capital market development, and trade finance. The partial political risk guarantees and partial credit guarantees may be offered on a stand-alone basis or in conjunction with a Bank loan. Partial political 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 infrastructure project borrowings, debt issuances or trade-finance transactions. The terms of all guarantees are specifically set in each guarantee agreement and are primarily tied to a project, the terms of debt issuances or trade-finance transactions. 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. The contingent liability for probable losses related to guarantees outstanding is included in Accounts payable and accrued expenses.

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 any unamortized SFAS 133 basis adjustments, premiums or discounts. 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 Retained Earnings. 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 Retained Earnings.

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 on 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.

Changes in the fair value of investment derivatives and the related interest component are recorded in Income from investments. The interest component of lending and borrowing derivatives is recorded in loan income and borrowing expense, respectively, over the life of the derivative contract.

Up to December 31, 2003, the Bank followed hedge accounting under SFAS 133 for all currency and interest rate swaps, except for the investment swaps and a small number of basis swaps. Under hedge accounting, changes in the fair value of derivatives 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 were recorded in Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and Retained Earnings. The effective portion of the changes in fair value of derivatives that were designated and qualified as cash flow hedges was recorded in Other comprehensive income while the ineffective portion was recorded in Effects of SFAS 133 and currency transaction adjustments.

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, excluding the embedded derivative features, that is, the host contract. 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 income, 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 2005, the effective ratio of administrative expenses charged to the Ordinary Capital was 81.5% and 18.5% to the FSO (2004—84.4% and 15.6%; 2003—84.6% and 15.4%).

Special programs

Special programs provide financing for non-reimbursable and contingent recovery assistance to borrowing member countries. The individual projects under these programs are recorded as Special programs expense at the time of approval. Cancellations of undisbursed balances and recuperations of contingent recovery financings are recognized as an offset to Special programs expense in the period in which they occur.

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, 2005, Cash includes $137 million (2004—$143 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 (2004—$24 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, asset-backed 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

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NOTES TO FINANCIAL STATEMENTS (continued)

official entity, the Bank's policy is to invest in obligations issued or unconditionally guaranteed by governments of certain countries with a minimum credit quality equivalent to a AA– rating (agency asset-backed and mortgage-backed securities require a credit quality equivalent to a AAA rating). 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 a senior debt securities rating of at least A+, and in corporate, asset-backed, 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, 2005 and 2004 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, 2005 and 2004 are shown in the Summary Statement of Held-to-Maturity Investments in Appendix I-2.

Net unrealized gains (losses) on trading portfolio instruments, held at December 31, 2005, of $(3) million (2004—$(1) million; 2003—$5 million) were included in Income from investments.

As of December 31, 2005, the Bank does not have any investment that is other-than-temporarily impaired. Held-to-maturity investments, with continuous unrealized losses, that are not deemed to be other-than-temporarily impaired as of December 31, 2005 are summarized as follows (in millions):

	Less than 12 Months		12 Months or Greater		Total	
Category of Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of other governments and agencies[1]	$853	$(8)	$174	$(6)	$1,027	$(14)
Asset-backed and mortgage-backed securities	—	—	39	(1)	39	(1)
Total	$853	$(8)	$213	$(7)	$1,066	$(15)

[1] Comprises non-U.S. governments and agencies.

The Bank only invests in high credit quality instruments: 69% of the Held-to-maturity investments are rated AAA, 20% AA and only 11% A. The unrealized losses on all categories of investments were caused by interest rate increases and are not related to credit quality. Because the Bank has the ability and intent to hold these investments until maturity, it does not consider these investments to be other-than-temporarily impaired at December 31, 2005, that is, it expects to collect all amounts due according to the contractual terms prevailing at the acquisition date of these 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 $4 million at December 31, 2005.

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 non-pool 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, with LIBOR-based or adjustable interest rates, both 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-

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NOTES TO FINANCIAL STATEMENTS (continued)

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.

During 2005, the Bank approved a new Local Currency Facility under which borrowers have the option to receive local currency financing under three different modalities: i) local currency conversion of future loan disbursements and/or outstanding loan balances; ii) direct swaps into local currency against existing Bank debt; and iii) local currency conversion of called guarantees. The use of these modalities is subject to the availability of the respective local currency and the appropriate risk mitigation instrument(s) in the financial markets. During 2005, the Bank performed its first local currency conversion of a loan disbursement for $19 million.

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, 2005 and 2004 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 43 member countries are also members of the Bank) 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, 2005 and 2004.

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, 2005, there were $1,628 million (2004—$1,947 million) in outstanding participations in Private Sector Program loans not included in the Balance Sheet.

As of December 31, 2005, the Bank had approved, net of cancellations and expirations, non-trade-finance guarantees without sovereign counter-guarantees in the amount of $360 million (2004—$745 million). The Bank also has a Trade Finance Facilitation Program to provide partial credit guarantees without sovereign counter-guarantees on trade-finance transactions. This program, which began to operate in July 2005, authorizes up to $40 million in credit support per approved trade-finance bank, and an aggregate of no more than $400 million outstanding at any time. In 2005, trade-finance guarantee lines of credit in the amount of $270 million were authorized and guarantees for a total of $19 million were issued.

As of December 31, 2005, guarantees of $319 million (2004—$331 million) were outstanding and subject to call. Most of these guarantees have remaining maturities ranging from 5 to 20 years. As of December 31, 2005, no guarantees provided by the Bank have been called.

IFF subsidy

The IFF was established in 1983 by the Board of Governors of the Bank to subsidize 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 2005, the IFF paid $43 million (2004—$50 million; 2003—$63 million) of interest and no principal (2004—$8 million; 2003—$10 million) 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 and guarantee losses

At December 31, 2005, 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, 2005 was $196 million (2004—$216 million). The average recorded investment in impaired loans during 2005 was $216 million (2004—$246 million). During 2005, income recognized on loans while impaired was $42 million, including $29 million related to prior years, as described below (2004—$12 million; 2003—$5 million). If these loans had not been impaired, income recognized would have been $16 million (2004—$18 million; 2003—$21 million). All impaired loans have specific allowances for loan losses amounting to $105 million at December 31, 2005 (2004—$83 million).

In prior years, certain loan income cash collections on impaired loans were recorded as a reduction of loan principal. In 2005, such cash collections, amounting to $29 million, were reversed and recorded as loan income with a corresponding increase in the loan principal balance and the provision for loan and guarantee losses.

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NOTES TO FINANCIAL STATEMENTS (continued)

The changes in the allowance for loan and guarantee losses for the years ended December 31, 2005 and 2004 were as follows (in millions):

	2005	2004
Balance, beginning of year	$199	$183
(Credit) provision for loan and guarantee losses	(14)	21
Private Sector Program:		
Write-offs	(6)	(5)
Recoveries	9	—
Balance, end of year	$188	$199
Composed of:		
Allowance for loan losses	$175	$199
Allowance for guarantee losses[1]	13	—
Total	$188	$199

[1] The allowance for guarantee losses is included in Accounts payable and accrued expenses.

In 2003, 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 (Credit) provision for loan and guarantee losses.

Note F – Property

As of December 31, 2005 and 2004, Property, net consists of the following (in millions):

	2005	2004
Land, buildings, improvements, capitalized software and equipment, at cost	$ 568	$ 544
Less: accumulated depreciation	(242)	(226)
	$ 326	$ 318

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, 2005 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 (0.51%) (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, 2005 and 2004 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 net interest receipts from related borrowing swap transactions amounting to $564 million during 2005 (2004—$869 million; 2003—$1,003 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.

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 interest 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.

Discontinuation of hedge accounting

Effective January 1, 2004, the Bank discontinued the use of hedge accounting and de-designated all hedging relationships. Upon discontinuance of hedge accounting, derivatives continued to be measured at fair value, the carrying value of the assets or liabilities previously designated as hedged items in fair value hedges ceased to be adjusted for changes in fair value, and previously accumulated basis adjustments began to be amortized over the remaining life of the respective asset or liability. Similarly, gains and losses from previously designated cash flow hedges that were included in Accumulated other comprehensive income began to be reclassified to earnings in the period in which the previously designated hedged transaction affects earnings.

Effects of SFAS 133 and currency transaction adjustments

Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and Retained Earnings for the years

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NOTES TO FINANCIAL STATEMENTS (continued)

ended December 31, 2005 and 2004 comprise the following (in millions):

	2005	2004
(Decrease) increase in fair value of derivative instruments due to movements in:		
Exchange rates	$(568)	$630
Interest rates	5	48
Total change in fair value of derivatives	(563)	678
Currency transaction gains (losses) on borrowings	536	(603)
Amortization of borrowing and loan basis adjustments	85	250
Reclassification to income— cash flow hedges	(8)	(11)
Total	$ 50	$314

The Bank's borrowings in non-functional currencies are fully swapped to functional currencies, thus protecting the Bank against fluctuations in exchange rates. During 2005, negative exchange rate changes affecting the value of the borrowing swaps amounting to $568 million (2004—positive changes of $630 million) offset currency transaction gains on borrowings of $536 million (2004—losses 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 credit, market 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 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, 2005, the Bank had received collateral of $885 million (2004—$1,015 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, 2005 and 2004, such credit exposures, prior to consideration of any master swap agreements or posted collateral, were as follows (in millions):

	2005	2004
Investments—Trading Portfolio		
Currency swaps	$ 3	$ —
Interest rate swaps	4	2
Borrowing Portfolio		
Currency swaps	1,459	2,094
Interest rate swaps	190	419
Loan Portfolio		
Interest rate swaps	4	—

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, 2005 and 2004, see Appendix I-6.

The composition of the net receivable from members as of December 31, 2005 and 2004 is as follows (in millions):

	2005	2004
Regional developing members	$ 419	$ 444
Canada	(95)	(66)
Non-regional members	(69)	(283)
Total	$ 255	$ 95

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NOTES TO FINANCIAL STATEMENTS (continued)

These amounts are represented on the Balance Sheet as follows (in millions):

	2005	2004
Receivable from members	$ 443	$ 457
Amounts payable to maintain value of currency holdings	(188)	(362)
Total	$ 255	$ 95

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, 2005 are shown in the Statement of Subscriptions to Capital Stock and Voting Power in Appendix I-7.

Increase in Bank membership

On March 16, 2005, the Republic of Korea became the 47th member of the Bank and subscribed to eight shares of paid-in capital and 176 shares of callable capital.

Note K – Retained Earnings

The composition of Retained earnings as of December 31, 2005 and 2004 is as follows (in millions):

	2005	2004
General reserve	$11,534	$10,772
Special reserve	2,665	2,665
Total	$14,199	$13,437

In each of the years 2000 through 2004, the Bank made transfers of $27.2 million from the net income of the Ordinary Capital to the FSO. Each of these transfers represented one fifth of unallocated special contributions to the FSO provided for in the agreement for the Eighth General Increase in the Resources of the Inter-American Development Bank. Net income transfers reduce the general reserve of the Bank.

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, 2005 and 2004 (in millions):

	Translation Adjustments Allocation			
	General Reserve	Special Reserve	SFAS 133 Adjustments	Total
Balance at January 1, 2004	$ 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
Translation adjustments	(484)	(70)	—	(554)
Reclassification to income—cash flow hedges	—	—	8	8
Balance at December 31, 2005	$ 395	$(200)	$ (7)	$ 188

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.

Since both the Bank and the IIC participate in the Plans and the PRBP, each employer presents its respective share of these plans. The amounts presented below reflect the Bank's proportionate share of costs, assets and obligations of the

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NOTES TO FINANCIAL STATEMENTS (continued)

Plans and the PRBP. Certain prior year disclosures have been amended to reflect only the Bank's proportionate share of these plans in order to conform to the current year presentation.

Obligations and funded status

The Bank uses a December 31 measurement date for the Plans and the PRBP. The following table summarizes the Bank's share of 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, 2005, 2004 and 2003 (in millions):

	Pension Benefits			Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
Change in benefit obligation						
Benefit obligation, beginning of year	$1,794	$1,671	$1,572	$733	$703	$645
Service cost	56	47	44	28	22	20
Interest cost	105	96	97	42	39	40
Plan participants' contributions	20	18	17	—	—	—
Actuarial loss (gain)	136	10	(14)	23	(18)	—
Plan amendments	—	7	7	—	1	11
Benefits paid	(65)	(55)	(52)	(16)	(14)	(13)
Benefit obligation, end of year	2,046	1,794	1,671	810	733	703
Change in plan assets						
Fair value of plan assets, beginning of year	2,259	2,015	1,656	899	811	663
Actual return on plan assets	255	253	373	99	95	161
Employer contribution	30	28	19	12	7	—
Plan participants' contributions	20	18	17	—	—	—
Benefits paid	(65)	(55)	(52)	(16)	(14)	(13)
Net payments from other plans	—	—	2	—	—	—
Fair value of plan assets, end of year	2,499	2,259	2,015	994	899	811
Funded status	453	465	344	184	166	108
Unrecognized:						
Net actuarial gain	(331)	(344)	(229)	(142)	(118)	(61)
Prior service cost	13	15	9	9	10	10
Net amount recognized	$ 135	$ 136	$ 124	$ 51	$ 58	$ 57
Amounts recognized on the Balance Sheet consist of:						
Prepaid benefit cost	$ 136	$ 136	$ 124	$ 51	$ 58	$ 57
Accrued benefit liability	(1)	—	—	—	—	—
Net amount recognized	$ 135	$ 136	$ 124	$ 51	$ 58	$ 57

The accumulated benefit obligation for the Plans was $1,765 million and $1,567 million at December 31, 2005 and 2004, respectively.

Components of net periodic benefit cost

Net periodic benefit cost (income) for the years ended December 31, 2005, 2004 and 2003 consists of the following components (in millions):

	Pension Benefits			Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
Service cost	$ 56	$ 47	$ 44	$ 28	$ 22	$ 20
Interest cost	105	96	97	42	39	40
Expected return on plan assets	(132)	(128)	(133)	(53)	(53)	(61)
Amortization of:						
Prior service cost	2	1	1	2	—	(2)
Unrecognized net gain	—	—	(1)	—	(2)	(7)
Net periodic benefit cost (income)	$ 31	$ 16	$ 8	$ 19	$ 6	$(10)
Of which:						
Ordinary Capital's share	$ 25	$ 13	$ 6	$ 15	$ 5	$ (8)
FSO's share	6	3	2	4	1	(2)

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 11.7 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.

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NOTES TO FINANCIAL STATEMENTS (continued)

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		
	2005	2004	2003	2005	2004	2003
Discount rate	5.50%	5.50%	5.75%	5.50%	5.50%	5.75%
Rate of salary increase SRP	5.10%	5.10%	5.30%			
Rate of salary increase LRP	7.30%	6.90%	7.20%			

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31,	Pension Benefits			Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
Discount rate	5.50%	5.75%	6.25%	5.50%	5.75%	6.25%
Expected long-term return on plan assets	6.75%	6.75%	7.25%	6.75%	6.75%	7.25%
Rate of salary increase SRP	5.10%	5.30%	6.10%			
Rate of salary increase LRP	6.90%	7.20%	7.90%			

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. The discount rates used in determining the benefit obligations are selected by reference to the year-end AAA and AA corporate bond rates.

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:

	2005	2004	2003
Health care cost trend rates assumed for next year:			
Medical	8.00%	8.00%	8.75%
Prescription drugs	9.50%	11.00%	14.75%
Dental	6.50%	6.50%	7.25%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.50%	4.75%
Year that the rate reaches the ultimate trend rate	2013	2013	2013

For those participants assumed to retire outside of the United States, an 8.00% (2004—8.00%; 2003—8.75%) health care cost trend rate was used.

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, 2005 (in millions):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$12	$ (9)
Effect on postretirement benefit obligation	99	(78)

Plan assets

The Plans and PRBP weighted-average asset allocations at December 31, 2005 and 2004, by asset category, are as follows:

	Plans		PRBP	
Asset category	2005	2004	2005	2004
U.S. equities	35%	36%	39%	41%
Non-U.S. equities	31%	32%	35%	32%
Fixed income bonds and funds	20%	18%	17%	18%
U.S. inflation-indexed bonds	5%	6%	8%	9%
Real estate investment funds and equities	6%	5%	—	—
Commodity index futures	3%	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, 2005 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 (5% to 15%), real estate investment funds and equities (0% to 6%), and commodity index futures (0% to 4%) for the SRP, U.S. inflation-indexed bonds (5% to 10%) and real estate investment funds and equities (0% to 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 2006 are expected to be approximately $35 million and $16 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, 2005.

Year	Plans	PRBP
2006	$ 70	$ 23
2007	76	26
2008	83	28
2009	90	31
2010	97	34
2011–2015	585	206

Note N – Reconciliation of Net Income to Net Cash (Used In) Provided by Operating Activities

A reconciliation of Net income to Net cash (used in) provided by operating activities, as shown in the Statement of Cash Flows, is as follows (in millions):

	Years ended December 31,		
	2005	2004	2003
Net income	$ 762	$1,176	$ 2,433
Difference between amounts accrued and amounts paid or collected for:			
Loan income	(8)	(72)	171
Investment income	(7)	(1)	2
Net unrealized gain on trading investments	(1)	(14)	(4)
Interest and other costs of borrowings, after swaps	188	124	(159)
Administrative expenses, including depreciation	53	(10)	(1)
Special programs	11	—	—
Effects of SFAS 133 and currency transactions adjustments	(50)	(279)	222
Net (increase) decrease in trading investments	(1,341)	2,076	470
(Credit) provision for loan and guarantee losses	(14)	21	(1,370)
Net cash (used in) provided by operating activities	$ (407)	$3,021	$ 1,764
Supplemental disclosure of noncash activities			
(Decrease) increase resulting from exchange rate fluctuations:			
Trading investments	$ (272)	$ 170	$ 383
Held-to-maturity investments	(271)	194	451
Loans outstanding	(1,377)	624	1,621
Borrowings	(1,229)	665	1,883
Receivable from members-net	187	(164)	(342)

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NOTES TO FINANCIAL STATEMENTS (continued)

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 2005, 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 $478 million, $460 million and $333 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, 2005 and 2004 (in millions):

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	$ 223	$ 223	$ 210	$ 210
Investments				
Trading	10,183	10,183	9,162	9,162
Held-to-maturity	3,414	3,414	3,809	3,854
Loans outstanding, net	47,960	N/A	49,643	N/A
Currency and interest rate swaps receivable				
Investments—trading	3	3	—	—
Loans	5	5	—	—
Borrowings	1,596	1,596	2,366	2,366
Borrowings				
Short-term	926	926	308	308
Medium- and long-term	44,167	44,918	46,505	47,876
Currency and interest rate swaps payable				
Investments—trading	61	61	115	115
Loans	10	10	33	33
Borrowings	491	491	697	697

N/A = Not available

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APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D

December 31, 2005
Expressed in millions of United States dollars

	Euro	United States dollars	All currencies
Obligations of the United States Government and its corporations and agencies:			
Carrying value	132	196	328
Average balance during year	140	183	323
Net gains (losses) for the year	(4)	1	(3)
Obligations of other governments and agencies:			
Carrying value	256	99	355
Average balance during year	225	181	406
Net losses for the year	(3)	(7)	(10)
Bank obligations:			
Carrying value	415	1,845	2,260
Average balance during year	499	2,052	2,551
Net gains for the year	—	2	2
Corporate securities:			
Carrying value	161	323	484
Average balance during year	160	198	358
Net gains (losses) for the year	—	—	—
Asset-backed and mortgage-backed securities:			
Carrying value	2,082	4,674	6,756
Average balance during year	1,476	4,042	5,518
Net gains for the year	1	27	28
Total trading investments:			
Carrying value	3,046	7,137	10,183
Average balance during year	2,500	6,656	9,156
Net gains (losses) for the year	(6)	23	17
Currency swaps receivable:			
Carrying value (1)	—	251	251
Average balance during year	—	215	215
Net gains (losses) for the year	—	—	—
Currency swaps payable:			
Carrying value (1)	(304)	—	(304)
Average balance during year	(278)	—	(278)
Net gains for the year	4	—	4
Net interest rate swaps:			
Carrying value (1)	(3)	(2)	(5)
Average balance during year	(4)	(4)	(8)
Net gains for the year	1	7	8
Total trading investments and swaps:			
Carrying value	2,739	7,386	10,125
Average balance during year	2,218	6,867	9,085
Net gains (losses) for the year	(1)	30	29
Return for the year (%)	2.38	3.53	3.27

(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.

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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:				
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-backed 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-2

SUMMARY STATEMENT OF HELD-TO-MATURITY INVESTMENTS – NOTE D

December 31, 2005
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	114	—	—	5	—	119
Gross unrealized gains	1	—	—	—	—	1
Gross unrealized losses	—	—	—	—	—	—
Fair value	115	—	—	5	—	120
Obligations of other governments and agencies:						
Net carrying amount	628	331	91	411	759	2,220
Gross unrealized gains	5	—	1	—	5	11
Gross unrealized losses	2	—	—	9	3	14
Fair value	631	331	92	402	761	2,217
Bank obligations:						
Net carrying amount	299	95	50	103	191	738
Gross unrealized gains	1	—	—	—	—	1
Gross unrealized losses	—	—	—	—	—	—
Fair value	300	95	50	103	191	739
Asset-backed and mortgage-backed securities:						
Net carrying amount	35	11	—	130	161	337
Gross unrealized gains	—	—	—	1	1	2
Gross unrealized losses	—	—	—	1	—	1
Fair value	35	11	—	130	162	338
Total held-to-maturity investments:						
Net carrying amount	1,076	437	141	649	1,111(1)	3,414
Gross unrealized gains	7	—	1	1	6	15
Gross unrealized losses	2	—	—	10	3	15
Fair value	1,081	437	142	640	1,114	3,414
Return for the year (%)	3.61	0.12	2.10	4.21	4.34	3.33

(1) The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars	$ 851
British pounds sterling	182
Other	78
Total	$1,111

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2005
Expressed in millions of United States dollars

Year of maturity	Net carrying amount	Fair value
2006	$1,432	$1,435
2007 to 2010	1,982	1,979
Total	$3,414	$3,414

ORDINARY CAPITAL APPENDIX I-2
INTER-AMERICAN DEVELOPMENT BANK

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:						
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-backed 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-3

SUMMARY STATEMENT OF LOANS – NOTE E

December 31, 2005 and 2004
Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding 2005[1]	Currency in which outstanding balance is collectible: Non-borrowing country currencies	Borrowing country currencies	Undisbursed	Outstanding 2004[1]
Argentina	$ 8,474	$ 8,399	$ 75	$ 3,233	$ 8,593
Bahamas	71	71	—	83	71
Barbados	150	150	—	99	165
Belize	71	71	—	12	70
Bolivia	282	282	—	—	366
Brazil	10,820	10,780	40	3,717	10,506
Chile	535	533	2	128	569
Colombia	3,570	3,545	25	1,194	4,824
Costa Rica	569	569	—	285	770
Dominican Republic	999	999	—	369	923
Ecuador	1,286	1,286	—	229	1,418
El Salvador	1,099	1,099	—	506	1,101
Guatemala	874	874	—	439	887
Guyana	9	9	—	—	12
Honduras	120	120	—	—	151
Jamaica	594	594	—	162	647
Mexico	7,597	7,597	—	2,355	7,429
Nicaragua	92	92	—	—	108
Panama	767	767	—	295	777
Paraguay	627	627	—	283	655
Peru	3,401	3,400	1	709	3,212
Suriname	44	44	—	43	42
Trinidad and Tobago	414	414	—	188	437
Uruguay	2,230	2,230	—	533	2,241
Venezuela	1,723	1,706	17	1,137	1,966
Regional	579	579	—	69	658
Private Sector Program	1,138	1,138	—	632	1,244
Inter-American Investment Corporation	—	—	—	300	—
Total 2005	$48,135	$47,975	$160	$17,000	
Total 2004		$49,675	$167	$16,093	$49,842

[1] This table excludes outstanding participated Private Sector Program loans which amounted to $1,628 million at December 31, 2005 (2004—$1,947 million). This table also excludes guarantees outstanding in the amount of $319 million at December 31, 2005 (2004—$331 million).

Private Sector Program loans outstanding have been made in the following countries (in millions):

	December 31, 2005	December 31, 2004
Argentina	$ 141	$ 161
Bolivia	123	94
Brazil	298	368
Chile	21	35
Colombia	10	9
Costa Rica	12	13
Jamaica	30	30

	December 31, 2005	December 31, 2004
Mexico	$ 275	$ 316
Nicaragua	8	9
Panama	12	14
Peru	92	88
Uruguay	12	15
Regional	104	92
	$1,138	$1,244

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT – NOTE E

December 31, 2005
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	$ 154	7.27	$ —	—	—	$ 154	7.27
Adjustable	1,811	4.23	11	3.92	6.22	1,822	4.23
Japanese yen							
Fixed	328	7.25	—	—	—	328	7.25
Adjustable	3,911	4.23	3	1.60	5.89	3,914	4.23
Swiss francs							
Fixed	173	7.29	—	—	—	173	7.29
Adjustable	2,008	4.23	—	—	—	2,008	4.23
United States dollars							
Fixed	729	7.26	—	—	—	729	7.26
Adjustable	8,656	4.23	23,279	4.95	8.11	31,935	4.75
LIBOR—based fixed	—	—	833	6.78	4.14	833	6.78
LIBOR—based floating	—	—	6,079	6.22	6.38	6,079	6.22
Others							
Fixed	160	4.01	—	—	—	160	4.01
Loans outstanding							
Fixed	1,544	6.93	—	—	—	1,544	6.93
Adjustable	16,386	4.23	23,293	4.95	8.11	39,679	4.65
LIBOR—based fixed	—	—	833	6.78	4.14	833	6.78
LIBOR—based floating	—	—	6,079	6.22	6.38	6,079	6.22
Total	$17,930	4.46	$30,205	5.26	7.65	$48,135	4.96

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2005
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
2006	$ 379	$ 1,816	$110	$ 2,154	$ 489	$ 3,970	$ 4,459
2007	292	1,819	114	2,684	406	4,503	4,909
2008	225	1,824	104	2,300	329	4,124	4,453
2009	153	1,824	99	1,825	252	3,649	3,901
2010	130	1,749	97	1,881	227	3,630	3,857
2011 to 2015	334	5,360	279	8,824	613	14,184	14,797
2016 to 2020	26	1,686	30	6,450	56	8,136	8,192
2021 to 2025	5	294	—	2,737	5	3,031	3,036
2026 to 2030	—	14	—	517	—	531	531
Total	$1,544	$16,386	$833	$29,372	$2,377	$45,758	$48,135
Average maturity (years)	3.16	5.26	4.14	7.75	3.50	6.86	6.69

(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, 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) (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, 2005
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	$ 3,035	5.25	4.29	$ —	—	—	$ 412	4.22	1.31	$ 3,447	5.13	3.94
	—	—	—	(1,043)	5.28	3.98	(1,331)	3.98	4.77	(2,374)	4.55	4.42
Adjustable	711	5.38	8.19	2,246	2.16	2.18	1,331	2.66	4.77	4,288	2.85	3.98
	—	—	—	(792)	4.95	7.45	(412)	2.24	1.31	(1,204)	4.02	5.34
Japanese yen												
Fixed	2,569	3.07	4.18	765	0.93	2.82	42	1.71	2.37	3,376	2.56	3.85
	—	—	—	(468)	3.45	2.51	(1,125)	1.92	3.58	(1,593)	2.37	3.27
Adjustable	229	2.35	13.41	246	(0.28)	2.68	1,108	(0.21)	3.84	1,583	0.15	5.04
	—	—	—	(627)	0.61	6.75	(25)	1.23	12.83	(652)	0.63	6.99
Swiss francs												
Fixed	760	3.27	1.81	—	—	—	—	—	—	760	3.27	1.81
	—	—	—	—	—	—	—	—	—	—	—	—
Adjustable	—	—	—	434	0.46	3.52	—	—	—	434	0.46	3.52
	—	—	—	—	—	—	—	—	—	—	—	—
United States dollars												
Fixed	24,671	5.41	5.47	1,377	5.77	2.79	459	4.77	5.65	26,507	5.42	5.34
	—	—	—	(1,015)	5.07	1.97	(7,810)	4.60	6.99	(8,825)	4.66	6.41
Adjustable	150	2.46	8.73	12,435	4.12	5.44	9,046	4.20	6.89	21,631	4.14	6.07
	—	—	—	(1,494)	4.18	3.14	(1,695)	3.89	6.09	(3,189)	4.02	4.71
Others												
Fixed	14,195	5.97	5.33	—	—	—	—	—	—	14,195	5.97	5.33
	—	—	—	(14,195)	5.95	5.33	—	—	—	(14,195)	5.95	5.33
Adjustable	113	10.07	5.80	—	—	—	—	—	—	113	10.07	5.80
	—	—	—	(113)	10.07	5.80	—	—	—	(113)	10.07	5.80
Total												
Fixed	45,230	5.41	5.21	2,142			913			48,285	5.33	5.08
	—	—	—	(16,721)			(10,266)			(26,987)	5.19	5.48
Adjustable	1,203	4.88	9.02	15,361			11,485			28,049	3.69	5.65
	—	—	—	(3,026)			(2,132)			(5,158)	3.73	5.17
Principal at face value	46,433	5.39	5.31	(2,244)			—			44,189	4.55	5.18
SFAS 133 —												
Basis adjustment	168									168		
Fair value adjustment[2]	—			(223)			67			(156)		
Net unamortized discount	(2,434)			1,295						(1,139)		
Total	$44,167	5.39	5.31	$ (1,172)			$ 67			$43,062	4.55	5.18

[1] As of December 31, 2005, 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 $1,172 million and the net fair value amount payable from interest rate swaps of $67 million, shown in the above table, are represented by currency and interest rate swap assets at fair value of $1,596 million and currency and interest rate swap liabilities at fair value of $491 million, included on the Balance Sheet.

MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2005
Expressed in millions of United States dollars

Year of maturity	
2006	$ 6,563
2007	6,091
2008	5,320
2009	4,595
2010	4,595

Year of maturity	
2011 through 2015	$14,840
2016 through 2020	2,313
2021 through 2025	1,316
2026 through 2027	800
Total	$46,433

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		Year of maturity	
2005	$ 5,841	2010 through 2014	$14,607
2006	6,836	2015 through 2019	4,815
2007	4,982	2020 through 2024	888
2008	5,103	2025 through 2027	1,250
2009	4,564	Total	$48,886

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-6

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK – NOTE J

December 31, 2005 and 2004
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 2005	Total 2004
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
Korea, Republic of	184	0.1	—	2.1	2.2	—
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	8,367,264	3,870.6	468.8	96,598.5	100,937.9	100,935.7
Unallocated [2]	1,299	0.9	—	14.8	15.7	15.7
Total 2005	8,368,563	$ 3,871	$ 469	$ 96,613	$ 100,953	
Total 2004	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, 2005

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	50.016
Canada	334,887	335,022	4.001
United States	2,512,529	2,512,664	30.007
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
Korea, Republic of	184	319	0.004
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	1,335,179	1,337,744	15.976
Total before unallocated amount	8,367,264	8,373,609	100.000
Unallocated (2)	1,299	1,434	
GRAND TOTAL	8,368,563	8,375,043	

(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, 2005 and 2004, and the related special purpose statements of changes in general reserve (deficit), comprehensive income, and cash flows for each of the three years in the period ended December 31, 2005. 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. We were not engaged to perform an audit of the Bank's internal control over financial reporting. Our audits included 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, 2005 and 2004 and for each of the three years in the period ended December 31, 2005, 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 9, 2006

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,			
	2005		2004	
ASSETS				
Cash and investments				
Cash	**$ 378**		$ 387	
Investments	**1,182**	**$1,560**	1,172	$1,559
Loans outstanding		**6,873**		7,041
Accrued interest and other charges				
On investments	**4**		4	
On loans	**38**	**42**	37	41
Receivable from members				
Contribution quotas	**—**		1	
Non-negotiable, non-interest bearing demand obligations	**628**		727	
Amounts to maintain value of currency holdings	**272**	**900**	286	1,014
Receivable for investment securities sold		**4**		—
Other assets		**7**		7
Total assets		**$9,386**		$9,662
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses	**$ 11**		$ 3	
Undisbursed technical cooperation projects and other financings	**94**		99	
Amounts payable to maintain value of currency holdings	**240**	**$ 345**	366	$ 468
Fund balance				
Contribution quotas authorized and subscribed	**9,671**		9,802	
General reserve (deficit)	**(627)**		(562)	
Accumulated translation adjustments	**(3)**	**9,041**	(46)	9,194
Total liabilities and fund balance		**$9,386**		$9,662

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 (DEFICIT)

Expressed in millions of United States dollars

	Years ended December 31,		
	2005	**2004**	**2003**
Income			
Loans			
Interest	**$ 135**	$ 131	$ 137
Other loan income	**14**	14	16
	149	145	153
Investments	**38**	21	16
Other	**—**	—	2
Total income	**187**	166	171
Expenses			
Administrative expenses	**86**	62	58
Total expenses	**86**	62	58
Excess of income over expenses before technical cooperation expense and HIPC debt relief	**101**	104	113
Technical cooperation expense	**28**	31	23
HIPC debt relief	**76**	486	37
Excess of (expenses over income) income over expenses	**(3)**	(413)	53
General reserve (deficit), beginning of year	**(562)**	(76)	(54)
Allocations to Intermediate Financing Facility Account	**(62)**	(73)	(75)
General reserve (deficit), end of year	**$(627)**	$(562)	$ (76)

SPECIAL PURPOSE STATEMENT OF COMPREHENSIVE INCOME

Expressed in millions of United States dollars

	Years ended December 31,		
	2005	**2004**	**2003**
Excess of (expenses over income) income over expenses	**$ (3)**	$(413)	$ 53
Translation adjustments on assets and liabilities	**(89)**	57	123
Comprehensive (loss) income	**$(92)**	$(356)	$176

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,		
	2005	**2004**	**2003**
Cash flows from lending activities			
Lending:			
Loan disbursements	**$ (424)**	$ (463)	$ (486)
Loan collections	**301**	294	296
Loan participations, net	**(1)**	—	(8)
Net cash used in lending activities	**(124)**	(169)	(198)
Cash flows from financing activities			
Collections of receivables from members	**130**	150	161
Net cash provided by financing activities	**130**	150	161
Cash flows from operating activities			
Gross purchases of investments	**(2,269)**	(2,527)	(2,078)
Gross proceeds from sale or maturity of investments	**2,237**	2,556	2,047
Loan income collections	**146**	136	131
Income from investments	**38**	19	18
Other income	**—**	—	2
Administrative expenses	**(77)**	(83)	(44)
Technical cooperation and other financings	**(34)**	(31)	(42)
Net cash provided by operating activities	**41**	70	34
Cash allocations to the Intermediate Financing Facility Account	**(62)**	(73)	(75)
Effect of exchange rate fluctuations on cash	**6**	5	—
Net decrease in Cash	**(9)**	(17)	(78)
Cash, beginning of year	**387**	404	482
Cash, end of year	**$ 378**	$ 387	$ 404

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 H.

Note B – Summary of Significant Accounting Policies
Due to the nature and organization of the FSO, the accompanying financial statements have been prepared on a special accounting basis. As described below, this special accounting basis is not consistent with United States generally accepted accounting principles (GAAP) with respect to certain items. These special purpose financial statements have been prepared to comply with Article IV, Section 8(d) of the Agreement.

Basis of accounting
The 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.

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

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. The FSO resources are derived from contribution quotas and accumulated earnings in those various 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 (loss) income[1] 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 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 inter-governmental 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

[1] References to captions in the special purpose financial statements are identified by the name of the caption beginning with a capital letter every time they appear in the notes to the special purpose financial statements.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

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% 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 M, 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 (Deficit), and as a reduction in Loans outstanding 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 M) is recognized when relief is delivered to the country. HIPC loans continue to accrue interest and other charges until principal debt relief is delivered. The interest and other charges component of debt relief, if any, is recognized as HIPC debt relief in the period it is forgiven.

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 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

In accordance with the Agreement, each member is required to maintain the value of its currency held in the FSO to the extent

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

established by the terms for the respective increases in contribution quotas. Likewise, and subject to the same terms of the contribution quota increases, the Bank is required to return to a member an amount of its currency equal to any significant increase in value of such member's currency 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 MOV 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 2005 the effective ratio of administrative expenses charged to the FSO was 18.5% and 81.5% to the Ordinary Capital (2004—15.6% and 84.4%; 2003—15.4% and 84.6%).

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, 2005, Cash includes $368 million (2004—$365 million) in currencies of regional borrowing members. The amount of $36 million (2004—$25 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, and asset-backed 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's policy is to invest in obligations issued or unconditionally guaranteed by governments of certain countries with a minimum credit quality equivalent to a AA– rating (agency asset-backed and mortgage-backed securities require a credit quality equivalent to a AAA rating). 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 a senior debt securities rating of at least A+, and in corporate, asset-backed, 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, 2005 and 2004 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 2005 was 3.09% (2004—1.83%; 2003—1.34%).

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

Bank. Loans outstanding by country are shown in the Summary Statement of Loans Outstanding in Appendix II-2. The average maturity for loans outstanding at December 31, 2005 and 2004 was 13.9 years and 14.2 years, respectively, and the average interest rate was 1.73% and 1.71% in 2005 and 2004, respectively.

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. During 2004 and 2005, there were no countries in nonaccrual status.

Note F – Receivable from Members

The composition of the net receivable from members as of December 31, 2005 and 2004 is as follows (in millions):

	2005	2004
Regional developing members	$ 849	$ 946
Canada	2	13
Non-regional members	(191)	(311)
Total	$ 660	$ 648

These amounts are represented on the Special Purpose Statement of Assets, Liabilities and Fund Balance as follows (in millions):

	2005	2004
Receivable from members	$ 900	$1,014
Amounts payable to maintain value of currency holdings	(240)	(366)
Total	$ 660	$ 648

Note G – 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, 2005 and 2004, see Appendix II-3.

Changes for the period

The following table summarizes the changes in Contribution quotas authorized and subscribed for the years ended December 31, 2005 and 2004 (in millions):

	Contribution quotas authorized and subscribed
Balance at January 1, 2004	$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
Contribution by Canada— Trust Fund collections	1
Translation adjustment of contributions approved in 1983, 1990 and 1995 due to exchange rate fluctuations	(132)
Balance at December 31, 2005	$9,671

As of December 31, 2005, the cumulative decrease in the United States dollar equivalents of contribution quotas because of exchange rate fluctuations was $112 million (2004—$20 million increase).

In each of the years 2000 through 2004, the Bank made transfers of $27.2 million from the net income of the Ordinary Capital to the FSO. Each of these transfers represented one fifth of unallocated special contributions provided for in the agreement for the Eighth General Increase in the Resources of the Inter-American Development Bank. 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.

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.

Note H – General Reserve (Deficit)

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
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

In 2005, the Board of Governors allocated the equivalent of $62 million (2004—$73 million; 2003—$75 million) in convertible currencies from the general reserve of the FSO to the IFF to subsidize 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
2006	$ 30	$11	$ 20	$ 61
2007	30	11	20	61
2008	30	11	20	61
2009	30	11	20	61
2010	30	6	20	56
2011 to 2015	30	—	315	345
2016 to 2019	—	—	260	260
Total	$180	$50	$675	$905

(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 and Guyana. See Note M for a description of the HIPC Initiative.
(3) Mandated allocations under the Concessional resources agreement approved by the Board of Governors in 1999 amount to $20 million annually from 2000 to 2012 and $15 million in 2013. Additional transfers of approximately $65 million annually from 2012 to 2019 will be necessary to fund the 2000–2008 IFF lending mandated under the Concessional resources agreement. 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 (deficit) for the years ended December 31, 2005 and 2004 (in millions):

	HIPC Initiative	Income, other than HIPC	Total General reserve (deficit)
Balance at January 1, 2004	$ (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)
Allocation to IFF	(1)	(61)	(62)
HIPC debt relief	(76)	—	(76)
Income, excluding HIPC	—	73	73
Balance at December 31, 2005	$(1,397)	$770	$(627)

Note I – Accumulated Translation Adjustments

The following is a summary of changes in the Accumulated translation adjustments for the years ended December 31, 2005 and 2004 (in millions):

	Assets and liabilities	Contribution quotas authorized and subscribed	Total
Balance at January 1, 2004	$ (83)	$ 46	$(37)
Translation adjustments	57	(66)	(9)
Balance at December 31, 2004	(26)	(20)	(46)
Translation adjustments	(89)	132	43
Balance at December 31, 2005	$(115)	$112	$ (3)

Note J – 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, the Bank's Postretirement Benefit Plan had benefit income of $10 million. The FSO's share of such income, which is included in Other income, amounted to $2 million.

Note K – Undisbursed Technical Cooperation Projects and Other Financings

The following is a summary of changes in Undisbursed technical cooperation projects and other financings for the years ended December 31, 2005 and 2004 (in millions):

	2005	2004
Balance at January 1,	$ 99	$100
Approvals	36	36
Cancellations	(5)	(3)
Disbursements	(36)	(34)
Balance at December 31,	$ 94	$ 99

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

Note L – 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,		
	2005	2004	2003
Excess of (expenses over income) income over expenses	$ (3)	$ (413)	$ 53
Difference between amounts accrued and amounts paid or collected for:			
Loan income	(3)	(8)	(22)
Income from investments	—	(2)	1
Net unrealized loss on investments	—	—	1
Administrative expenses	9	(21)	14
Technical cooperation and other financings	(6)	(1)	(19)
Net (increase) decrease in investments	(32)	29	(31)
HIPC debt relief	76	486	37
Net cash provided by operating activities	$ 41	$ 70	$ 34
Supplemental disclosure of noncash activities			
(Decrease) increase resulting from exchange rate fluctuations:			
Investments	$ (18)	$ 15	$ 22
Loans outstanding	(217)	131	274
Receivable from members-net	142	(94)	(174)
Contribution quotas authorized and subscribed	(132)	66	150

Note M – 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 approved in 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 amount 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 transferring 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, $88 million had already been transferred as of December 31, 2005.

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 outstanding in the Special Purpose Statement of Assets, Liabilities and Fund Balance and as HIPC debt relief in the Special Purpose State-

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

ment of Changes in General Reserve (Deficit). 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.

Guyana and Nicaragua reached completion point in 2004 and Honduras in 2005. Upon reaching completion point, HIPC debt relief of $64 million, $409 million and $85 million, respectively, was recognized representing the estimated nominal value of the principal component of the total debt relief remaining to be delivered to each country.

During 2005, 2004 and 2003, 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, 2005	HIPC Debt Relief 2005	2004	2003
Bolivia	Completion	$ (4)	$ (5)	$ 1
Honduras	Completion	85	—	6
Guyana	Completion	(1)	68	5
Nicaragua	Completion	(4)	423	25
Total		$ 76	$ 486	$37

Possible New Debt Relief and Concessional Lending Framework

The Group of Eight Countries has proposed the Multilateral Debt Relief Initiative (MDRI) whereby HIPC debt to the World Bank's International Development Agency, the International Monetary Fund, and the African Development Fund would be forgiven. The MDRI does not include the Bank. Management is analyzing the implications of different options that could lead to a proposal to the Board of Executive Directors, and subsequently to the Board of Governors, which could include additional debt relief and a realignment of the concessional window of the Bank. The Board of Executive Directors has formed an Ad Hoc Committee to study this matter.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-1

SUMMARY STATEMENT OF INVESTMENTS – NOTE D

December 31, 2005 and 2004
Expressed in millions of United States dollars

Investments	2005	2004
Obligations of the United States Government and its corporations and agencies	$ 166	$ 107
Obligations of other governments and agencies	63	73
Bank obligations	186	504
Corporate securities	59	56
Asset-backed and mortgage-backed securities	708	432
	$1,182	$1,172

The currencies of the above investments are as follows:

Currencies	2005	2004
British pounds sterling	$ 65	$ 70
Canadian dollars	—	35
Euro	14	100
Swedish kronor	—	2
Swiss francs	—	2
United States dollars	1,103	963
	$1,182	$1,172

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-2

SUMMARY STATEMENT OF LOANS OUTSTANDING – NOTE E

December 31, 2005 and 2004
Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding 2005	Currency in which outstanding balance is collectible: Non-borrowing country currencies	Borrowing country currencies	Undisbursed	Outstanding 2004
Argentina	$ 118	$ —	$ 118	$ 2	$ 125
Barbados	13	13	—	—	15
Bolivia	889	842	47	424	824
Brazil	309	—	309	10	342
Chile	1	—	1	—	3
Colombia	140	30	110	5	168
Costa Rica	81	75	6	—	96
Dominican Republic	366	349	17	—	403
Ecuador	525	467	58	—	566
El Salvador	467	447	20	—	504
Guatemala	344	295	49	—	374
Guyana	402	401	1	225	371
Haiti	550	539	11	455	509
Honduras	1,167	1,127	40	489	1,250
Jamaica	48	40	8	—	55
Mexico	20	—	20	—	23
Nicaragua	922	894	28	421	845
Panama	50	42	8	—	61
Paraguay	311	286	25	—	337
Peru	66	29	37	—	79
Suriname	1	—	1	—	1
Trinidad and Tobago	9	—	9	—	9
Uruguay	22	10	12	—	25
Regional	52	50	2	20	56
Total 2005	$6,873	$5,936	$ 937	$2,051	
Total 2004		$6,017	$1,024	$2,083	$7,041

The non-borrowing country currencies in which the outstanding loans balance is collectible are as follows:

Currencies	2005	2004
British pounds sterling	$ 92	$ 103
Canadian dollars	418	374
Danish kroner	33	38
Euro	930	983
Japanese yen	358	418
Norwegian kroner	24	28
Swedish kronor	44	53
Swiss francs	68	78
United States dollars	4,952	4,873
	6,919	6,948
Less: HIPC debt relief not delivered yet[1]	983	931
	$5,936	$6,017

[1] Represents the principal component of loans recognized as HIPC debt relief in the Special Purpose Statement of Changes in General Reserve (Deficit), and as a reduction of Loans outstanding in the Special Purpose Statement of Assets, Liabilities and Fund Balance for which debt service relief has not yet been delivered and, accordingly, the related currency of the debt service to be forgiven has not been determined.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-3

STATEMENT OF CONTRIBUTION QUOTAS – NOTE G

December 31, 2005 and 2004
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 2005	Total 2004
Argentina	$ 402.8	$ 29.5	$ 75.4	$ 507.7	$ 512.4
Austria	11.0	—	8.6	19.6	20.9
Bahamas	8.8	—	1.8	10.6	10.6
Barbados	1.4	—	0.4	1.8	1.8
Belgium	27.1	—	17.7	44.8	47.5
Belize	—	—	7.6	7.6	7.6
Bolivia	32.5	9.7	6.5	48.7	48.7
Brazil	402.8	62.2	79.4	544.4	544.4
Canada	223.1	12.6	81.0	316.7	313.3
Chile	111.4	24.0	22.3	157.7	157.7
Colombia	111.4	20.1	22.3	153.7	153.7
Costa Rica	16.2	4.0	3.2	23.4	23.4
Croatia	3.1	—	2.6	5.7	6.1
Denmark	11.7	—	9.1	20.8	22.2
Dominican Republic	21.7	7.9	4.4	33.9	33.9
Ecuador	21.7	4.2	4.4	30.3	30.3
El Salvador	16.2	2.0	3.2	21.4	21.4
Finland	11.0	—	8.1	19.0	19.8
France	133.4	—	97.5	230.9	245.4
Germany	136.7	—	101.0	237.7	243.2
Guatemala	21.7	6.8	4.3	32.8	32.8
Guyana	7.0	—	1.3	8.3	8.3
Haiti	16.2	2.4	3.2	21.8	21.8
Honduras	16.2	7.1	3.2	26.5	26.5
Israel	10.8	—	7.8	18.6	19.1
Italy	133.4	—	86.2	219.6	232.4
Jamaica	21.7	2.7	4.4	28.8	28.8
Japan	148.8	—	431.2	580.0	641.7
Mexico	259.2	15.0	54.8	329.0	329.0
Netherlands	20.3	—	18.1	38.4	41.2
Nicaragua	16.2	4.8	3.2	24.2	24.2
Norway	11.7	—	8.4	20.1	20.8
Panama	16.2	5.9	3.3	25.4	25.4
Paraguay	16.2	8.5	3.2	27.9	27.9
Peru	54.5	14.3	11.0	79.8	79.8
Portugal	5.0	—	2.6	7.6	7.8
Slovenia	1.8	—	1.6	3.4	3.4
Spain	133.4	—	84.7	218.1	230.7
Suriname	5.3	—	1.0	6.3	6.3
Sweden	23.7	—	15.1	38.8	41.7
Switzerland	37.6	—	27.3	64.9	69.2
Trinidad and Tobago	16.2	1.5	3.2	20.9	20.9
United Kingdom	133.4	—	44.2	177.6	182.8
United States	4,100.0	243.7	495.3	4,839.0	4,839.0
Uruguay	43.5	3.7	8.7	55.9	55.9
Venezuela	250.1	12.1	53.1	315.3	315.3
Total before unallocated amount	7,223.9	504.6	1,936.9	9,665.4	9,797.0
Unallocated[(3)]	4.0	—	1.2	5.2	5.4
Total 2005	$ 7,228	$ 505	$ 1,937	$ 9,671	
Total 2004	$ 7,227	$ 505	$ 2,071		$ 9,802

[(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)] 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, 2005 and 2004, and the related statements of changes in fund balance and cash flows for each of the three years in the period ended December 31, 2005. 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. We were not engaged to perform an audit of the Bank's internal control over financial reporting. Our audits included 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, 2005 and 2004, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Washington, D.C.
February 9, 2006

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31, 2005		December 31, 2004	
ASSETS				
Cash and investments				
Cash	**$ 5**		$ 3	
Investments	**298**	**$303**	272	$275
Receivable for investment securities sold		**—**		1
Accrued interest on investments		**1**		1
Total assets		**$304**		$277
FUND BALANCE				
Fund balance		**$304**		$277

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in millions of United States dollars

	Years ended December 31, 2005	2004	2003
Additions			
Allocations from Fund for Special Operations	**$ 62**	$ 73	$ 75
Income from investments	**9**	4	4
Total additions	**71**	77	79
Deductions			
Interest and principal paid on behalf of Ordinary Capital borrowers	**43**	58	73
Change in fund balance, before translation adjustments	**28**	19	6
Translation adjustments	**(1)**	—	6
Change in fund balance, after translation adjustments	**27**	19	12
Fund balance, beginning of year	**277**	258	246
Fund balance, end of year	**$304**	$277	$258

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31, 2005	2004	2003
Cash flows from operating activities			
Allocations from Fund for Special Operations	**$ 62**	$ 73	$ 75
Income from investments	**9**	14	1
Interest and principal paid on behalf of Ordinary Capital borrowers	**(43)**	(59)	(72)
Net increase in investments	**(26)**	(29)	(2)
Net cash provided by (used in) operating activities	**2**	(1)	2
Effect of exchange rate fluctuations on cash	**—**	(1)	1
Net increase (decrease) in cash	**2**	(2)	3
Cash, beginning of year	**3**	5	2
Cash, end of year	**$ 5**	$ 3	$ 5

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

INTERMEDIATE 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) to subsidize 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].

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, and asset-backed and mortgage-backed securities with credit ratings ranging from AAA to A+.

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 2005, including realized and unrealized gains and losses, was 3.04% (2004—1.54%; 2003—1.32%).

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.

[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.

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 2005	$485	$131	$132	$ 748
2006	30	11	20	61
2007	30	11	20	61
2008	30	11	20	61
2009	30	11	20	61
2010	30	6	20	56
2011 to 2015	30	—	315	345
2016 to 2019	—	—	260	260
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 and Guyana. 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 – Translation Adjustments

As indicated in Note B, adjustments resulting from the translation of assets and liabilities into United States dollars are shown as Translation adjustments in the Statement of Changes in Fund Balance. Such adjustments consist of the following for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Cumulative adjustments at January 1,	$44	$44	$38
Translation adjustments	(1)	—	6
Cumulative adjustments at December 31,	$43	$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, 2005, 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	$ 49	$ —
Bolivia	147	—
Costa Rica	97	—
Dominican Republic	337	57
Ecuador	355	69
El Salvador	295	209
Guatemala	272	172
Guyana	9	—
Jamaica	249	126
Nicaragua	92	—
Panama	89	—
Paraguay	196	92
Suriname	44	42
Trinidad and Tobago	91	—
Uruguay	76	—
Regional	39	—
	$2,437	$767

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,		
	2005	2004	2003
Change in fund balance, before translation adjustments	$ 28	$ 19	$ 6
Difference between amounts accrued and amounts paid or collected for:			
Income from investments	—	(1)	—
Net unrealized loss (gain) on investments	—	11	(3)
Interest and principal paid on behalf of Ordinary Capital borrowers	—	(1)	1
Net increase in investments	(26)	(29)	(2)
Net cash provided by (used in) operating activities	$ 2	$ (1)	$ 2
Supplemental disclosure of noncash activities:			
(Decrease) increase in investments resulting from exchange rate fluctuations	$ (1)	$ —	$ 5

INTERMEDIATE FINANCING FACILITY ACCOUNT APPENDIX III-1
INTER-AMERICAN DEVELOPMENT BANK

SUMMARY STATEMENT OF INVESTMENTS – NOTE C

December 31, 2005 and 2004
Expressed in millions of United States dollars

Investments	2005	2004
Obligations of the United States Government and its corporations and agencies	$ 39	$ 41
Obligations of other governments and agencies	21	13
Bank obligations	64	99
Corporate securities	13	11
Asset-backed and mortgage-backed securities	161	108
	$298	$272

The currencies of the above investments are as follows:

Currencies	2005	2004
Euro	$ 3	$ 6
Swiss francs	—	2
United States dollars	295	264
	$298	$272

GOVERNORS AND ALTERNATE GOVERNORS

Country	Governor	Alternate Governor
ARGENTINA	Felisa Josefina Miceli	Martín P. Redrado
AUSTRIA	Karl-Heinz Grasser	Kurt Bayer
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BARBADOS	Owen S. Arthur, MP	Grantley Smith
BELGIUM	Didier Reynders	Franciscus Godts
BELIZE	Mark A. Espat	Carla Barnett
BOLIVIA	Waldo M. Gutiérrez Iriarte	Rodrigo Castro
BRAZIL	Paulo Bernardo Silva	José Carlos Rocha Miranda
CANADA	Pierre Pettigrew	Alister M. Smith
CHILE	Nicolás Eyzaguirre	María Eugenia Wagner Brizzi
COLOMBIA	Alberto Carrasquilla Barrera	Santiago Montenegro
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CROATIA	Ivan Suker	Ana Hrastovic
DENMARK	Ole E. Moesby	Bo Lidegaard
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EL SALVADOR	Eduardo Zablah-Touché	Guillermo López Suárez
FINLAND	Marjatta Rasi	Anneli Vuorinen
FRANCE	Thierry Breton	Xavier Musca
GERMANY	Karin Kortmann	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	Stanley Fischer	Dan Catarivas
ITALY	Giulio Tremonti	Vincenzo Desario
JAMAICA	Omar Davies, MP	Colin Bullock
JAPAN	Sadakazu Tanigaki	Toshihiko Fukui
KOREA, REPUBLIC OF	Duck-Soo Han	Seung Park
MEXICO	Francisco Gil Díaz	Alonso P. García Tamés
NETHERLANDS	Gerrit Zalm	Agnes van Ardenne van der Hoeven
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NORWAY	Anne Margareth Fagertun Stenhammer	Nils Haugstveit
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PARAGUAY	Ernst Ferdinand Bergen Schmidt	Jorge Luis Von Horoch Casamada
PERU	Fernando Zavala Lombardi	Waldo Mendoza Bellido
PORTUGAL	Fernando Teixeira dos Santos	Carlos Costa Pina
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	Joseph Howard
UNITED KINGDOM	Hilary Benn	Gareth Thomas
UNITED STATES	John W. Snow	(Vacant)
URUGUAY	Danilo Astori	Carlos Viera
VENEZUELA	Nelson J. Merentes D.	Jorge Giordani

As of December 31, 2005

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** Fernando Eleta Casanovas (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
Luis Cosenza Jiménez, **HONDURAS** Nelly Lacayo-Anderson (Alternate) **EL SALVADOR**	**Elected by:** Belize Costa Rica El Salvador	Guatemala Honduras Nicaragua	202,692	2.420
Jorge Crespo Velasco, **BOLIVIA** Hugo Rafael Cáceres Agüero (Alternate) **PARAGUAY**	**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** Gustavo A. Palacio (Alternate) **ECUADOR**	**Elected by:** Colombia Ecuador		295,653	3.531
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
Luis Linde, **SPAIN** Olivier Myard (Alternate), **FRANCE**	**Elected by:** Austria Denmark Finland France	Norway Spain Sweden	400,427	4.783
Héctor E. Morales, **UNITED STATES** Jan E. Boyer (Alternate), **UNITED STATES**	**Appointed by:** United States		2,512,664	30.007
Jaime Pinto Tabini, **PERU** Germán Quintana (Alternate), **CHILE**	**Elected by:** Chile Peru		367,878	4.393
Rogério Studart, **BRAZIL** Arlindo Villaschi (Alternate), **BRAZIL**	**Elected by:** Brazil Suriname		907,766	10.841
Tsuyoshi Takahashi, **JAPAN** Stewart Mills (Alternate) **UNITED KINGDOM**	**Elected by:** Croatia Japan Korea, Republic of	Portugal Slovenia United Kingdom	511,113	6.105
TOTAL			**8,373,609**	**100.00***

Office of Evaluation and Oversight
Stephen A. Quick, Director
Sixto Felipe Aquino, Deputy Director

As of December 31, 2005
* Individual percentages may not sum to exact total as a result of 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	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
KOREA, REPUBLIC OF	Ministry of Finance and Economy	Bank of Korea
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	Department of the Treasury	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, 2005

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Deputy Manager	Antonio Vives
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As of December 31, 2005

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Peru
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Suriname
Sweden
Switzerland
Trinidad and Tobago
United Kingdom
United States
Uruguay
Venezuela

THE INTER-AMERICAN DEVELOPMENT BANK, THE OLDEST AND LARGEST regional multilateral development institution, was established in 1959 to help accelerate economic and social development in Latin America and the Caribbean. Today, the Bank's membership totals 47 nations, including 26 Latin American and Caribbean countries, the United States, Canada, and 19 nonregional countries.

In carrying out its mission, the Bank has approved over $137 billion for projects that represent a total investment of over $325 billion. The Bank's operations cover the entire spectrum of economic and social development, with an emphasis on programs that benefit low-income populations. The IDB lends up to 10 percent of its Ordinary Capital resources directly to the private sector, without government guarantees.

The IDB Group also includes the Inter-American Investment Corporation (IIC), an autonomous affiliate that promotes economic development by financing small and medium-sized private enterprises, and the Multilateral Investment Fund (MIF), which supports micro- and small-enterprise development and market reform.

The financial resources of the Bank consist of the Ordinary Capital account—comprised of subscribed capital, reserves and funds raised through borrowings—and Funds in Administration, comprised of contributions made by member countries. The Bank's charter ensures the position of majority stockholder for the borrowing member countries as a group. The Bank also has a Fund for Special Operations for lending on concessional terms in countries classified as economically less developed. Member country subscriptions to the Bank's Ordinary Capital consist of both paid-in and callable capital. Paid-in capital in the form of cash or notes represents 4.3 percent of total subscriptions. The Bank's debt is AAA rated by the three major rating services in the United States and is accorded equivalent status in the other major capital markets.

The Bank's highest authority is the Board of Governors, on which each member country is represented. The Board of Governors has delegated many of its operational powers to the Board of Executive Directors, which is responsible for the conduct of the Bank's operations.

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