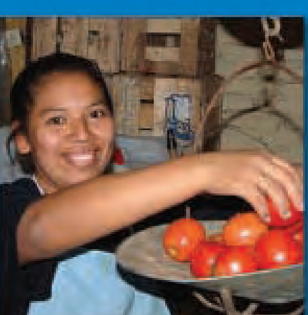
IDB Annual Report



2007

Inter-American Development Bank

FINANCIAL SUMMARY 2003–2007

ORDINARY CAPITAL

(In millions of U.S. dollars)

	2007	2006	2005	2004	2003
Operational Highlights					
Loans and Guarantees Approved[1]	$ 8,812	$ 5,774	$ 6,738	$ 5,468	$ 6,232
Loan Disbursements	6,725	6,088	4,899	3,768	8,416
Loan Repayments	5,265	8,615	5,224	5,199	7,279
Balance Sheet Data					
Cash and Investments–Net, After Swaps	$16,301	$16,051	$13,717	$13,046	$14,855
Loans Outstanding	47,954	45,932	48,135	49,842	50,655
Undisbursed Portion of Approved Loans	16,428	16,080	17,000	16,093	15,619
Total Assets	69,907	66,475	65,382	67,346	69,669
Borrowings Outstanding, After Swaps	45,036	43,550	43,988	45,144	49,275
Equity	20,353	19,808	18,727	18,511	17,112
Income Statement Data					
Loan Income	$ 2,436	$ 2,466	$ 2,413	$ 2,498	$ 2,711
Investment Income	487	619	403	288	298
Borrowing Expenses, After Swaps	2,135	2,070	1,733	1,572	1,636
Operating Income	283	627	712	862	2,434
Ratio					
Total Equity to Loans Ratio (TELR)	40.2%	40.8%	37.3%	36.1%	33.0%

FUND FOR SPECIAL OPERATIONS[2]

(In millions of U.S. dollars)

	2007	2006	2005	2004	2003
Operational Highlights					
Loans and Guarantees Approved	$ 152	$ 605	$ 410	$ 552	$ 578
Loan Disbursements	393	398	424	463	486
Loan Repayments	275	290	301	294	296
Balance Sheet Data					
Cash and Investments, Net	$ 1,565	$ 1,592	$ 1,564	$ 1,559	$ 1,591
Loans Outstanding, Net[3]	3,966	3,733	6,878	6,971	6,670
Undisbursed Portion of Approved Loans	1,783	2,229	2,051	2,083	2,000
Total Assets	6,305	6,148	9,391	9,592	9,498
Fund Balance	5,802	5,758	9,046	9,124	9,076
Income Statement Data					
Loan Income	$ 90	$ 152	$ 149	$ 145	$ 153
Technical Cooperation Expense	23	19	28	31	23
Debt Relief Expense	0	3,382	1	10	583
General Reserve Transfers	50	61	62	73	75
Net Income (Loss)	9	(3,343)	10	(10)	(568)

[1] Includes trade-finance guarantee lines of credit approved under the Trade Finance Facilitation Program (TFFP).

[2] Certain comparative figures have been modified to conform to the new basis of accounting, effective in 2007, which complies with generally accepted accounting principles in the United States of America.

[3] Net of allowance for debt relief.

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 2007. 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 2007.

In addition, the report contains a description of the Bank's operations (loans, guarantees and grants); Management's Discussion and Analysis: Ordinary Capital; the financial statements of the Bank; and its general appendices.

March 4, 2008

IDB
Annual Report 2007

Inter-American Development Bank

About the IDB

The Inter-American Development Bank, the oldest and largest regional bank in the world, is the main source of multilateral financing for economic, social and institutional development in Latin America and the Caribbean. Its loans and grants help finance development projects and support strategies to reduce poverty, expand growth, increase trade and investment, and promote regional integration, private sector development and modernization of the state.

By the end of 2007, the Bank had approved $156 billion in loans and guarantees to finance projects with investments totaling $353 billion, as well as $2.4 billion in grants and contingent-recovery technical cooperation financing.

The IDB obtains its own financial resources from its 47 member countries, borrowings on the financial markets, trust funds that it administers, and through cofinancing ventures. The IDB's debt rating is AAA, the highest available.

The IDB Group is composed of the IDB, the Inter-American Investment Corporation and the Multilateral Investment Fund. The IIC focuses on support for small and medium-sized businesses, while the MIF promotes private sector growth through grants and investments. The IDB is headquartered in Washington, D.C. and has Country Offices in all 26 of its member countries in Latin America and the Caribbean, as well as in Paris and Tokyo.

Member Countries

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

Table of Contents

Cover Photos:
Brazil • A church in the northeastern city of Cachoeira was restored under a program to revitalize historic city centers.

Smaller photos, left to right:
Bolivia • Microenterprise development
Argentina • Port improvement
Barbados • School construction
Mexico • Road transportation
Guatemala • Biofuel development

Appendices

Figures

Tables

Boxes

The Annual Report is also available on the Bank's website at **www.iadb.org**.

Message from the President

I recently read about a new definition for the concept of relevance that was coined by the founders of a prominent American technology company. They claim that when it comes to searching for information on the Internet, relevance means "getting you exactly what you want, even when you aren't sure what you need."

This ability to anticipate what people need even before they can articulate it has turned the Internet into the iconic technology of our age.

But what does "relevance" mean for a development bank?

Over the past year, as the IDB set out to build a new management team, I was frequently asked this question, along with its inevitable follow-up:

Why should I work for the IDB?

The candidates we were seeking—path-breaking leaders in the fields of finance and development—were not inclined to accept generic answers. At a time of unprecedented economic expansion in the developing world, these professionals are being zealously recruited by a multitude of investment banks, corporations and consulting firms.

They know that development banks face an uncertain future, thanks to shifting client demands and competition from private and sovereign sources of financing. They also know that many large multilateral organizations are either unwilling or unable to adapt to these new conditions.

In short, the people we wanted to hire demanded compelling evidence that the IDB offers the most exciting place to apply their talents and grow professionally.

So I am proud to report that in 2007 the IDB assembled an extraordinary team of senior managers and division chiefs. A few were outstanding performers promoted from within. Many left high-profile positions in the private sector. All were attracted by the opportunity to help create a new paradigm for development finance.

This paradigm began to take shape in 2007, as we implemented an ambitious realignment that is enabling us to offer new financial products, faster service, expert advice and flexible solutions tailored to the changing needs of individual governments and companies.

Luis Alberto Moreno
IDB President

Throughout 2008 we will be recruiting up to 300 professionals to deepen the Bank's talent pool in strategic areas such as renewable energy, infrastructure, climate change, education, water and sanitation. Many of these specialists will be assigned to our country offices, where they will have unprecedented responsibility to both generate new business and monitor project execution in close contact with clients.

Through a newly streamlined project approval process, we are able to deliver results much more rapidly than in the past. A matrix-based organizational structure now ensures that specialists from across the Bank can quickly coalesce around project-focused teams to provide the needed expertise. (For a detailed description of the realignment, see pages 49–50.)

This responsive, client-centered business model is allowing the Bank to meet and exceed the expectations of our clients through projects that are inventive, sustainable and attuned to local realities. More importantly, I believe it will enable us to identify and anticipate what our clients will need—next month, next year and in the coming decade.

We may not do this as quickly as an Internet search engine, but we will certainly try. Our goal, quite simply, is to be an indispensable partner for Latin American and Caribbean governments, companies and international institutions focused on the region.

The IDB's operations in 2007 show that we are starting to meet that objective. Last year the IDB Group approved a record $9.6 billion in new financing operations. Disbursements for projects in execution reached $7.6 billion, the highest figure in four years.

Of the three members of the IDB Group, the IDB approved $9 billion in loans and guarantees in 2007. The Inter-American Investment Corporation, which supports small and medium-sized businesses, approved $470 million in financing, the highest amount ever. The Multilateral Investment Fund, the region's largest source of technical assistance to the private sector and microenterprise, approved 133 projects totaling $135 million, of which nearly $100 million consisted of grants.

In 2007 the IDB concluded landmark negotiations to provide debt relief to five of our neediest borrowing members. The Bank approved 100 percent debt relief of the loans outstanding at year-end 2004 for Bolivia, Guyana, Haiti, Honduras and Nicaragua —a total of $3.4 billion—and $1 billion in future interest payments. This measure has given these countries a historic opportunity to redirect resources towards priority social programs.

During 2007 the Bank also undertook an unprecedented expansion of lending to the private sector, approving $2.3 billion for 29 projects, compared with $920 million for 20 projects in 2006. This expansion reflects a new mandate from our Board of Executive Directors allowing the Bank to finance much larger private sector operations (up to $400 million per project) and to work in previously excluded areas such as manufacturing, natural resources, agribusiness and tourism.

Much of the Bank's lending in 2007 was focused on investments that will help our members to deepen and consolidate the gains from booming commodity exports and growing trade with new markets in Asia. Improving infrastructure is essential to this objective, and a majority of the financing in 2007—a total of $5.7 billion—went to projects for infrastructure and competitiveness in areas such as transportation, energy and ports in export-intensive areas.

Fighting poverty requires not only time-tested remedies but also new ideas. In June of 2007 the IDB's Board of Executive Directors approved the Opportunities for the Majority Initiative, which will engage low-income communities in partnerships with the private sector and nongovernmental organizations to create jobs, deliver quality services and integrate the majority of citizens in our region into the productive sector. In particular, the initiative will seek to scale up innovative products, services and technologies that are solving concrete problems for people at the base of the economic pyramid.

Recognizing the critical importance of energy security and climate change for Latin American and Caribbean countries, the IDB in 2007 launched a Sustainable Energy and Climate Change Initiative. Starting with a $20 million commitment from the Bank, the SECCI is rapidly securing contributions from donors who understand the region's extraordinary potential as a source of renewable fuels and green energy solutions. The initiative has already financed numerous feasibility studies and technical cooperation projects to lay the groundwork for biofuel industries and energy efficiency programs, and it has been flooded with applications from governments and companies through the region.

After four consecutive years of economic growth above 4 percent (reaching a regional average of 5.6 percent in 2007) Latin America is showing that economic growth remains an essential ingredient in fighting poverty. Poverty declined from 36.5 percent in 2006 to 35.1 percent in 2007, and extreme poverty from 13.4 percent to 12.7 percent, thanks to continued growth and low inflation. This is the lowest poverty rate the region has seen since the 1980s. The first Millennium Development Goal for 2015, to reduce extreme poverty by half of its 1990 levels, is now within the reach of most of the region's countries.

Despite the recent instability in international financial markets and the projected slowdown in the U.S. economy, the outlook for Latin America and the Caribbean is brighter than it has been in decades. At this seminal moment in the region's history, I consider it a great honor to serve as president of a revitalized Bank that is infused with new talent and purpose. We look forward to the challenges of the coming year.

Luis Alberto Moreno
President
Inter-American Development Bank

Board of Executive Directors

Board members: [from left, front row] Vinita Watson, Luis Linde, Nelly Lacayo-Anderson, Jonathan Davis Arzac, Jaime Quijandría, Adina Bastidas, Tsuyoshi Takahashi, Hans Hammann and José Carlos Miranda
[Back row] Marcelo Bisogno, Winston A. Cox, Fernando Eleta Casanovas, Luis Guillermo Echeverri, Roberto B. Saladín, Stewart Mills, Xavier Eduardo Santillán, Jan E. Boyer, Olivier Myard, Hugo Rafael Cáceres Agüero, Jill Johnson, Alejandro Foxley Tapia, Martín Bès, Eugenio Díaz-Bonilla, Sérgio Portugal, Héctor E. Morales, Raúl Barrios, Francesca Manno and Jerry Christopher Butler

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.

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

Managing Editor: Alexandra Russell
Production Manager: Rafael Cruz
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Editorial Assistants: Cathy Conkling-Shaker and Carolina Usandivaras
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This Report can be accessed online at **www.iadb.org**.

The IDB welcomes feedback on the Annual Report. Please send your comments to alexandrarb@iadb.org.

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Latin America and the Caribbean in 2007

Bolivia • Carmen Luz Rodriguez received microcredit for her produce stand from Caja Los Andes, an award-winning microfinance institution.

Latin America and the Caribbean in 2007

DESPITE FINANCIAL DISRUPTIONS in the United States, macroeconomic performance in Latin America and the Caribbean was very positive in 2007. This was the fourth consecutive year of strong growth. Inflation held at moderate levels in nearly all the countries, and fiscal and external balances remained positive for the region as a whole. Against this backdrop of growth with stability, unemployment and poverty have continued to decline. The first Millennium Development Goal for 2015, to reduce extreme poverty by half of its 1990 levels, is within reach for most of the countries.

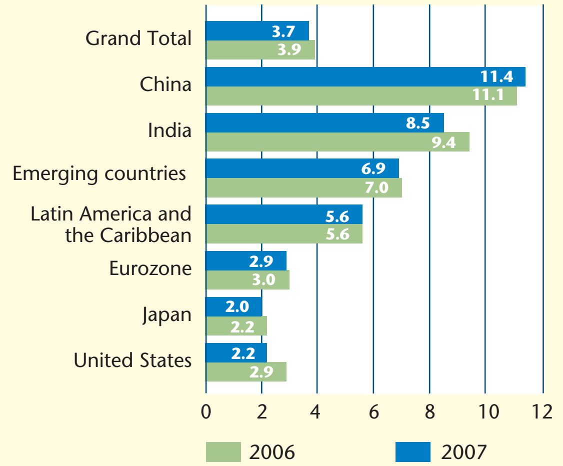
However, 2007 also saw a downturn in a number of important macroeconomic variables. In several countries the fiscal situation began to deteriorate because trends toward increased public spending considerably outpaced increases in revenues. Current account balances in most countries began to weaken or were already negative. The recent reduction in unemployment rates was very modest, suggesting structural limitations in the labor markets. And the rising costs of food and energy in several countries were starting to be reflected in higher inflation, at a time when currency appreciation trends had leveled off and the pool of unemployed workers was already small.

Under the circumstances, soundness of macroeconomic policies, effectiveness of social policies and responsiveness of political systems will be put to the test in 2008. Not only must growth and stability be preserved, but the growing expectations on the part of people in the region to achieve a better quality of life and more inclusive, equitable societies must be met.

INTERNATIONAL ENVIRONMENT

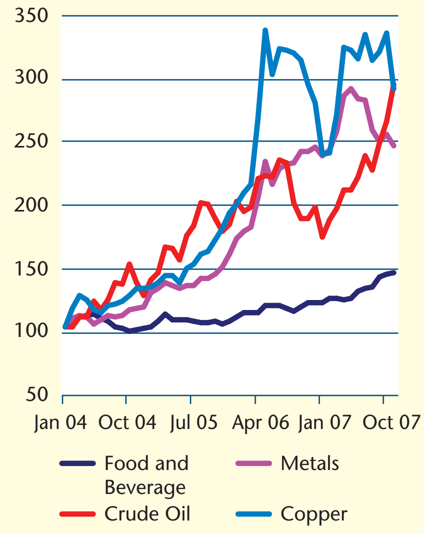
Despite financial market turbulence in the developed world, the global economy grew 3.7 percent in

Figure 1. Gross Domestic Product Growth, 2006–2007
(Percentage variation)



Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean*, 2007.

Figure 2. Commodity Prices, 2004–2007
(January 2004 = 100)



Source: International Monetary Fund.

(Left to right) **Peru • Natural gas production is changing Peru's status from a net hydrocarbon importer to an exporter. Panama • Strengthened technical and administrative support services improved research at the University of Panama.**

2007—almost the same pace as the previous year. In the United States, growth fell 0.7 percentage points to just above 2 percent, and in the Eurozone it slipped from 3 percent in 2006 to 2.9 percent in 2007. Nonetheless, growth in emerging economies as a whole remained vigorous at just under 7 percent. China and India were in the lead, with estimated growth of 11.4 percent and 8.5 percent, respectively (Figure 1).

There was a more marked slowdown in the volume of global trade, with growth rates declining from nearly 9 percent in 2006 to just 6.6 percent in 2007. However, because the price of oil and other commodities continued their upward trend, the value of global trade still mushroomed. Oil prices, which averaged $64 a barrel in 2006, spiked to nearly $100 a barrel toward the end of 2007. Food prices were also on the rise throughout the year. In contrast, metals showed a clearly downward trend beginning in midyear (Figure 2).

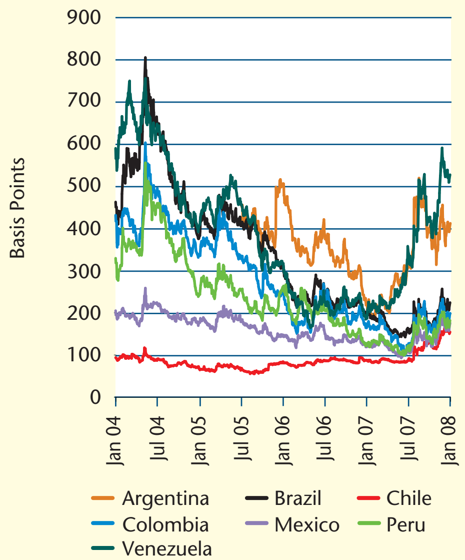
Through July, international financial markets maintained the favorable conditions seen in previous years. Spreads (over interest rates for United States Treasury bonds) for sovereign debt instruments in emerging economies were only 189 basis points in July—just before the U.S. mortgage market crisis. Through mid-August, global financial market turbulence was reflected in sharp increases in spreads, which rose nearly 260 basis points for emerging countries. These trends later partially reversed course. Although substantial, their impact on emerging economies was considerably less than that of the 1997 Asian crisis or 1998 Russian crisis.

The mortgage crisis had a greater impact on subprime markets in the United States than on the developing world as a whole or on the Latin American markets. The rapid response by the Federal Reserve and central banks in other developed countries in providing the markets with liquidity at critical moments was decisive in mitigating the impact on emerging economies.

In Latin America, the average spread for sovereign debt instruments rose from 224 basis points in July to a high of 309 basis points in mid-August, slipping back slightly to end the year at 299 basis points (Figures 3 and 4). In six of the region's seven largest economies spreads returned to levels less than 50 basis points over where they were before the U.S. mortgage market crisis (only in Venezuela was the effect greater).

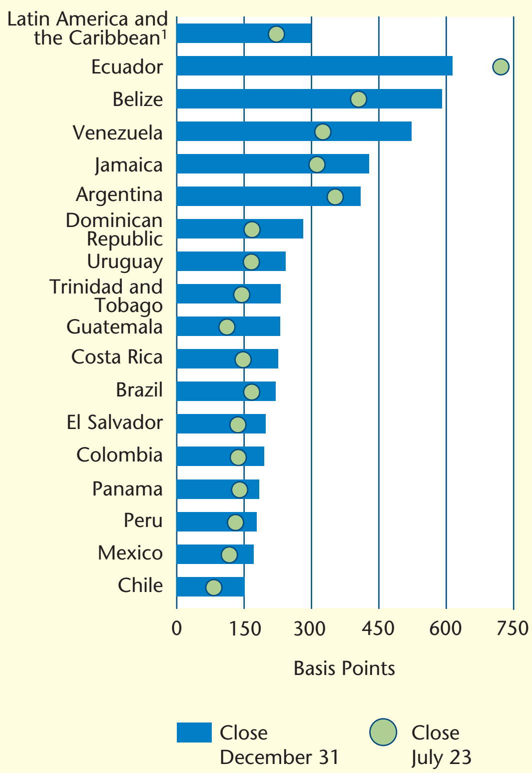
The impact of the crisis varied in the smaller economies, with modest increases in the spread in Uruguay and several Central American and Caribbean countries, and a somewhat more pronounced effect in Belize, Costa Rica, the Dominican Republic,

Figure 3. Financial Conditions, 2004–2007
(Spreads compared with U.S. Treasury Bonds)



Source: Bloomberg.

Figure 4. Emerging Market Bond Spreads, 2007



[1]Average
Source: Bloomberg

Guatemala and Jamaica. Ecuador was the only country whose spreads—though high—declined after the onset of the recent turbulence.

MAIN MACROECONOMIC OUTCOMES AND POLICY CHALLENGES

Latin America and the Caribbean grew 5.6 percent during 2007, the same as the previous year, according to the latest estimates by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). Per capita GDP was 18 percent higher than in 2003, and average purchasing power in Latin America was up 22 percent, reflecting the additional positive impact of the terms of trade and international remittances.

Growth rates for almost all the countries exceeded 3 percent in 2007 (Table I). Among the larger countries, Argentina, Venezuela, Peru and Colombia posted the highest rates, all at or above 7 percent; among the smaller economies, Panama, the Dominican Republic, Uruguay and Costa Rica had the highest rates.

To date the lending market crisis in the United States has not had a considerable impact on growth in the region. Surveys of local forecasters by central banks suggest that growth was expected to be slightly higher starting in June 2008. Projections for Bolivia, Chile and Mexico showed some weakening in growth, but just the opposite in nine other countries, with expectations improving, particularly in Brazil, Colombia and Honduras. Optimism was possibly buoyed by strong export prices and factors associated with domestic policies.

Timely provision of liquidity by the Federal Reserve lessened the adverse impact the financial crisis in the United States could have had on Latin American economies. However, the ability of the economies in the region to withstand the crisis was also largely due to sound macroeconomic policies. Most of the countries had primary fiscal surpluses (before interest payments). The region as a whole had a positive current account balance with the rest of the world. The substantial international reserves accumulated were a strong buffer against external disruptions. Inflation held at moderate levels in most countries and the recovery in consumer credit was coupled with improved prudential and regulatory practices.

Despite this relatively promising panorama, there are significant vulnerabilities that need to be addressed. With respect to fiscal policy, the main vulnerability is recent trends in higher public spending in several countries. This will not be sustainable if there is a slowdown or even drop in tax revenue as a result of

TABLE I • LATIN AMERICA AND THE CARIBBEAN: MAIN MACROECONOMIC RESULTS, 2007

	GDP Growth (%)	Inflation (%)	Current Account (% GDP)	Public Debt (% GDP)
Argentina	8.6	8.5	2.6	55.3
Bahamas	3.3	2.4	n.a.	n.a.
Barbados	4.0	3.9	n.a.	n.a.
Belize	3.0	3.5	n.a.	n.a.
Bolivia	3.8	11.9	11.5	37.7
Brazil	5.3	4.2	0.4	30.7
Chile	5.3	7.4	4.9	4.9
Colombia	7.0	5.4	–3.9	39.8
Costa Rica	7.0	10.1	–5.3	28.2
Dominican Republic	7.5	7.2	–4.2	16.7
Ecuador	2.7	2.7	3.4	28.1
El Salvador	4.5	6.2	–4.5	34.6
Guatemala	5.5	9.1	–4.9	21.6
Guyana	4.5	10.4	n.a.	n.a.
Haiti	3.3	8.1	1.6	30.6
Honduras	6.0	9.6	–6.9	19.9
Jamaica	1.5	8.5	n.a.	n.a.
Mexico	3.3	3.9	–0.8	22.9
Nicaragua	3.0	12.8	–15.9	42.0
Panama	9.5	5.5	–3.8	54.5
Paraguay	5.5	7.4	3.7	21.0
Peru	8.2	3.5	1.5	27.6
Suriname	5.0	5.6	n.a.	n.a.
Trinidad and Tobago	5.5	7.3	n.a.	n.a.
Uruguay	7.5	8.6	–2.6	56.5
Venezuela	8.5	20.7	9.6	n.a.
Latin America and the Caribbean	**5.6**	**6.1**	**0.7**	**31.8**

Source: ECLAC, 2007.
n.a.: Not available.

slackening export prices. If current spending trends continue, the average primary balance, which peaked in 2006 and then began to fall sharply in 2007, could become negative in many countries in 2008, according to the International Monetary Fund (IMF).

Only a few countries have taken steps to shore up tax revenue, which would help mitigate this fiscal risk. Brazil, Costa Rica, El Salvador and Mexico stand out for their recent efforts to increase tax receipts. Argentina, Colombia and Panama have also boosted their tax revenue significantly. The immediate policy challenge is to contain public spending trends in order to safeguard future fiscal sustainability.

In regard to fiscal positions, it is also important to note that even as debt ratios continued to fall in 2007 (down to close to 50 percent of GDP, from 75 percent of GDP five years earlier, based on weighted averages for 17 countries, according to the IMF), they were still above their 1997 levels before the recession in the region. Likewise, although the currency composition and the maturities of government debt improved, some of the drop in debt ratios was due to the appreciation of Latin American currencies—a trend that could reverse course in the future.

With respect to the external sector, positive current account balances and large international reserves

Chile • Five Chilean grape producers formed an association to purchase materials and export grapes, with financing from the Chilean Economic Development Agency.

in many countries in the region provided a significant buffer against external financial disruptions. In 2007, Latin America and the Caribbean as a whole had a current account surplus equivalent to 0.7 percent of aggregate GDP. As a result of the bonanza from their oil and mineral exports, Bolivia, Venezuela, Chile, Paraguay and Ecuador posted the highest surpluses. International reserves in the region are over three times higher than the amount of short-term debt and could cover close to seven months of imports. Several countries had very large accumulations of reserves in 2007, particularly before the crisis in the U.S. mortgage market. The crisis slowed this trend but did not reverse it. As of the end of November, Brazil had increased its international reserves by $91 billion and Colombia by more than $5 billion.

These good external indicators should nevertheless be taken with some caution. The current account situation looks less solid when it is borne in mind that it is heavily influenced by the high commodity prices, which may fluctuate. If the terms of trade had been at their 2003 levels, instead of a surplus of 0.7 percent of GDP, the current account for the region would have had a deficit of 2.7 percent of GDP. It is worrisome that certain countries, such as Colombia, which are enjoying high export prices, currently have a current account deficit. Due to the increase in domestic demand and currency appreciation, which was particularly pronounced in Brazil, Colombia and Venezuela, there is a clear trend toward a weakening in the current account in most of the countries. The Central American countries, which have benefited little from the improved terms of trade, have ballooning current account deficits, which could be a factor of vulnerability.

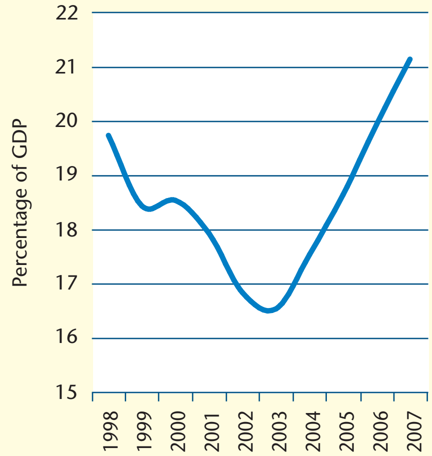
The accumulation of international reserves has been a powerful defense for the region's external sector. Since many governments have reduced their external debt, their reserves look extremely solid compared with their outstanding debt, especially short-term debt. However, given the massive inflow of capital for portfolio investments in certain countries, the debt structure is actually less robust with respect to total external liabilities. A sudden outflow of private capital would generate unprecedented pressure on international reserves. In some countries the amount of reserves also appears less substantial when compared with the abundance of highly liquid financial instruments that could be used in a speculative attack against local currencies. The imposition of swaps on capital inflows in Argentina and Colombia are designed in part to mitigate such risks.

Average inflation in the region was 6.1 percent in 2007, a troublesome increase over the previous year, when it reached a historical low of 5 percent. The moderate inflation rates that the vast majority of countries in Latin America have had for more than a decade are irrefutable proof of the quality of

macroeconomic policies. However, this is a qualified achievement, for various reasons. In certain countries, such as Bolivia, Costa Rica and Venezuela, inflation is in the double digits. In Colombia and Uruguay, the pressure from domestic demand has led to inflation rates close to or above the targets set by the central banks, and in several other countries prices for food are increasing at an alarming rate. As a result, it appears that efforts to contain inflation slackened in the region in 2007, eroding gains from local currency appreciation and its impact on import prices, as well as from the relatively high unemployment rates, which moderated salary pressures.

The recovery in consumer credit is a very positive factor in the current upswing in the region. In the seven largest countries, credit grew by over 40 percent in the first half of 2007 over the previous year, and for the region as a whole it rose 20 percent, according to IMF calculations. Credit to households, which accounts for nearly 40 percent of credit to the private sector, was the main factor in this expansion. As a result of increased credit, in 2007 for the first time the average fixed-capital investment ratio in Latin America surpassed the levels it had reached before the 1998–2001 crisis (Figure 5).

Figure 5. Total Investment in Latin America and the Caribbean, 1998–2007
(Weighted average, by size of economy)



Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean*, 2007.

While an investment rate of 20 percent of GDP is modest compared with Asia's, it represents considerable progress for the region. The recent recovery in investment, however, has not yet offset the amount lost during the crisis. Capital stocks in the region's largest economies are still over 5 percent below their pre-crisis levels.

According to the IMF, there are no obvious signs that significant vulnerabilities emerged as a result of the upswing in private credit, since arrears remain at very modest levels (nearly 3 percent of the current portfolio), the capital ratio is over 15 percent on average and other liquidity and yield indicators appear healthy. Nonetheless, certain risks could be obscured by a lack of information, and by the effect the economic upturn and competition among financial intermediaries to gain market share could have on credit monitoring practices.

LABOR AND SOCIAL OUTCOMES

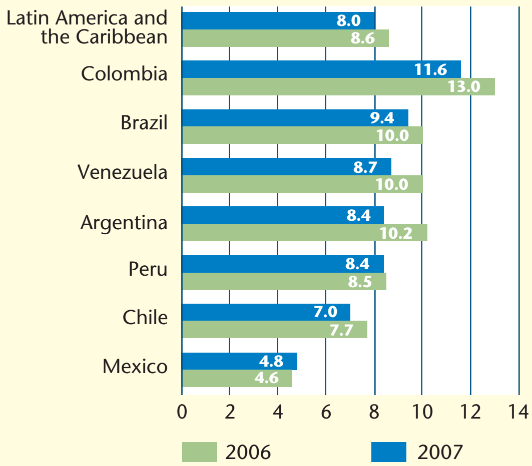
Although unemployment declined on average in the region as a whole from 8.6 percent in 2006 to 8 percent in 2007, it did so more slowly than in previous years, indicating that unemployment rates are nearing structural levels, which are influenced more by labor market characteristics and labor laws than by the business cycle.

Among the larger countries, the greatest reductions in unemployment occurred in Argentina, Colombia and Venezuela (Figure 6). The highest unemployment rates in the larger countries were in Colombia and Brazil, where salary rigidities and high labor indemnities and other fees represent an obstacle to job creation.

According to the latest ECLAC estimates, poverty continued to contract in 2007, although here too at a more moderate rate than in the two previous years (Figure 7). The poverty rate dipped from 36.5 percent in 2006 to 35.1 percent in 2007, and the number of poor persons dropped from 194 million to 190 million. Of these, the number of extremely poor or indigent persons declined from 71 million to 69 million, and the extreme poverty rate fell from 13.4 percent to 12.7 percent. These are the lowest poverty rates on record since the 1980s, and the number of poor persons is at a 17-year low.

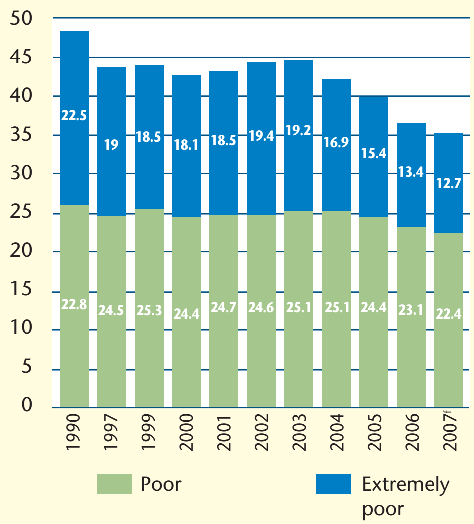
The reduction in extreme poverty since 1990 means that the region has advanced 87 percent toward achieving the first Millennium Development Goal, which is to reduce the 1990 extreme poverty level by half by 2015. According to ECLAC, current ex-

Figure 6. Unemployment, 2006–2007
(Percentage of economically active population)



Source: ECLAC, 2007.

Figure 7. Poverty, 1990–2007
(Percentage of the population)



Source: ECLAC, *Social Outlook for Latin America*, 2007.
f: Forecast

treme poverty levels suggest significant progress in many countries.

Estimates for Brazil, Chile, Ecuador (urban areas) and Mexico indicate that these countries have achieved the goal. Colombia, El Salvador, Panama, Peru and Venezuela are progressing at a pace close to or faster than that required to achieve the goal by 2015. Although all the countries have reduced their extreme poverty rates, Argentina, Bolivia, Honduras, Nicaragua, Paraguay and Uruguay are behind in achieving the goal. In some of these countries, such as Argentina and Uruguay, progress in reducing poverty and indigence has accelerated in recent years. But because poverty increased during the financial crisis, these countries are having trouble reaching the goal.

Despite the reductions in unemployment and poverty, there remain great challenges for labor and social policy. Future progress in these areas will depend much more on structural and sector policy reforms than on macroeconomic policy or variables. Reform of social security systems and labor legislation in order to improve worker protection and promote formal employment remains pending in most countries. Chile is a major exception: an innovative reform of its pension system is underway, with a view to increasing coverage and expanding the options available to different groups of workers.

Another challenge is to target social spending to those most in need in order to improve its distributional impact. Conditional cash transfer programs are a noteworthy improvement in this area. However, public spending on health and social security in most countries continues to provide greater benefits to higher-income segments of the population. In addition to redirecting benefits to the poor, it is crucial that governments focus on programs with the greatest potential to resolve the most pressing social problems.

The Bank recently supported an innovative initiative to identify the most effective public programs for reducing poverty (see Box 1 on the San José Consensus). However, resolving the problems of economic and social exclusion in the region requires much more than redirecting social spending and improving its effectiveness. Exclusion has very deep, diverse and changing causes that cannot be addressed simply with public spending programs (see Box 2 on *Outsiders? The Changing Patterns of Exclusion in Latin America and the Caribbean*).

Costa Rica • An electric power development program included alternative energy sources such as wind power, along with measures for conservation.

OUTLOOK FOR 2008

The region's outlook for 2008 is positive, despite the instability that could continue to affect international financial markets. Consensus projections point to 4 percent to 4.5 percent growth for the region as a whole. The rate will be lower than in 2007 because of slower growth in the United States, possible price moderation for Latin American export commodities and the emergence of supply constraints in some sectors and countries.

Consensus projections also suggest that inflation will be on the rise in several countries and that current account surpluses with the rest of the world will slacken. Tighter fiscal positions than in recent years are expected, and public debt ratios in several countries could begin to rise again. Although these trends imply a certain backsliding in macroeconomic management, most analysts agree that risks remain modest for the region as a whole and for nearly all the countries, as reflected in the debt instrument spreads.

This situation could change, however, were there to be a combination of various adverse factors. A recession in the United States cannot be ruled out. The IMF has calculated that such a recession would drive down the region's growth rate by two percentage points, as it would affect the volume of international trade and the price of export products.

The most unpredictable risks, however, concern international financial markets. The full outcome of the U.S. mortgage and financial crisis is not yet known, nor is the effect it could have on debt markets and capital flows in the Latin American countries. The relatively sound macroeconomic situation in most Latin American and other emerging economies has thus far mitigated the risks of global financial instability. Many of those economies have never before had this level of exposure to the risks that the massive influx of capital poses to their financial systems and domestic markets for real and financial assets.

Beyond fluctuations in the international financial situation, the primary challenge for Latin American economies in the medium term is to maintain high rates of economic growth. Achieving greater competitiveness is an imperative. Although certain countries offer attractive conditions for the development of productive activities and private investment, the region as a whole has made little progress in terms of competitiveness, judging by comparative international indicators (see section of "Key Areas" on growth and sustainable development).

BOX 1 • SAN JOSÉ CONSENSUS

Early childhood development, prudent fiscal management and infrastructure rank at the top of cost-effective solutions to Latin America's problems.

If Latin American and Caribbean governments had $10 billion to solve their most urgent problems, how should they spend it?

Nine renowned economists, along with graduate students from countries throughout the region, on October 25, 2007 released lists of 44 programs, ranked by priority, in response to this hypothetical question. The economists listed early childhood development programs, prudent fiscal rules and increased investment in physical infrastructure as the three policies that would offer the greatest development impact per dollar invested. By contrast, more than 30 graduate students gave top billing to nutrition programs for preschool children, conditional cash transfers for education and increased access to health care.

The proposals were the result of the San José Consensus, named after the Costa Rican capital where it was held. The unprecedented decision-making exercise was organized by the Research Department of the Inter-American Development Bank, the Copenhagen Consensus Center and Costa Rica's INCAE business school. Based on a methodology originally applied at the Copenhagen Consensus of 2004, the San José Consensus consisted of three days of structured presentations and debates on 44 possible solutions to problems in 10 specific areas. Each participant assigned a priority to the solutions according to his or her assessment of their costs and benefits based on the data available in the literature.

The original 10 challenges were selected through a survey of Latin American and Caribbean professionals, including policymakers, academics, business representatives, journalists and researchers. The 10 problems highlighted in the survey were education, violence and crime, poverty and inequality, fiscal policy, democracy, infrastructure, forests and biodiversity, employment, public institutions and health. For each challenge, a top academic in the field wrote a "solution paper" offering a number of potential solutions, with the costs and benefits of each one. In addition, an "alternative view" author presented his or her opinion on the solution paper, in some cases offering alternative solutions to the challenge.

The two final rankings of the solutions to these 10 challenges, which represent a median of the individual rankings by both the economists and the students, were released at a press conference that featured comments by IDB President Luis Alberto Moreno, Copenhagen Consensus Center Director Bjorn Lomborg, INCAE President Arturo Condo and Costa Rica's Vice President Laura Chinchilla.

"We do not have enough resources to solve all our problems at the same time, so we have to prioritize solutions," Moreno said. "This exercise—and the debate it generates—is an excellent opportunity to discuss how our societies can get more welfare for their money."

Moreno underscored that the rankings should not be seen either as a rigid prescription for policymakers or official recommendations of the IDB. "The region's countries face very diverse problems, and no one formula can be applied universally," he said. "That is why we think this sort of debate should be repeated at the national level throughout the region."

Academic experts at the San José Consensus included Nobel Laureate in Economics Finn E. Kydland, Chilean Finance Minister Andrés Velasco, former United Nations Under-Secretary-General José Antonio Ocampo, Harvard University professor Ricardo Hausmann, former director of the United Nations Development Programme's Poverty Group Nora Lustig and Nancy Birdsall, president of the Center for Global Development in Washington, D.C.

The author of the solution paper on poverty and inequality, Sebastian Galiani, said he chose early childhood development as a top solution because, "These projects are designed to improve the physical, intellectual and social development of children early in their life, generally from birth to age six. There is a wide

range of interventions that belong to this category. We now know that the most effective of these interventions are targeted toward younger and disadvantaged children and are of longer duration, higher quality and higher intensity. Also, they are integrated with family support, health, nutrition, or educational systems and services. One intervention we studied in much detail was preschool education. It turned out to be particularly cost-effective."

Miguel Braun, the author of the fiscal solution paper, commented that "education and health in general, and early childhood development in particular are key to ensure social justice, equality of opportunity and poverty reduction. I am glad this issue was selected by the expert panel, accompanied by the need to implement credible and enforceable fiscal rules that can contribute to prudent fiscal management, a cornerstone of any serious social policy."

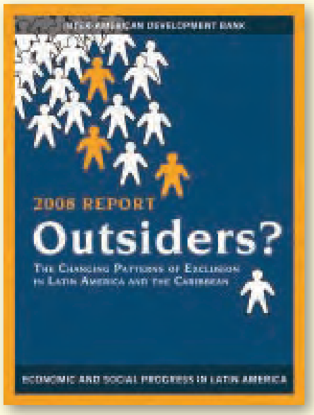
Top 10 proposals in ranking produced by economists

1. Early childhood development
2. Fiscal rules
3. Increased investment in infrastructure, including maintenance
4. Establishment of a policy and program evaluation agency
5. Conditional cash transfers
6. Universal health insurance: basic package
7. Nutrition programs for preschool children
8. Crime prevention through environmental design
9. Replacement of taxes on formal employment with other taxes
10. Policies and services to reduce transaction costs for trade

Top 10 proposals in ranking produced by students

1. Nutrition programs for preschool students
2. Nutrition programs for poor children
3. Conditional cash transfer programs for education
4. Increased access to health care
5. Improved efficiency and equity of public spending and taxes
6. Conditional cash transfer programs to combat poverty
7. Efficient spending of at least 3–6 percent of GDP on infrastructure
8. Increased level of political party and party system institutionalization
9. Improved performance and reduction in corruption in regulation, taxation, and government procurement
10. Policies and services to facilitate trade

BOX 2 • *OUTSIDERS? THE CHANGING PATTERNS OF EXCLUSION IN LATIN AMERICA AND THE CARIBBEAN*



The 2008 edition of the Report on Economic and Social Progress deals with the changing patterns of social exclusion, one of the most pressing concerns faced by policymakers in Latin America and the Caribbean. In fact, much of the debate on the economic and social policies needed to attain sustainable and equitable growth hinges on the issue of how to overcome exclusion to achieve greater social inclusion. The report, titled *Outsiders? The Changing Patterns of Exclusion in Latin America and the Caribbean*, shows that accomplishing social inclusion requires not only redressing past injustices with resource transfers and affirmative action programs, but also, and more importantly, changing the way decisions are made, resources are allocated and policies are implemented.

The main messages of the report are summarized below:

Exclusion is a dynamic, changing process that interacts with social, cultural, economic and political changes in society.

Exclusion is neither the consequence of dysfunctional economic policies nor a fringe phenomenon that growth and modernization are going to eliminate. The changing patterns of exclusion and inclusion in the region are part of the deep social, cultural, economic and political transformations that democratization, economic stabilization and integration with the world economy have brought to Latin American and Caribbean societies.

Exclusion is a phenomenon with multiple, interrelated dimensions.

Material deprivation is one of the salient outcomes of exclusion. It is highly correlated with other types of deprivation, such as the lack of access to justice and high-quality education, disengagement from political participation and safety concerns resulting from higher crime. Each of these aspects of deprivation interacts with the others, as, for example, when legitimate business or employment opportunities are very scarce in a crime-ridden neighborhood.

Exclusion reduces social capital and welfare for the entire population.

Trust and cooperation are reduced by social distance. The larger the social distance within a group (measured by differences in income or education), the less individuals in the group cooperate with one another. This lack of cooperation diminishes the welfare of the whole group—not just the disadvantaged.

Historically, inclusion processes have been driven by an active social and political leadership.

Successful drives to achieve greater inclusion, such as the civil rights movement in the United States in the 1960s or Malaysia's New Economic Policy in the 1980s, have been accomplished historically through the interaction between an active civil society and its organizations and a sympathetic political leadership. Inclusion does not happen "naturally" as a consequence of economic growth or institutional modernization. It requires decisive social and political leadership.

Inclusion is not just about changing outcomes. It is essential to change the processes that produce and reproduce exclusionary outcomes.

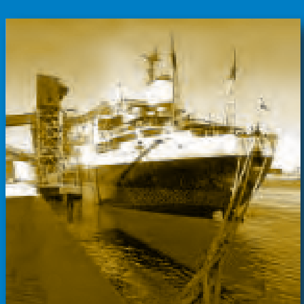
Inclusive policies represent a significant transformation in the way resources are apportioned, political institutions are governed and opportunities are accessed. Inclusion aims to achieve equality of access and opportunities for the excluded by bringing them into the social, institutional and political structures that make decisions regarding access and opportunities. Inclusive policies are thus not merely a matter of creating new ministries or designing new programs; rather, they are about changes in the way social, economic and political decisions are made.

Inclusive public policies involve more than changes in the protection of rights of excluded groups.

Changes at the legal, institutional and policy levels are needed to protect and advance the rights of excluded groups. But the institutional framework also needs to overcome embedded discrimination and stigmatization of excluded groups that have arisen from and continue as a result of these institutions' own past practices. In order to make normative changes effective, institutions must change the ways in which they operate, hire employees and enforce laws and regulations. This, in turn, will hopefully produce more inclusive outcomes that feed back into the process, thereby strengthening the position of excluded groups to induce changes at the normative, institutional and policy levels.

Key Areas

Argentina • Facilities at the Port of Quequén were improved, reducing port costs and enhancing port efficiency and safety, while protecting the environment.


Key Areas

POVERTY REDUCTION AND SOCIAL EQUITY

In 2007 the IDB approved 10 loans, 29 grants for individual countries and six grants for regional projects in the social sectors, totaling some $1.2 billion. Eight of the loans approved were for social protection or health, and the two others were for education. Of the operations approved, 32, totaling over $2.7 billion, were classified as poverty-targeted investments or social equity enhancing. Beyond sheer scale, the social sector portfolio reflects the IDB's commitment to finding innovative formulas in its operations that can be adjusted to specific needs and complexities without sacrificing rigorous technical preparation.

Three of the operations approved illustrate this approach to innovation with flexibility and rigor: (i) a loan for social development through music in Venezuela, (ii) a loan to strengthen the primary health care strategy in Argentina and (iii) a grant for sustainable development in the Lower Urubamba watershed in Peru.

In Venezuela, the IDB is supporting expansion of the youth orchestra system to 500,000 children throughout the country by the year 2015. Two-thirds of the program beneficiaries are poor. Through innovative music education, program participants improve their academic performance, reduce delinquent behavior and accelerate their psychological and social development. The participating communities have seen their crime rates drop, and the state cuts losses from social investment because of lower dropout rates in the public school system.

In Argentina, the IDB-assisted program is designed to strengthen systems for the efficient management of social services, which were severely affected by the 2001 crisis. Specifically, the program establishes incentives in the form of results-based disbursements to improve primary health care. These innovative arrangements will be based on a monitoring and evaluation system that will provide direct information on patient outcomes. The information will strengthen interagency coordination among different levels of government (federal, provincial and municipal) and executing agencies (authorities and health care service providers) and will ensure better and more timely decision making.

In Peru, the IDB is carrying out a project with a participatory approach to expanding access to basic services and boosting local development by improving local government capacity to carry out productive investments. The project is geographically targeted mainly to indigenous groups in the Lower Urubamba watershed.

These projects illustrate the Bank's commitment to technical rigor in its project preparation. In designing the operations, the Bank conducted cost-benefit and cost-effectiveness studies, laid the groundwork for ambitious monitoring and evaluation systems (with baseline data compiled prior to project implementation), and obtained decisive input from prospective program beneficiaries.

In the area of health, the Bank approved two loans for the strengthening and development of health networks in Nicaragua and Guatemala, for $20 million and $50 million, respectively. The projects are expected to improve the coverage and quality of health services for the poor in both countries.

These programs are examples of the value added by the IDB in social development in the region. Specifically, the programs introduced mechanisms to improve efficiency, such as evidence-based decision making and performance-based payment systems. At the same time, the operations finance both the expansion of universal services—with safeguards for nonexclusion—and targeted interventions (see also Box 3 on Equity and Fiscal Sustainability in Latin American Cities).

(Left to right) **Guatemala • Corn harvested in a low-income rural community assisted by basic infrastructure works. El Salvador • A worker makes industrial molds in a cooperative with roots in a low-income community. Venezuela • The Montalbán School Children's Brass Ensemble provides opportunity to low-income youth.**

Through its Social Entrepreneurship Program (SEP), the Bank promotes social equity and economic development among poor and excluded groups by providing support for private institutions, such as nongovernmental organizations and private businesses, with innovative, high-impact projects that provide sustainable financial, social and community development services. During the year, SEP approved nine operations for a total amount of $4.7 million. For example, a program in Bolivia will improve the productivity, sales and income of over 700 quinoa, alpaca and tourism microenterprises in the Altiplano region through small loans, technical assistance and improved marketing linkages.

In 2007 the Bank also conducted research designed to inform social policy. Among the products delivered, the IDB, in collaboration with the World Bank, prepared and published a poverty assessment for the Dominican Republic entitled "The Dominican Republic: Achieving More Pro-Poor Growth." The IDB also collaborated with the government of Ecuador on a series of studies on poverty targeting, labor markets, impact evaluation and vulnerability to be used as background for a poverty profile.

The IDB also prepared the first part of an Operational Youth Action Plan, which included a study on Ecuador, Colombia and Peru. The objective of this plan is to help improve the timely design and execution of high-impact, integrated, scalable youth components and programs. Three technical notes were prepared for each country, along with an intervention strategy and general recommendations to improve the Bank's work with youth.

In addition, the Bank held three subregional meetings and one hemispheric meeting of the Regional Policy Dialogue on Poverty and Social Protection to further dialogue among countries in the region. The topics discussed in these meetings included the transition of beneficiaries of social programs into the labor market, next steps in the development of comprehensive social protection systems and access to financial services for the poor.

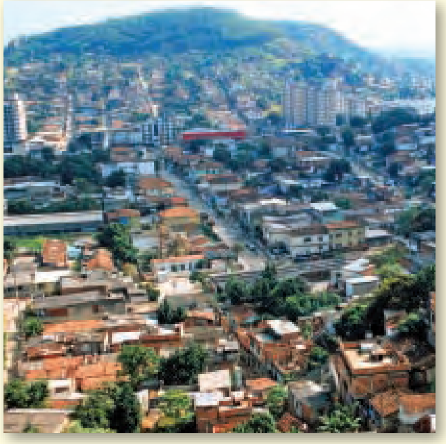
GROWTH, COMPETITIVENESS AND SUSTAINABLE DEVELOPMENT

Although most countries in Latin America and the Caribbean in recent years have posted their highest growth rates of the past quarter of a century, the region continues to face the challenge of achieving greater competitiveness in the global economy. Growth in the region varies widely from country to

BOX 3 • EQUITY AND FISCAL SUSTAINABILITY IN LATIN AMERICAN CITIES

Latin America and the Caribbean has one of the highest rates of urbanization in the world. Today 75 percent of the region's population lives in cities, a percentage expected to increase to nearly 80 percent of the projected 600 million residents by 2020. This growth has led to some serious challenges. Poverty in the region has become a predominantly urban phenomenon, requiring innovative approaches and targeted investments to deliver basic infrastructure and social services to the neediest city dwellers.

The IDB has been actively involved in urban development, focusing on supporting city government capacity to respond to the increasing demand generated by urban growth. The Bank works actively with central and local governments to promote the welfare of the urban population, improve living conditions for low-income groups and enhance the competitiveness of cities.



A core area of Bank activity is support for an integrated approach to urban poverty reduction, delivering a basic set of infrastructure and social services to neighborhoods with the highest poverty levels. The goal is to achieve a higher urban standard of living on a sustainable basis in those communities and to achieve the maximum impact from social investments.

A noteworthy example of this approach is Mexico's Habitat Program. This major national initiative, backed by $500 million in IDB financing, supports local governments in delivering critical social and urban services to the country's poorest neighborhoods. Already in its second phase, the Habitat Program covers over 700 cities throughout the country, targeting areas where more than 50 percent of residents live below the poverty line. The program has become an important element of the government's poverty reduction program.

Another innovative program is Brazil's *PROCIDADES*, supported by an $800 million IDB lending facility that finances integrated urban development projects in Brazil's larger municipalities. The projects channel urban investments in areas such as public transportation, slum upgrading, downtown revitalization and institutional strengthening of local governments. The IDB has established direct working relationships with local governments and to date has received over 30 formal financing requests from more than 15 states in the country. The first three projects were approved in 2007, and at least six more are expected to be approved in 2008.

To sustain these efforts, fiscal management by local and state governments needs to be improved. A recent IDB study indicates that countries in the region have shifted their attention to the capacity of their tax systems to generate needed revenue and the ability of their tax administrations to administer the national taxes equitably and efficiently. This is important with respect to meeting future urban financing needs, which are typically supported by the transfer of funds by national authorities.

country and is slower than in other emerging markets. Moreover, the region's growth is due in large part to extremely favorable external conditions, which may eventually change.

According to the 2007 *Global Competitiveness Report*, which measures competitiveness in 131 countries around the world every year, there are great disparities among the countries of Latin America and the Caribbean. Topping the list as the most competitive country in the region was Chile, which ranked 26 in the world, followed by Barbados (50), Mexico (52), Panama (59) and Costa Rica (63). The other Latin American and Caribbean countries were ranked below the world average. Paraguay, Nicaragua and Bolivia were the lowest-ranked countries in the region.

Ten of 22 countries in the region rose in their ranking, 11 declined and one remained the same. Honduras rose the most, advancing by 13 places, Guatemala by 10, Costa Rica nine and Uruguay eight. On the other end of the spectrum, El Salvador, Argentina and Jamaica dropped by 10, nine and seven positions, respectively.

Every year since 2003 the World Bank has published its *Doing Business* report, which indexes business regulations and their enforcement in 178 countries. In its most recent report, Singapore, New Zealand, the United States, Hong Kong and Denmark were ranked at the top—countries with the most favorable business climate. Of the 24 Latin American and Caribbean countries included in the ranking, Chile was first in the region at 33, even though it dropped by five places. Eight countries rose in their ranking, most notably Colombia, which jumped up 17 places, from 83 to 66. The Dominican Republic, Paraguay and Trinidad and Tobago each advanced seven places. The rankings of 14 other countries fell (see Table II).

According to the report, Colombia was among the 10 countries of the world that implemented the largest number of reforms to make doing business simpler. These measures included increasing the transparency of the public information disclosed by companies that are quoted on the stock market or that plan to go public, simplifying tax payments and improving the ports and customs systems to expedite cross-border business.

To address the challenge of achieving increased growth through greater competitiveness, the Inter-American Development Bank, jointly with the Center for International Development at Harvard University and several research centers in Latin America and the Caribbean, is carrying out a comprehensive research project to determine what factors are preventing the region from attaining higher, more sustained growth rates. The project includes diagnostic studies on growth for 14 countries in the region: Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Guyana, Nicaragua, Panama, Paraguay, Peru, Mexico and Trinidad and Tobago.

The purpose of the studies is to identify the obstacle to growth whose removal would have the greatest impact. Case studies are also being conducted on successful exports of Argentina, Brazil, Chile, Colombia, Ecuador, Mexico and Uruguay. This research is helping to identify and design policies to improve competitiveness.

IDB operations continue to include a sizeable number of loans and grants to support reforms to improve the business climate; reduce transaction costs; improve private sector access to financing, especially for small businesses and microenterprises; strengthen institutions; and develop mechanisms for public and private sector dialogue (see Box 4).

TABLE II • COMPETITIVENESS RANKINGS

Country	*Doing Business* 2006	*Doing Business* 2007	2007 vs. 2006
Chile	28	33	–5
Mexico	41	44	–3
Peru	56	58	–2
Belize	57	59	–2
Jamaica	63	63	0
Panama	64	65	–1
Colombia	83	66	17
Trinidad and Tobago	74	67	7
El Salvador	72	69	3
Nicaragua	87	93	–6
Uruguay	89	98	–9
Dominican Republic	106	99	7
Paraguay	110	103	7
Guyana	98	104	–6
Argentina	101	109	–8
Guatemala	115	114	1
Costa Rica	117	115	2
Honduras	126	121	5
Brazil	113	122	–9
Ecuador	124	128	–4
Bolivia	136	140	–4
Suriname	138	142	–4
Haiti	142	148	–6
Venezuela	163	172	–9

Source: World Bank, 2006, 2007.

OPPORTUNITIES FOR THE MAJORITY

The Opportunities for the Majority Initiative, approved by the Board of Executive Directors in June 2007, takes a novel approach to the Bank's mission of promoting economic and social development by engaging low-income communities and the private sector in creating jobs, developing and delivering quality products and services, and taking steps to engage the majority of citizens in the mainstream of the productive sector so they will receive its benefits and contribute to growth. The Opportunities for the Majority Sector was set up in July 2007 to coordinate Bank Group activities under the initiative.

The development of a pipeline of projects under the initiative advanced well during the year, including new business models that can leverage the Bank's impact. Outreach through regional conferences confirmed that businesses, nongovernmental organizations and academics welcome the Bank's new role.

BOX 4 • PUBLIC-PRIVATE PARTNERSHIPS FOR COMPETITIVENESS IN THE CARIBBEAN

The increasingly competitive pressures for finding and pursuing markets, the need for investment, the changing international landscape and the goal of full realization of a Caribbean Single Market Economy have led Caribbean governments to actively promote private sector development. Policymakers are increasingly taking a participatory approach, building public-private partnerships to help shape and carry out national competitiveness agendas, as other countries as diverse as Colombia, Ireland, Mauritius and Singapore have done.

In Guyana, the IDB was an intermediary in a dialogue between the public and private sectors that developed a competitiveness strategy that led to progress in the operation of the recently launched commercial courts. Other procedures involving the business community were streamlined. The business registry was strengthened, and the legal framework for a credit bureau devised, all with support from the ongoing IDB Competitiveness Program. The partnership represents the most significant public-private dialogue exercise in years and has helped to significantly improve public policy for competitiveness.

In Jamaica, the Bank is supporting a small, high-level public-private Forum for Growth that will include representatives from the government, private sector, political opposition, labor and civil society. The forum is expected to validate priorities, steer the reform process and ensure the consistency of all reform activities. In addition, the Bank's Competitiveness Enhancement Program in Jamaica is supporting reforms in areas such as taxation, land titling and credit bureau supervision.

In Barbados, the Bank has contributed to the ongoing tripartite dialogue on business climate issues and has provided technical support in the area of supply chain management, logistics and trade facilitation. Similar support is being provided in The Bahamas, Suriname and Trinidad and Tobago.

An innovative project evaluation system is being crafted that can be applied to other IDB projects as well. Valuable information and insights about majority markets have been gained and will be widely shared within the Bank and outside.

Private sector stakeholders prepared to engage with majority markets were identified, along with peer organizations with which the Bank could partner. Through a partnership with the Dutch development organization *Stichting Nederlandse Vrijwilligers* (SNV), the IDB is mapping hundreds of private sector businesses with a focus on majority markets. The Bank is also developing innovative business models in association with the World Resources Institute, an environmental think tank committed to finding practical ways to both protect the earth and improve people's living standards.

Projects under the Opportunities for the Majority Initiative are designed to promote private sector solutions to development challenges that have the potential for large-scale expansion and can be applied widely. For example, one of the first projects approved in 2007 under the initiative was a $1 million grant from the Bank's Multilateral Investment Fund for expansion of a groundbreaking microfinance model in Mexico through FinComun, a local microfinance institution. The project will offer microcredit to members of a nationwide distribution network of more than 450,000 small store operators in Mexico. The MIF grant will help FinComun serve more shopkeepers, offering them new products and services, including loans to modernize their stores or improve their homes and life, health, education and insurance coverage. Shopkeepers also will be trained as FinComun correspondents, enabling them to sell insurance policies, collect payments on small loans and provide information to potential microfinance clients.

ENVIRONMENT

The Bank supports environmental sustainability through the rigorous application of its safeguard policies and procedures and a wide range of cross-cutting financial and nonfinancial activities, including investment loans, technical assistance, Global Environment Facility investments and strategic country-level assessments.

During 2007 the IDB approved a total of 20 environmental loans, investing $1.1 billion in projects

that were also supported by $335 million in counterpart funding. Eighty-four percent of the financing was directed primarily to the areas of water and sanitation (see Box 5 on the Water and Sanitation Initiative). The rest included a $40 million investment, supplemented by $10 million in counterpart funding, for clean production and environmental management in Argentina (see Box 6), and a $40 million investment, generating $80 million in counterpart funding, for a bioenergy project in the state of São Paulo, Brazil, that was the IDB's first private sector financing in this area (see Box 7 on the Sustainable Energy and Climate Change Initiative and Biofuels).

In addition, a total of 81 technical cooperation grants were approved totaling $32.4 million, backed by $10.4 million in counterpart funding, for environmental projects in such areas as disaster risk management (see Box 8), integrated natural resource management, rural development and sustainable agriculture.

Beyond its investment in environmental projects per se, the IDB continued to finance environmental components in lending programs in energy, roads and industrial development. All Bank loans are subject to environmental and social reviews, 397 of which were conducted for IDB operations in 2007.

As part of the sector analysis performed for preparation of the Bank's country strategies, country-level environmental assessments were conducted for Brazil, Nicaragua and Paraguay. The assessments identified sectors and issues that are of highest priority for the countries. For instance, the assessment for Paraguay addressed issues and opportunities in agriculture and land use in specific geographical areas. In the case of Nicaragua, the focus was on establishing linkages between environmental performance and access to external markets. The environmental assessment process contributed to cross-sector policy dialogue, engaging government agencies, private sector representatives and NGOs.

Through its Sustainability Initiative, in 2007 the IDB carried out activities in core areas to better manage environmental risks and opportunities associated with Bank operations. These included the development of a safeguards training strategy and supporting instructional materials, an *Environment and Indigenous Safeguards Handbook* to accompany policies, a project safeguards information database, and material on best practices for the private sector for incorporating sustainability in large-scale infrastructure projects and occupational health and safety guidelines.

The Bank also continued to consult the Blue Ribbon Panel on Environment and civil society stakeholders to ensure transparency and participatory engagement on institutional and technical sustainability issues. This included a stakeholder session on the Bank's investment in the Camisea natural gas and liquefied natural gas projects in Peru, and an exploratory session on avoided deforestation.

The IDB's commitment to environmental and social sustainability includes an effort to reduce to a minimum the environmental impact of the Bank's own offices and daily operations. In 2007, the Bank made progress in measuring its consumption and waste patterns as a prerequisite for establishing and

Brazil • Sugarcane is converted into biofuels at the Moema processing plant.

BOX 5 • WATER AND SANITATION INITIATIVE

To achieve the Millennium Development Goals in the provision of water and sanitation services, Latin America and the Caribbean must extend adequate water services to some 85 million people and sanitation to an additional 110 million. The region will need to invest an estimated $30 billion by 2015 to reach these goals. There is also an urgent need to improve the continuity and quality of water services—especially to the poor—while safeguarding and decontaminating water sources. Finally, the region must strengthen institutions and legal frameworks in the water and sanitation sector in order to encourage the emergence of efficient and transparent service providers.

To help the region attain these goals, the IDB Board of Executive Directors last year approved a Water and Sanitation Initiative that set ambitious targets for the 2007–2011 period. First, the IDB is to provide financing to 100 medium-sized cities—with populations of around 50,000 people—that want to expand coverage or improve the quality of their water and sanitation systems. Second, the Bank will provide loans or technical assistance to at least 3,000 rural communities by working with local governments and other organizations that focus on water and sanitation. Third, the IDB will finance watershed management in at least 20 priority microwatersheds and wastewater treatment in many of these urban and rural projects. And fourth, the Bank will foster the growth of efficient and transparent service providers by financing management training, technical support and institutional strengthening.

During 2007 the Bank began preparing water and sanitation sector business plans for 12 of its borrowing member countries and will complete the 14 others in 2008. The plans will set out the IDB´s vision for the sector and propose a customized road map for each country. The Bank is also preparing two new financial instruments as part of the initiative. The first is a dedicated fund for technical cooperation and project preparation grants. IDB resources will be matched by special contributions from other donors. The second instrument is a quick-disbursing fund that will offer loans to service providers that meet certain efficiency and transparency benchmarks.

To achieve maximum impact, the IDB will leverage a variety of partnerships with donors and organizations active in the water and sanitation sector. Working with the United Nations Secretary General's Advisory Board on Water and Sanitation, for example, the IDB will help to set up Water Operator Partnership programs that will match successful water utilities with smaller providers to transfer management skills.

In 2007 the IDB approved close to $700 million in loans that will contribute toward meeting the goals of the Water and Sanitation Initiative. These included three projects in Peru: $200 million for water resources reform, $100 million for sanitation reform and $50 million for the "Water for Everyone" program. In Argentina, a $120 million loan will improve the quality of water service and expand access to water and sanitation in small communities, and a $60 million loan will improve solid waste management in municipalities with high levels of tourism.

In Bolivia, a $21 million loan will increase the coverage of sustainable potable water service and wastewater disposal for 200,000 new customers living in approximately 500 rural communities. In Brazil, a $32 million loan for an environmental revitalization program will help address pollution and flooding problems in Joinville in the state of Santa Catarina. And in Chile, the IDB approved $100 million in financing to build 9,000 new potable water and 45,300 new sewerage connections in remote rural households.

meeting targets to improve these patterns. A cross-departmental Greening the Bank Task Force identifies measures to reduce the IDB's corporate environmental footprint.

At its Annual Meeting in Guatemala in March 2007, the Bank announced the expansion of its initiative to make the IDB headquarters in Washington, D.C. carbon neutral in 2007. The initiative will be ex-

tended in 2008 to the IDB's 26 Country Offices and to its offices in Paris and Tokyo. As part of this move, the IDB began to procure Renewable Energy Certificates (RECs) for 100 percent of its headquarters energy supply and formed a partnership with a leading carbon broker to purchase Verified Emission Reductions to offset emissions, such as those from business travel and the Bank's Annual Meeting. In late 2007 the IDB made formal its public commitment to calculating, reducing and offsetting its carbon footprint by partnering with the United States Environmental Protection Agency to become a Climate Leader Partner, a Green Power Partner and an Energy Star partner.

PRIVATE SECTOR DEVELOPMENT

The IDB supports private sector development in Latin America and the Caribbean through three windows: the Structured and Corporate Financing Department, the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF). The Office of Vice President for Private Sector and Non-Sovereign Guaranteed Operations oversees all three, along with the Opportunities for the Majority Sector. It also develops and carries out the Private Sector Integrated Business Plan, as well as the business plans for each of the three above-mentioned windows.

During 2007, the IDB approved 17 non-sovereign-guaranteed transactions, consisting of 13 loans and four guarantees, totaling $2.1 billion. Nine out of the 13 loans had a B component, which mobilized $2.1 billion in additional funding from other financial institutions and resulted in a mobilization ratio of 1:6, which is the ratio of total B loan amounts over the total for A loans from the Bank's Ordinary Capital. The average size of the loans was $97 million, and that of the guarantees $225 million.

Including 12 operations for $227 million under the Trade Finance Facilitation Program—through which the IDB extends guarantees to cover documentary and stand-by letters of credit, promissory notes and other instruments used in the financing of international trade transactions—the IDB approved private sector development operations in 14 countries during the year: Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname and Uruguay.

Among the pioneering transactions in 2007 was a $400 million A loan to Peru LNG, the first liquefied natural gas export facility in South America. The project, which represents a significant step in Peru's efforts to develop its energy sector, is the largest foreign direct investment ever made in the country and will act as a catalyst for attracting large amounts of additional investment. Also noteworthy was the first non-sovereign-guaranteed loan to a national public institution, the *Instituto Costarricense de Electricidad* in Costa Rica. The Bank also approved a $40 million A loan for a large Brazilian ethanol producer, *Usina Moema Açúcar e Álcool Ltda.*

Colombia • The Guavio hydroelectric plant increased installed capacity by 1,000 MW.

Inter-American Investment Corporation

The IIC is an independent multilateral organization affiliated with the IDB whose purpose is to foster the development of small and medium-sized enterprises (SMEs) as a means of furthering sustainable economic development. In 2007, the IIC posted its fifth consec-

BOX 6 • PROMOTING CLEAN PRODUCTION

An IDB-financed program is promoting environmental management for sustainable production in the productive sector in Argentina. Approved in May 2007, the program is based on a strategy for sustainable growth of production. Its two main purposes are to promote the adoption of clean production practices by small and medium-sized enterprises (SMEs) as an environmental management strategy for businesses; and to promote environmental protection measures in mining, one of the fastest growing sectors in the country.

For both lines of activity, the program provides three types of support: (i) technical assistance for SMEs in the mining sector, to improve the efficiency of their production processes and environmental performance; (ii) training for national and provincial institutions to encourage the adoption of instruments for environmental management and prevention of pollution; and (iii) development of specific instruments to consolidate a framework for prevention and remediation of adverse environmental and social externalities related to the productive sector.

In promoting clean production, the program builds on the experience gained by the Argentine Department of the Environment and Sustainable Development with pilot projects with the provincial environmental authorities and groups of SMEs. It expands the scope of Bank environmental operations by supporting a national policy and its strategy with general guidelines for action at the provincial level. The program also helps the government effectively implement the guidelines as a way of bringing production activities into line with current environmental legislation and regulations in the provinces and creating the institutional, technical and economic conditions for SMEs—especially those in the industrial sector—to adopt practices to reduce their environmental impact, while increasing production efficiency.

Drawing on similar experiences in other countries, the program will support the establishment of a $15 million Fund for Clean Production and Business Competitiveness (FONPLYCE) to finance clean production projects for at least 800 SMEs to help them achieve the environmental objectives. FONPLYCE is expected to produce successful projects that can be replicated throughout the country and encourage more enterprises to adopt clean production practices as a business and environment management strategy.

To enhance environmental management in the mining sector, the program strengthens the institutional framework of the Preventive Environmental System for Mining, in order to improve the practices of the most vulnerable producers in the sector, primarily small-scale miners. The program will also support efforts by the Office of Mining to establish an enabling environment for modern mining practices by devising specific solutions to address mining-related environmental liabilities that occurred prior to enactment of the Law on Preventive Environment Protection for Mining and implementing a strategy and procedures for remediation and subsequent monitoring of the adverse environmental impact caused by past activities.

utive year of profits and a record year for approvals, disbursements and profits. A total of 62 projects for $470 million were approved and IIC assets grew to $1.2 billion, more than double the $487 million in assets it had in 2004.

The IIC also achieved its goal of bringing greater amounts of resources to the smaller countries in the region. During the year, 47 percent of the number of the financing approvals and 32 percent of the dollar amount of the approved operations were in small countries.

Innovations included local currency financing in Peruvian soles, Argentine pesos and Brazilian reais; FINPYME, a program to evaluate SMEs in order to help them become more competitive and improve their access to sources of financing; and a joint loan with the IDB to Surinamese holding company C. Kersten & Co. N.V.

Multilateral Investment Fund (MIF)

The MIF uses technical cooperation grants to support improvements in the business environment and to increase the ability of the private sector to achieve sustainable growth and create jobs. It also offers investments for microfinance and small business loans and equity capital. Given the makeup of Latin American and Caribbean economies, the MIF continued to focus on the small business sector, which provides the greatest leveraging opportunities. In 2007, the fund approved 116 grants for a total of $100 million and 17 investment projects for a total of $35 million, for a combined total of 133 projects and $135 million in total MIF contributions. Disbursements in 2007 were $98 million.

To enhance its impact on grassroots business, the MIF began delegating authority to approve small projects to the IDB Country Offices. In 2007, the overall caps on these "mini-MIFs" were eliminated and all IDB borrowing countries given access to them. The program is expected to grow substantially to more than 50 projects per year and should contribute substantially to the MIF program to provide economic opportunities to those sectors of the population, constituting the majority, that are now working to overcome the barriers of low incomes, isolation and exclusion.

Guyana • An air transportation reform project included a dish antenna for the traffic controller and other new communication equipment.

REGIONAL INTEGRATION

The Bank is actively supporting intraregional integration processes in Latin America and the Caribbean through numerous regional and national projects. During the year, it approved two loans totaling $21.6 million and 14 grants totaling $4.1 million for trade- and integration-related projects (see Box 9).

The IDB has also played a central role in the global Aid for Trade initiative spearheaded by the World Trade Organization (WTO). The Bank, along with the WTO and the government of Peru, in September organized the first Regional Review Meeting, titled "Mobilizing Aid for Trade: Focus Latin America and the Caribbean," which brought together finance and trade ministers, senior donor representatives, regional institutions and key private-sector actors. In November, the Bank participated in the WTO's Global Review of Aid for Trade in Geneva.

The fast-growing Asian market also offers new export opportunities for Latin American producers. In conjunction with the Republic of Korea, the Bank in September organized the Korea-Latin America Trade and Investment Forum in Seoul to foster trade, investment and technological exchange between Korea and Latin American and Caribbean export and investment promotion agencies and company representatives.

The Bank is providing extensive analytical support on reducing trade costs, developing exports and inducing convergence and production networks among the region's numerous trade agreements. The Bank also collaborated with the WTO on a joint publication, *Regional Rules in the Global Trading System.*

In the Andean region, the Bank hosted a Regional Policy Dialogue on Trade and Integration centered on the Andean-European Union trade negotiations. It supported Peru and Colombia in preparing a road

BOX 7 • SUSTAINABLE ENERGY AND CLIMATE CHANGE INITIATIVE AND BIOFUELS

The countries of Latin America and the Caribbean face growing demand for energy at a time of rising energy prices and tensions over the reliability of supply. Ensuring affordable and reliable sources of energy is at the core of their development agenda. In addition, the impact of uncontrolled climate change threatens to undermine the region's economic and social well-being, increasing its vulnerability to climate risks such as natural disasters, disruptions of agriculture and loss of biodiversity.

The Sustainable Energy and Climate Change Initiative (SECCI), approved in March 2007, is designed to respond to these challenges. It expands the development and use of renewable energy sources, promotes energy efficiency technologies and practices and increases carbon finance. It also promotes and finances the adaptation of strategies to meet the challenge of climate change and reduce the region's climate vulnerability.

The Bank has organized a team to carry out and coordinate SECCI activities, and established the $20 million SECCI IDB Fund and the SECCI Multi-donor Fund, which received an initial contribution of $2 million from the United Kingdom. Negotiations with several other donors are underway. Project proposals from internal Bank units or from external public and private entities to obtain resources from the SECCI Funds will be managed expeditiously through the new Grants and Cofinancing Management Unit. A call for proposals for projects that may qualify for SECCI resources has been launched on the IDB webpage.

The results of SECCI activities are already tangible and very promising. At the country level the organizing team has identified multiple projects and programs that could benefit from SECCI technical cooperation grants, be they for stand-alone projects or components of other projects. In Mexico, a number of activities are underway, including backing for Mexico's Climate Change Strategy, with resources committed for the development of the country's Report on Economic Impacts of Climate Change. SECCI is actively supporting Mexico City's Bordo Poniente landfill gas capture and electricity generation project, including a feasibility study for a multi-million-dollar waste recycling and energy facility centered around public-private partnership schemes, and it is backing a study of the carbon finance potential in wastewater treatment in the Valley of Mexico.

In the renewable energy sector, SECCI is supporting rural electrification initiatives in Honduras, the preparation of national wind maps in Costa Rica and advisory services for new biofuel initiatives, such as support for the creation of a Biofuels Office at the Ministry of Economy and Energy in El Salvador. SECCI is also backing the creation of the energy efficiency program for water pumping systems in Nicaragua, El Salvador and Colombia and, in collaboration with the Clinton Foundation, energy efficiency in public buildings in Mexico. Other noteworthy activities on the SECCI agenda include bringing carbon finance to the mainstream of public transportation projects in Brazil and in housing energy efficiency in Chile.

The Bank is supporting regional as well as national activities to facilitate biofuel production and consumption. These activities will help diversify the energy matrix of the participating countries and lessen dependence on hydrocarbons. An example of intraregional cooperation promoted by the Bank is its support for the development of action plans ("blueprints") for biofuel development in coordination with *Fundação Getulio Vargas* of Brazil. Among the countries preparing the blueprints are El Salvador, the Dominican Republic and Haiti. There are plans for expansion of the program to Guatemala and Honduras.

Trinidad and Tobago • A doctor checks an infant at the Couva District Health Facility, which is part of a decentralized system for quality, affordable health care.

map of institutional reforms for the implementation of free trade agreements with the United States and executed projects on rules of origin, services, investment and access for small and medium-sized businesses to the U.S. market. A white paper on labor issues requested by the Colombian government was completed.

During the year, the Bank approved a new strategy to support integration of the Caribbean Community (CARICOM) during the period 2007–2010. In June the Bank co-hosted a conference, titled “A 20/20 Vision,” on promoting Caribbean trade and tourism, encouraging competitiveness and investment, and improving social and economic equity. The event, also supported by the World Bank and the Organization of American States, was attended by numerous Caribbean heads of state, other officials and private sector leaders.

Nonreimbursable regional technical cooperation projects for Central America were approved in such areas as integration of three stock exchanges and fiscal and tax issues of the Customs Union. Support was also given to implementation of the Central America-Dominican Republic-United States Free Trade Agreement (DR-CAFTA) on intellectual property, rules of origin and labor laws. The Bank continued coordinating national and multilateral donors in the context of a white paper titled, “The Labor Dimension of DR-CAFTA.”

The Southern Common Market (MERCOSUR) also advanced in the free circulation of goods and the implementation of the Fund for Structural Convergence, which will support projects to reduce asymmetries among MERCOSUR countries. The Bank provided technical and financial support to regional institutions, such as the MERCOSUR Secretariat, the Trade Commission and the MERCOSUR Parliament, a newly established institution designed to help unify legislation in the member nations and foster greater cooperation.

RISK MITIGATION

As part of its organizational realignment, the Bank created the Office of Risk Management (RMG), reporting directly to the President and Executive Vice President. RMG is in charge of assessing credit, operational and market risks. RMG is also responsible for strengthening the Bank’s capacity to identify, measure and manage the credit risks of the Bank in the non-sovereign-guaranteed loan portfolio and its treasury activities, including derivatives. It also manages

BOX 8 • DISASTER RISK MANAGEMENT

As part of its Action Plan for Improving Disaster Risk Management 2005–2008, in 2007 the Bank approved a new Disaster Risk Management Policy and completed Policy Guidelines. The policy reinforces the IDB's comprehensive, proactive approach to the issue, with an emphasis on pre-disaster assistance, and enhances the effectiveness of Bank support for borrowers in risk management, in preventive measures such as risk identification and reduction, as well as post-disaster response. Staff will be trained in the application of Policy Guidelines in 2008.

In support of country programming and portfolio management, detailed risk evaluations for four high-risk countries (Guatemala, Jamaica, Nicaragua and Peru) are underway. The studies, which will identify key at-risk sectors and communities, are designed to support countries and the Bank in the allocation of the necessary resources for effective disaster risk management. The IDB also prepared new sector notes for disaster risk management for five countries (Belize, Bolivia, Ecuador, Guatemala and Nicaragua) to inform the development of country strategies. Case studies on available information for disaster risk management were completed for five countries. Disaster risk management was incorporated into the country strategies of Costa Rica and Nicaragua.

The Bank amended its Immediate Response Facility for Emergencies Caused by Natural and Unexpected Disasters to reflect the scope of the new Disaster Risk Management Policy. The IDB also continued to strengthen its disaster risk financing instruments and initiatives, and to help improve country capacity for disaster prevention through grants from the $10 million Disaster Prevention Fund and $8 million Multi-Donor Disaster Prevention Trust Fund. Two such projects were approved in 2007: in Chile, a $1 million grant will support regional implementation of an early warning system for all types of disasters throughout the country, such as earthquakes, tsunamis, flooding and droughts; and in Bolivia, a $937,000 grant will strengthen the country's capacity to assess the risk of earthquakes.

the Bank's exposure to market and operational risks and credit risks of the sovereign loan portfolio.

The new Office of Strategic Planning and Development Effectiveness (SPD) is defining an integrated methodology for managing environmental, social and fiduciary risks, and reviewing initiatives, products and strategies and policies that have risk implications.

In addition, various Bank units are responsible for carrying out discrete risk mitigation activities. The Office of the Auditor General (AUG) focuses on corporate risk management, with an emphasis on financial reporting. The Bank's Office of Institutional Integrity (OII) focuses on promoting an environment of integrity throughout Bank operations and in member countries through the detection, investigation and prevention of fraud and corruption in Bank-financed activities.

Other Bank units, such as the Operations Procurement Office, provide technical advice to project teams on matters related to national capacity in the areas of procurement, financial management and managing country portfolios through results and risk management practices. Also, the Environmental Safeguards Unit (ESG) evaluates and promotes mitigation of environmental and social risks in Bank public and private sector operations, incorporating environmental and social safeguards in projects and providing advice on environmental and social risk mitigation.

Finally, the Office of Oversight and Evaluation (OVE) plays a dual role, evaluating overall Bank activities and conducting studies on country-level, thematic, sectoral and policy- and instrument-related issues.

Corporate Governance

During the year, AUG continued to collaborate with Bank oversight units on governance issues. In the operational departments and Country Offices, it focused on the realignment of the Bank, conducting assessments of the control environment of the Country Offices and identifying initial issues related to the realignment, among other activities. Country Office audits also covered high-risk control activities that would not be significantly impacted by the realignment.

At headquarters, AUG monitored the selection, implementation, upgrade and operation of com-

puters and network infrastructure and applications. AUG also monitored the development of the Information Technology Strategy and the implementation of the new information technology governance structure. In addition, as part of the Bank's adoption of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control-integrated framework and the annual report on the effectiveness of internal controls over financial reporting, AUG tested Bank-wide controls and business processes. It also performed audits of several key systems and processes, including payroll, the Staff Retirement Plan, non-sovereign-guaranteed operations and the Multilateral Investment Fund.

During the year, OII continued its work as the focal point for matters related to integrity within Bank-financed activities. At the outset of 2007, OII had 123 allegations open and under investigation. Through December 31, 2007, OII received 212 new inquiries, leading to 136 investigations. Of the allegations received, 84 percent related to fraud or corruption in Bank-financed activities and the remaining 16 percent to staff misconduct involving alleged violations of the Code of Ethics or other staff rules. During this period, OII completed more than 162 reviews and investigations.

During 2007 the Office of the Vice President for Finance and Administration coordinated the preparation and approval of a new Code of Ethics and Professional Conduct that consolidated the Code of Ethics and the Respect in the Workplace Policy into a single code and merged the Ethics Committee and the Conduct Review Committee into a single committee. This streamlined mechanism, supported by the appointment of an Ethics Officer and the establishment of an Ethics Office, enhances staff access to Bank resources for reporting cases of misconduct and unethical behavior, and simplifies and expedites their resolution. The revised code also contains improved definitions of misconduct, particularly harassment and domestic and workplace violence, and establishes specific sanctions for wrongdoing.

Paraguay • Cassava farmers like Rosana Sanamine received training through a program for low-income women.

Oversight of IDB-Funded Projects

The Portfolio Monitoring Unit reports on the performance and status of projects in the Bank's portfolio, including the early detection of "problem" projects reported as unlikely to meet their development objectives, as well as projects "on alert." In 2007, the unit launched an updated version of the Project Performance Monitoring Report that includes a new risk profile section. The fiduciary unit in the Office of the Vice President for Countries is also working to strengthen in-house and borrower and executing agency capacity to prevent fraud and corruption, thereby increasing efficiency, effectiveness and transparency.

In 2007, the Bank implemented its new integrity guidelines for private sector lending. This initiative combines the efforts of different units of the Bank in implementing due diligence activities prior to loan approval and during portfolio review. During the course of the year, all staff and managers involved in the implementation of the guidelines participated in a hands-on training session.

The Operations Procurement Office and OII jointly reviewed some of the most common fraudulent and corrupt practices identified in OII's investigations to develop proactive mechanisms to identify

BOX 9 • BOOSTING EXPORTS THROUGH POSTAL SERVICES IN SOUTH AMERICA

Drawing on a pioneering program in Brazil to promote exports by small businesses through streamlined procedures available at post offices throughout the country, the IDB is helping other countries in South America boost their exports and support small businesses. The idea is to use the huge network of postal service branches to serve businesses with small local markets.

A $1.6 million MIF grant was approved in June 2007 to replicate this simplified postal export system program in four other South American countries under the Initiative for the Integration of Regional Infrastructure in South America (IIRSA). The program will help establish a simplified postal export system in the public postal services of Peru and Uruguay, which have a presence in poor, remote areas, and in two others. It will introduce new procedures to allow streamlined exports through postal services under certain conditions.

The Brazilian program, called Exporta Fácil ("Easy Exports"), is particularly attractive for small businesses in remote localities that do not have access to or cannot afford other commercial shipping services, which are usually based in bigger cities, and for whom the previous export system was too complicated, costly and burdensome, requiring that multiple forms be submitted to different offices. With the streamlined procedures, Brazil is expected to export nearly $200 million in 2007 under the program, up from just $160,000 when it was first launched in 1999. Although the amounts exported through the program are a mere fraction of overall exports, they are making a significant contribution to small business development by opening up more opportunities for small entrepreneurs to gain access to new markets.

Exporta Fácil has been so successful the 12 IIRSA countries decided to include the program among their 31 priority projects for regional integration of infrastructure. It is one of two priority projects with a regional scope. Brazil is playing a leadership role in an example of South-South cooperation by providing technical assistance and knowledge at no charge to other South American countries, with support from the MIF.

In countries such as Peru, the project is also seen as a contribution to the decentralization process currently underway. With the simplified procedures, local entrepreneurs only need to make one stop at the closest post office and fill out a single form.

In Brazil the service has been used in a variety of sectors, the most active participants being small-scale manufacturers of small, lightweight finished goods, such as car parts, an important sector in São Paulo where the auto industry relies on many small suppliers. Other common small business exports include jewelry, lingerie, cosmetics, porcelain and even doggie clothes (taking advantage of opposite seasons). These are the kinds of sectors Peru and Uruguay have targeted for their respective "Exporta Fácil" services that will be implemented under the MIF program.

In Brazil the program, which is self-sustaining, has led to job creation and improved efficiency, organization, competitiveness and innovation among small and medium-sized enterprises. In Peru and Uruguay, the program has been integrated into the national strategies to promote exports, especially value-added exports, and is expected to have a similar impact.

The more countries in South America that use the same system, the stronger the postal services will be in all of them. Once they implement their Exporta Fácil programs, other governments besides Brazil can provide technical assistance to the remaining countries in South America and other subregions, such as Central America, where other countries are interested in the program.

The IDB is playing a dual role: first, as part of its contribution to regional integration, it has supported IIRSA since the initiative was launched in 2000, by providing technical coordination; and second, through the MIF grant, the Bank is providing funding for the implementation of the program and additional technical expertise to create synergies with other projects in the MIF cluster for small and medium-sized enterprises, such as a project in Otavalo, Ecuador, to establish a one-stop window for small business formalization and development.

By sponsoring this pilot program in Peru, Uruguay and two other countries in South America, the Bank will help these countries to launch their own Exporta Fácil programs, boosting exports by small and medium-sized enterprises, which represent the backbone of the economy in the region.

and prevent such practices from recurring. Based on their findings, an interactive, web-based instrument called the Red Flags Matrix was designed to identify fraudulent and corrupt practices and to provide initial guidance for staff members supervising project procurement.

The Office of Evaluation and Oversight (OVE) provides information useful to the Bank's mitigation of risks, both through the conduct of oversight studies and country program evaluations. OVE's oversight studies address the systems and processes used to gather, record and disseminate information relevant to the success of projects. The *Evaluability Assessment of Projects* examined the logic and capacity for measuring anticipated risks and results of Bank projects approved in 2005, allowing comparison with an equivalent exercise conducted in 2001.

Country Program Evaluations (CPEs) help inform the Bank and the borrowing countries in order to develop country strategies that mitigate risks while fostering development results. In 2007, OVE completed CPEs for Bolivia, Guyana, Haiti, Honduras and Peru. To date, OVE has prepared a total of 39 CPEs, covering each of the borrowing countries at least once. The objective of these exercises is to inform the Bank and the borrowing countries on what risks and results were actually realized in the previous programming cycle, in order to improve performance in the next one.

At the request of the Board of Executive Directors, the Bank initiated an independent review of its anticorruption framework. This review will evaluate both the mechanisms and capacity to detect and prevent corruption, as well as the adequacy of the structures and procedures in place to receive, investigate and sanction allegations of fraud or corruption in Bank-financed activities. The external review team is headed by Jorge Santistevan De Noriega, former Ombudsperson of Peru, and Dick Thornburgh, former United States Attorney General. The reviewers have interviewed members of the Board, management, staff and external parties, and are expected to issue a report of their findings in early 2008.

Integrity in the Region

In 2007 the Bank expanded its capacity to integrate local and regional efforts to promote integrity and control corruption in Latin America and the Caribbean. Two technical cooperation projects were approved to support the implementation of international conventions against corruption. The first will strengthen the capacity of civil society organizations to monitor and advocate for compliance with international conventions against corruption. The second will improve the capacity of prosecutors, investigators and judges to investigate and prosecute corruption cases under international conventions, and to develop partnerships with the United Nations Office against Drugs and Crime (UNODC).

In March 2007, at the Bank's Annual Meeting in Guatemala, the Bank and the Organization of American States signed a memorandum of understanding to establish a framework to facilitate the implementation of the Inter-American Convention against Corruption (IACaC) and the development of the recommendations included in the Follow-up of the Implementation of the Convention (MESICIC).

Jamaica • Seventeen-year-old Lorenzo Bartley gets treated by dental nurse Yvette Cunningham at the St. Jago Park Health Center in Spanish Town.

Nicaragua • Women receive training as part of a comprehensive social protection program that also included nutrition and disease prevention.

With the government of Norway, the Bank also established the first Anticorruption Activities Trust Fund. The main objective of the fund is to strengthen the institutional capacity of the Bank's member countries to ensure access to information mechanisms as a means to prevent and control corruption. The fund will support interventions that are aligned with the Bank's evolving regional, national and sector strategies to promote good governance and combat corruption. Public and private sector entities will be eligible to apply to the fund for financing, including central and subnational governments, civil society organizations and private foundations.

The Inter-American Investment Corporation and OII are working with the World Economic Forum's Partnership against Corruption Initiative (PACI) to adapt PACI's integrity principles to the needs of small and medium-sized enterprises in the region. The idea is to support efforts by small and medium-sized enterprises to improve internal corporate governance.

The Year's Lending

Barbados • The Carrington-Erdiston Primary School is being built as part of a comprehensive education project.





The Year's Lending

SUMMARY

The 2007 loans and guarantees approved by the Bank and cumulative totals, as of December 31, 2007, less cancellations, came from the following sources:

- **Ordinary Capital (OC):** 89 loans for $7.7 billion and 16 guarantees for $1.1 billion brought the cumulative total of loans to 1,946 for $133.6 billion and the cumulative number of guarantees to 46 totaling $2.1 billion.
- **Fund for Special Operations (FSO):** 19 loans totaling $152 million brought the cumulative total of loans to 1,216 for $18.5 billion.
- **Other funds:** There were three loans approved in 2007. Cumulative total loans were 213 for $1.8 billion.

Total Cost of Projects

The $9 billion in Bank loans and guarantees approved in 2007 will help to finance projects involving a total investment of more than $18.3 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 $7.1 billion in 2007, compared with $6.5 billion in 2006. As of December 31, 2007, cumulative disbursements, including exchange adjustments, totaled $135.6 billion, or 88 percent of the loan amounts approved by the Bank. The 2007 disbursements and cumulative totals as of December 31, 2007 by funds include

- **Ordinary Capital:** $6.7 billion, bringing the cumulative total to $117.2 billion.
- **Fund for Special Operations:** $393 million, bringing the cumulative total to $16.7 billion.

Figure 8. Lending by Sector, 2007

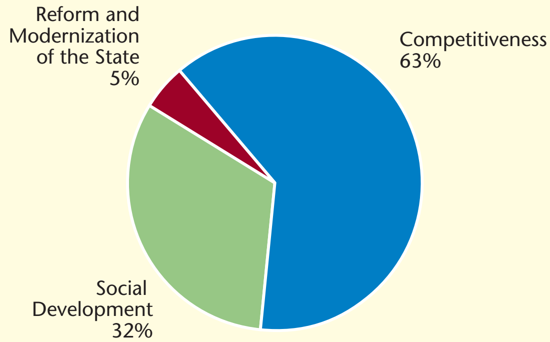
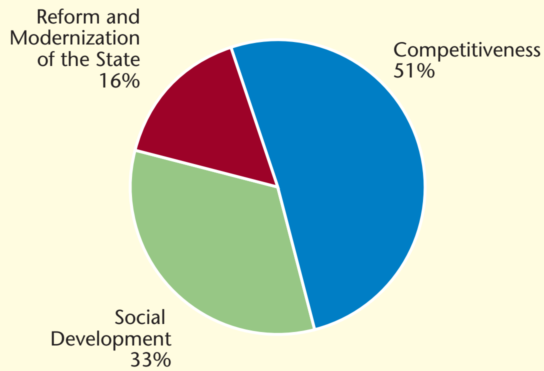


Figure 9. Lending by Sector, 1961–2007



(Left to right) Colombia • The mass transit system in Bogotá uses high-capacity buses on dedicated corridors and serves low-income neighborhoods.
Ecuador • A fruit processing factory adds value to agricultural production.
Suriname • A newborn receives care at the Dr. Lachmipersad Mungra Regional Hospital in Nickerie.

TABLE III • DISTRIBUTION OF LOANS AND GUARANTEES BY SECTOR OF ACTIVITY[1]
(In millions of U.S. dollars)

SECTOR	2007	%	1961–2007	%
Competitiveness	**$5,673.0**	**63.2**	**$ 79,107.1**	**50.7**
Energy	1,325.3	14.8	21,934.4	14.1
Transportation and Communication	2,067.7	23.1	18,156.9	11.6
Agriculture and Fisheries	75.0	0.8	14,059.9	9.0
Industry, Mining and Tourism	17.0	0.2	13,098.6	8.4
Multisector Credit and Preinvestment	1,050.0	11.7	4,710.3	3.0
Science and Technology	0.0	0.0	1,972.9	1.3
Trade Financing	246.0	2.7	2,579.5	1.7
Productive Infrastructure	527.1	5.9	1,695.7	1.1
Capital Markets	365.0	4.1	898.9	0.6
Social Development	**2,890.2**	**32.2**	**51,682.4**	**33.1**
Social Investment	586.2	6.5	20,448.0	13.1
Water and Sanitation	443.7	4.9	10,104.1	6.5
Urban Development	578.5	6.4	8,108.4	5.2
Education	342.0	3.8	5,779.6	3.7
Health	300.0	3.3	3,335.7	2.1
Environment	627.7	7.0	3,398.3	2.2
Microenterprise	12.3	0.1	508.3	0.3
Reform and Modernization of the State	**407.2**	**4.5**	**25,187.9**	**16.1**
Reform and Public Sector Support	50.1	0.6	19,196.7	12.3
Financial Sector Reform	187.3	2.1	7,696.9	4.9
Fiscal Reform	10.5	0.1	4,014.8	2.6
Decentralization Policies	72.0	0.8	1,143.3	0.7
Modernization and Administration of Justice	57.8	0.6	427.4	0.3
Planning and State Reform	13.5	0.1	156.9	0.1
Parliamentary Modernization	16.1	0.2	84.7	0.1
Civil Society	0.0	0.0	22.0	0.0
Trade Policy Support	0.0	0.0	25.3	0.0
E-Government	0.0	0.0	42.7	0.0
TOTAL	**$8,970.4**		**$155,977.4**	

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

TABLE IV • YEARLY (2007) AND CUMULATIVE (1961–2007) LENDING INFORMATION[1]

(In millions of U.S. dollars)

	TOTAL COST OF PROJECTS		LOANS AND GUARANTEES APPROVED[1]					DISBURSEMENTS				
	Total Amount		Total Amount[3]		Ordinary Capital[2,3]	Fund for Special Operations	Funds in Administration	Total Amount		Ordinary Capital[2]	Fund for Special Operations	Funds in Administration
Country	2007	1961–2007	2007	1961–2007	1961–2007	1961–2007	1961–2007	2007	1961–2007	1961–2007	1961–2007	1961–2007
Argentina	$ 3,058.8	$ 50,301.2	$2,484.3	$ 25,447.8	$ 24,753.7	$ 644.9	$ 49.2	$1,482.7	$ 20,695.1	$ 20,001.0	$ 644.9	$ 49.2
Bahamas	—	597.4	—	386.2	384.2	—	2.0	9.5	325.4	323.4	—	2.0
Barbados	6.8	777.6	5.0	397.8	337.3	41.5	19.0	2.8	336.5	276.0	41.5	19.0
Belize	—	170.2	—	112.3	112.3	—	—	20.3	108.0	108.0	—	—
Bolivia	86.9	6,275.7	84.3	3,832.2	1,319.1	2,439.4	73.7	46.0	3,353.7	1,259.1	2,020.9	73.7
Brazil	5,184.8	91,272.2	1,663.5	30,858.3	29,166.7	1,556.3	135.3	1,625.9	27,946.7	26,257.3	1,554.1	135.3
Chile	236.6	13,365.5	118.7	5,709.0	5,458.8	205.0	45.2	41.2	5,185.1	4,934.9	205.0	45.2
Colombia	1,246.0	26,169.5	771.0	13,826.0	12,989.2	769.9	66.9	767.8	12,911.8	12,075.0	769.9	66.9
Costa Rica	777.7	4,760.7	535.0	3,050.8	2,545.4	366.9	138.5	17.0	2,245.2	1,743.2	366.9	135.1
Dominican Republic	126.3	4,211.0	80.5	3,109.7	2,264.8	755.8	89.1	109.5	2,577.0	1,732.1	755.8	89.1
Ecuador	607.2	9,466.7	488.4	5,160.8	4,080.8	984.0	96.0	200.4	4,394.2	3,320.1	982.1	92.0
El Salvador	2.3	4,536.6	2.0	3,122.8	2,176.1	795.8	150.9	97.2	2,904.5	1,968.8	795.8	139.9
Guatemala	240.4	4,690.9	215.0	3,163.7	2,411.5	681.9	70.3	238.7	2,655.1	1,924.0	669.7	61.4
Guyana	33.9	1,306.2	32.9	1,107.0	137.1	963.0	6.9	48.8	864.5	120.6	737.0	6.9
Haiti	—	1,774.4	—	1,306.9	—	1,300.6	6.3	101.9	919.0	—	912.7	6.3
Honduras	140.6	4,742.9	97.1	2,969.1	653.1	2,250.3	65.7	66.4	2,472.2	563.4	1,856.5	52.3
Jamaica	—	2,380.3	—	1,814.5	1,441.8	173.8	198.9	34.3	1,718.0	1,345.3	173.8	198.9
Mexico	750.0	51,983.1	650.0	20,553.5	19,934.2	559.0	60.3	1,080.9	18,918.1	18,298.8	559.0	60.3
Nicaragua	114.9	3,872.3	90.2	2,604.0	341.2	2,196.3	66.5	113.7	2,209.6	283.1	1,873.4	53.1
Panama	270.2	5,604.5	188.1	2,662.2	2,322.7	296.6	42.9	75.7	2,047.5	1,716.1	296.6	34.8
Paraguay	70.5	3,123.2	64.3	2,277.4	1,632.8	631.5	13.1	74.0	1,831.6	1,199.3	619.2	13.1
Peru	4,597.2	18,969.1	941.2	8,773.2	8,114.9	437.1	221.2	490.1	7,507.2	6,848.9	437.1	221.2
Suriname	35.5	161.6	7.0	112.3	110.3	2.0	—	16.8	87.2	85.2	2.0	—
Trinidad and Tobago	—	1,676.7	—	1,091.9	1,036.1	30.6	25.2	47.2	947.9	892.0	30.6	25.3
Uruguay	115.2	5,658.8	101.9	4,329.4	4,183.0	104.6	41.8	112.9	3,737.1	3,590.7	104.6	41.8
Venezuela	211.0	16,351.2	150.0	4,973.2	4,798.9	101.4	72.9	167.2	4,056.7	3,882.4	101.4	72.9
Regional	400.0	19,019.3	200.0	3,225.4	2,974.1	237.2	14.1	35.4	2,638.3	2,395.2	229.0	14.1
TOTAL	**$18,312.6**	**$353,218.9**	**$8,970.4**	**$155,977.4**	**$135,680.1**	**$18,525.4**	**$1,771.9**	**$7,124.3**	**$135,593.2**	**$117,143.9**	**$16,739.5**	**$1,709.8**

[1] After cancellations and exchange adjustments. Totals may not add up due to rounding.
[2] Detail includes non-sovereign-guaranteed loans, net of participations.
[3] Includes authorized lines of credit in the aggregate amount of $659 million ($236 million for 2007), under the Trade Finance Facilitation Program.

Belize • Conservation of major archaeological sites, such as Caracol, will help develop tourism, creating jobs.

▶ **Other funds:** $6.3 million, bringing the cumulative total from funds administered by the Bank to $1.7 billion.

Repayments

Loan repayments amounted to $5.6 billion in 2007. Cumulative payments as of December 31, 2007, were $75.7 billion. Repayments received by the Bank during the year, and cumulative as of December 31, 2007, were as follows:

▶ **Ordinary Capital:** $5.3 billion, bringing the cumulative total, before repayments to participants, to $66.2 billion.

▶ **Fund for Special Operations:** $275 million, for a cumulative total of $7.9 billion.

▶ **Other funds:** $4.3 million, bringing the cumulative total to $1.6 billion.

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

Figure 10. Lending and Disbursements, 1998–2007
(in millions of U.S. dollars)

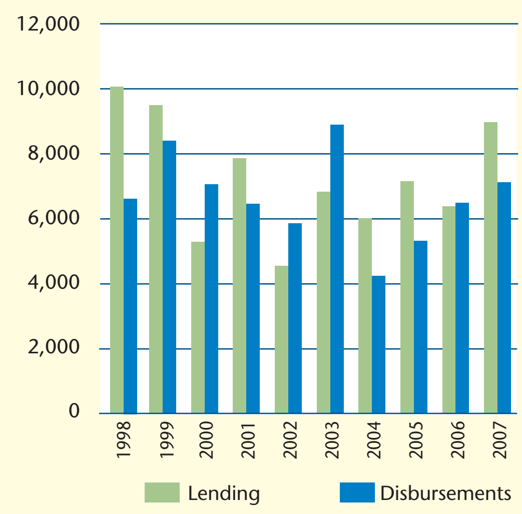


TABLE V • STATEMENT OF APPROVED OPERATIONS[1] (ABOVE $2 MILLION), 2007

(*In millions of U.S. dollars*)

COUNTRY	PROJECT	FUND	AMOUNT
Argentina	Norte Grande Roads Infrastructure Program	OC	1,200.0
	CCLIP Neighborhood Upgrading Program	OC	350.0
	Water Infrastructure Development Program: Norte Grande Provinces	OC	240.0
	Strengthening the Basic Health Care Strategy (FEAPS)	OC	230.0
	CCLIP: Water and Sanitation for Small Communities	OC	120.0
	Multiphase Program: Develop Production Support Infrastructure in Entre Ríos	OC	100.0
	Municipal Strengthening Program	OC	72.0
	Solid Waste Management Program for Tourist Municipalities	OC	60.0
	SMEs Credit Access and Competitiveness Program	OC	50.0
	Environmental Management Program for Sustainable Production	OC	40.0
	Multisector Preinvestment Program III	OC	20.0
	Promoting Financial Democracy in Argentina	MIF	4.0
	Promotion of Dynamic Entrepreneurship in Argentina	MIF	2.5
Bahamas	Total operations[2]	FSO, MIF	0.1
Barbados	Modernization of the Barbados National Standards System	OC	5.0
Belize	Total operations[2]	FSO, MIF, OC	1.6
Bolivia	Small Community Water Program	OC	14.7
	Performance-Based Road Maintenance Program II	OC	14.7
	La Paz Storm Drainage Program	OC	14.0
	Social Safety Net and Integral Community Development Program	FSO	10.0
	Support for the National Development Finance System and First Program	OC	8.6
	Small Community Water Program	FSO	6.3
	Performance-Based Road Maintenance Program II	FSO	6.3
	La Paz Storm Drainage Program	FSO	6.0
	Support for the National Development Finance System and First Program	FSO	3.7
Brazil	Financing MSMEs - BNDES II	OC	1,000.0
	Energisa Local Currency Guarantee	OC	200.0
	Delba Oil Drilling Vessel[3]	OC	100.0
	Embratel Telecommunications Project[4]	OC	80.0
	TECON Santa Catarina Port[5]	OC	57.6
	Moema Biofuel Project	OC	40.0
	Comprehensive Urban Development Program in the Município of Nova Iguaçu	OC	34.5
	Joinville Environmental Revitalization Program	OC	32.7
	Niterói Urban Development and Social Inclusion Program	OC	26.5
	Banco Industrial e Comercial S.A. (Bicbanco)[6]	OC	20.0
	Banco Schahin Financing Facility[7]	OC	20.0
	Multiphase Program Supporting Electronic Legislative Development in Brazil	OC	16.1
	Banco Indusval Multistock - TFFP[1]	OC	10.0
	Boost Competitiveness of Businesses in Local Production Systems in São Paulo State	OC	10.0
	Banco Pine - TFFP	OC	9.0
	Assessments, Prospects, and Development Alternatives in Brazil – IPEA Research	OC	7.2
	Opportunities for the Majority through Access to Credit in Brazil	MIF	5.0
	Consolidation and Support for Development of Venture Capital INOVAR II	MIF	2.7
	Capital Tech Innovation and Investment Fund for Technology-Based SMEs	MIF	2.0
Chile	Rural Sanitation Program SUBDERE (CCLIP)	OC	100.0
	Strengthening of Pension System Management and Information	OC	17.5

Key: OC, Ordinary Capital; FSO, Fund for Special Operations; MIF, Multilateral Investment Fund; GRF, IDB Grant Facility.

[1] Includes authorized lines of credit under the Trade Finance Facilitation Program (TFFP).

[2] There were no projects approved above $2 million. The amount reflected is the total approvals for the year.

[3] Complemented by a B loan syndication of approximately $388 million.

[4] Complemented by a B loan syndication of approximately $220 million.

[5] Complemented by a B loan syndication of approximately $86.4 million.

[6] Complemented by a B loan syndication of approximately $80 million.

[7] Complemented by a B loan syndication of approximately $20 million.

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TABLE V • STATEMENT OF APPROVED OPERATIONS[1] (ABOVE $2 MILLION), 2007

(*Continued*)

COUNTRY	PROJECT	FUND	AMOUNT
Colombia	Multiphase Program to Support Second Stage of Familias en Acción - Phase I	OC	306.0
	Competitiveness Enhancement Program II	OC	300.0
	Telefónica Móviles Colombia S.A.[8]	OC	125.0
	Davivienda - TFFP	OC	40.0
	Create New Microfinance Institutions to Increase Access to Microentrepreneurs	MIF	3.0
Costa Rica	First Electric Power Sector Development Program 2008–2011	OC	250.0
	ICE Debt Refinancing[9]	OC	200.0
	Banco de Costa Rica - TFFP	OC	40.0
	Costa Rica National Bank - TFFP	OC	40.0
	Banco Improsa S.A. - TFFP	OC	5.0
Dominican Republic	Multiphase Program for Road Infrastructure, Phase I	OC	50.0
	Emergency Assistance in Response to Tropical Storm Noel	OC	20.0
	Program to Strengthen the Internal Revenue Service	OC	10.5
	Industrial Innovation: Competing with Speed and Flexibility	MIF	2.4
Ecuador	Support for Universal Basic Education	OC	246.4
	Baba Hydroelectric Project[10]	OC	78.1
	Program for the Renewal of TAME's Aircraft Fleet	OC	62.3
	Support for Universal Basic Education	OC	38.1
	Banco del Pichincha - TFFP	OC	30.0
	Banco Bolivariano - TFFP	OC	10.0
	Banco Internacional S.A. - TFFP	OC	10.0
	Support for Universal Basic Education	FSO	9.5
	Expansion of Formal Financial Services to Semiurban & Rural Microentrepreneurs	MIF	3.0
	Supporting the Provision of Transnational Mortgage Loans for Ecuadoran Migrants	MIF	2.5
El Salvador	Total operations[2]	FSO, MIF	5.4
Guatemala	Program to Strengthen the Hospital System	OC	50.0
	Public Financial Management Reform Program II	OC	48.8
	Public Financial Management Reform Program II	OC	39.0
	Program to Support the Criminal Justice Sector	OC	30.0
	Loan Mechanism Banco de Desarrollo Rural S.A.	OC	20.0
	Public Financial Management Reform Program II	FSO	12.2
	Banco Agromercantil de Guatemala - TFFP	OC	10.0
	Loan Mechanism Banco de Desarrollo Rural S.A.	OC	5.0
Guyana	Agricultural Export Diversification Program	OC	10.5
	Agricultural Export Diversification Program	FSO	10.5
	Power Sector Support Program	OC	6.0
	Power Sector Support Program	FSO	6.0
Haiti	Rehabilitation of Road Infrastructure for Integration of the Territory	GRF	25.0
	Strengthening Public Resource Management	GRF	12.5
	Supplemental Financing for the Agricultural Intensification Program	GRF	12.5
Honduras	Multiphase Program for Road Rehabilitation in Sections of the PPP Tourism Corridor	OC	28.0
	Supplemental Financing to Improve the PPP Atlantic Corridor	OC	21.0
	Rural Business Development Program (PRONEGOCIOS)	OC	19.0
	Multiphase Program for Road Rehabilitation in Sections of the PPP Tourism Corridor	FSO	12.0
	Supplemental Financing to Improve the PPP Atlantic Corridor	FSO	9.0
	Rural Business Development Program (PRONEGOCIOS)	FSO	8.1
	Create New Microfinance Institutions to Increase Access to Microentrepreneurs	MIF	2.5
Jamaica	Total operations[2]	FSO, MIF, OC	1.3

[8] Complemented by a B loan syndication of approximately $475 million.
[9] Complemented by a B loan syndication of approximately $181 million.
[10] Complemented by a B loan syndication of approximately $9.7 million.

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TABLE V • STATEMENT OF APPROVED OPERATIONS[1] (ABOVE $2 MILLION), 2007

(*Continued*)

COUNTRY	PROJECT	FUND	AMOUNT
Mexico	Guadalajara Toll Roads Project	OC	400.0
	Multiphase Program to Address Urban Poverty, Phase II	OC	150.0
	Training and Employment Support Program, Phase II	OC	100.0
	Program to Promote Public-Private Partnerships in Mexican States (PIAPPEM)	MIF	3.9
	Create New Microfinance Institutions to Increase Access to Microentrepreneurs	MIF	3.0
Nicaragua	Electricity Sector Support Program	OC	16.4
	Electricity Sector Support Program	FSO	16.4
	Banco de la Producción S.A. - TFFP	OC	10.0
	Development of Health Networks (Phase I)	OC	10.0
	Development of Health Networks (Phase I)	FSO	10.0
	Multiphase Low-Income Housing Program - Phase II	OC	7.5
	Multiphase Low-Income Housing Program - Phase II	FSO	7.5
	Strengthening National Transmission for Integration with SIEPAC	OC	6.3
	Strengthening National Transmission for Integration with SIEPAC	FSO	6.3
Panama	Competitiveness and Trade Development Program	OC	51.3
	Multiphase Sustainable Development Program for Bocas del Toro - Phase II	OC	29.0
	Metropolitan Region Cadastre and Land Administration Modernization Program	OC	27.0
	Program to Improve the Administration of Justice: Stage II	OC	21.6
	Social Protection Program, Phase I	OC	20.2
	Supplemental Financing for the Darién Sustainable Development Program	OC	17.0
	Banco Aliado S.A. - TFFP	OC	12.0
	Modernization of Environmental Management for Competitiveness	OC	10.0
Paraguay	Escuela Viva Program II	OC	36.0
	Escuela Viva Program II	FSO	9.0
	Program to Support Paraguayan Exports	OC	8.0
	Program to Support the Economic Census	OC	5.0
	PEF:PR-L1017 Escuela Viva Program II	OC	3.0
	Program to Support Paraguayan Exports	FSO	2.0
Peru	Peru LNG Project[11]	OC	400.0
	Water Resources Reform Program I	OC	200.0
	Banco Continental Guarantee Facility	OC	100.0
	Sanitation Sector Reform Program I	OC	100.0
	Program to Improve the Quality of Public Management and Expenditure III	OC	75.0
	Support for the SEDAPAL Water for All Program	OC	50.0
	Banco Interamericano de Finanzas - TFFP	OC	10.0
	Support Implementation of the Water Resources Reform Program	OC	5.0
Suriname	CKC Suriname	OC	7.0
Trinidad and Tobago	Total operations[2]	FSO	0.1
Uruguay	Programmatic Competitiveness Loan I	OC	75.0
	Program to Support Uruguay's National Customs Bureau	OC	11.6
	Microfinance Support Program for Productive Development	OC	8.8
	Environmental Planning & Management Institutional Modernization	OC	5.0
Venezuela	Program to Support the Centro de Acción Social por la Música, Phase II	OC	150.0
Regional	Construtora Norberto Odebrecht S.A. Surety Bond Project	OC	200.0
	Connecting Disadvantaged Youth with Quality Employment	MIF	10.0
	Increasing Opportunities for the Majority through Business Plan Competitions	MIF	4.4
	Indigenous and Afro-Latin American Scholarship Program	FSO	3.0
	International Partnership to Market Sustainable Tourism Services	MIF	3.0
	Professionalization of Management Functions in Family-Owned SMEs	MIF	2.0
	Program to Support Capacity Building and Public Outreach	FSO	2.0

[11] Complemented by a "B" loan syndication of approximately $600 million.
For more information on IDB projects, see the online project database at **www.iadb.org/projects**.

TECHNICAL COOPERATION

A total of 427 nonreimbursable technical cooperation projects for $167.8 million were approved in 2007. The IDB funds its grant program for technical cooperation with resources from the net income of the FSO, donor trust funds, the Ordinary Capital and the new IDB Grant Facility (GRF). In 2007, the FSO funded $30.7 million, donor trust funds $51.5 million, the Ordinary Capital $37 million and the GRF $50 million. Of the $51.5 million funded with trust fund resources, Japanese trust funds accounted for $23.2 million for 53 projects.

For *social sector support*, 125 projects were approved for a total of $31.7 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.

Projects for *competitiveness* included 186 operations approved for a total of $86.8 million. The Bank provided support to its borrowing member countries for their own initiatives to improve competitiveness through the deployment of productive infrastructure (see Box 10 on the Infrastructure Project Preparation Fund), the use of innovative technology and support for small and medium-sized enterprises. The Bank also supported various trade and sustainable development initiatives.

The program for *modernization of the state* included approvals for 84 projects for $36.5 million, comprising projects to strengthen the institutional, regulatory and management areas of government entities, as well as good governance and results-based management in taxation, fiscal management, customs and public spending. E-government and information technology were also important areas supported by the Bank.

In the *regional integration* area, 32 projects were approved totaling $12.5 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.

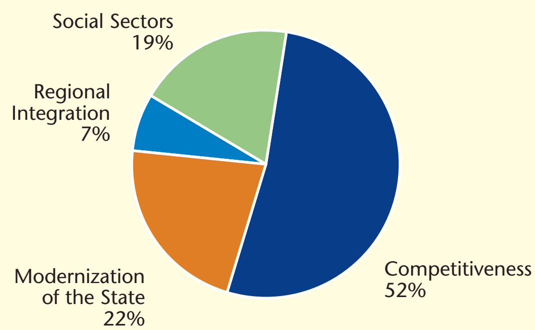
TABLE VI • DISTRIBUTION OF NONREIMBURSABLE TECHNICAL COOPERATION[1]

(In thousands of U.S. dollars)

Country	2007	1961–2007
Argentina	$ 2,134	$ 74,129
Bahamas	25	18,996
Barbados	627	21,846
Belize	665	8,519
Bolivia	3,718	88,186
Brazil	7,408	174,777
Chile	4,375	22,078
Colombia	4,651	75,463
Costa Rica	3,489	55,350
Dominican Republic	2,409	59,566
Ecuador	3,479	80,034
El Salvador	2,785	63,506
Guatemala	5,959	70,228
Guyana	1,665	60,568
Haiti[2]	52,773	112,106
Honduras	2,772	77,437
Jamaica	1,196	41,443
Mexico	7,873	36,635
Nicaragua	2,134	84,089
Panama	4,461	44,589
Paraguay	2,708	71,544
Peru	4,417	97,598
Suriname	5,094	34,992
Trinidad and Tobago	201	21,243
Uruguay	1,657	37,970
Venezuela	550	12,867
Regional	38,623	867,463
TOTAL	**$167,848**	**$2,413,222**

[1] Does not include Social Entrepreneurship Program Financings.
[2] Includes three nonreimbursable projects for a total of $50 million from the new IDB Grant Facility.

Figure 11. Nonreimbursable Technical Cooperation by Sector, 2007
(Percentage of total amount)



BOX 10 • IDB FUND SUPPORTS INFRASTRUCTURE INVESTMENT

In its first 15 months of operations the Infrastructure Project Preparation Fund (InfraFund), which finances the preparation and development of critical infrastructure in Latin America and the Caribbean, has directed more than $12 million in grants to 14 countries to support 23 projects that will eventually pave the way to billions of dollars in investments. These operations also leveraged $10.7 million in counterpart and other resources for the early phases of project preparation and development. In 2007 the Bank approved 18 InfraFund projects for a total of $8.7 million.

Launched with an initial IDB contribution of $20 million in September of 2006 and operating through a fast-track mechanism, InfraFund finances feasibility studies, technical analyses and other preparatory activities that are an essential prerequisite for strategic, sustainable infrastructure investments.

Of the approved financing operations, nine have supported energy projects ($3.7 million), seven transportation ($4.5 million), five water and sanitation ($2.9 million), and two multisectors ($1 million). These preparatory investments benefited projects in Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, Honduras, Mexico, Panama, Paraguay, Suriname and Uruguay.

Some of the landmark InfraFund projects include: Santa Fe Wind, a new private development that will be Panama's first wind power project; *Portais da Cidade*, an innovative public-private bus rapid transit system scheme for Porto Alegre, Brazil; a joint venture of Argentina and Uruguay for a liquefied natural gas plant, the first of its kind on the Atlantic coast of South America; rehabilitation of the Peligre hydroelectric power plant in Haiti, which supplies close to 25 percent of the country's power; and the Rio de Janeiro-São Paulo high-speed train, a project that may have a total value of $9 billion.

Apart from private and national government clients, InfraFund is supporting infrastructure investments led by subnational governments, such as the Brazilian cities of Brasilia, Rio de Janeiro and Porto Alegre; and the city of Pasto and state of Cundinamarca in Colombia. Other projects of subnational entities supported by InfraFund include the power utility of the province of Entre Ríos, Argentina; the water utility companies of Monterrey, Mexico; and Costa Rica's national power and telecommunications institution, ICE, which is also supported by the Bank's first non-sovereign-guaranteed loan to a state-owned company.

In addition, InfraFund has granted eligibility for $4.8 million in grants to assist an additional six projects that are expected to obtain approval before the close of the first quarter of 2008. These projects include two in countries in which the fund has not previously invested (Jamaica and Peru); one in the telecommunications sector; and the first InfraFund project for a client of the Inter-American Investment Corporation, a member of the IDB Group that finances small- and medium-sized companies.

Two new technical cooperation programs were approved by the Board in 2007: the Special Program to Support MDGs - Social Fund, and the Sustainable Energy and Climate Change Program. They supplement the special programs approved in 2006: the Program for Development Effectiveness (PRODEV); the IDB Integration Fund, which supports regional infrastructure initiatives; the Initiative for the Promotion of Regional Public Goods; the Disaster Prevention Fund; and the Infrastructure Project Preparation Fund (InfraFund).

Institutional Aspects

Mexico • An IDB guarantee enabled the private operator of the Guadalajara toll road to issue more debt with a higher credit rating than would otherwise have been possible.

Institutional Aspects

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 the economy or finance, presidents of central banks or other officials of comparable rank.

In January 2007, the Board of Governors approved debt relief for Haiti under the Enhanced HIPC Initiative. Haiti, which reached decision point, was expected to receive debt relief under this initiative in the amount of $60.4 million in net present value terms. Also in January, the Committee of the Board of Governors met in Amsterdam to consider debt relief for the poorest member countries and concessional finance reform.

Prior to the inaugural session of the Annual Meeting, a Special Meeting of the Governors was held to consider the Sustainable Energy and Climate Change Initiative. The initiative would offer Bank support to all countries in the region for clean development, biofuel production and clean alternative energy sources and the development of climate change adaptation programs—not just with funding but with research and as an enabler of public-private partnerships. The Special Meeting also considered the Water and Sanitation Initiative, presented as a major investment in the health of beneficiary communities and the lowering of health care costs.

At its Forty-Eighth Annual Meeting, which took place in Guatemala City, Guatemala, on March 18–20, 2007, the Board of Governors approved the financial statements of the Ordinary Capital, the Fund for Special Operations (FSO) and the Intermediate Financing Facility for 2006, and later in the year selected Ernst & Young LLP to carry out the external audits for the 2007 through 2011 fiscal years.

In addition, the Board of Governors approved 100 percent debt relief for Bolivia, Guyana, Haiti, Honduras and Nicaragua on loan balances outstanding as of December 31, 2004, from the FSO. Under the debt relief agreement, which complements the Multilateral Debt Reduction Initiative launched by the G-8, the IDB forgave approximately $3.4 billion in principal payments and $1 billion in future interest payments. By canceling these debts, the IDB underscored its commitment to assisting the poorest countries in Latin America and the Caribbean in their efforts to reach the United Nations Millennium Development Goals, which focus on halving poverty by 2015.

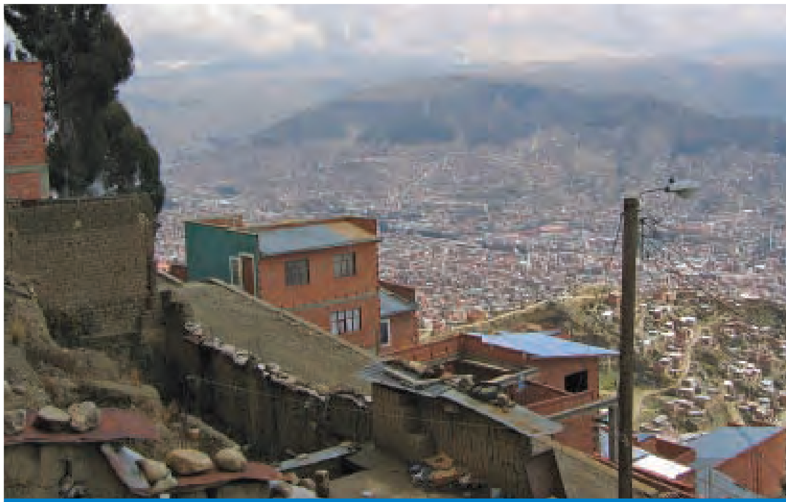
The Board of Governors also agreed to ensure the FSO's financial viability through 2015. IDB member countries confirmed their commitment to the fund's sustainability, agreeing to assess, no later than 2013, the need for an eventual replenishment.

Finally, during its Annual Meeting, the Board of Governors acknowledged the invitation extended by the United States to host the 2008 Annual Meeting. The Governors resolved to hold the 2009 Annual Meeting, which will mark the Bank's fiftieth anniversary, in Medellín, Colombia.

In June 2007, the Board of Governors approved the creation of the IDB Grant Facility (GRF) for the purpose of making grants appropriate for dealing with special circumstances arising in specific countries (currently Haiti only) or with respect to specific projects. The GRF is funded by transfers from the FSO and possible direct contributions from donor countries.

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. The principal corporate issues resolved by the Board in 2007 are described below.



(Left to right) **Honduras • Restoration of the Mayan ruins at Copán is part of the Mundo Maya subregional tourism integration project.**
Haiti • A girl fetches water at a public tap in Les Irois, the last town in southern Haiti to get water service.
Bolivia • Low-income neighborhoods in La Paz were upgraded.

The Audit Committee oversees the Bank's financial reporting, risk management and internal controls, internal and external auditing, and 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 quarterly financial statements. The committee also reviewed documentation on the effectiveness of internal control over financial reporting and organized a number of training sessions for committee members.

The Budget and Financial Policies Committee reviews the Bank's administrative and capital budgets and financial policy issues. In 2007 it discussed the creation of a grant facility as part of the Bank's multilateral debt relief and concessional financing reform; considered the review of the Single Currency Facility; and the establishment of two funds for sustainable energy and climate change activities.

The committee also spent a considerable amount of time on issues related to the Bank's realignment process approved in December 2006, including discussion of the proposed 2007 phase one and phase two realignment budgets and 2007 administrative budget reallocation to the new Bank organizational structure.

The Organization, Human Resources, and Board Matters Committee deals with organizational issues related to Board management, adjustments in the structure of the Bank, human resources, the Independent Investigation Mechanism and the Bank's Annual Meeting. In 2007, the committee reviewed issues in implementation of the Bank's realignment process, with a view to better serving the needs of the borrowing member countries (see Box 11).

The committee also considered the Bank's Opportunities for the Majority Initiative, a proposal geared to the poorest populations of the region; recommended the appointment of three members of the Administrative Tribunal to the Board of Executive Directors; and discussed the 2008–2010 Information and Technology Strategy.

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 the Office of Evaluation and Oversight. During the year, the committee reviewed the disaster risk management policy, Sustainable Energy and Climate Change Initiative, Water and Sanitation Initiative, modifications to the Conditional Credit Line for Investment Projects (CCLIP), amendment of the Immediate Response Facility

Uruguay • Primary school students learn to navigate the Internet in a program funded by the Japan Special Fund that included teacher training.

for Emergencies Caused by Natural and Unexpected Disasters, and an assessment of the new lending instruments.

The Programming Committee considers country and regional programming documents, country strategies and country program evaluations; reviews progress reports on the Bank's lending, technical cooperation and nonfinancial product pipelines; and evaluates guidelines for the allocation of concessional resources. In 2007, the committee reviewed the country strategies for Costa Rica, Haiti and Suriname, and the Bank's Regional Strategy for Support to the Caribbean Community, as well as country program evaluations for Costa Rica, Haiti, Honduras and Peru. The committee also discussed the implementation of major initiatives approved by the Board of Governors in 2006, multilateral debt relief and concessional finance reform.

BOX 11 • THE NEW BANK

For nearly half a century the Inter-American Development Bank has served Latin America and the Caribbean by financing infrastructure, health, education, housing, financial institutions and reform of the state. It has helped to build highways, schools and electricity networks, created environmental protection systems, and contributed emergency loans to tide countries over during financial crises.

During this period the region's countries made impressive gains in virtually all development indicators. Most recently, a combination of sound economic policy and booming global demand for raw materials has created conditions that should enable governments to sharply accelerate the pace of progress.

Despite these achievements, Latin America remains the world's most unequal region—with 70 percent of the population living on less than $3,000 a year—and it faces daunting shortfalls in areas such as basic services, competitiveness and the quality of education.

President Moreno addresses the IDB staff.

While these problems have persisted, the options for addressing them have expanded dramatically. Today the region's governments can tap a wide range of private and sovereign sources of funding in addition to that provided by development banks. International consulting, technology and engineering firms have moved aggressively into the developing world, offering a huge range of products and services that were not available even a decade ago.

In order to continue fulfilling its mission and to compete effectively in this new environment, in mid-2007 the Bank launched a major realignment of its structure and operational procedures. The goal is to create a more agile and responsive institution that is completely attuned to the varied demands of its clients.

The IDB's structure has been consolidated under five vice presidencies. The Executive Vice President, as the institution's chief operating officer, is responsible for the operation of the Bank. The new structure reflects a matrix organization, in which staff with particular skills are temporarily pooled to carry out specific assignments, thereby facilitating knowledge sharing and synergies. The new Vice Presidency for Sectors and Knowledge houses experts in areas such as infrastructure, finance and education. These experts are being incorporated into field operations to a much greater extent than in the past.

The Office of the Vice President for Countries is responsible for leading the dialogue and relationship of the Bank with all 26 borrowing member countries, assisted by four operations departments, 26 Country Offices and the Operations Procurement Office.

The realigned Bank structure strengthens private sector operations by grouping the Department of Structured and Corporate Finance, the Inter-American Investment Corporation and the Multilateral Investment Fund under one roof—a separate Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations. Under this structure, the Bank can also lend to subnational entities (be they states or provinces) without a national guarantee, an alternative that a growing number of countries has been demanding.

Finally, the Vice President for Finance and Administration is responsible for mobilizing and managing the Bank's resources and for providing support services, ensuring effective, efficient performance by the financial, legal and administrative staff.

Most of the senior management and division chief positions required by this new structure were filled dur-

(Continues on next page)

BOX 11 • THE NEW BANK

(Continued from previous page)

IDB headquarters in Washington, D.C.

ing 2007. Throughout 2008 the Bank will recruit up to 300 additional professionals to help deepen its talent pool in priority areas such as infrastructure, renewable energy, education and water and sanitation.

Creating a more agile and responsive institution with a sharper country focus has required changing more than the Bank's structure. Under the new business model and matrix structure, authority for project preparation has been delegated to supervisors best attuned to day-to-day work in specific sectors and countries. To increase accountability in operations, these supervisors will focus on risk management and results instead of merely controlling processes.

The number of steps involved in project approval has been minimized in order to shorten response times. Under the previous system, headquarters was in charge of project preparation and the Country Offices of monitoring execution, leading to an overemphasis on design and approvals. Under the new project cycle, the project team leader is the person ultimately responsible for an operation, vested with the primary authority for decisions on project management. In keeping with the principle that decisions should be made at the level closest to the client, team leaders are expected to be based increasingly in the Country Offices.

The new Opportunities for the Majority department will identify, design and implement investment projects—both private and public-private partnerships—to benefit segments of the region's population that are not benefiting as they should from economic growth. These projects will be designed to have a demonstration and a multiplier effect, and to mobilize and enhance existing assets to create more wealth.

The IDB Representative in each Country Office is the Bank's principal client manager, charged with determining operational priorities. Representatives will have decision-making authority involving the Bank's relationships with client counties.

In short, the new Bank has a consolidated, matrix-style management structure, a stronger presence in the field, a more flexible and faster lending structure, an improved capacity to apply new financial technologies and to place greater emphasis on environmental protection and private sector development—all with a focus on ensuring that IDB operations lead to greater opportunities for the majority of the population in Latin America and the Caribbean.

IDB Country Office in The Bahamas and 25 others in Latin America and the Caribbean serve the region.

Financial Highlights

Guatemala • Biofuel from the nonedible fruit of a native tree called the *piñón* (*Jatropha curcas*) was produced by a small business with support from government grants.

Financial Highlights

ORDINARY CAPITAL

During 2007, the Bank approved 89 loans for $7.7 billion from the Ordinary Capital resources as compared to 90 loans for $5.4 billion in 2006. The increase in the amount of loan approvals was mostly due to an increase in investment and non-sovereign-guaranteed lending that was partially offset by a decrease in policy-based lending. Also, disbursements totaled $6.7 billion, higher than the $6.1 billion disbursed in 2006. Undisbursed loans increased to $16.4 billion in 2007 from $16.1 billion in 2006.

The Bank also approved four non-trade-related guarantees without sovereign counter-guarantees for $900 million in 2007 as compared to two guarantees for $180 million in 2006, and there were no guarantees approved with sovereign counter-guarantee (2006—one for $60 million). Twelve trade-finance guarantee lines of credit totaling $227 million were authorized under the Trade Finance Facilitation Program (compared to 10 and $133 million, respectively, in 2006), and an already existing line was increased by $9 million, while 68 guarantees for a total of $135 million were issued during the year (compared to 36 guarantees for a total of $68 million issued in 2006).

Since the Bank's inception, there have been no write-offs in the sovereign-guaranteed loan portfolio, which, as of December 31, 2007, represented over 97 percent of the $48 billion in loans outstanding. As of that date, all loans were performing. The allowances for loan and guarantee losses amounted to $70 million compared to $104 million in 2006. The decrease was mainly due to improvements in the non-sovereign-guaranteed loan portfolio risk and a loan write-off of $21 million.

The implementation of the Local Currency Facility (LCF) continued in 2007. The Board of Executive Directors approved 10 new operations to entities in Brazil, Chile, Colombia and Peru. In addition, the Bank made its first local currency conversion of an outstanding loan into Peruvian new soles for $50 million and an additional disbursement in Mexican pesos of $23 million under a loan approved in 2001. Management expects to present a revision to the LCF in early 2008 for consideration by the Board that would increase the flexibility for local currency loans while reducing the cost to the borrowers.

The Bank issued bonds for a total face amount of $6.1 billion equivalent (2006—$5.4 billion) and proceeds of $5.5 billion (2006—$5.3 billion) with an average life of 7.9 years (2006—6.5 years). Borrowings raised in any given year are used for general operations, including loan disbursements and refinancing of maturing debt. The Bank launched one strategic benchmark $1 billion global bond with a five-year maturity, and issued its first-ever bonds denominated in Costa Rican colones, Indian rupees and New Turkish liras. The Bank also issued a benchmark 17-year Mexican peso transaction comprising two bonds totaling $577 million, the longest and largest peso-denominated transaction issued by a foreign entity. In addition, the Bank transacted other bonds denominated in Australian dollars, Canadian dollars, Icelandic krónur, New Zealand dollars, South African rand, United States dollars, and certain other borrowing member country currencies.

The Bank issued bonds denominated in borrowing member country currencies totaling $909 million (2006—$526 million), comprised of the following currencies: Brazilian reais $197 million, Colombian pesos $30 million, Costa Rican colones $50 million, and Mexican pesos $632 million (2006—Mexican pesos $406 million and Peruvian new soles $120 million). Bonds denominated in currencies from borrowing member countries are issued on a cost-effective basis for the Bank, and their issuance contributes, in part, to

(Left to right) **Peru • Production of organic cacao boosts income for small farmers.**
Bahamas • The Waterfields desalination plant in Nassau converts salt water into fresh water, easing the water shortage.
Dominican Republic • Reconstruction of the breakwaters in Haina will protect the port from hurricanes and allow safe, round-the-clock use of the port facilities.

the development of local capital markets and expands the effective foreign demand for local currencies.

Figure 12 shows the Bank's debt issues during 2007 by currency. All non-United States dollar issues were initially swapped to U.S. dollars. Tables VII and VIII provide more detail on these borrowings as well as outstanding borrowings by currency, before swaps, as of December 31, 2007.

The Bank continued to be rated AAA by the major rating agencies in 2007, as it has been since it was first rated.

Operating Income was $283 million in 2007 compared with $627 million in 2006. The decrease was primarily due to a reduction in net interest income, caused by significant unrealized losses on the Bank's trading investment portfolio resulting from the recent subprime crisis, including the contagion effect on market values, as well as an increase in net non-interest expense, including realignment expenses, and a lower credit for loan and guarantee losses.

During 2007, the Board of Executive Directors maintained the same level of loan charges as in the second semester of 2006, at 0.15 percent lending spread, 0.10 percent credit commission and no supervision and inspection fee. These loan charges are lower than the standard loan charges, which are applied by policy when the Total Equity to Loans Ratio (TELR), the Bank's measure of risk-based capital adequacy, is increasing between 32 percent and 38 percent and as long as operating income is positive. In the event that the actual TELR exceeds the upper limit of the band, as it is the case now, the Board may decide on loan charges different from standard ones. The TELR increased steadily through 2006 as a result of an increase in the equity base and a reduction in

Figure 12. Borrowings Issued in 2007, Before Swaps
(Net proceeds on a trade date basis)

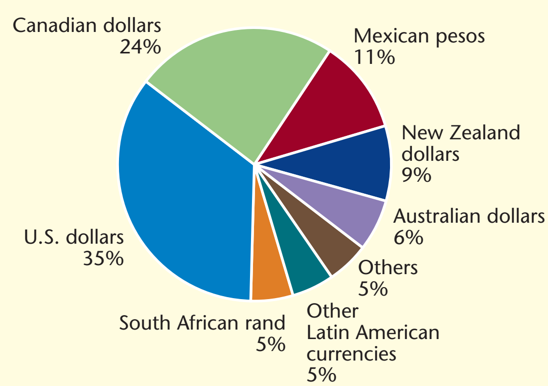


TABLE VII • BORROWINGS,[1] FISCAL YEAR 2007

(Amounts in millions)

Type	Issue	Amount	Amount (US$ equiv.)
Australian dollars	6.15%, due 2009	152	$ 134
	5.82%, due 2010	22	18
	6.00%, due 2021	200	159
Brazilian reais	9.00%, due 2009	100	55
	9.00%, due 2010	200	106
	10.75%, due 2011	75	36
Canadian dollars	3.99%, due 2011	21	20
	4.25%, due 2012	700	632
	4.40%, due 2026	700	592
	0.00%, due 2027	300	261
Colombian pesos	Adjustable, due 2017[2]	65,000	30
Costa Rican colones	7.40%, due 2012	25,970	50
Icelandic krónur	13.00%, due 2008	10,000	161
Indian rupees	7.25%, due 2010	1,000	23
	8.25%, due 2017	1,500	37
Mexican pesos	6.50%, due 2013	400	37
	6.50%, due 2017	200	18
	7.50%, due 2024	6,250	577
New Turkish liras	16.38%, due 2010	100	78
New Zealand dollars	6.95%, due 2009	87	63
	7.65%, due 2010	106	80
	7.25%, due 2012	400	290
	7.50%, due 2015	100	75
South African rand	8.40%, due 2009	35	5
	9.84%, due 2009	40	6
	9.15%, due 2009	900	137
	0.50%, due 2009	320	49
	9.00%, due 2009	37	5
	8.82%, due 2011	150	22
	9.15%, due 2011	150	21
	1.00%, due 2012	100	14
United States dollars	4.95%, due 2008	50	50
	4.98%, due 2008	100	100
	5.10%, due 2008	100	100
	4.75%, due 2010	500	500
	4.75%, due 2012	1,000	1,000
	0.00%, due 2027[3]	72	72
	0.00%, due 2037[4]	476	476
TOTAL BORROWINGS			**$6,089**

[1] Medium- and long-term borrowings at face value, before swaps.
[2] Colombian inflation, plus 4.70%.
[3] Includes a call option by the issuer in accordance with a timetable.
[4] Comprises five zero-coupon borrowings with call options by the issuer in accordance with a timetable.

TABLE VIII • OUTSTANDING BORROWINGS[1] BY CURRENCY AS OF DECEMBER 31, 2007
(In millions of U.S. dollars)

Currency	Amount
Australian dollars	$ 4,103
Brazilian reais	648
British pounds sterling	2,381
Canadian dollars	5,156
Chilean pesos	82
Colombian pesos	118
Costa Rican colones	52
Euro	3,433
Hong Kong dollars	96
Icelandic krónur	159
Indian rupees	63
Japanese yen	2,375
Mexican pesos	1,378
New Taiwan dollars	62
New Turkish liras	86
New Zealand dollars	2,840
Peruvian new soles	130
South African rand	732
United States dollars	23,877
TOTAL	**$47,771**

[1] Medium- and long-term borrowings before swaps and net unamortized discounts.

loan levels, mostly due to loan prepayments. In 2007, the TELR decreased to 40.2 percent, as a result of an increase in loans outstanding. Management, after input from an External Advisory Group, is currently in the process of formulating a recommendation on the use of equity above a 38 percent TELR, for consideration by the Board of Executive Directors.

Significant Developments in 2007

Realignment of the Bank's Organization

The realignment process that was approved by the Board of Executive Directors in December 2006 continued throughout 2007. The Bank's realignment process includes changes in its basic organization directed at improving the operational efficiency and capacity to fulfill its fundamental purpose. The new organizational model seeks to enhance the strategic capacity of the Bank in order to better respond to the new demands of the member countries in Latin America and the Caribbean and fulfill its mandate to assist in the region's social and economic progress. Effective July 1, 2007, the Board of Executive Directors created three new Vice Presidencies (the Vice Presidency for Countries, the Vice Presidency for Sectors and Knowledge, and the Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations), which were filled during the second semester. As of December 31, 2007, the Bank has incurred realignment expenses of $55 million. It is estimated that total realignment expenses will be between $75 million and $100 million, which are expected to be recovered through cost savings resulting from efficiency gains.

Difficult Financial Market Conditions

There has been a great deal of turbulence in the financial markets over the last several months, which has led to less liquidity, a flight to quality, significantly higher volatility, widening of credit spreads across many sectors, and a lack of price transparency. The Bank operates in certain sectors of these markets, primarily through exposures in asset- and mortgage-backed investment securities, and has been and will continue to be adversely affected by this market disruption.

These conditions have increased the level of difficulty and complexity for the Bank in valuing these securities. To determine the fair value of its investment securities, the Bank maximizes the use of market inputs, including observable market yield curves, external pricing services, and independent dealer prices. Valuations will continue to be impacted by market factors, external to the Bank, such as default rates, rating agency actions and the prices at which actual transactions occur. Moreover, the Bank's ability to mitigate risk by selling or hedging its exposure may also be limited by the market environment.

Performance and Exposure of Liquid Investment Portfolio

As a result of the recent subprime mortgage crisis and the contagion effect across market sectors, the Bank has been monitoring the asset quality of its investment portfolio, continuously analyzing and assessing the fundamental value of the securities, with a particular focus on its structured credit products.

At December 31, 2007, the credit exposure for the whole investment portfolio amounted to $16.1 billion. Despite the crisis, the quality of the portfolio

TABLE IX • TRADING INVESTMENT PORTFOLIO AS OF DECEMBER 31, 2007
(In millions of U.S. dollars)

Asset Category	Carrying Value
Obligations of the United States government and its corporations and agencies	$ 454
Obligations of other governments and agencies	127
Bank obligations	4,707
Corporate securities	411
Asset-backed and mortgage-backed securities	6,608
Total trading investments	**$12,307**

continues to be high, as 90 percent of the issuers were rated AAA and AA, and an additional one percent of the portfolio carried the highest short-term ratings, with the remaining nine percent rated A. Table IX shows a breakdown of the trading investment portfolio at December 31, 2007, by asset category (for further information refer to Appendix I-1 of the financial statements).

During 2007, the realized and unrealized (mark to market) losses for the $12.3 billion trading investment portfolio were $11 million (0.1 percent) and $280 million (2.3 percent), respectively, virtually all related to the $6.6 billion of asset-backed and mortgage-backed securities. The trading investment portfolio's exposure to subprime asset-backed and mortgage-backed securities at December 31, 2007, involved only AAA rated securities, and was $511 million (4.2 percent) of the portfolio.

In addition, the investment portfolios of the FSO, IFF and other funds under the Bank's administration of approximately $2.1 billion at December 31, 2007 included asset-backed and mortgage-backed securities of $552 million and $365 million, respectively, which generated net unrealized losses of $23 million during the year.

Subsequent to December 31, 2007, the ongoing events in the financial markets mentioned above have created continued pressure on the market pricing of the Bank's investments. The Bank will continue to closely monitor and evaluate these developments in determining the fair value of its investment portfolio.

FUND FOR SPECIAL OPERATIONS

In 2007, the Bank approved one regular loan and 18 parallel loans (see *Significant Developments in 2007*) for a total of $464 million, comprised of $152 million and $312 million from the resources of the FSO and the Ordinary Capital, respectively. In 2006, the Bank approved 23 loans for $602 million. As of December 31, 2007, outstanding loans, net of the allowance for debt relief, amounted to $4 billion (2006—$3.7 billion) and were fully performing. FSO operations generated Income before technical cooperation, debt relief, and general reserve transfers of $82 million compared to $119 million in 2006.

Under the Multilateral Debt Relief and Concessional Finance Reform (see additional information under *Significant Developments in 2007*), in 2007 the FSO discontinued its transfers of resources to the IFF ($61 million was allocated to the IFF in 2006). However, as part of the creation of the new IDB Grant Facility (GRF), the Board of Governors approved the transfer from the FSO to the GRF of $50 million to provide grant resources to Haiti.

Significant Developments in 2007

Under an initiative approved in December 2006, the Board of Governors authorized the Multilateral Debt Relief and Concessional Finance Reform in March 2007, which included the granting of 100 percent debt relief for Bolivia, Guyana, Haiti, Honduras and Nicaragua on FSO loan balances outstanding as of December 31, 2004. Under this initiative, the FSO forgave approximately $3.4 billion in principal payments, including approximately $0.4 billion for Haiti to be effective once it reaches Completion Point under the Enhanced HIPC Initiative, and $1.0 billion of future interest payments. FSO loan balances of approximately $3.9 billion were written off in 2007 as part of the implementation of this initiative, including $893 million related to debt relief remaining to be delivered to eligible HIPC countries, except Haiti, under the Enhanced HIPC Initiative. In addition, as a result of the new concessional finance reform, effective January 1, 2007, FSO lending is in the form of 40-year bullet loans with a high degree of concessionality, which, when blended with Ordinary Capital loans via the parallel lending mechanism, allows the Bank to provide concessional resources to FSO countries consistent with a debt sustainability framework.

TABLE X • STATEMENT OF LOANS OUTSTANDING AS OF DECEMBER 31, 2007

(In millions of U.S. dollars)

Member in whose territory loans have been made	Ordinary Capital			Fund for Special Operations[1]	Total
	Public Sector	Private Sector	Subtotal		
Argentina	$ 8,567	$ 2	$ 8,569	$ 99	$ 8,668
Bahamas	79	—	79	—	79
Barbados	133	—	133	11	144
Belize	96	—	96	—	96
Bolivia	195	81	276	259	535
Brazil	12,505	558	13,063	252	13,315
Chile	551	9	560	0	560
Colombia	4,813	—	4,813	107	4,920
Costa Rica	495	10	505	58	563
Dominican Republic	1,029	—	1,029	343	1,372
Ecuador	1,465	25	1,490	490	1,980
El Salvador	1,166	—	1,166	428	1,594
Guatemala	1,135	25	1,160	323	1,483
Guyana	3	—	3	150	153
Haiti	—	—	0	711	711
Honduras	89	—	89	264	353
Jamaica	542	—	542	39	581
Mexico	4,574	105	4,679	13	4,692
Nicaragua	78	7	85	395	480
Panama	853	—	853	34	887
Paraguay	678	—	678	296	974
Peru	3,823	201	4,024	48	4,072
Suriname	55	7	62	1	63
Trinidad and Tobago	390	—	390	7	397
Uruguay	1,835	—	1,835	16	1,851
Venezuela	1,153	—	1,153	—	1,153
Regional	484	138	622	55	677
TOTAL	**$46,786**	**$1,168**	**$47,954**	**$4,399**	**$52,353**

[1] Excludes loan participations sold to the Social Progress Trust Fund for a total of $38 million, including $1 million to Bolivia, $3 million to Costa Rica, $7 million to the Dominican Republic, $7 million to Ecuador, $10 million to El Salvador, $7 million to Guatemala, $2 million to Panama, and $1 million to Paraguay.

As a direct consequence of this reform, the Board of Governors also approved that the FSO should bear a smaller share of the administrative expenses of the Bank currently allocated between the Ordinary Capital and the FSO. Finally, countries eligible for IFF subsidies will receive concessional resources for new loans starting in 2007 through 2015 in the form of parallel loans rather than a reduction in the interest rate billed, and will continue to receive the reduction in interest rate billed for loans approved up to December 31, 2006; FSO transfers to the IFF were discontinued.

In January 2007, the Board of Governors approved debt relief for Haiti under the Enhanced HIPC Initiative. Haiti, which has reached Decision Point, is expected to receive debt relief of $20 million under this initiative. In addition, under the Multilateral Debt Relief and Concessional Finance Reform, Haiti will have access to a mix of loans and/or grants with adequate levels of concessionality, once it reaches Completion Point.

In June 2007, the Board of Governors approved the creation of the GRF for the purpose of making grants appropriate for dealing with special circumstances arising in specific countries (currently Haiti only) or with respect to specific projects. The GRF is funded by transfers from the FSO and possible direct contributions from donor countries.

PERU • Natural gas production is giving the country long-term energy security.

In October 2007, the Board of Executive Directors approved a Management recommendation to change the FSO's special basis of accounting for loans and contribution quotas to become fully compliant with United States generally accepted accounting principles (GAAP), effective in 2007. As a result of this decision, for loans, (i) an allowance for loan losses will be estimated, and (ii) the recognition of the Bank's participation in all debt relief initiatives will be made at the time the commitment is probable. Also, for contribution quotas, the recognition of the members' contributions will be effectively made as payments are received in cash or demand notes, and contributions received in currencies other than the reporting currency will be translated at historical rates of exchange prevailing at the date of payment. Therefore, the 2007 financial statements have been prepared in accordance with GAAP and the comparative figures have been modified to be in conformity with GAAP.

Copies of the basic financial statements of the Ordinary Capital, the FSO, the IFF and the GRF appear on pages 60–67. The full set of the financial statements, including the external auditors' opinions and the notes to the financial statements, are presented in the Management's Discussion and Analysis and Financial Statements section of this Annual Report.

TABLE XI • SUBSCRIPTIONS TO CAPITAL STOCK, CONTRIBUTION QUOTAS AND VOTING POWER AS OF DECEMBER 31, 2007

(*In millions of U.S. dollars*)

Member Countries	Ordinary Capital Subscribed Capital Stock Paid-in	Callable	Total	Percent of Total Number of Votes[1,3]	FSO Contribution Quotas
Regional Developing Members					
Argentina	$ 465.1	$ 10,393.8	$ 10,858.9	10.752	$ 505.4
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**	**2,541.8**
Canada	**173.7**	**3,866.2**	**4,039.9**	**4.001**	**308.6**
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	20.0
Belgium	14.2	316.8	331.0	0.329	42.5
Croatia	2.1	46.4	48.5	0.050	5.9
Denmark	7.3	163.4	170.8	0.171	20.0
Finland	6.9	153.7	160.6	0.161	19.0
France	82.3	1,831.4	1,913.7	1.896	221.1
Germany	82.3	1,831.4	1,913.7	1.896	230.0
Israel	6.8	151.5	158.3	0.158	18.0
Italy	82.3	1,831.4	1,913.7	1.896	215.7
Japan	217.1	4,833.2	5,050.3	5.001	591.9
Korea, Republic of	0.1	2.1	2.2	0.004	—
Netherlands	14.6	325.6	340.3	0.338	36.9
Norway	7.3	163.4	170.8	0.171	20.0
Portugal	2.3	51.7	54.0	0.055	7.8
Slovenia	1.3	28.1	29.4	0.031	3.4
Spain	82.3	1,831.4	1,913.7	1.896	215.8
Sweden	14.1	314.8	328.9	0.327	40.1
Switzerland	20.4	454.2	474.7	0.472	62.7
United Kingdom	41.8	929.9	971.7	0.964	175.3
Total nonregional members	**692.4**	**15,414.3**	**16,106.9**	**15.976**	**1,946.1**
Total before unallocated amount	**4,339.4**	**96,598.5**	**100,937.9**		**9,635.5**
Unallocated[2]	0.9	14.8	15.7		5.4
GRAND TOTAL	**$ 4,340**	**$ 96,613**	**$ 100,953**	**100**	**$ 9,640**

[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.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31,			
	2007		2006	
ASSETS				
Cash and investments				
Cash	**$ 200**		$ 276	
Investments				
Trading	**12,307**		12,278	
Held-to-maturity	**3,858**	**$16,365**	3,543	$16,097
Loans outstanding	**47,954**		45,932	
Allowance for loan losses	**(51)**	**47,903**	(90)	45,842
Accrued interest and other charges				
On investments	**103**		95	
On loans	**600**		594	
On swaps, net	**20**	**723**	25	714
Receivable from members				
Non-negotiable, non-interest-bearing demand obligations	**358**		361	
Amounts required to maintain value of currency holdings	**54**	**412**	57	418
Currency and interest rate swaps				
Investments—trading	**3**		2	
Loans	**4**		5	
Borrowings	**3,019**	**3,026**	1,880	1,887
Other assets				
Postretirement benefit assets	**973**		863	
Property, net	**296**		301	
Unamortized borrowing costs	**180**		196	
Miscellaneous	**29**	**1,478**	157	1,517
Total assets		**$69,907**		$66,475
LIABILITIES AND EQUITY				
Liabilities				
Borrowings				
Short-term	**$ 2,204**		$ 658	
Medium- and long-term	**44,845**	**$47,049**	44,030	$44,688
Currency and interest rate swaps				
Investments—trading	**2**		1	
Loans	**16**		9	
Borrowings	**1,006**	**1,024**	742	752
Payable for investment securities purchased		**67**		47
Amounts payable to maintain value of currency holdings		**616**		315
Accrued interest on borrowings		**596**		586
Accounts payable and accrued expenses		**202**		279
Total liabilities		**49,554**		46,667
Equity				
Capital stock				
Subscribed 8,368,563 shares	**100,953**		100,953	
Less callable portion	**(96,613)**		(96,613)	
Paid-in capital stock	**4,340**		4,340	
Retained earnings	**14,576**		14,442	
Accumulated other comprehensive income	**1,437**	**20,353**	1,026	19,808
Total liabilities and equity		**$69,907**		$66,475

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF INCOME AND RETAINED EARNINGS

Expressed in millions of United States dollars

	Years ended December 31,		
	2007	**2006**	**2005**
Income			
Loans			
Interest	**$ 2,404**	$ 2,435	$ 2,368
Other loan income	**32**	31	45
	2,436	2,466	2,413
Investments	**487**	619	403
Other	**19**	12	14
Total income	**2,942**	3,097	2,830
Expenses			
Borrowing expenses			
Interest, after swaps	**2,074**	2,015	1,678
Amortization of borrowing costs	**49**	55	55
Debt repurchase costs	**12**	—	—
	2,135	2,070	1,733
Credit for loan and guarantee losses	**(13)**	(48)	(14)
Administrative expenses	**500**	414	387
Special programs	**37**	34	12
Total expenses	**2,659**	2,470	2,118
Income before SFAS 133 and currency transaction adjustments	**283**	627	712
Effects of SFAS 133 and currency transaction adjustments	**(149)**	(384)	50
Net income	**134**	243	762
Retained earnings, beginning of year	**14,442**	14,199	13,437
Retained earnings, end of year	**$14,576**	$14,442	$14,199

STATEMENT OF COMPREHENSIVE INCOME

Expressed in millions of United States dollars

	Years ended December 31,		
	2007	**2006**	**2005**
Net income	**$134**	$243	$ 762
Other comprehensive income (loss)			
Translation adjustments	**280**	149	(554)
Recognition of changes in Postretirement benefit assets	**130**	—	—
Reclassification to income—cash flow hedges	**1**	8	8
Total other comprehensive income (loss)	**411**	157	(546)
Comprehensive income	**$545**	$400	$ 216

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2007	2006	2005
Cash flows from lending and investing activities			
Lending:			
Loan disbursements (net of participations)	**$ (6,725)**	$ (6,088)	$ (4,899)
Loan collections (net of participations)	**5,265**	8,615	5,224
Loan recoveries	**—**	3	9
Net cash (used in) provided by lending activities	**(1,460)**	2,530	334
Gross purchases of held-to-maturity investments	**(2,378)**	(2,049)	(2,392)
Gross proceeds from maturities of held-to-maturity investments	**2,459**	2,056	2,531
Purchase of property	**(14)**	(15)	(24)
Miscellaneous assets and liabilities	**(7)**	7	(6)
Net cash (used in) provided by lending and investing activities	**(1,400)**	2,529	443
Cash flows from financing activities			
Medium- and long-term borrowings:			
Proceeds from issuance	**5,440**	5,276	5,039
Repayments	**(6,595)**	(6,510)	(5,711)
Short-term borrowings:			
Proceeds from issuance	**5,941**	10,276	8,602
Repayments	**(4,390)**	(10,559)	(7,969)
Collections of receivable from members	**5**	12	26
Net cash provided by (used in) financing activities	**401**	(1,505)	(13)
Cash flows from operating activities			
Gross purchases of trading investments	**(10,639)**	(20,468)	(14,670)
Gross proceeds from sale or maturity of trading investments	**10,761**	18,672	13,329
Loan income collections	**2,434**	2,457	2,405
Interest and other costs of borrowings, after swaps	**(1,953)**	(1,857)	(1,544)
Income from investments	**741**	588	395
Other income	**19**	13	14
Administrative expenses	**(433)**	(367)	(335)
Special programs	**(13)**	(7)	(1)
Net cash provided by (used in) operating activities	**917**	(969)	(407)
Effect of exchange rate fluctuations on cash	**6**	(2)	(10)
Net (decrease) increase in Cash	**(76)**	53	13
Cash, beginning of year	**276**	223	210
Cash, end of year	**$ 200**	$ 276	$ 223

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31, 2007		December 31, 2006	
ASSETS				
Cash and investments				
Cash	$ 374		$ 389	
Investments	1,191	$1,565	1,203	$1,592
Loans outstanding	4,399		8,044	
Allowance for debt relief	(433)	3,966	(4,311)	3,733
Accrued interest and other charges on loans		25		39
Receivable from members				
Non-negotiable, non-interest-bearing demand obligations	545		567	
Amounts required to maintain value of currency holdings	200	745	209	776
Other assets		4		8
Total assets		$6,305		$6,148
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses	$ 6		$ 6	
Undisbursed technical cooperation projects and other financings	85		84	
Due to IDB Grant Facility	38		—	
Amounts payable to maintain value of currency holdings	374	$ 503	300	$ 390
Fund balance				
Contribution quotas authorized and subscribed	9,640		9,639	
General reserve (deficit)	(3,956)		(3,965)	
Accumulated translation adjustments	118	5,802	84	5,758
Total liabilities and fund balance		$6,305		$6,148

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF INCOME (LOSS) AND GENERAL RESERVE (DEFICIT)

Expressed in millions of United States dollars

	Years ended December 31, 2007	2006	2005
Income			
Loans			
Interest	**$ 79**	$ 139	$ 135
Other loan income	**11**	13	14
	90	152	149
Investments	**56**	60	38
Total income	**146**	212	187
Expenses			
Administrative expenses	**64**	93	86
Total expenses	**64**	93	86
Income before technical cooperation, debt relief, and transfers	**82**	119	101
Technical cooperation expense	**23**	19	28
Debt relief expense	**—**	3,382	1
Transfers to Intermediate Financing Facility Account	**—**	61	62
Transfer to IDB Grant Facility	**50**	—	—
Net income (loss)	**9**	(3,343)	10
General reserve (deficit), beginning of year	**(3,965)**	(622)	(632)
General reserve (deficit), end of year	**$(3,956)**	$(3,965)	$(622)

STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Expressed in millions of United States dollars

	Years ended December 31, 2007	2006	2005
Net Income (loss)	**$ 9**	$(3,343)	$ 10
Translation adjustments	**34**	54	(89)
Comprehensive income (loss)	**$43**	$(3,289)	$ (79)

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2007	**2006**	**2005**
Cash flows from lending activities			
Loan disbursements	**$ (393)**	$ (398)	$ (424)
Loan collections	**275**	290	301
Loan participations, net	**(2)**	(2)	(1)
Net cash used in lending activities	**(120)**	(110)	(124)
Cash flows from financing activities			
Collections of receivable from members	**28**	101	130
Net cash provided by financing activities	**28**	101	130
Cash flows from operating activities			
Gross purchases of investments	**(572)**	(1,208)	(2,269)
Gross proceeds from sale or maturity of investments	**625**	1,233	2,237
Loan income collections	**93**	152	146
Income from investments	**23**	26	38
Administrative expenses	**(65)**	(99)	(77)
Technical cooperation and other financings	**(23)**	(29)	(34)
Cash transfers to the Intermediate Financing Facility Account	**—**	(61)	(62)
Cash transfers to the IDB Grant Facility	**(12)**	—	—
Net cash provided by (used in) operating activities	**69**	14	(21)
Effect of exchange rate fluctuations on cash	**8**	6	6
Net (decrease) increase in Cash	**(15)**	11	(9)
Cash, beginning of year	**389**	378	387
Cash, end of year	**$ 374**	$ 389	$ 378

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31, 2007	December 31, 2006
ASSETS		
Cash	**$ 2**	$ —
Investments	**303**	339
Total assets	**$305**	$339
FUND BALANCE		
Fund balance	**$305**	$339

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in millions of United States dollars

	Years ended December 31, 2007	2006	2005
Additions			
Transfers from Fund for Special Operations	**$ —**	$ 61	$ 62
Income from investments	**14**	17	9
Total additions	**14**	78	71
Deductions			
Interest paid on behalf of Ordinary Capital borrowers	**48**	43	43
Change in fund balance, before translation adjustments	**(34)**	35	28
Translation adjustments	**—**	—	(1)
Change in fund balance, after translation adjustments	**(34)**	35	27
Fund balance, beginning of year	**339**	304	277
Fund balance, end of year	**$305**	$339	$304

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31, 2007	2006	2005
Cash flows from operating activities			
Transfers from Fund for Special Operations	**$ —**	$ 61	$ 62
Income from investments	**3**	5	9
Interest paid on behalf of Ordinary Capital borrowers	**(48)**	(43)	(43)
Net decrease (increase) in investments	**47**	(28)	(26)
Net cash provided by (used in) operating activities and net increase (decrease) in cash	**2**	(5)	2
Cash, beginning of year	**—**	5	3
Cash, end of year	**$ 2**	$ —	$ 5

IDB GRANT FACILITY
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31, 2007
ASSETS	
Due from Fund for Special Operations	$ 38
Total assets	$ 38
LIABILITIES AND FUND BALANCE	
Liabilities:	
Undisbursed grants	$ 38
Fund balance	—
Total liabilities and fund balance	$ 38

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in millions of United States dollars

	From June 29, 2007 (inception) to December 31, 2007
Additions	
Transfers from Fund for Special Operations	$ 50
Total additions	50
Deductions	
Grants	50
Change in fund balance	—
Fund balance, beginning of period	—
Fund balance, end of period	$ —

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	From June 29, 2007 (inception) to December 31, 2007
Cash flows from operating activities	
Transfers from Fund for Special Operations	$ 12
Grants disbursements	(12)
Net cash flows from operating activities	—
Cash, beginning of period	—
Cash, end of period	$ —

TABLE XII • TEN YEARS OF IDB OPERATIONS, 1998–2007

(In millions of U.S. dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CAPITAL										
Subscriptions (End of Year)										
Ordinary Capital	94,219	100,881	100,959	100,959	100,951	100,951	100,951	100,953	100,953	100,953
Fund for Special Operations[1]	9,637	9,638	9,635	9,636	9,636	9,636	9,637	9,639	9,639	9,640
Other Funds[2]	2,572	2,634	2,651	2,730	2,772	2,976	3,066	3,113	3,211	3,717
Total	**106,428**	**113,153**	**113,245**	**113,325**	**113,359**	**113,563**	**113,654**	**113,705**	**113,803**	**114,310**
BORROWINGS[3]										
Outstanding (End of Year)	32,511	38,784	41,394	42,186	47,471	50,821	48,886	46,433	46,396	47,771
Gross Annual Borrowings	5,761	8,865	8,139	7,097	9,340	9,109	4,710	4,937	5,419	6,089
OPERATIONS										
Loans and Guarantees Approved (Cumulative)[4]										
Ordinary Capital[5]	79,742	88,226	89,959	93,518	100,834	110,436	116,799	118,094	125,012	135,680
Fund for Special Operations	14,273	14,663	14,924	15,328	15,774	16,652	17,391	17,486	18,257	18,525
Other Funds	1,735	1,726	1,724	1,719	1,736	1,769	1,747	1,743	1,751	1,772
Total	**95,750**	**104,615**	**106,607**	**110,565**	**118,344**	**128,857**	**135,937**	**137,323**	**145,020**	**155,977**
Loans and Guarantees Approved (Annual)[6]										
Ordinary Capital[5]	9,364	9,061	4,969	7,411	4,143	6,232	5,468	6,738	5,774	8,812
Fund for Special Operations	686	417	297	443	406	578	552	410	605	152
Other Funds	13	8	—	—	—	—	—	—	2	6
Total	**10,063**	**9,486**	**5,266**	**7,854**	**4,549**	**6,810**	**6,020**	**7,148**	**6,381**	**8,970**
Loan Disbursements (Annual)[6]										
Ordinary Capital[5]	6,085	7,947	6,683	6,037	5,522	8,416	3,768	4,899	6,088	6,725
Fund for Special Operations	535	430	386	422	313	486	463	424	398	393
Other Funds	15	10	—	—	2	—	1	5	3	6
Total	**6,635**	**8,387**	**7,069**	**6,459**	**5,837**	**8,902**	**4,232**	**5,328**	**6,489**	**7,124**
Loan Repayments (Annual)[6]										
Ordinary Capital	1,946	1,988	2,312	1,926	4,106	7,279	5,199	5,224	8,615	5,265
Fund for Special Operations	283	289	289	268	256	296	294	301	290	275
Other Funds	29	29	15	14	13	12	9	5	3	4
Total	**2,258**	**2,306**	**2,616**	**2,208**	**4,375**	**7,587**	**5,502**	**5,530**	**8,908**	**5,544**
Loans Outstanding										
Ordinary Capital	32,635	38,552	41,872	44,951	47,958	50,655	49,842	48,135	45,932	47,954
Fund for Special Operations[1]	6,827	6,955	7,025	6,047	6,198	6,670	6,971	6,878	3,733	3,966
Other Funds	189	164	146	133	118	104	98	94	94	96
Total	**39,651**	**45,671**	**49,043**	**51,131**	**54,274**	**57,429**	**56,911**	**55,107**	**49,759**	**52,016**
Nonreimbursable Technical Cooperation Approved (Annual)[7]										
Ordinary Capital	—	—	—	—	—	—	—	12	34	37
Fund for Special Operations	64	47	36	39	36	30	36	36	28	34
Other Funds	53	44	34	46	45	47	39	57	52	92
Total	**117**	**91**	**70**	**85**	**81**	**77**	**75**	**105**	**114**	**163**
IDB Grant Facility Operations Approved (Annual)	—	—	—	—	—	—	—	—	—	**50**
Multilateral Investment Fund Operations Approved (Annual)[8]	**127**	**141**	**100**	**90**	**99**	**69**	**116**	**113**	**125**	**135**
ADMINISTRATION										
Administrative Expenses										
TOTAL – ALL BANK FUNDS	**341**	**335**	**342**	**355**	**376**	**386**	**404**	**473**	**507**	**564**

[1] Prior year's balances have been modified to conform to the new basis of accounting adopted in 2007. Loans outstanding after 2000 are net of Allowance for debt relief.
[2] Includes the Multilateral Investment Fund.
[3] Medium- and long-term borrowings at face value, before swaps.
[4] Net of cancellations. Includes exchange adjustments.
[5] Net of non-sovereign-guaranteed loan participations.
[6] Based on original amounts in U.S. dollar equivalent.
[7] Includes Social Entrepreneurship Program financing, special programs and other grants, except IDB Grant Facility grants, which are presented separately.
[8] Includes technical cooperations, loans and equity investments.

TABLE XIII • COFINANCING IN 2007[1]
(In millions of U.S. dollars)

Cofinancier	Amount
Multilateral Institutions	
Andean Development Corporation (CAF)	$ 1,185.00
Central American Bank for Economic Integration (CABEI)	52.50
Global Environment Facility (GEF)	9.96
Organization of Petroleum Exporting Countries (OPEC)	40.00
World Bank Group (IBRD/IDA)	1,037.03
Subtotal	**2,324.49**
Bilateral Contributions	
Germany-*Kreditanstalt für Wiederaufbau* (KfW)	50.00
Japan Bank for International Cooperation (JBIC)	161.00
Canadian International Development Agency (CIDA)	6.00
U.S. Millennium Challenge Corporation (US MCC)	101.20
Subtotal	**318.20**
COFABs[2]	**0.57**
TOTAL COFINANCING IN 2007	**$ 2,643.26**

[1] This list represents funds committed by the donor in the year. Agreements might still be under negotiation.
[2] Grant cofinancing contributions administered by the IDB. Excluding grants committed and reported in 2006.

COFINANCING

International partners provided nearly $2.4 billion in cofinancing and related project transactions during 2007 in support of Bank operations, not including private sector and trust fund operations. As in 2006, approvals in all countries reflected deepening programmatic cooperation with multilateral partners and successful strategic partnerships. Interest in regional infrastructure programs remained strong: the Japan Bank for International Cooperation supported infrastructure in Panama, and bilateral as well as private sector agencies collaborated more intensely through IDB-administered Grant Cofinancing Contributions.

The volume of cofinancing and related programs involved seven cofinancing partners supporting 25 operations in 11 countries, including one regional operation. Several operations attracted multiple donors. Partners provided new or additional funding for seven projects in Argentina, two in Venezuela, four in Chile and one in Colombia. The IDB's principal cofinancing partner continues to be the World Bank, which approved a total of $1 billion for 12 projects in six countries, supporting productive, infrastructure and social sectors. The Andean Development Corporation strengthened its presence through regional infrastructure programs, buttressing the Bank's work on eight projects in five countries for a total of $1.2 billion. The OPEC Fund, Central American Bank for Economic Integration and Global Environment fund contributed to five operations in three countries and one regional project.

FUNDS IN ADMINISTRATION

Trust funds have become the largest source of financing for the Bank's nonreimbursable technical cooperation projects. The funds are established by donors to provide support to IDB borrowing member countries through consulting services, training and cofinancing for Bank loans and the Social Entrepreneurship Program.

In 2007, the Bank received $54.5 million in contributions, of which trust fund donors contributed $35.6 million and the Bank administered 42 active trust funds for technical cooperation activities (see Table XIV). Of the total $167.8 million in technical cooperation grants approved during the year, $51.5 million came from trust fund resources. Of this total, Japanese trust funds accounted for $23 million, followed by Korean funds with $6 million and the Spanish General Cooperation Fund with $4.8 million.

In 2007 the donors trust funds and the Bank established two multidonor and two consultants trust funds, the Sustainable Energy and Climate Change Initiative (SECCI), the Disaster Prevention Trust Fund, the Chilean Trust for Learning from International Best Practices and the Chilean Trust Fund for Supporting Technological Innovation in Central America and the Dominican Republic.

TABLE XIV • 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	IDB-Canada Trade Fund	4.7
Chile	Chilean Trust Fund for Learning from International Best Practices	0.5
	Chilean Trust Fund for Supporting Technological Innovation in Central America	0.2
Denmark	Danish Consultants Fund	2.8
Finland	Finnish Technical Assistance Program	2.4
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	225.0
	IDB Graduate Scholarship Program	34.1
	Japanese Trust Fund for Consulting Services	39.8
Japan, Republic of Korea and Spain	Multidonor Disaster Prevention Trust Fund	6.8
Korea, Republic of	Knowledge Partnership Korea Fund for Technology and Innovation	25.0
	Korea Poverty Reduction Fund	23.8
Netherlands	Partnership Program in Environment	7.0
	Netherlands Water Management Partnership Program	8.1
Norway	Norwegian Fund for Microenterprise Development	1.9
	Anticorruption Activities Trust Fund	1.7
	Norwegian Consulting Services Trust Fund	1.0
Norway and Canada	Social Capital, Ethics and Development Fund	1.8
	Gender Mainstreaming Trust Fund	6.2
Norway, United Kingdom and Canada	Social Inclusion Fund	6.6
Portugal	Portuguese Technical Cooperation Fund	1.6
Spain	Spanish Framework–General Cooperation Fund	41.8
	Spanish Fund for Consultants (ICEX)	13.8
Sweden	Swedish Framework–Sida-IDB Partnership Program	5.5
	Swedish Trust Fund for Consulting Services and Training Activities	3.1
Switzerland	Swiss Consultants Fund	5.2
United Kingdom	Markets and Governance for Poverty Reduction Trust Fund	4.5
	Trade and Poverty Trust Fund	1.3
United States	Social Progress Trust Fund	525.0
Regional	Indigenous Peoples' Fund	18.8
	Regional Fund for Agricultural Technology (FONTAGRO)	52.3
World Bank	IDB/Global Environment Facility	22.6

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

TABLE XV • CONSOLIDATED ADMINISTRATIVE EXPENSES

(In thousands of U.S. dollars)

Category	2005 Actual	2006 Actual	2007 Actual
Board of Governors	$ 3,797.5	$ 3,926.6	$ 2,930.6
Board of Executive Directors	17,630.2	18,036.8	18,047.4
Office of Evaluation and Oversight	6,572.3	6,648.3	6,691.4
Headquarters and Country Offices	406,722.1	429,905.0	438,965.6
Total Gross Administrative Expenses[1,2,3,4,5,6]	**434,722.1**	**458,516.6**	**466,635.0**
Reimbursement from Funds in Administration and IIC	(3,776.3)	(3,822.8)	(3,117.3)
MIF and INTAL Reimbursements, Administrative Income	(9,479.2)	(8,656.0)	(11,280.1)
Total Net Administrative Expenses	**421,466.6**	**446,037.8**	**452,237.5**
Capital Expenses	23,904.1	18,590.2	15,787.0
Total Net Administrative and Capital Expenses	**$ 445,370.7**	**$ 464,628.0**	**$ 468,024.6**

[1] Excludes depreciation amounting to $15.7 million in 2005, $43.1 million in 2006 and $20.6 million in 2007.

[2] Excludes accrued pension benefit costs amounting to $7.7 million, $4.0 million and $20.0 million in 2005, 2006 and 2007, respectively.

[3] Excludes $14.8 million and $1.1 million of expenses in 2005 and 2006, respectively, related to prior years.

[4] Excludes amounts of $0.5 million for the Inter-American Culture and Development Foundation in 2005, 2006 and 2007.

[5] Excludes $55 million of realignment expenses in 2007.

[6] Starting in 2006, the Administrative Budget is based on Gross Amounts while all Income and Reimbursements of the Bank are recorded to income accounts. The Annual Budget Resolution is presented and approved in Gross terms by the Board of Executive Directors. Amounts reported for 2005 actuals have been adjusted from net to gross, to reflect this change.

ADMINISTRATION

A major alignment of administrative operations was completed during 2007. Division chiefs, unit chiefs, country office representatives and other senior personnel were chosen through a competitive process, and a comprehensive reallocation of office space was accomplished during the transition to make the maximum use of facilities according to the new organizational structure. At the end of 2007 the Bank staff financed by the administrative budget totaled 1,745, of whom 1,333 were classified as professionals and 365 as administrative support personnel. These figures exclude the Board of Executive Directors, the Office of Evaluation and Oversight and the Multilateral Investment Fund. Headquarters staff numbered 1,229 and Country Office personnel 516. There were 555 professional women, representing 41.6 percent of all professional staff.

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

(In millions of U.S. dollars)

	2007						1990–2007			
	Exports[2]		Total		Local Purchases		Exports		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Borrowing Countries										
Argentina	$ 68.7	3.3	$ 68.7	3.3	$30.0	40.2	$ 1,309.1	4.1	$ 1,339.1	4.2
Bahamas	0.0	0.0	0.0	0.0			6.4	0.0	6.4	0.0
Barbados	0.1	0.0	0.1	0.0			6.6	0.0	6.6	0.0
Belize	0.0	0.0	0.0	0.0			29.9	0.1	29.9	0.1
Bolivia	16.7	0.8	16.7	0.8			154.0	0.5	154.0	0.5
Brazil	312.1	15.1	312.1	15.1			4,095.3	12.9	4,095.3	12.8
Chile	66.0	3.2	66.0	3.2			707.9	2.2	707.9	2.2
Colombia	38.6	1.9	38.6	1.9			461.6	1.5	461.6	1.5
Costa Rica	7.7	0.4	7.7	0.4			137.9	0.4	137.9	0.4
Dominican Republic	0.0	0.0	0.0	0.0			0.6	0.0	0.6	0.0
Ecuador	56.2	2.7	56.2	2.7			518.0	1.6	518.0	1.6
El Salvador	6.0	0.3	6.0	0.3			60.8	0.2	60.8	0.2
Guatemala	8.3	0.4	8.3	0.4			89.3	0.3	89.3	0.3
Guyana	0.0	0.0	0.0	0.0			2.6	0.0	2.6	0.0
Haiti	0.0	0.0	0.0	0.0	14.6	19.5	0.0	0.0	14.6	0.1
Honduras	3.9	0.2	3.9	0.2			21.1	0.1	21.1	0.1
Jamaica	0.2	0.0	0.2	0.0			3.9	0.0	3.9	0.0
Mexico	118.1	5.7	118.1	5.7			1,053.8	3.3	1,053.8	3.3
Nicaragua	0.9	0.0	0.9	0.0	0.4	0.5	9.0	0.0	9.4	0.0
Panama	1.5	0.1	1.5	0.1	29.7	39.8	72.4	0.2	102.1	0.3
Paraguay	9.0	0.4	9.0	0.4			154.2	0.5	154.2	0.5
Peru	19.0	0.9	19.0	0.9			183.2	0.6	183.2	0.6
Suriname	0.0	0.0	0.0	0.0			1.0	0.0	1.0	0.0
Trinidad and Tobago	8.7	0.4	8.7	0.4			95.3	0.3	95.3	0.3
Uruguay	6.0	0.3	6.0	0.3			255.8	0.8	255.8	0.8
Venezuela	21.5	1.0	21.5	1.0			1,029.6	3.2	1,029.6	3.2
Total Borrowers	**$ 769.2**	**37.1**	**$ 769.2**	**37.1**	**$74.7**	**100.0**	**$10,459.3**	**32.9**	**$10,534.0**	**33.0**
Nonborrowing Countries										
Austria	$ 7.0	0.3	$ 7.0	0.3			$ 88.3	0.3	$ 88.3	0.3
Belgium	15.8	0.8	15.8	0.8			226.7	0.7	226.7	0.7
Canada	38.0	1.8	38.0	1.8			546.7	1.7	546.7	1.7
Croatia	0.0	0.0	0.0	0.0			2.8	0.0	2.8	0.0
Denmark	3.9	0.2	3.9	0.2			86.7	0.3	86.7	0.3
Finland	10.8	0.5	10.8	0.5			118.9	0.4	118.9	0.4
France	40.6	2.0	40.6	2.0			959.1	3.0	959.1	3.0
Germany	92.1	4.4	92.1	4.4			1,944.0	6.1	1,944.0	6.1
Israel	7.2	0.3	7.2	0.3			91.3	0.3	91.3	0.3
Italy	45.7	2.2	45.7	2.2			1,137.8	3.6	1,137.8	3.6
Japan	84.5	4.1	84.5	4.1			1,447.2	4.6	1,447.2	4.5
Korea, Republic of	72.0	3.5	72.0	3.5			164.1	0.5	164.1	0.5
Netherlands	23.7	1.1	23.7	1.1			539.2	1.7	539.2	1.7
Norway	2.8	0.1	2.8	0.1			54.0	0.2	54.0	0.2
Portugal	2.0	0.1	2.0	0.1			31.1	0.1	31.1	0.1
Slovenia	0.4	0.0	0.4	0.0			8.2	0.0	8.2	0.0
Spain	45.2	2.2	45.2	2.2			933.4	2.9	933.4	2.9
Sweden	12.9	0.6	12.9	0.6			285.9	0.9	285.9	0.9
Switzerland	15.7	0.8	15.7	0.8			392.1	1.2	392.1	1.2
United Kingdom	22.6	1.1	22.6	1.1			587.6	1.9	587.6	1.8
United States	760.8	36.7	760.8	36.7			11,722.5	36.8	11,722.5	36.7
Yugoslavia[3]	0.0	0.0	0.0	0.0			0.8	0.0	0.8	0.0
Total Nonborrowers	**$1,303.7**	**62.9**	**$1,303.7**	**62.9**	**$ 0.0**	**0.0**	**$21,368.4**	**67.1**	**$21,368.4**	**67.0**
TOTAL	**$2,072.9**	**100.0**	**$2,072.9**	**100.0**	**$74.7**	**100.0**	**$31,827.7**	**100.0**	**$31,902.4**	**100.0**

[1] Policy-based lending began in 1990.

[2] Since 1998, the information in this table has reflected adjusted 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 XVII • DISBURSEMENTS FOR PURCHASE OF GOODS AND SERVICES BY COUNTRY OF ORIGIN (INVESTMENT LOANS)

(In millions of U.S. dollars)

	2007						1961–2007					
	Local Purchases		Exports[1]		Total		Local Purchases		Exports		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Borrowing Countries												
Argentina	$ 986.1	23.6	$ 17.0	2.5	$ 1,003.1	20.6	$ 6,059.9	11.0	$ 946.6	4.0	$ 7,006.5	8.9
Bahamas	7.0	0.2	0.0	0.0	7.0	0.1	59.4	0.1	84.8	0.4	144.2	0.2
Barbados	11.5	0.3	0.1	0.0	11.6	0.2	123.0	0.2	2.3	0.0	125.3	0.2
Belize	4.1	0.1	0.0	0.0	4.1	0.1	66.2	0.1	0.2	0.0	66.4	0.1
Bolivia	48.0	1.2	0.9	0.1	48.9	1.0	1,165.3	2.1	98.7	0.4	1,264.0	1.6
Brazil	1,343.0	32.2	395.9	57.1	1,738.9	35.7	16,692.4	30.3	2,491.5	10.6	19,183.9	24.4
Chile	24.8	0.6	11.6	1.7	36.4	0.8	2,700.6	4.9	126.0	0.5	2,826.6	3.6
Colombia	241.5	5.8	6.4	0.9	247.9	5.1	3,031.3	5.5	205.1	0.9	3,236.4	4.1
Costa Rica	5.5	0.1	8.1	1.2	13.6	0.3	465.3	0.8	200.0	0.9	665.3	0.9
Dominican Republic	47.6	1.1	0.1	0.0	47.7	1.0	739.3	1.3	37.3	0.2	776.6	1.0
Ecuador	85.9	2.1	3.4	0.5	89.3	1.8	1,944.8	3.5	63.3	0.3	2,008.1	2.6
El Salvador	48.6	1.2	3.9	0.6	52.5	1.1	1,045.0	1.9	55.2	0.2	1,100.2	1.4
Guatemala	70.5	1.7	30.5	4.4	101.0	2.1	828.6	1.5	114.3	0.5	942.9	1.2
Guyana	24.7	0.6	0.1	0.0	24.8	0.5	190.8	0.4	0.8	0.0	191.6	0.2
Haiti	93.7	2.3	0.0	0.0	93.7	1.9	416.2	0.8	9.6	0.0	425.8	0.5
Honduras	37.1	0.9	0.1	0.0	37.2	0.8	761.0	1.4	40.6	0.2	801.6	1.0
Jamaica	19.3	0.5	0.4	0.1	19.7	0.4	316.2	0.6	90.5	0.4	406.7	0.5
Mexico	596.0	14.3	21.5	3.1	617.5	12.7	10,054.5	18.2	787.4	3.3	10,841.9	13.8
Nicaragua	61.0	1.5	0.6	0.1	61.6	1.3	780.0	1.4	25.6	0.1	805.6	1.0
Panama	68.9	1.7	1.1	0.2	70.0	1.4	843.8	1.5	49.7	0.2	893.5	1.1
Paraguay	48.7	1.2	16.5	2.4	65.2	1.3	989.5	1.8	64.5	0.3	1,054.0	1.3
Peru	69.4	1.7	8.6	1.2	78.0	1.6	2,268.5	4.1	184.9	0.8	2,453.4	3.1
Suriname	8.8	0.2	6.8	1.0	15.6	0.3	25.3	0.1	7.8	0.0	33.1	0.0
Trinidad and Tobago	31.3	0.8	11.2	1.6	42.5	0.9	411.9	0.8	94.2	0.4	506.1	0.6
Uruguay	40.4	1.0	0.4	0.1	40.8	0.8	1,316.4	2.4	48.7	0.2	1,365.1	1.7
Venezuela	148.3	3.6	0.1	0.0	148.4	3.1	1,842.9	3.3	216.5	0.9	2,059.4	2.6
Total Borrowers	**$ 4,171.7**	**100.0**	**$ 545.3**	**78.7**	**$ 4,717.0**	**97.0**	**$ 55,138.1**	**100.0**	**$ 6,046.1**	**25.7**	**$61,184.2**	**77.7**
Nonborrowing Countries												
Austria			$ 0.4	0.1	$ 0.4	0.0			$ 77.1	0.3	$ 77.1	0.1
Belgium			0.1	0.0	0.1	0.0			97.1	0.4	97.1	0.1
Canada			8.5	1.2	8.5	0.2			390.7	1.7	390.7	0.5
Croatia			0.0	0.0	0.0	0.0			2.4	0.0	2.4	0.0
Denmark			0.4	0.1	0.4	0.0			107.3	0.5	107.3	0.1
Finland			0.5	0.1	0.5	0.0			51.2	0.2	51.2	0.1
France			0.9	0.1	0.9	0.0			1,377.4	5.9	1,377.4	1.8
Germany			2.7	0.4	2.7	0.1			1,423.2	6.0	1,423.2	1.8
Israel			0.1	0.0	0.1	0.0			132.9	0.6	132.9	0.2
Italy			3.1	0.5	3.1	0.1			2,062.8	8.8	2,062.8	2.6
Japan			3.1	0.5	3.1	0.1			1,249.2	5.3	1,249.2	1.6
Korea, Republic of			0.2	0.0	0.2	0.0			0.5	0.0	0.5	0.0
Netherlands			0.5	0.1	0.5	0.0			199.9	0.9	199.9	0.3
Norway			0.0	0.0	0.0	0.0			15.0	0.1	15.0	0.0
Portugal			0.0	0.0	0.0	0.0			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			13.2	1.9	13.2	0.3			941.1	4.0	941.1	1.2
Sweden			0.7	0.1	0.7	0.0			381.4	1.6	381.4	0.5
Switzerland			12.1	1.8	12.1	0.3			551.3	2.3	551.3	0.7
United Kingdom			7.3	1.1	7.3	0.2			656.8	2.8	656.8	0.8
United States			94.0	13.6	94.0	1.9			7,697.2	32.7	7,697.2	9.8
Yugoslavia[2]			0.0	0.0	0.0	0.0			13.5	0.1	13.5	0.0
Total Nonborrowers		**0.0**	**$ 147.8**	**21.3**	**$ 147.8**	**3.0**			**$ 17,519.0**	**74.3**	**$17,519.0**	**22.3**
TOTAL	**$ 4,171.7**	**100.0**	**$ 693.1**	**100.0**	**$ 4,864.8**	**100.0**	**$ 55,138.1**	**100.0**	**$23,565.1**	**100.0**	**$78,703.2**	**100.0**

[1] Since 1998, the information in this table has reflected adjusted 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.

Management's Discussion and Analysis and Financial Statements

FINANCIAL OVERVIEW

Unless otherwise indicated, all 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), the Intermediate Financing Facility Account (IFF) and the IDB Grant Facility (GRF). All information provided in this Management's Discussion and Analysis refers to the Bank's Ordinary Capital.

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. As of December 31, 2007, over 97% of loans were sovereign-guaranteed.

Up to 10% of outstanding loans and guarantees, not including emergency loans, may be made directly to private sector and (as of August 2006) sub-sovereign entities ("eligible entities") without a sovereign guarantee ("non-sovereign-guaranteed operations"), subject to certain limits. As of December 31, 2007, 3.5% of outstanding loans and gurantees, not including emergency loans, were non-sovereign-guaranteed.

The Bank issues debt securities in a variety of currencies, maturities, structures, and formats to investors worldwide. These borrowings, together with the Bank's equity, are used to fund lending and investment activities, as well as general operations.

Assets and liabilities are held primarily in United States dollars, euro, Japanese yen and Swiss francs. The Bank minimizes exchange rate risk by matching the currencies of its liabilities with those of its assets. The reported levels of assets, liabilities, income and expense are affected by exchange rate movements between such major currencies and the reporting currency, the United States dollar. The Bank matches the currencies of its equity with those of its loans; thus fluctuations in exchange rates do not significantly impact its risk-bearing capacity.

Financial Highlights

During 2007, the Bank approved 89 loans amounting to $7.7 billion as compared to 90 loans that totaled $5.4 billion in 2006. The increase in the amount of loan approvals was mostly due to an increase in investment and non-sovereign-guaranteed lending that was partially offset by a decrease in policy-based lending. Also, disbursements in 2007 totaled the equivalent of $6.7 billion, higher than the $6.1 billion disbursed in 2006. The undisbursed portion of approved loans increased to $16.4 billion at year-end 2007 from $16.1 billion at year-end 2006. The Bank also approved four non-trade related guarantees without sovereign counter-guarantees for $0.9 billion, no guarantees with sovereign counter-guarantee, and 12 trade-finance guarantee lines of credit for $0.2 billion, compared to two guarantees for $0.2 billion, one guarantee for $0.1 billion and ten guarantee lines of credit for $0.1 billion, respectively, in 2006.

In March 2007, as part of the Multilateral Debt Relief and Concessional Finance Reform, an initiative that provides 100% relief of eligible FSO debt for Bolivia, Guyana, Haiti, Honduras and Nicaragua, and the restructuring of the FSO's operations, the Board of Governors approved a blending of loans from the FSO and the Ordinary Capital ("parallel loans") for countries previously eligible for FSO lending, excluding Haiti. As a result, Bolivia, Guyana, Honduras and Nicaragua now have access to Ordinary Capital loans under this structure.

At December 31, 2007, the Bank had one non-sovereign-guaranteed loan classified as impaired for $2 million (2006—5 loans for $66 million). The allowances for loan and guarantee losses amounted to $70 million compared to $104 million in 2006. The decrease was mainly due to improvements in the non-sovereign-guaranteed loan portfolio risk and a loan write off of $21 million.

In 2007, the Bank issued medium- and long-term debt securities for a total face amount of $6.1 billion equivalent (2006—$5.4 billion), that generated proceeds of $5.5 billion equivalent (2006—$5.3 billion) and had an average life of 7.9 years (2006—6.5 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 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

[1]References to captions in the financial statements and related notes are identified by the name of the caption beginning with a capital letter every time they appear in the Management's Discussion and Analysis.

separately in the Statement of Income and Retained Earnings and are excluded from the determination of ratios and other financial parameters. Effective January 1, 2008, the Bank will adopt the new SFAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities", and will elect the fair value option for substantially all its borrowings that fund floating rate assets, significantly reducing the net income volatility generated by SFAS 133. For further information, refer to the section "Effects of SFAS 133 and Currency Transaction Adjustments" under Additional Reporting and Disclosure.

Operating Income was $283 million in 2007 compared with $627 million in 2006. The decrease was largely due to a reduction in net interest income, a lower credit for loan and guarantee losses, and an increase in net non-interest expense. Net interest income decreased $228 million primarily due to significant unrealized (mark to market) losses on the Bank's trading investments portfolio resulting from the recent sub-prime crisis, including the contagion effect on market values, that was partially offset by an increase in the income contribution of the Bank's cost free equity funds and slightly higher loan rates. Net non-interest expense increased $82 million during the year mainly due to realignment expenses ($55 million), and an increase in the percentage of administrative expenses charged to the Ordinary Capital ($29 million).

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 matches the interest rate structures of its liquid assets and the liabilities funding them.

The Effects of SFAS 133 and currency transaction adjustments for 2007 was lower than in the previous year ($149 million negative versus $384 million negative) mostly due to a milder overall increase in long-term interest rates during the year. During 2007, the impact of interest rates on the value of borrowing and lending swaps amounted to a decrease in income of $170 million, compared to a decrease of $469 million in 2006.

During 2007, the Board of Executive Directors maintained the same level of loan charges as the second semester 2006, at 0.15% lending spread, 0.10% credit commission and no supervision and inspection fee. These loan charges are lower than standard loan charges, which are applied by policy when the Total Equity to Loans Ratio (TELR)[2] is between 32% and 38%. In the event that the actual TELR exceeds the upper limit of the band, as it is the case now (see below), the Board may decide loan charges different from standard ones.

The Bank manages its financial condition by monitoring certain financial ratios, in particular the TELR. The TELR at December 31, 2007, was 40.2% compared with 40.8% at December 31, 2006, with the decrease mainly due to an increase in loans outstanding and net guarantee exposure of $2.3 billion, partially offset by an increase in equity resulting from operating income. Management has presented to the Board of Executive Directors a consultation document on options for the use of equity above 38%. To support progress in this matter, Management sought the input of an External Advisory Group (EAG) to advise on how the Bank might allocate operating income most effectively. Once the EAG's recommendations are analyzed, Management will present a document to the Board with its recommendations on how to allocate operating income going forward, with specific recommendations for the use of equity above a 38% TELR.

[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 (but not net payable to members), Postretirement benefit assets 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 this Management's Discussion and Analysis. 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 of the Ordinary Capital included in this Annual Report.

(Amounts expressed in millions of United States dollars)

	Years ended December 31,				
	2007	2006	2005	2004	2003
Operational Highlights					
Loans and guarantees approved	$ 8,812	$ 5,774	$ 6,738	$ 5,468	$ 6,232
Gross loan disbursements	6,725	6,088	4,899	3,768	8,416
Net loan disbursements(1)	1,460	(2,527)	(325)	(1,431)	(1,137)
Balance Sheet Data					
Cash and investments-net(2), after swaps	$16,301	$16,051	$13,717	$13,046	$14,855
Loans outstanding	47,954	45,932	48,135	49,842	50,655
Undisbursed portion of approved loans	16,428	16,080	17,000	16,093	15,619
Total assets	69,907	66,475	65,382	67,346	69,669
Borrowings outstanding(3), after swaps	45,036	43,550	43,988	45,144	49,275
Equity					
Callable capital stock	96,613	96,613	96,613	96,611	96,611
(of which, subscribed by United States, Japan, Canada and the other nonregional members)	48,302	48,302	48,302	48,300	48,300
Paid-in capital stock	4,340	4,340	4,340	4,340	4,340
Retained earnings(4)	16,013	15,468	14,387	14,171	12,772
Total equity	20,353	19,808	18,727	18,511	17,112
Income Statement Data					
Loan income	$ 2,436	$ 2,466	$ 2,413	$ 2,498	$ 2,711
Investment income	487	619	403	288	298
Borrowing expenses, after swaps	2,135	2,070	1,733	1,572	1,636
Loan and guarantee loss provision (credit)(5)	(13)	(48)	(14)	21	(1,370)
Net non-interest expense	518	436	385	331	309
Operating Income	283	627	712	862	2,434
Effects of SFAS 133 and currency transaction adjustments(6)(7)	(149)	(384)	50	314	(1)
Net income	134	243	762	1,176	2,433
Ratios					
Net borrowings(8) as a percentage of callable capital stock subscribed by United States, Japan, Canada and the other nonregional members	61.2%	57.9%	63.5%	67.3%	72.1%
Interest coverage ratio(5)	1.13	1.30	1.41	1.55	2.49
Total equity(9) to loans(10) ratio (TELR)	40.2%	40.8%	37.3%	36.1%	33.0%
Cash and investments as a percentage of borrowings outstanding, after swaps	36.2%	36.9%	31.2%	28.9%	30.1%
Returns and Costs, after swaps					
Return on:					
Average loans outstanding	5.35%	5.22%	5.04%	5.02%	5.51%
Average liquid investments	2.93%	4.39%	3.29%	2.17%	2.00%
Average earning assets	4.69%	5.02%	4.68%	4.42%	4.70%
Average cost of:					
Borrowings outstanding during the year	4.92%	4.78%	4.07%	3.40%	3.37%
Total funds available	3.36%	3.40%	2.92%	2.53%	2.57%
Term Duration (in years)					
Investments and loans	4.65	4.49	4.41	4.36	4.33
Debt	3.87	3.89	4.00	4.15	4.46

(1) Includes gross loan disbursements less principal repayments.
(2) Net of payable and receivable for investment securities purchased or sold.
(3) Net of premium/discount.
(4) Includes Accumulated other comprehensive income.
(5) 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.
(6) SFAS 133 refers to Statement of Financial Accounting Standards 133 "Accounting for Derivative Instruments and Hedging Activities", along with its related amendments.
(7) Effective January 1, 2004, the Bank discontinued the use of hedge accounting, resulting in a higher impact of SFAS 133.
(8) Borrowings (after swaps) and gross guarantee exposure, less qualified liquid assets (after swaps) and the special reserve assets.
(9) 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 (but not net payable to members), Postretirement benefit assets and the cumulative effects of SFAS 133 and currency transaction adjustments.
(10) 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. Loans and guarantees may also be made directly to private sector entities carrying out projects in the territories of borrowing member countries or sub-sovereign entities, without a sovereign guarantee and in all sectors, provided they meet the Bank's lending criteria. The Bank also 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 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, depending on the nature, objective and purpose of the individual project. 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 forth 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**.

Loans

The Bank's sovereign-guaranteed lending generally falls into one of two categories: investment loans for specific projects or

Box 2: Lending Operations Principles

(i) The Bank makes sovereign-guaranteed 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 non-sovereign-guaranteed loans and guarantees to eligible entities.

(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 agreement, 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.

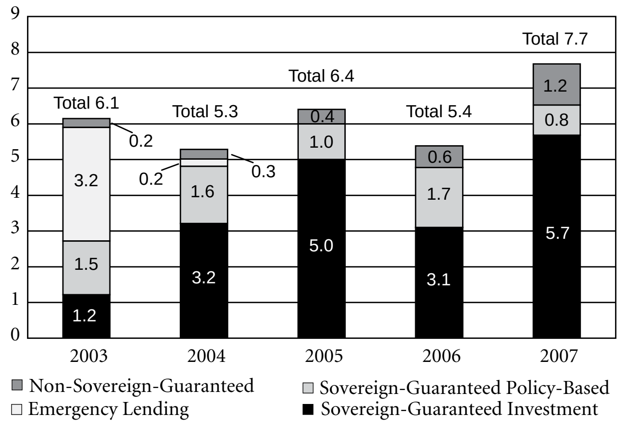
policy-based loans. Investment lending is generally used to finance goods, works and services in support of economic and social development projects in a broad range of sectors. Policy-based lending generally supports social, structural and institutional reforms with the aim of improving specific sectors 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 lends directly to eligible entities without a sovereign guarantee for the financing of investments for transactions in all sectors, subject to an exclusion list. 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 non-sovereign-guaranteed loans and guarantees are also subject to certain limits, including a ceiling on financing the lesser of $200 million or 50% of the total project cost for expansion projects and credit guarantees, subject to such financing not exceeding 25% (certain countries 40%) of a company's total capitalization of debt and equity, and 25% of the total project cost (certain countries 40%) for new projects. The Bank can also provide political risk guarantees of up to the lesser of $200 million or 50% of the total project cost. In exceptional circumstances, the Board of Executive Directors may approve loans and credit and political guarantees of up to $400 million. In addition, the Bank's maximum exposure to any single obligor for non-sovereign-guaranteed operations cannot exceed 2.5% of the Bank's equity at the time of approval.

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 $5.7 billion, and policy-based lending between $0.8 billion and $1.7 billion. Approvals under the Emergency Lending Facility amounted to $3.2 billion and $0.2 billion in 2003, and 2004, respectively, with no approvals thereafter.

Under the New Lending Framework for 2005 to 2008, the Bank has more flexibility in lending up to a maximum cumulative amount of $20.6 billion for investment loans and $9.8 billion for policy-based loans and a $6 billion limit for outstanding emergency loans. Under this Lending Framework there are no minimum disbursement periods for investment and policy-based loans, and policy-based loans can be made with single-tranche disbursements.

Figure 1: LOAN APPROVALS BY TYPE
For the years ended December 31, 2003 through 2007
(Expressed in billions of United States dollars)



During 2007, loan approvals totaled $7.7 billion (2006—$5.4 billion). A summary of loan approvals by country during 2007 and 2006 appears in **Table 1**. Loan approvals increased during 2007 due to $2.6 billion more investment loans and $0.6 billion more non-sovereign-guaranteed loans, partially offset by $0.9 billion less policy-based loans.

Table 1: LOAN APPROVALS BY COUNTRY[(1)]
For the years ended December 31, 2007 and 2006
(Expressed in millions of United States dollars)

COUNTRY	2007	2006
Argentina	$2,484	$1,626
Bahamas	—	9
Barbados	5	1
Belize	—	25
Bolivia	52	—
Brazil	1,445	479
Chile	119	213
Colombia	731	580
Costa Rica	450	70
Dominican Republic	80	181
Ecuador	425	315
El Salvador	—	100
Guatemala	193	239
Guyana	17	—
Honduras	68	—
Mexico	250	207
Nicaragua	40	—
Panama	176	304
Paraguay	52	252
Peru	831	475
Suriname	7	—
Trinidad and Tobago	—	28
Uruguay	102	191
Venezuela	150	26
Regional	—	60
Total	$7,677	$5,381

(1) Includes non-sovereign-guaranteed loans.

At December 31, 2007, the total volume of outstanding loans was $48.0 billion, $2.1 billion higher than the $45.9 billion at December 31, 2006. This increase was mainly due to a higher level of loan disbursements ($6.7 billion) than collections ($5.3 billion, including prepayments of $0.8 billion) and positive currency translation adjustments of $0.6 billion. Undisbursed balances at December 31, 2007, totaled $16.4 billion, an increase of $0.3 billion from December 31, 2006. This change was mainly due to higher loan approvals than 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, 2007, the total amount of loans outstanding and gross guarantee exposure as a percentage of the policy limit of $66.3 billion, after excluding the cumulative effects of SFAS 133 and currency transaction adjustments, was 73.3% compared to 70.5% in 2006.

A summary statement of loans outstanding by country at December 31, 2007 and 2006 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. **Table 2** presents the currently available financial terms for sovereign-guaranteed loans. As of December 31, 2007, 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, as well as the Bank's spread. Effective June 20, 2007, the Bank offers its borrowers an option to convert their SCF LIBOR loan balances to fixed rate. The Bank also offers emergency loans with sovereign guarantee.

In addition, the Bank offers loans to eligible entities without sovereign guarantees, under various terms. Non-sovereign-guaranteed loans are denominated in United States dollars and borrowers have the option of either fixed interest rate loans or floating rate loans. For fixed rate loans, the interest rate is fixed based on a LIBOR rate 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 Local Currency Facility (LCF) approved in 2005, 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

Table 2: CURRENTLY AVAILABLE FINANCIAL TERMS OF LOANS WITH SOVEREIGN GUARANTEE(3)

	Single Currency Facility		Emergency Lending
Interest rate option	**Adjustable rate loans**	**LIBOR-based loans(4)**	**LIBOR-based loans**
Currencies offered	USD, EUR, JPY, CHF or a combination of these currencies		USD
Cost base	Weighted average cost of allocated debt	3-month LIBOR	6-month LIBOR
Funding cost margin		Weighted average cost margin of debt allocated to this product	
Lending spread(1)(2)	15	15	400
Credit commission(1)(2)	10	10	75
Supervision and inspection fee(1)(2)	0	0	Not applicable
Front-end fee(1)	Not applicable	Not applicable	100
Maturity(5)	15–25 years		5 years
Grace period(5)	For investment loans: original disbursement period For policy-based loans: 5 years		3 years

(1) Loan charges provided in basis points (bps).

(2) Loan charges on sovereign-guaranteed, non-emergency loans are subject to semi-annual review and approval by the Board of Executive Directors. Standard loan charges, consisting of a lending spread of 0.30%, a credit comission of 0.25%, and no supervision and inspection fee are applied when Operating Income is positive and the TELR is increasing within a range between 32% and 38%.

(3) Under the LCF, borrowers have the option to convert future loan disbursements and/or outstanding loan balances to local currency under certain terms and conditions and a conversion fee of 0.25%.

(4) SCF LIBOR-based loan balances can be converted to fixed rate subject to certain conditions and a conversion fee of 0.05%.

(5) For SCF “parallel loans” maturity is 30 years and grace period 6 years.

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. At December 31, 2007, the Bank had local currency loans outstanding of $147 million, which were swapped back-to-back to United States dollars.

Previously 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, 2007, these loans represented 30.4% (2006—35.5%) of loans outstanding.

Up to June 2007, the Bank also offered fixed rate and LIBOR-based U.S. Dollar Window Program loans with sovereign guarantee, destined for on-lending to private sector borrowers.

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, 2007 and 2006
(Amounts expressed in millions of United States dollars)

	2007		2006	
	Amount	**%**	**Amount**	**%**
Single Currency Facility-adjustable	$22,349	46.6	$21,505	46.8
Single Currency Facility-LIBOR-based	8,437	17.6	4,643	10.1
Emergency Lending	630	1.3	1,520	3.3
Non-sovereign-guaranteed Loans	1,168	2.4	1,089	2.4
Currency Pooling System	14,575	30.4	16,299	35.5
U.S. Dollar Window	643	1.4	714	1.5
Others	152	0.3	162	0.4
Total	$47,954	100.0	$45,932	100.0

Of the $16.4 billion undisbursed loan balances at December 31, 2007, 60% pertains to the SCF-adjustable and 24% 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. The standard loan charges, according to the Capital Adequacy Policy, are applied when the TELR is increasing between 32% and 38%, and as long as Operating Income is positive. Loan charges are subject to semi-annual review and approval by the Board of Executive Directors. In 2006 and 2007, the TELR exceeded the upper band. The Board of Executive Directors maintained, during 2007, the same level of loan charges as the second semester of 2006, at 0.15% lending spread, 0.10% credit commission and no supervision and inspection fee. **Table 4** shows loan charges prevailing during the periods indicated.

Table 4: LOAN CHARGES

	Lending spread %	Credit commission %	Supervision and inspection fee %
2005:			
First semester	0.30	0.25	—
Second semester	0.10	0.10	—
2006:			
First semester	0.10	0.10	—
Second semester	0.15	0.10	—
2007:			
First semester	0.15	0.10	—
Second semester	0.15	0.10	—

Guarantees

The Bank may make political risk and partial credit guarantees either without a sovereign counter-guarantee under the 10% limit established for non-sovereign-guaranteed operations, or with a member country sovereign counter-guarantee. These guarantees are denominated in United States dollars or in local currency. 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 part of its non-sovereign-guaranteed lending activities, the Bank has issued political risk and partial credit guarantees designed to encourage private sector infrastructure investments, local capital market development, and trade finance. The political risk guarantees and partial credit guarantees may be offered on a stand-alone basis or in conjunction with a Bank loan. 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 debt obligations 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 2007, four non-trade-related guarantees without a sovereign counter-guarantee were approved for $900 million compared to two guarantees for $180 million in 2006, and there were no guarantees approved with sovereign counter-guarantee (2006—one for $60 million). The Bank has a Trade Finance Facilitation Program (TFFP) to provide partial credit guarantees without sovereign counter-guarantees on trade-finance

transactions. This Program, which began to operate in 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. During 2007, 12 trade-finance guarantee lines of credit in the aggregate amount of $227 million were authorized and an already existing line of credit was increased by $9 million, while 68 guarantees for a total of $135 million were issued during the year. This compares with ten lines of credit in the aggregate amount of $133 million authorized and 36 guarantees for a total of $68 million issued in 2006.

As of December 31, 2007, guarantees of $689 million (2006—$379 million), including $99 million issued under the TFFP (2006—$51 million), were outstanding and subject to call. No guarantees have ever been called. The net present value of guarantee exposure on non-sovereign guarantees, net of reinsurance, which is the amount counted towards the non-sovereign-guaranteed operations 10% limit, was $523 million at December 31, 2007 (2006—$215 million).

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**.

Under its liquidity policy, the Bank 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%. For 2007, the liquidity level was established to range between $9.3 billion and $18.7 billion, with the mid-point of $14.0 billion being the desired level. At December 31, 2007, 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 $13.9 billion. During the year, liquidity averaged $16.3 billion compared to $13.6 billion in 2006.

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.

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.

Liquid investments are maintained in three distinct subportfolios: transactional and operational (trading investments portfolio) 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.

Investments of up to 10% of the portfolio may be contracted out to external managers. Separate investment guidelines that conform to the Bank's overall Investment Guidelines are provided to each external manager. At December 31, 2007, the Bank had investments of $431 million managed by external firms.

The returns of the liquid investment portfolios in 2007 and 2006 are shown in **Table 5**. The lower yield levels on the total portfolio in 2007, as compared to 2006, are primarily due to unrealized (mark to market) losses resulting from the recent sub-prime crisis, including the contagion effect on the market

values, on the trading investments portfolio, as described below. HTM yields increased slightly during the year.

Table 5: LIQUID INVESTMENT PORTFOLIOS[1]
December 31, 2007 and 2006
(Amounts expressed in millions of United States dollars)

	2007		2006	
Portfolio	**Ending Balance**	**Financial Return (%)[2]**	**Ending Balance**	**Financial Return (%)[2]**
Transactional	$ 567	1.65	$ 224	5.19
Operational	11,720	2.86	12,013	4.72
Held-to-Maturity	3,814	3.45	3,538	3.31
Overall Portfolio	$16,101	2.93	$15,775	4.39

[1] After swaps and net of payable and receivable for investment securities purchased or sold.
[2] Combined return for all currencies in each portfolio.

Difficult Financial Market Conditions
There has been a great deal of turbulence in the financial markets over the last several months, which has led to less liquidity, a flight to quality, significantly higher volatility, widening of credit spreads across many sectors, and a lack of price transparency. The Bank operates in certain sectors of these markets, primarily through exposures in asset- and mortgage-backed investment securities, and has been and will continue to be adversely affected by this market disruption.

These conditions have increased the level of difficulty and complexity for the Bank in valuing these securities in the existing market environment. To determine the fair value of its investment securities, the Bank maximizes the use of market inputs, including observable market yield curves, external pricing services, and independent dealer prices. Valuations will continue to be impacted by market factors, external to the Bank, such as default rates, rating agency actions, and the prices at which actual transactions occur. Moreover, the Bank's ability to mitigate its risk by selling or hedging its exposure may also be limited by the market environment.

Performance and Exposure of Liquid Investments Portfolio
As a result of the recent sub-prime mortgage crisis and the contagion effect across market sectors, the Bank has been monitoring the asset quality of its investments portfolio, continuously analyzing and assessing the fundamental value of the securities, with a particular focus on its structured credit products.

At December 31, 2007, the credit exposure for the whole investment portfolio amounted to $16.1 billion. Despite the crisis, the quality of the portfolio continues to be high, as 90% of the issuers were rated AAA and AA, and an additional 1% of the portfolio carried the highest short-term ratings, with the remaining 9% rated A. **Table 6** shows a breakdown of the trading investments portfolio at December 31, 2007, by asset category (for further information refer to Appendix I-1 of the financial statements):

Table 6: TRADING INVESTMENTS PORTFOLIO BY ASSET CATEGORY
December 31, 2007
(Amounts expressed in millions of United States dollars)

Asset Category	**Carrying Value**
Obligations of the United States Government and its corporations and agencies	$ 454
Obligations of other governments and agencies	127
Bank obligations	4,707
Corporate securities	411
Asset-backed and mortgage-backed securities	6,608
Total trading investments	$12,307

During 2007, realized and unrealized (mark to market) losses for the $12.3 billion trading investments portfolio were $11 million (0.1%) and $280 million (2.3%), respectively, virtually all related to the $6.6 billion of asset-backed and mortgaged-backed securities. The trading investments portfolio's exposure to the sub-prime asset-backed and mortgage-backed securities at December 31, 2007, involved only AAA rated securities and was $511 million (4.2%) of the portfolio.

Subsequent to December 31, 2007, the ongoing events in the financial markets mentioned above have created continued pressure on the market pricing of the Bank's investments. The Bank will continue to closely monitor and evaluate these developments in determining the fair value of its investment 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, 2007 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, 2007, was $20.4 billion compared with $19.8 billion at December 31, 2006. The increase primarily reflects the net income for the year of $134 million and other comprehensive income of $411 million (essentially comprised of the increase in the funded status of the Bank's pension and postretirement benefit plans of $130 million, and positive translation adjustments of $280 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 7** presents the composition of this measure at December 31, 2007 and 2006. See "Financial Risk Management—Credit Risk—Capital Adequacy Framework" below, for more information on the TELR.

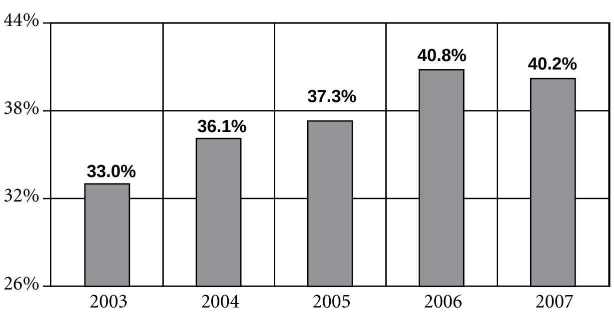
Table 7: TOTAL EQUITY TO LOANS RATIO
December 31, 2007 and 2006
(Amounts expressed in millions of United States dollars)

	2007	2006
Equity		
Paid-in capital stock	$ 4,340	$ 4,340
Retained earnings:		
General reserve[1]	13,470	12,971
Special reserve[1]	2,543	2,497
Plus:		
Allowances for loan and guarantee losses	70	104
Minus:		
Borrowing countries' local currency cash balances	135	142
Net receivable from members[2]	—	103
Postretirement benefit assets	973	863
Cumulative effects of SFAS 133 and currency transaction adjustments[3]	(176)	(27)
Equity used in Total Equity to Loans Ratio	$19,491	$18,831
Loans outstanding and net guarantee exposure	$48,529	$46,199
Total Equity to Loans Ratio	40.2%	40.8%

[1] Includes Accumulated other comprehensive income.
[2] Excludes Net payable to members, when applicable.
[3] Includes cumulative effect of SFAS 133 on cash flow hedges for $2 million and $1 million in 2007 and 2006, respectively.

As presented in **Table 7**, the TELR decreased from 40.8% at December 31, 2006, to 40.2% at December 31, 2007. The decrease was mainly due to an increase of $2.3 billion in loans outstanding and net guarantee exposure, partially offset by an increase in equity resulting from operating income. Prior to 2007, the TELR had increased steadily as a result of the growth in the equity base and lower loans outstanding (see **Figure 2**).

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, 2007, subscribed capital stock was $100.9 billion, of which $4.3 billion had been paid in and $96.6 billion was callable.

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, 2007, 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 capi-

tal 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, 2007, Net Borrowings represented 61.2% of the subscribed callable capital stock of the non-borrowing member countries compared to 57.9% in 2006.

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 2007, the proceeds from medium- and long-term debt raised directly in financial markets amounted to $5.5 billion compared to $5.3 billion in 2006. Borrowing operations for 2007 and 2006 are summarized in **Table 8**.

Table 8: SUMMARY OF ANNUAL BORROWING OPERATIONS
For the years ended December 31, 2007 and 2006
(Amounts expressed in millions of United States dollars)

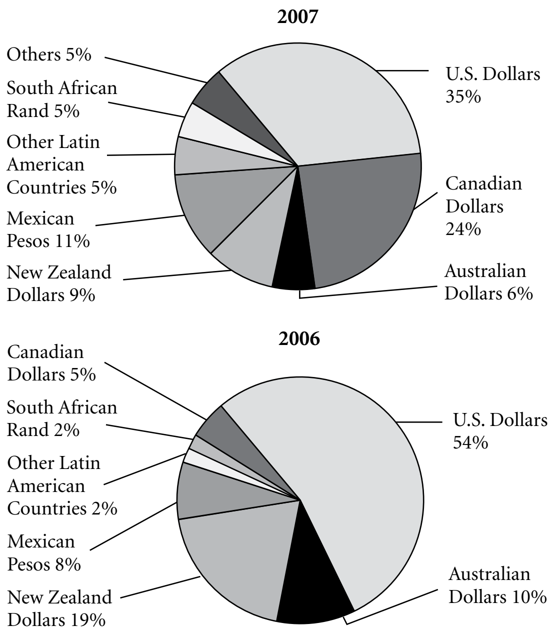
	2007	2006
Total medium- and long-term borrowings[1]	$5,504	$5,263
Average life (years)[2]	7.9	6.5
Number of transactions	45	33
Number of currencies	12	7

[1] Represents proceeds on a trade date basis.
[2] Average life calculated considering the weighted average probability of exercising call options, as applicable.

Borrowings raised in any given year are used for general operations, including loan disbursements and refinancing of maturing debt. In 2007, the Bank issued its first-ever bond denominated in Costa Rican colones, Indian rupees and new Turkish liras. In addition, the Bank issued one $1 billion global benchmark bond maturing in 2012. Bonds denominated in borrowing member country currencies in the aggregate amount of $909 million were issued during 2007 (2006—$526 million), comprised of the following currencies: Brazilian reais—$197 million, Colombian pesos—$30 million, Costa Rican colones—$50 millions, and Mexican pesos—$632 million (2006—Mexican pesos—$406 million and Peruvian new soles—$120 million). In addition, the Bank transacted various bonds denominated in Australian dollars, Canadian dollars, Icelandic krónur, New Zealand dollars, South African rand, and United States dollars.

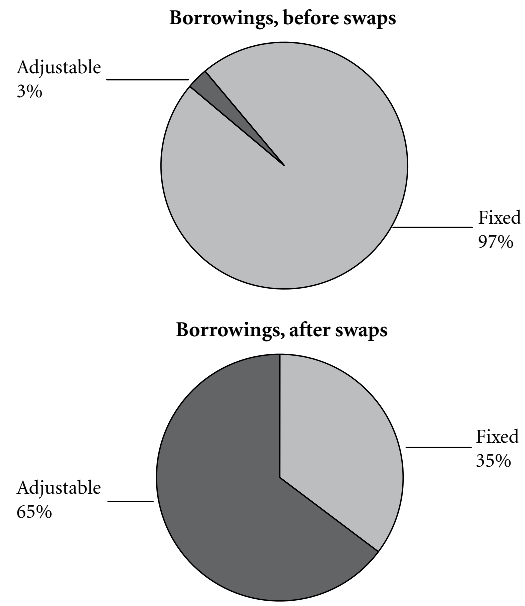
New medium- and long-term borrowings by currency for 2007, as compared to 2006, are shown in **Figure 3**. In 2007 and 2006, all non-United States dollar borrowings were initially swapped into United States dollars.

Figure 3: BORROWINGS BY CURRENCY[1]
For the years ended December 31, 2007 and 2006



[1] Includes medium- and long-term borrowings, excluding swaps, and represents proceeds on a trade date basis.

Figure 4: EFFECTS OF SWAPS ON INTEREST RATE STRUCTURE OF OUTSTANDING BORROWINGS[1]
December 31, 2007



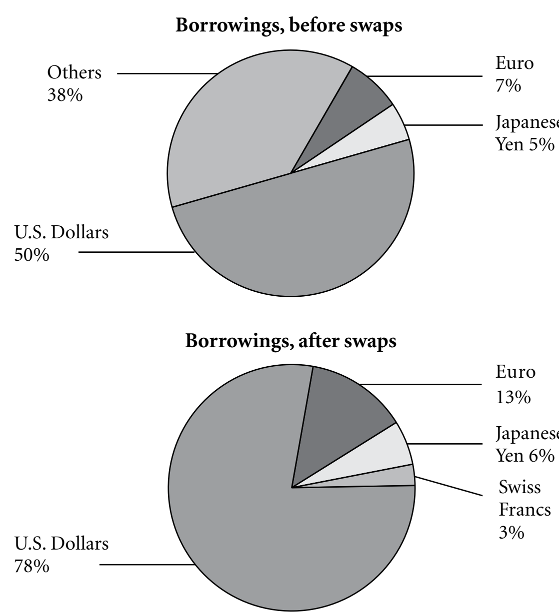
[1] Medium- and long-term borrowings only.

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. During 2007, the Bank partially repurchased $326 million of two of its borrowings (2006—$0).

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 2007, all the new borrowings were initially swapped into United States dollars at floating rates, with conversion to fixed-rate and/or euro, Japanese yen and Swiss francs funding being carried out subsequently in accordance with funding requirements. **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, 2007.

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

Figure 5: EFFECTS OF SWAPS ON CURRENCY COMPOSITION OF OUTSTANDING BORROWINGS[1]
December 31, 2007



[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 equity, other loan income, the credit for loan and guarantee losses and net non-interest expense. **Table 9** shows the breakdown of Operating Income during the last three years.

Table 9: OPERATING INCOME
(Expressed in millions of United States dollars)

	2007	2006	2005
Loan interest income	$2,404	$2,435	$2,368
Investment income[1]	487	619	403
	2,891	3,054	2,771
Less:			
Borrowing expenses	2,135	2,070	1,733
Net interest income	756	984	1,038
Other loan income	32	31	45
Other expenses (credits):			
Credit for loan and guarantee losses	(13)	(48)	(14)
Net non-interest expense	518	436	385
Total	505	388	371
Operating Income	$ 283	$ 627	$ 712

[1] Includes realized and unrealized gains and losses.

Year 2007 versus 2006: In 2007, Operating Income was $344 million lower than the previous year due to a decrease in net interest income, an increase in net non-interest expense, which is chiefly comprised of administrative expenses, and a lower credit for loan and guarantee losses.

Year 2006 versus 2005: In 2006, Operating Income was $85 million lower than the previous year due to a reduction in the net interest income generated by the loan portfolio and an increase in net non-interest expense, partially offset by a higher credit for loan and guarantee losses.

Net Interest Income

The average interest-earning asset and interest-bearing liability portfolios, after swaps, and the respective returns and costs for 2007, 2006, and 2005 are shown in **Table 10**.

Year 2007 versus 2006: Net interest income decreased $228 million in 2007 with respect to 2006, primarily due to unrealized (mark to market) losses of $280 million on the Bank's trading investments portfolio, as explained under Liquidity Management above, that was partially offset by an increase in the income contribution of the Bank's cost free equity funds and slightly higher loan rates.

Year 2006 versus 2005: Net interest income decreased $54 million in 2006 with respect to 2005, primarily due to a reduction in emergency loans outstanding and lower lending spreads on sovereign-guaranteed, non-emergency loans. This decrease was partially offset by an increase in the income generated by the equity resources.

Net Non-interest Expense

The main components of net non-interest expense are presented in **Table 11**.

Table 11: NET NON-INTEREST EXPENSE
(Expressed in millions of United States dollars)

	2007	2006	2005
Administrative expenses			
Staff costs	$355	$342	$331
Consultant fees	58	50	47
Operational travel	20	20	21
Realignment expenses	55	—	—
Other expenses	76	95	74
Total gross administrative expenses	564	507	473
Less: Share of Fund for Special Operations	(64)	(93)	(86)
Net administrative expenses	500	414	387
Service fee revenues	(6)	(5)	(6)
Special programs	37	34	12
Other income	(13)	(7)	(8)
Net non-interest expense	$518	$436	$385

Table 10: ASSET/LIABILITY PORTFOLIOS AND RETURNS/COSTS
(Amounts expressed in millions of United States dollars)

	2007		2006		2005	
	Average Balance	Return/Cost %	Average Balance	Return/Cost %	Average Balance	Return/Cost %
Loans[1]	$45,569	5.28	$47,207	5.16	$47,837	4.95
Liquid investments	16,791	2.93	14,226	4.39	12,341	3.29
Total earning assets	62,360	4.65	61,433	4.98	60,178	4.61
Borrowings	43,349	4.92	43,314	4.78	42,609	4.07
Interest rate spread[2]		(0.27)		0.20		0.54
Net interest margin[3]		1.21		1.60		1.72

[1] Excludes loan fees.
[2] Negative interest rate spread during 2007 substantially due to a reduction in net investment income.
[3] Represents net interest income as a percent of average earning assets.

Year 2007 versus 2006: Net non-interest expense increased by $82 million in 2007 mainly due to realignment expenses ($55 million), an increase in the percentage of administrative expenses charged to the Ordinary Capital ($29 million), and increases in salaries and related benefits ($13 million), partially offset by a decrease in depreciation expense ($19 million).

Year 2006 versus 2005: Net non-interest expense increased by $51 million in 2006 mainly due to an increase in depreciation and amortization ($22 million), regular salary and related benefit increases ($11 million), and expenditures under special programs approved by the Board of Executive Directors ($22 million).

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. As part of the Bank's realignment, three risk management units of the Bank—strategic risk, treasury risk and non-sovereign guaranteed credit risk—were combined to form the Risk Management Office, which now reports directly to the Executive Vice President. The Asset Liability Management Committee (ALCO), as the successor to the Committee on Asset Liability Management, was established as the forum to consider risk and financial management issues in line with best risk management practices. This includes asset/liability management, capital adequacy, financial products (lending, investment, funding, etc.) and planning, treasury risk management, credit risk management, capital markets (i.e., funding and investments), liquidity management, loan management and accounting.

Credit Risk

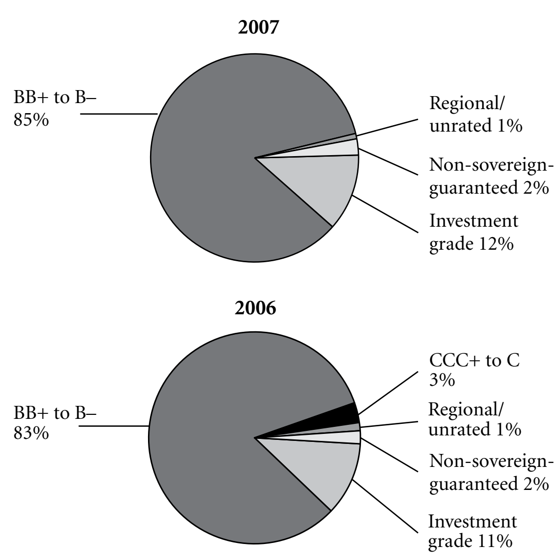
Credit risk is the potential loss that could result from the default of borrowers (loan portfolio credit risk or country credit risk) or from the default/downgrade of investment, trading or swap counterparties (commercial credit risk). Almost all of the Bank's loans are sovereign-guaranteed.

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.

Since December 31, 2006, the effects of ratings upgrades for a number of the Bank's largest borrowers and the increase in Loans outstanding increased the percentage of the portfolio rated investment grade and BB+ to B–, and decreased the concentration held by relatively lower-rated countries.

The credit quality of the sovereign-guaranteed loan portfolio as of December 31, 2007, as represented by the long-term foreign currency credit ratings assigned to each borrowing country by the rating agencies (generally, Standard & Poor's), is depicted in **Figure 6**.

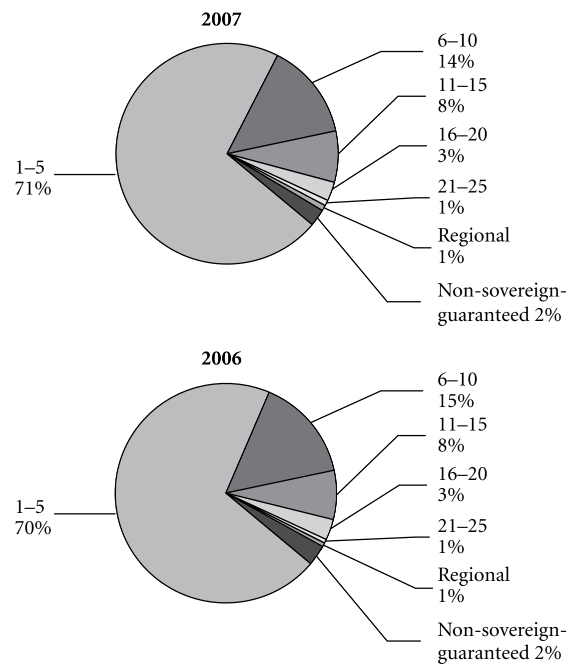
Figure 6: CREDIT QUALITY OF SOVEREIGN-GUARANTEED LOAN PORTFOLIO REFLECTED IN RATINGS OF BORROWING MEMBER COUNTRIES
December 31, 2007 and 2006



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, 2007, 71% of the portfolio is held by the five largest borrowers compared to 70% in 2006. Refer to Appendix I-3 to the financial statements for more information.

Figure 7: CONCENTRATION OF LOAN PORTFOLIO
December 31, 2007 and 2006



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 includes the unimpaired callable capital of all members.

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. The capital adequacy framework provides that, as long as Operating Income is positive and the TELR is increasing within a range between 32% and 38%, 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.

Non-performing Loans: Except for non-sovereign-guaranteed loans, 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 nonaccrual 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 12**.

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 non-sovereign-guaranteed loans, a subcommittee of the ALCO 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, 2007, the Bank had one non-sovereign-guaranteed loan classified as impaired with an outstanding balance of $2 million (see Note E to the financial statements).

TABLE 12: TREATMENT OF NON-PERFORMING SOVEREIGN-GUARANTEED 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.

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 be repaid. In addition, the Bank has had an essentially fully performing sovereign-guaranteed loan portfolio since its establishment. During the Bank's 48 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 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 non-sovereign-guaranteed operations. Pursuant to Bank policy, a credit for loan and guarantee losses of $13 million was recognized in income during 2007. Total allowances of $70 million were maintained at December 31, 2007 (2006—$104 million). At December 31, 2007, the non-sovereign-guaranteed allowances for loan and guarantee losses were 3.3% of the corresponding combined outstanding portfolios (2006—6.7%).

Commercial Credit Risk: Commercial credit risk is the exposure to losses 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.

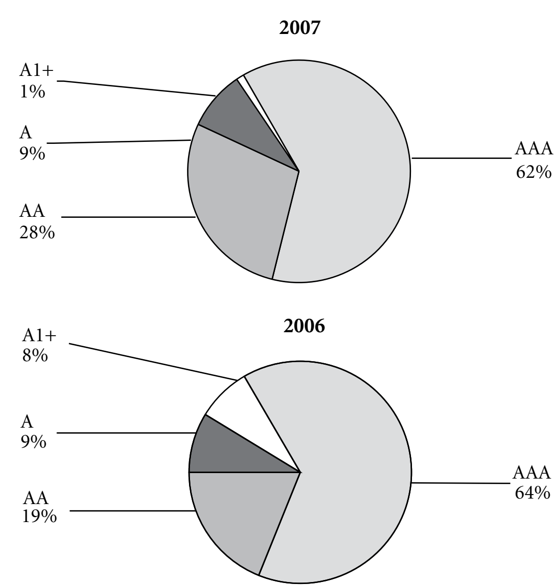
As a result of the recent sub-prime mortgage crisis and the contagion effect across market sectors, the Bank has been monitoring the asset quality of its investments portfolio, continuously analyzing and assessing the fundamental value of the securities, with a particular focus on its structured credit products.

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 derivative counterparty and has entered into master derivative 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 derivative agreements with derivative counterparties have been amended to make risk mitigation provisions consistent with more conservative levels required under the current 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. 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, to estimate the 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 swap 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 derivative 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, 2007, the credit exposure for the whole investment portfolio amounted to $16.1 billion compared to $15.8 billion at December 31, 2006. The credit quality of the investment portfolio for

Figure 8: INVESTMENT CREDIT EXPOSURE BY ISSUER RATING
December 31, 2007 and 2006



2007 continues to be high, as 90% of the issuers were rated AAA and AA, and an additional 1% of the portfolio carried the highest short-term ratings, compared to 83% and 8%, respectively, in 2006. **Figure 9** provides details of the estimated credit exposure (netted by counterparty) on the swap portfolio, by rating category. As of December 31, 2007, the swap credit exposure increased to $2.5 billion from $1.5 billion a year earlier. The credit quality of the swap portfolio continues to be high, as 87% of the counterparties were rated AA in 2007, compared to 94% in 2006. These swap credit exposures are collateralized. As of December 31, 2007, $2.1 billion of collateral in the form of U.S. Treasury bonds had been posted with the Bank's custodian (compared to $1.3 billion in 2006), which significantly reduced the credit exposure on swaps discussed above to only $0.4 billion (2006—$0.2 billion).

Figure 9: SWAPS CREDIT EXPOSURE BY COUNTERPARTY RATING
December 31, 2007 and 2006

Market Risk

The Bank faces risks that result from market movements, primarily changes in interest and exchange rates, that are mitigated through its 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 liquidity and 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 exposure to changes in the net spread between the rate earned on assets and the cost of borrowings that fund those assets. The second is the exposure to changes in the income earned on the portion of the assets funded with equity.

The Bank mitigates its exposure to net spread changes 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 94% of the existing outstanding loan portfolio as of December 31, 2007; the remaining 6% are emergency loans, non-sovereign-guaranteed 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 changes by investing these funds in long-term loan and investment assets, with 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 2007 and 2006.

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 (funding risk); the risk of being unable to liquidate a position in a timely manner at a reasonable price (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 (concentration risk).

The Bank manages liquidity risk through its liquidity policy, asset-liability management policy and its short-term borrowing program. The Bank's liquidity policy determines a minimum amount of liquidity, which is designed to allow the Bank to refrain from borrowing for a period of time while continuing to meet its own obligations. The asset and liability management of the Bank, in addition to optimizing the allocation of equity and debt to fund the Bank's various assets, determines the proper term-duration gap between loans and debt to both lower funding costs and reduce refunding risk. Finally, under the short-term borrowing program, discount notes with maturities of less than one year are issued to cover short-term cash flow needs whenever the liquidation of a position is not desirable.

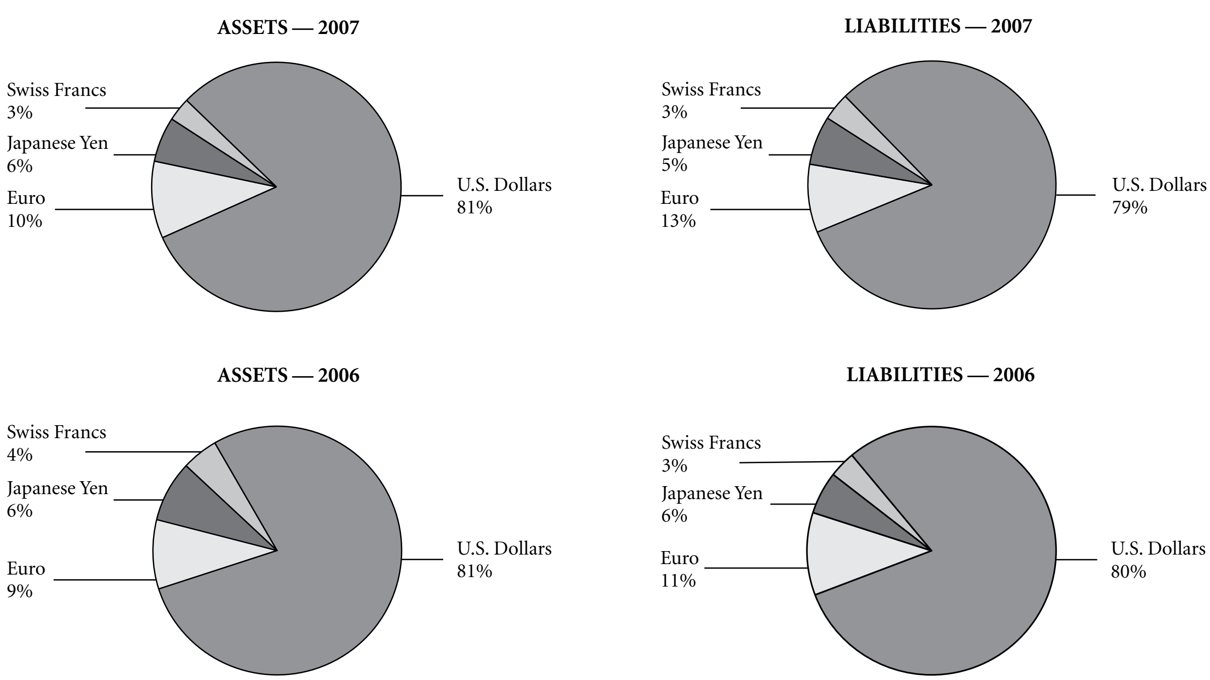
Operational Risk

Operational risk is the potential loss arising from internal activities or external events, caused by breakdowns in information, communication, physical safeguards, business continuity, supervision, transactions processing, pricing, cash and securities movements and settlement systems. In addition, operational risk includes fraud and failures in the execution of legal, fiduciary and agency responsibilities.

Within the Bank there are policies and procedures in place covering all significant aspects of operational risk. These include first and foremost the Bank's high standards of business ethics and its established system of internal controls. These are supplemented by the Bank's disaster recovery/contingency planning, the Information Disclosure Policy, client and project integrity due diligence procedures, and procurement and purchasing policies. Furthermore, the Bank takes an active role, through its newly created Risk Management Office, to effectively assess the operational risk aspects in a coordinated manner.

Internal Control Over Financial Reporting: During 2006, the Bank implemented the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework for its financial reporting, and established an annual process for management to report on the effectiveness of the internal control over financial reporting, and for the external auditors to audit and issue an opinion as to the effectiveness of the internal control over financial reporting. The management report and external auditors' opinion on internal control over financial reporting for 2007 are included in the financial statements.

Figure 10: CURRENCY COMPOSITION OF ASSETS & LIABILITIES
December 31, 2007 and 2006



ADDITIONAL REPORTING AND DISCLOSURE

Basis of Reporting

The financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP), which require 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 measurements to account for the trading investments portfolio and all derivatives (mostly interest and currency swaps), and for disclosures of financial instruments. Fair values are based on quoted market prices when they are available. Otherwise, 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 volatilities. These inputs have a significant effect on the reported fair values of assets and liabilities and related income and expenses. Management believes its measurements of fair value are reasonable given its processes for obtaining and prioritizing 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 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 be repaid. Accordingly, the level of its loan and guarantee loss allowances is relatively small and mainly related to the non-sovereign-guaranteed loan and guarantee portfolios.

Pension and Other Postretirement Benefits: The Bank participates along with the Inter-American Investment Corporation (IIC) in pension and postretirement benefit plans that cover substantially all of their staff members. All costs, assets and liabilities associated with the plans are allocated between the Bank and the IIC based upon their employees' respective participation in the plans. Costs allocated to the Bank are subsequently shared between the Ordinary Capital and the FSO based on a cost allocation formula approved by the Board of Executive Directors. The underlying actuarial assumptions used to determine the projected benefit obligations, fair value of plan assets and funded status associated with these plans are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. For further details, refer to Note N to the financial statements.

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. 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 fair value 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 2007, the amortization of fair value 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 $57 million, $(35) million, and $(170) million, respectively (2006 – $62 million, $30 million, and $(469) million, respectively; 2005 – $85 million, $(32) million, $5 million, respectively) (for additional information, see Note I to the financial statements). As a result of the discontinuation of hedge accounting in 2004, Effects of SFAS 133 and currency transaction adjustments has been substantially higher (negative $149 million and $384 million in 2007 and 2006, respectively, and positive $50 million and $314 million in 2005 and 2004, respectively). Management believes that the reported income volatility is not representative of the

underlying economics of the transactions as the Bank generally holds its swaps to maturity.

During 2007, Management approved the election of the fair value option provided by SFAS 159 for substantially all its borrowings funding floating rate assets. SFAS 159, which is effective on January 1, 2008, requires that changes in the fair value of elected financial instruments be recorded in income. As a result of this election, Management estimates that the volatility in the reported net income will be significantly reduced without having to apply complex hedge accounting provisions. Refer to "New Accounting Pronouncements" in Note B to the financial statements.

External Auditors

General: The external auditors are appointed by the Board of Governors following a competitive bidding process. In 2002, Ernst & Young LLP (E&Y) was appointed as external auditors. Pursuant to an agreement between the Bank and E&Y, the parties extended, on a yearly basis through 2006, E&Y's appointment. In 2007, E&Y won a new competitive bidding and was appointed as the Bank's external auditors for a second five-year period ending in 2011.

Contracted fees for audit services provided to the Bank by E&Y in connection with the 2007 financial statement and internal control audits amount to $1,074,000. In addition, E&Y was paid $55,000 during 2007 for services related to bond issuance. E&Y also provides audit services to trust funds administered by the Bank and to the Bank's staff retirement plans, for which contracted fees related to the 2007 audits are $432,000.

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

MANAGEMENT'S REPORT REGARDING THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

February 12, 2008

The Management of the Inter-American Development Bank (Bank) is responsible for establishing and maintaining effective internal control over financial reporting in the Bank. Management has evaluated the Bank's Ordinary Capital internal control over financial reporting using the criteria for effective internal control established in the Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed the effectiveness of the Bank's Ordinary Capital internal control over financial reporting as of December 31, 2007. Based on this assessment, Management believes that the Bank's internal control over financial reporting is effective as of December 31, 2007.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Ernst & Young LLP, an independent registered public accounting firm, has issued an opinion on the Bank's Ordinary Capital internal control over financial reporting. In addition, the Bank's Ordinary Capital financial statements, as of December 31, 2007, have been audited by Ernst & Young LLP.

Luis Alberto Moreno
President

Carlos Hurtado
Vice President for Finance and Administration

John R. Hauge
Finance General Manager and CFO
through January 31, 2008

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited Inter-American Development Bank (Bank)—Ordinary Capital's internal control over financial reporting, as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Bank's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report Regarding the Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank's Ordinary Capital internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank's Ordinary Capital maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheet of the Inter-American Development Bank – Ordinary Capital as of December 31, 2007 and 2006, 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, 2007 and our report dated February 12, 2008 expressed an unqualified opinion thereon.

Washington, D.C.
February 12, 2008

Ernst + Young LLP

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, 2007 and 2006, 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, 2007. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with United States generally accepted accounting principles.

As discussed in Note B to the financial statements, in 2006 the Bank adopted Statement of Financial Accounting Standards 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans".

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Inter-American Development Bank's Ordinary Capital internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2008 expressed an unqualified opinion thereon.

Ernst & Young LLP

Washington, D.C.
February 12, 2008

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31,			
	2007		2006	
ASSETS				
Cash and investments				
Cash	**$ 200**		$ 276	
Investments				
Trading	**12,307**		12,278	
Held-to-maturity	**3,858**	**$16,365**	3,543	$16,097
Loans outstanding	**47,954**		45,932	
Allowance for loan losses	**(51)**	**47,903**	(90)	45,842
Accrued interest and other charges				
On investments	**103**		95	
On loans	**600**		594	
On swaps, net	**20**	**723**	25	714
Receivable from members				
Non-negotiable, non-interest-bearing demand obligations	**358**		361	
Amounts required to maintain value of currency holdings	**54**	**412**	57	418
Currency and interest rate swaps				
Investments—trading	**3**		2	
Loans	**4**		5	
Borrowings	**3,019**	**3,026**	1,880	1,887
Other assets				
Postretirement benefit assets	**973**		863	
Property, net	**296**		301	
Unamortized borrowing costs	**180**		196	
Miscellaneous	**29**	**1,478**	157	1,517
Total assets		**$69,907**		$66,475
LIABILITIES AND EQUITY				
Liabilities				
Borrowings				
Short-term	**$ 2,204**		$ 658	
Medium- and long-term	**44,845**	**$47,049**	44,030	$44,688
Currency and interest rate swaps				
Investments—trading	**2**		1	
Loans	**16**		9	
Borrowings	**1,006**	**1,024**	742	752
Payable for investment securities purchased		**67**		47
Amounts payable to maintain value of currency holdings		**616**		315
Accrued interest on borrowings		**596**		586
Accounts payable and accrued expenses		**202**		279
Total liabilities		**49,554**		46,667
Equity				
Capital stock				
Subscribed 8,368,563 shares	**100,953**		100,953	
Less callable portion	**(96,613)**		(96,613)	
Paid-in capital stock	**4,340**		4,340	
Retained earnings	**14,576**		14,442	
Accumulated other comprehensive income	**1,437**	**20,353**	1,026	19,808
Total liabilities and equity		**$69,907**		$66,475

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, 2007	2006	2005
Income			
Loans			
Interest	**$ 2,404**	$ 2,435	$ 2,368
Other loan income	**32**	31	45
	2,436	2,466	2,413
Investments	**487**	619	403
Other	**19**	12	14
Total income	**2,942**	3,097	2,830
Expenses			
Borrowing expenses			
Interest, after swaps	**2,074**	2,015	1,678
Amortization of borrowing costs	**49**	55	55
Debt repurchase costs	**12**	—	—
	2,135	2,070	1,733
Credit for loan and guarantee losses	**(13)**	(48)	(14)
Administrative expenses	**500**	414	387
Special programs	**37**	34	12
Total expenses	**2,659**	2,470	2,118
Income before SFAS 133 and currency transaction adjustments	**283**	627	712
Effects of SFAS 133 and currency transaction adjustments	**(149)**	(384)	50
Net income	**134**	243	762
Retained earnings, beginning of year	**14,442**	14,199	13,437
Retained earnings, end of year	**$14,576**	$14,442	$14,199

STATEMENT OF COMPREHENSIVE INCOME

Expressed in millions of United States dollars

	Years ended December 31, 2007	2006	2005
Net income	**$134**	$243	$ 762
Other comprehensive income (loss)			
Translation adjustments	**280**	149	(554)
Recognition of changes in Postretirement benefit assets	**130**	—	—
Reclassification to income—cash flow hedges	**1**	8	8
Total other comprehensive income (loss)	**411**	157	(546)
Comprehensive income	**$545**	$400	$ 216

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,		
	2007	**2006**	**2005**
Cash flows from lending and investing activities			
Lending:			
Loan disbursements (net of participations)	**$ (6,725)**	$ (6,088)	$ (4,899)
Loan collections (net of participations)	**5,265**	8,615	5,224
Loan recoveries	**—**	3	9
Net cash (used in) provided by lending activities	**(1,460)**	2,530	334
Gross purchases of held-to-maturity investments	**(2,378)**	(2,049)	(2,392)
Gross proceeds from maturities of held-to-maturity investments	**2,459**	2,056	2,531
Purchase of property	**(14)**	(15)	(24)
Miscellaneous assets and liabilities	**(7)**	7	(6)
Net cash (used in) provided by lending and investing activities	**(1,400)**	2,529	443
Cash flows from financing activities			
Medium- and long-term borrowings:			
Proceeds from issuance	**5,440**	5,276	5,039
Repayments	**(6,595)**	(6,510)	(5,711)
Short-term borrowings:			
Proceeds from issuance	**5,941**	10,276	8,602
Repayments	**(4,390)**	(10,559)	(7,969)
Collections of receivable from members	**5**	12	26
Net cash provided by (used in) financing activities	**401**	(1,505)	(13)
Cash flows from operating activities			
Gross purchases of trading investments	**(10,639)**	(20,468)	(14,670)
Gross proceeds from sale or maturity of trading investments	**10,761**	18,672	13,329
Loan income collections	**2,434**	2,457	2,405
Interest and other costs of borrowings, after swaps	**(1,953)**	(1,857)	(1,544)
Income from investments	**741**	588	395
Other income	**19**	13	14
Administrative expenses	**(433)**	(367)	(335)
Special programs	**(13)**	(7)	(1)
Net cash provided by (used in) operating activities	**917**	(969)	(407)
Effect of exchange rate fluctuations on cash	**6**	(2)	(10)
Net (decrease) increase in Cash	**(76)**	53	13
Cash, beginning of year	**276**	223	210
Cash, end of year	**$ 200**	$ 276	$ 223

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), the Intermediate Financing Facility Account (IFF), and the IDB Grant Facility (GRF). 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 approved from the Ordinary Capital up to December 31, 2006. The GRF was established in 2007 for the purpose of making grants appropriate for dealing with special circumstances arising in specific countries (currently only Haiti) or with respect to specific projects.

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, and the determination of the projected benefit obligations of the pension and postretirement benefit plans, the fair value of plan assets, and the funded status and net periodic benefit cost associated with these plans.

New accounting pronouncements

On January 1, 2008, the Bank will adopt Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. It is estimated that the adoption of this standard will not have a material impact on the Ordinary Capital's financial position and results of operations.

In February 2007, the Financial Accounting Standard Board (FASB) issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". The objective of SFAS No. 159 is to mitigate volatility in reported income by measuring related assets and liabilities at fair value without having to apply complex hedge accounting provisions. On January 1, 2008, the Bank will adopt SFAS No. 159 and, in accordance with the transition provisions, will record a cumulative effect adjustment of approximately $93 million (gain) to the opening balance of retained earnings, to reflect the difference between the carrying value and the fair value amount of certain borrowings for which the fair value option will be elected, including the write-off of deferred issue costs of $163 million.

In 2006, the Bank adopted SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". SFAS 158 requires employers with single-employer defined benefit pension, retiree healthcare and other postretirement plans to fully recognize in their statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status through comprehensive income, as well as to measure its funded status as of the end of the year. Accordingly, the accompanying Balance Sheet includes the overfunded status of the Bank's pension and postretirement benefit plans as of December 31, 2007 and 2006. Note N to the financial statements discloses the incremental effect of applying this standard on the individual line items in the Balance Sheet for 2006.

Currency Accounting

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 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.

[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.

Valuation of capital stock

The Agreement Establishing the Inter-American Development Bank (Agreement) provides that capital stock be expressed in terms of the United States dollar of the weight and fineness in effect on January 1, 1959. The Second Amendment to the Articles of Agreement of the International Monetary Fund eliminated par values of currencies in terms of gold effective April 1, 1978. Consequently, the General Counsel of the Bank rendered an opinion that the Special Drawing Right (SDR) became the successor to the 1959 United States dollar as the standard of value for the Bank's capital stock, and for maintaining the value of its currency holdings. The SDR has a value equal to the sum of the values of specific amounts of stated currencies, including the United States dollar. Pending a decision by the Bank's governing boards and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using as the basis of valuation the 1959 United States dollar, as valued in terms of United States dollars at July 1, 1974, whose value is equal to approximately 1.2063 of the then current United States dollars.

Maintenance of value (MOV)

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

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 or (as of August 2006) sub-sovereign entities ("eligible entities") without a sovereign guarantee ("non-sovereign-guaranteed operations") on the basis of market based pricing. These financings are subject to certain limits, including a ceiling on financing the lesser of $200 million or 50% of the total project cost for expansion projects and credit guarantees, subject to such financing not exceeding 25% (certain countries 40%) of an entity's total capitalization of debt and equity, and 25% of the total project cost (certain countries 40%) for new projects. The Bank can also provide political risk guarantees of up to the lesser of $200 million or 50% of the total project cost. 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 non-sovereign-guaranteed operations cannot exceed 2.5% of the Bank's equity at the time of approval.

Loans representing approximately 30% 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, on an after swap basis, 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 generally deferred and amortized over the first four

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

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 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 non-sovereign-guaranteed 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 may not emerge from nonaccrual status.

The Bank considers a non-sovereign-guaranteed 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 allowances 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 be repaid.

Guarantees

The Bank may make political risk and partial credit guarantees either without a sovereign counter-guarantee under the 10% limit established for non-sovereign-guaranteed operations, or with a member country sovereign counter-guarantee. As part of its non-sovereign-guaranteed lending activities, the Bank has issued political risk and partial credit guarantees designed to encourage private sector infrastructure investments, local capital market development, and trade finance. The political risk guarantees and partial credit guarantees may be offered on a stand-alone basis or in conjunction with a Bank loan. 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 debt obligations 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. Substantially all borrowings are carried on the Balance Sheet at their par value (face value), adjusted for any unamortized SFAS 133 fair value adjustments, premiums or discounts. The amortizations of SFAS 133 fair value adjustments and premiums or discounts are calculated following a methodology that approximates the effective interest method, and are 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 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.

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. Debt securities that contain an embedded derivative that possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and would separately meet the definition of a derivative, are carried at fair value, as allowed by SFAS 155.

Administrative expenses

In 2007, the Board of Executive Directors approved the implementation of the realignment of the Bank's operations directed at improving its operational efficiency and capacity to fulfill its fundamental purpose. As a result, during 2007, realignment expenses of $55 million were incurred and are included in Administrative expenses in the Statement of Income and Retained Earnings. It is expected that the realignment effort will last until 2009.

Administrative expenses of the Bank, excluding realignment expenses (which are fully absorbed by the Ordinary Capital), are allocated between the Ordinary Capital and the FSO pursuant to an allocation formula approved by the Board of Executive Directors. As a result of the Multilateral Debt Relief and Concessional Finance Reform (a Bank initiative approved in 2007 providing for one hundred (100) percent debt relief on eligible FSO loans to heavily indebted poor countries and the restructuring of the FSO's operations), the Board of Executive Directors approved a new expense allocation formula, whereby the FSO bears a smaller percentage of the administrative expenses of the Bank. Following this new allocation formula, during 2007, the effective ratio of administrative expenses charged to the Ordinary Capital was 88.5% and 11.5% to the FSO (2006—81.3% and 18.7%; 2005—81.5% and 18.5%, both years under the previous allocation formula).

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.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Pension and Postretirement Benefit Plans
The funded status of the Bank's benefit plans is recognized in the Balance Sheet. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at December 31, the measurement date. Overfunded benefit plans, with the fair value of plan assets exceeding the benefit obligation, are aggregated and recorded as Postretirement benefit assets equal to this excess.

Net actuarial gain and prior service cost not recognized as a component of net periodic benefit cost as they arise, are recognized as a component of Other comprehensive income in the Statement of Comprehensive Income. The net actuarial gain and prior service cost are subsequently recognized as a component of net periodic benefit cost pursuant to the recognition and amortization provisions of applicable accounting standards.

Net periodic benefit cost is recorded under Administrative expenses in the Statement of Income and Retained Earnings and includes service cost, interest cost, expected return on plan assets, and amortization of prior service cost and gains/losses previously recognized as a component of Other comprehensive income remaining in Accumulated other comprehensive income.

Note C – Restricted Currencies

At December 31, 2007, Cash includes $135 million (2006—$142 million) in currencies of regional borrowing members. These amounts may be used by the Bank in Ordinary Capital lending operations and for administrative expenses. One member has restricted the amount of $25 million (2006—$26 million) to be used for making payments for goods and services in its territory, in accordance with the provisions of the Agreement.

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 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 securities of the eligible investment asset classes mentioned above, provided that they carry only the highest short-term credit ratings.

There has been a great deal of turbulence in the financial markets over the last several months, which has led to less liquidity, a flight to quality, significantly higher volatility, widening of credit spreads across many sectors, and a lack of price transparency. The Bank operates in certain sectors of these markets, primarily through exposures in asset- and mortgage-backed investment securities, and has been and will continue to be adversely affected by this market disruption.

These conditions have increased the level of difficulty and complexity for the Bank in valuing these securities. To determine the fair value of its investment securities, the Bank maximizes the use of market inputs, including observable market yield curves, external pricing services, and independent dealer prices. Valuations will continue to be impacted by market factors, external to the Bank, such as default rates, rating agency actions, and the prices at which actual transactions occur.

A summary of the trading portfolio instruments at December 31, 2007 and 2006 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, 2007 and 2006 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, 2007, of $(280) million (2006—$3 million; 2005—$(3) million) were included in Income from investments. Subsequent to December 31, 2007, the ongoing events in the financial markets mentioned above have created continued pressure on the market pricing of the Bank's investments. The Bank will continue to closely monitor these developments in order to properly reflect the value of its investment porfolio.

As of December 31, 2007 and 2006, the Bank does not have any investment that is other-than-temporarily impaired in its held-to-maturity investments portfolio. Held-to-maturity investments with continuous unrealized losses, that are not

deemed to be other-than-temporarily impaired as of December 31, 2007 and 2006, are summarized below (in millions):

	December 31, 2007					
	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)]	$310	$(2)	$1,539	$(20)	$1,849	$(22)
Asset-backed and mortgage-backed securities	—	—	126	(2)	126	(2)
Total	$310	$(2)	$1,665	$(22)	$1,975	$(24)

	December 31, 2006					
	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)]	$942	$(9)	$905	$(19)	$1,847	$(28)
Asset-backed and mortgage-backed securities	—	—	77	(2)	77	(2)
Total	$942	$(9)	$982	$(21)	$1,924	$(30)

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

The Bank only invests in high credit quality instruments. At December 31, 2007, 70% of the Held-to-maturity investments are rated AAA, 26% AA and 4% A. The unrealized losses on all categories of the Held-to-maturity investments were caused by interest rate increases and are not related to a deterioration in 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, 2007, that is, the Bank expects to collect all amounts due according to the contractual terms prevailing on 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, fulfill certain conditions precedent as required by contract.

The loan portfolio includes sovereign-guaranteed i) single currency pool loans (Single Currency Facility (SCF) and U.S. Dollar Window Program) as well as multicurrency pool loans (CPS loans), and ii) single currency non-pool loans (Emergency Lending Facility). In addition, the loan portfolio includes non-sovereign-guaranteed 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 LIBOR–based 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 Bank's spread. SCF LIBOR-based loan balances can be converted to fixed rate subject to certain conditions. The interest rate on SCF Adjustable loans 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 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.

Non-sovereign-guaranteed loans are denominated in United States dollars and borrowers have the option of either a LIBOR-based fixed or floating-rate loan. The interest rate on fixed-rate loans is based on a LIBOR rate 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.

Under the Local Currency Facility approved in 2005, 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. As of December 31, 2007, the Bank has carried out cumulative local currency conversions of loan disbursements and outstanding balances amounting to $148 million (2006—$76 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, 2007 and 2006 is shown in Appendix I-4.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

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, 2007 and 2006.

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, 2007, there were $944 million (2006—$1,205 million) in outstanding participations in non-sovereign-guaranteed loans not included in the Balance Sheet.

As of December 31, 2007, the Bank had approved, net of cancellations and expirations, non-trade finance guarantees without sovereign counter-guarantees of $1,389 million (2006—$512 million). In addition, the Bank has approved a guarantee with sovereign counter-guarantee of $60 million. The Bank also has a Trade Finance Facilitation Program (TFFP) 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. As of December 31, 2007, trade-finance guarantee lines of credit of $659 million had been authorized (2006—$423 million) under this Program.

As of December 31, 2007, guarantees of $689 million (2006—$379 million), including $99 million issued under the TFFP (2006—$51 million) were outstanding and subject to call. An amount of $58 million (2006—$61 million) has been re-insured to reduce the Bank's exposure. Outstanding guarantees have remaining maturities ranging from 3 to 18 years, except for trade related guarantees that have maturities of up to three years. As of December 31, 2007, no guarantees provided by the Bank had 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. During 2007, the IFF paid $48 million (2006—$43 million; 2005—$43 million) of interest on behalf of the borrowers. Up to December 31, 2006, the IFF was funded primarily from the general reserve of the FSO. As part of the Bank's Multilateral Debt Relief and Concessional Finance Reform, funding to the IFF was discontinued and the IFF interest subsidy is no longer available for loans approved after December 31, 2006.

Nonaccrual and impaired loans and allowance for loan and guarantee losses
At December 31, 2007, all loans were performing. The recorded investment in impaired loans at December 31, 2007 was $2 million (2006—$66 million) and the average recorded investment during 2007 was $24 million (2006—$117 million). During 2007, income recognized on loans while impaired was $4 million (2006—$13 million; 2005—$42 million, including $29 million related to prior years). If these loans had not been impaired, income recognized would have been $3 million (2006—$11 million; 2005—$16 million). There was no specific allowance for loan losses on impaired loans at December 31, 2007 (2006—$19 million).

The changes in the allowance for loan and guarantee losses for the years ended December 31, 2007 and 2006 were as follows (in millions):

	2007	2006
Balance, beginning of year	$104	$188
Credit for loan and guarantee losses	(13)	(48)
Non-sovereign-guaranteed loans:		
Write-offs	(21)	(42)
Recoveries	—	6
Balance, end of year	$ 70	$104
Composed of:		
Allowance for loan losses	$ 51	$ 90
Allowance for guarantee losses[1]	19	14
Total	$ 70	$104

[1] Included in Accounts payable and accrued expenses.

Note F – Receivable from Members
The composition of the net receivable from members as of December 31, 2007 and 2006 is as follows (in millions):

	2007	2006
Regional developing members	$ 401	$ 406
Canada	(250)	(93)
Non-Regional members	(355)	(210)
Total	$(204)	$ 103

These amounts are represented on the Balance Sheet as follows (in millions):

	2007	2006
Receivable from members	$ 412	$ 418
Amounts payable to maintain value of currency holdings	(616)	(315)
Total	$(204)	$ 103

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Note G – Property

As of December 31, 2007 and 2006, Property, net consists of the following (in millions):

	2007	2006
Land, buildings, improvements, capitalized software and equipment, at cost	$ 512	$ 499
Less: accumulated depreciation	(216)	(198)
	$ 296	$ 301

Note H – 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, 2007 consist of loans, notes and bonds issued in various currencies at contracted interest rates ranging from 0.38% to 16.38%, before swaps, and from 0.45% (equivalent to JPY-LIBOR less 58 basis points) to 12.25%, after swaps, with various maturity dates through 2037. A summary of the medium- and long-term borrowing portfolio and its maturity structure at December 31, 2007 and 2006 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 $340 million during 2007 (2006—$307 million; 2005—$564 million).

Note I – 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 the Bank's 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. These instruments, mostly currency and interest rate swaps, are used primarily for hedging purposes as part of the Bank's asset and liability management.

A significant number 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 lending swaps to hedge certain fixed-rate loans and loans in local currency, and investment swaps that hedge a particular underlying investment security and produce the appropriate vehicle in which to invest existing cash.

Effects of SFAS 133 and currency transaction adjustments

Following the requirements of SFAS 133, the Bank records all derivatives at fair value on the Balance Sheet, with changes in fair value reported in Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and Retained Earnings.

On January 1, 2001, the Bank adopted SFAS 133 and designated substantially all its borrowing and lending currency and interest rate swaps in fair value hedging relationships under this standard. Gains or losses on borrowings and loans for which a fair value exposure was being hedged were recorded in income and were offset by the fair value adjustment of the related derivative instrument. Upon discontinuance of hedge accounting on January 1, 2004, the Bank began to amortize the fair value adjustments on the borrowings and loans over the remaining lives of the related bonds or loans. This amortization is included in Effects of SFAS 133 and currency transaction adjustments.

Effects of SFAS 133 and currency transaction adjustments for the years ended December 31, 2007, 2006 and 2005 comprise the following (in millions):

	2007	2006	2005
Increase (decrease) in fair value of derivative instruments due to movements in:			
Exchange rates	$ 1,106	$ 619	$(568)
Interest rates	(170)	(469)	5
Total change in fair value of derivatives	936	150	(563)
Currency transaction (losses) gains on borrowings	(1,141)	(589)	536
Change in fair value of hybrid borrowings	—	1	—
Amortization of borrowing and loan fair values adjustments	57	62	85
Reclassification to income—cash flow hedges	(1)	(8)	(8)
Total	$ (149)	$(384)	$ 50

The Bank's borrowings in non-functional currencies are fully swapped to functional currencies, thus protecting the Bank against fluctuations in exchange rates. During 2007, positive exchange rate changes, affecting the value of the borrowing swaps, amounting to $1,106 million (2006—positive changes of $619 million; 2005—negative changes of $568 million) offset currency transaction losses on borrowings of $1,141 million (2006—losses of $589 million; 2005—gains of $536 million).

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Note J – Commercial Credit Risk

Commercial credit risk is the exposure to losses that could result from either the default or the downgrade by a credit rating agency of one of the Bank's investment, trading or derivative 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 derivative counterparty and has entered into master derivative agreements that contain enforceable close-out netting provisions. These master 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 derivative counterparties. As of December 31, 2007, the Bank had received collateral in the form of U.S. Treasury bonds of $2,131 million (2006—$1,264 million) as required under its master derivative 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 derivative 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, 2007 and 2006, such credit exposures, prior to consideration of any master derivative agreements or posted collateral, were as follows (in millions):

	2007	2006
Investments—Trading Portfolio		
Interest rate swaps	$ 5	$ 8
Borrowing Portfolio		
Currency swaps	2,800	1,797
Interest rate swaps	241	113
Loan Portfolio		
Currency and interest rate swaps	4	5

Note K – 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, 2007 and 2006, see Appendix I-6.

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 remaining voting power available for nonregional members at a maximum of 15.995%, including approximately 5% for Japan.

Total capital stock subscriptions and the voting power of the member countries as of December 31, 2007 are shown in the Statement of Subscriptions to Capital Stock and Voting Power in Appendix I-7.

Note L – Retained Earnings

The composition of Retained earnings as of December 31, 2007 and 2006 is as follows (in millions):

	2007	2006
General reserve	$11,911	$11,777
Special reserve	2,665	2,665
Total	$14,576	$14,442

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Note M – Accumulated Other Comprehensive Income

Other comprehensive income comprises the effects of SFAS 133 and SFAS 158 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, 2007, 2006, and 2005 (in millions):

	Translation Adjustments Allocation				
	General Reserve	Special Reserve	SFAS 133 Adjustments	SFAS 158 Adjustments	Total
Balance at January 1, 2005	$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
Translation adjustments	117	32	—	—	149
Reclassification to income—cash flow hedges	—	—	8	—	8
Initial recognition of deferred (cost) credit for postretirement benefits:					
Net actuarial gain	—	—	—	698	698
Prior service cost	—	—	—	(17)	(17)
Balance at December 31, 2006	512	(168)	1	681	1,026
Translation adjustments	234	46	—	—	280
Reclassification to income — cash flow hedges	—	—	1	—	1
Recognition of changes in Postretirement benefit assets:					
Net actuarial gain	—	—	—	126	126
Reclassification to income—amortization of net prior service cost	—	—	—	4	4
Balance at December 31, 2007	$746	$(122)	$ 2	$811	$1,437

Note N – Pension and Postretirement Benefit Plans

The Bank has two defined benefit retirement plans (Plans), the Staff Retirement Plan (SRP) for the pension benefit of its international employees and the employees of the IIC, and the Local Retirement Plan (LRP) for the pension benefit of national 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.

Since both the Bank and the IIC participate in the SRP 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 Plans and the PRBP.

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, 2007, 2006 and 2005 (in millions):

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

	Pension Benefits			Postretirement Benefits		
	2007	2006	2005	2007	2006	2005
Change in benefit obligation						
Benefit obligation, beginning of year	$2,207	$2,046	$1,794	$ 886	$ 810	$733
Service cost	58	58	56	32	31	28
Interest cost	132	112	105	58	44	42
Plan participants' contributions	21	21	20	—	—	—
Actuarial (gain) loss	(68)	39	136	42	21	23
Benefits paid	(86)	(69)	(65)	(22)	(20)	(16)
Benefit obligation, end of year	2,264	2,207	2,046	996	886	810
Change in plan assets						
Fair value of plan assets, beginning of year	2,826	2,499	2,259	1,130	994	899
Actual return on plan assets	243	339	255	71	140	99
Employer contribution	34	35	30	16	16	12
Plan participants' contributions	21	21	20	—	—	—
Benefits paid	(86)	(69)	(65)	(22)	(20)	(16)
Net payments from other plans	—	1	—	—	—	—
Fair value of plan assets, end of year	3,038	2,826	2,499	1,195	1,130	994
Funded status, end of year	774	619	453	199	244	184
Unrecognized:						
Net actuarial gain	—	—	(331)	—	—	(142)
Prior service cost	—	—	13	—	—	9
Net amount recognized	$ 774	$ 619	$ 135	$ 199	$ 244	$ 51
Amounts recognized on the Balance Sheet consist of:						
Postretirement benefit assets	$ 774	$ 619	$ —	$ 199	$ 244	$ —
Prepaid benefit cost	—	—	136	—	—	51
Accrued benefit liability	—	—	(1)	—	—	—
Net amount recognized	$ 774	$ 619	$ 135	$ 199	$ 244	$ 51
Amounts recognized in Accumulated other comprehensive income consist of:						
Net actuarial gain	$ (648)	$ (492)		$ (176)	$ (206)	
Prior service cost	8	10		5	7	
Net amount recognized	$ (640)	$ (482)		$ (171)	$ (199)	

The incremental effect of applying SFAS 158 on individual line items on the Balance Sheet as of December 31, 2006 (year of adoption) was as follows (in millions):

	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Postretirement benefit assets	$ 182	$681	$ 863
Other assets	836	681	1,517
Total assets	**65,794**	**681**	**66,475**
Accumulated other comprehensive income	345	681	1,026
Total equity	**19,127**	**681**	**19,808**
Total liabilities and equity	**65,794**	**681**	**66,475**

The accumulated benefit obligation for the Plans was $1,943 million and $1,911 million at December 31, 2007 and 2006, respectively.

Net periodic benefit cost and other changes in plan assets and benefit obligations recognized in Other comprehensive income for the years ended December 31, 2007, 2006 and 2005, as applicable, consist of the following components (in millions):

Components of net periodic benefit cost:

	Pension Benefits			Postretirement Benefits		
	2007	2006	2005	2007	2006	2005
Service cost	$ 58	$ 58	$ 56	$ 32	$ 31	$ 28
Interest cost	132	112	105	58	44	42
Expected return on plan assets	(154)	(139)	(132)	(61)	(55)	(53)
Amortization of prior service cost	2	2	2	2	2	2
Net periodic benefit cost	$ 38	$ 33	$ 31	$ 31	$ 22	$ 19
Of which:						
Ordinary Capital's share	$ 32	$ 26	$ 25	$ 26	$ 17	$ 15
FSO's share	6	7	6	5	5	4

Other changes in plan assets and benefit obligations recognized in Other comprehensive income:

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Net actuarial (gain) loss	$ (156)	$ (492)	$ 30	$ (206)
Prior Service cost	—	10	—	7
Amortization of prior service cost	(2)	—	(2)	—
Total recognized in Other comprehensive income	$ (158)	$ (482)	$ 28	$ (199)
Total recognized in net periodic benefit cost and Other comprehensive income	$ (120)	$ (449)	$ 59	$ (177)

The Bank allocates the net periodic benefit cost between the Ordinary Capital and the FSO in accordance with the allocation formula approved by the Board of Executive Directors for administrative expenses.

The estimated prior service cost that will be amortized from Accumulated other comprehensive income into net periodic benefit cost during 2008 is $2 million for the Plans and $2 million for the PRBP.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Actuarial assumptions

The actuarial assumptions used are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations. Actuarial gains and losses occur when actual results are different from expected results. Unrecognized actuarial gains and losses which exceed 10% of the greater of the benefit obligation or market-related value of plan assets at the beginning of the period are amortized over the average remaining service period of active employees expected to receive benefits under the SRP, LRP and PRBP, which approximates 10.5, 13.0 and 11.5 years, respectively.

Unrecognized prior service cost is amortized over 10.5 years for the SRP, 13.0 years for the LRP, and 7.9 years for the PRBP.

The weighted-average assumptions used to determine the benefit obligations and net periodic benefit cost were as follows:

Weighted-average assumptions used to determine benefit obligations at December 31,	Pension Benefits			Postretirement Benefits		
	2007	2006	2005	2007	2006	2005
Discount rate	6.25%	6.00%	5.50%	6.25%	6.00%	5.50%
Rate of salary increase SRP	6.00%	6.00%	5.10%			
Rate of salary increase LRP	7.80%	7.80%	7.30%			

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31,	Pension Benefits			Postretirement Benefits		
	2007	2006	2005	2007	2006	2005
Discount rate	6.00%	5.50%	5.50%	6.00%	5.50%	5.50%
Expected long-term return on plan assets	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Rate of salary increase SRP	6.00%	5.10%	5.10%			
Rate of salary increase LRP	7.80%	7.30%	6.90%			

The expected yearly rate of return on plan assets reflects the historical rate of returns of asset categories employed by the plans and conservatively applying those returns in formulating the investment policy asset allocations. 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:

	2007	2006	2005
Health care cost trend rates assumed for next year:			
Medical	10.00%	8.00%	8.00%
Prescription drugs	10.00%	9.00%	9.50%
Dental	6.50%	6.50%	6.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%	4.50%
Year that the rate reaches the ultimate trend rate	2018	2013	2013

For those participants assumed to retire outside of the United States, a 10.00% health care cost trend rate was used for 2007 (2006—8.00%; 2005—8.00%).

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, 2007 (in millions):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$ 14	$(11)
Effect on postretirement benefit obligation	125	(97)

Plan assets

The Plans and PRBP weighted-average asset allocations at December 31, 2007 and 2006, by asset category, are as follows:

	Plans		PRBP	
Asset category	2007	2006	2007	2006
U.S. equities	34%	35%	39%	40%
Non-U.S. equities	25%	26%	30%	31%
Emerging market equities	3%	3%	—	—
Emerging market debt	2%	2%	—	—
Fixed income bonds and funds	20%	20%	20%	19%
U.S. inflation-indexed bonds	7%	6%	10%	9%
Real estate investment funds and equities	6%	6%	—	—
Commodity index futures	3%	2%	—	—
Other	—	—	1%	1%
Total	100%	100%	100%	100%

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

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 60% and 70% to a well-diversified pool of equities. Assets are also invested in fixed-income securities (20%) to protect against disinflation, 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, emerging market equities (0% to 5%), and emerging market debt (0% to 5%).

The investment policy target allocations as of December 31, 2007 are as follows:

	SRP	LRP	PRBP
U.S. equities	35%	40%	40%
Non-U.S. equities	25%	30%	30%
Emerging market securities(1)	5%	—	—
Fixed income	20%	20%	20%
Inflation-Sensitive investments(2)	15%	10%	10%

(1) Comprised of emerging market equities and debt.
(2) Comprised of inflation-indexed U.S. Government bonds (5% to 15%), real estate investment funds and equities (0% to 6%), and full-collateralized commodity index futures (0% to 4%) for the SRP, inflation-indexed U.S. Government bonds (5% to 10%) and real estate investment funds and equities (0% to 5%) for the LRP, and inflation-indexed U.S. Government 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 2008 are expected to be approximately $23 million and $17 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, 2007.

Year	Plans	PRBP
2008	$ 85	$ 28
2009	90	31
2010	98	33
2011	105	37
2012	111	40
2013–2017	651	246

Note O – Reconciliation of Net Income to Net Cash Provided by (Used In) Operating Activities

A reconciliation of Net income 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,		
	2007	2006	2005
Net income	$ 134	$ 243	$ 762
Difference between amounts accrued and amounts paid or collected for:			
Loan income	(2)	(9)	(8)
Investment income	(26)	(19)	(7)
Net unrealized loss (gain) on trading investments	280	(12)	(1)
Interest and other costs of borrowings, after swaps	182	213	188
Administrative expenses, including depreciation	67	48	53
Special programs	24	27	11
Effects of SFAS 133 and currency transaction adjustments	149	384	(50)
Net decrease (increase) in trading investments	122	(1,796)	(1,341)
Credit for loan and guarantee losses	(13)	(48)	(14)
Net cash provided by (used in) operating activities	$ 917	$ (969)	$ (407)
Supplemental disclosure of noncash activities			
Increase (decrease) resulting from exchange rate fluctuations:			
Trading investments	$ 438	$ 316	$ (272)
Held-to-maturity investments	347	167	(271)
Loans outstanding	583	366	(1,377)
Borrowings	840	536	(1,229)
Receivable from members-net	(302)	(139)	187

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Note P – 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 years 2007, 2006 and 2005, loans made to or guaranteed by two countries individually generated in excess of 10 percent of loan income, as follows (in millions):

	Years ended December 31,		
	2007	2006	2005
Argentina	$463	$476	$460
Brazil	583	540	478

Note Q – Fair Values of Financial Instruments

The following methods and assumptions were used by the Bank in measuring 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 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. For all loans and related commitments, the Bank believes that, due to its unique position in lending operations and the absence of a secondary market for development loans, 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 discounted cash flows or pricing models.

Borrowings: The fair values of borrowings are based on discounted cash flows or pricing models.

The following table presents the fair values of the financial instruments, along with the respective carrying amounts, as of December 31, 2007 and 2006 (in millions):

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	$ 200	$ 200	$ 276	$ 276
Investments				
Trading	12,307	12,307	12,278	12,278
Held-to-maturity	3,858	3,841	3,543	3,516
Loans outstanding, net	47,903	N/A	45,842	N/A
Currency and interest rate swaps receivable				
Investments—trading	3	3	2	2
Loans	4	4	5	5
Borrowings	3,019	3,019	1,880	1,880
Borrowings				
Short-term	2,204	2,204	658	658
Medium- and long-term	44,845	45,305	44,030	44,080
Currency and interest rate swaps payable				
Investments—trading	2	2	1	1
Loans	16	16	9	9
Borrowings	1,006	1,006	742	742

N/A = Not available

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D

December 31, 2007
Expressed in millions of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	All currencies
Obligations of the United States Government and its corporations and agencies:					
Carrying value	—	—	—	454	454[1]
Average balance during year	—	—	—	519	519
Net gains for the year	—	—	—	3	3
Obligations of other governments and agencies:					
Carrying value	—	127	—	—	127
Average balance during year	24	90	—	—	114
Net losses for the year	(1)	—	—	—	(1)
Bank obligations:					
Carrying value	1,701	43	151	2,812	4,707
Average balance during year	1,736	93	265	3,034	5,128
Net gains (losses) for the year	(10)	—	—	14	4
Corporate securities:					
Carrying value	—	—	—	411	411
Average balance during year	—	—	—	449	449
Net losses for the year	—	—	—	(5)	(5)
Asset-backed and mortgage-backed securities:					
Carrying value	2,498	—	—	4,110	6,608
Average balance during year	2,416	—	—	4,834	7,250
Net losses for the year	(52)	—	—	(239)	(291)
Total trading investments:					
Carrying value	4,199	170	151	7,787	12,307
Average balance during year	4,176	183	265	8,836	13,460
Net losses for the year	(63)	—	—	(227)	(290)
Net interest rate swaps:					
Carrying value [2]	1	—	—	—	1
Average balance during year	1	—	—	—	1
Net losses for the year	—	—	—	(1)	(1)
Total trading investments and swaps:					
Carrying value	4,200	170	151	7,787	12,308
Average balance during year	4,177	183	265	8,836	13,461
Net losses for the year	(63)	—	—	(228)	(291)
Return for the year (%)	2.78	0.59	2.37	2.84	2.79

[1] Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities of $226 million. GSE obligations are not backed by the full faith and credit of the United States government.

[2] Interest rate swap agreements are stated in the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D

December 31, 2006
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	—	523	523[1]
Average balance during year	15	216	231
Net gains (losses) for the year	(1)	1	—
Obligations of other governments and agencies:			
Carrying value	—	—	—
Average balance during year	112	50	162
Net losses for the year	(7)	(1)	(8)
Bank obligations:			
Carrying value	954	2,232	3,186
Average balance during year	1,043	2,176	3,219
Net gains for the year	—	1	1
Corporate securities:			
Carrying value	—	481	481
Average balance during year	51	389	440
Net gains (losses) for the year	—	—	—
Asset-backed and mortgage-backed securities:			
Carrying value	2,351	5,737	8,088
Average balance during year	2,164	4,934	7,098
Net gains for the year	2	45	47
Total trading investments:			
Carrying value	3,305	8,973	12,278
Average balance during year	3,385	7,765	11,150
Net gains (losses) for the year	(6)	46	40
Currency swaps receivable:			
Carrying value[2]	—	—	—
Average balance during year	—	100	100
Net gains (losses) for the year	—	—	—
Currency swaps payable:			
Carrying value[2]	—	—	—
Average balance during year	(120)	—	(120)
Net gains for the year	6	—	6
Net interest rate swaps:			
Carrying value[2]	—	1	1
Average balance during year	—	—	—
Net gains for the year	4	—	4
Total trading investments and swaps:			
Carrying value	3,305	8,974	12,279
Average balance during year	3,265	7,865	11,130
Net gains for the year	4	46	50
Return for the year (%)	3.15	5.37	4.73

[1] Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities of $348 million. GSE obligations are not backed by the full faith and credit of the United States government.

[2] Carrying value of currency swaps represents the fair value of each individual receivable or (payable) leg, classified by their currency. 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, 2007
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	48	—	—	5	—	53[1]
Gross unrealized gains	—	—	—	—	—	—
Gross unrealized losses	—	—	—	—	—	—
Fair value	48	—	—	5	—	53
Obligations of other governments and agencies:						
Net carrying amount	1,153	446	51	269	1,115	3,034
Gross unrealized gains	1	1	—	1	3	6
Gross unrealized losses	17	—	—	1	4	22
Fair value	1,137	447	51	269	1,114	3,018
Bank obligations:						
Net carrying amount	309	4	95	—	155	563
Gross unrealized gains	—	—	—	—	—	—
Gross unrealized losses	—	—	—	—	—	—
Fair value	309	4	95	—	155	563
Asset-backed and mortgage-backed securities:						
Net carrying amount	—	—	—	60	148	208
Gross unrealized gains	—	—	—	—	1	1
Gross unrealized losses	—	—	—	—	2	2
Fair value	—	—	—	60	147	207
Total held-to-maturity investments:						
Net carrying amount	1,510	450	146	334	1,418[2]	3,858
Gross unrealized gains	1	1	—	1	4	7
Gross unrealized losses	17	—	—	1	6	24
Fair value	1,494	451	146	334	1,416	3,841
Return for the year (%)	3.64	0.56	2.29	3.92	4.38	3.45

[1] Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities of $53 million. GSE obligations are not backed by the full faith and credit of the United States government.
[2] The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars	$1,085
British pounds sterling	230
Other	103
Total	$1,418

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2007
Expressed in millions of United States dollars

Year of maturity	Net carrying amount	Fair value
2008	$1,545	$1,543
2009 to 2012	2,313	2,298
Total	$3,858	$3,841

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-2

SUMMARY STATEMENT OF HELD-TO-MATURITY INVESTMENTS – NOTE D

December 31, 2006
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	66	—	—	5	—	71[(1)]
Gross unrealized gains	—	—	—	—	—	—
Gross unrealized losses	—	—	—	—	—	—
Fair value	66	—	—	5	—	71
Obligations of other governments and agencies:						
Net carrying amount	867	348	72	351	884	2,522
Gross unrealized gains	—	—	—	—	2	2
Gross unrealized losses	13	1	—	8	6	28
Fair value	854	347	72	343	880	2,496
Bank obligations:						
Net carrying amount	310	111	142	—	185	748
Gross unrealized gains	—	—	—	—	—	—
Gross unrealized losses	—	—	—	—	—	—
Fair value	310	111	142	—	185	748
Asset-backed and mortgage-backed securities:						
Net carrying amount	—	1	—	75	126	202
Gross unrealized gains	—	—	—	—	1	1
Gross unrealized losses	—	—	—	1	1	2
Fair value	—	1	—	74	126	201
Total held-to-maturity investments:						
Net carrying amount	1,243	460	214	431	1,195[(2)]	3,543
Gross unrealized gains	—	—	—	—	3	3
Gross unrealized losses	13	1	—	9	7	30
Fair value	1,230	459	214	422	1,191	3,516
Return for the year (%)	3.42	0.26	1.84	4.14	4.32	3.31

(1) Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities of $71 million. GSE obligations are not backed by the full faith and credit of the United States government.

(2) The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars	$ 887
British pounds sterling	217
Other	91
Total	$1,195

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2006
Expressed in millions of United States dollars

Year of maturity	Net carrying amount	Fair value
2007	$1,358	$1,358
2008 to 2011	2,182	2,156
2012	3	2
Total	$3,543	$3,516

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-3

SUMMARY STATEMENT OF LOANS – NOTE E

December 31, 2007 and 2006
Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding 2007[1]	Currency in which outstanding balance is collectible: Non-borrowing country currencies[2]	Borrowing country currencies	Undisbursed	Outstanding 2006[1]
Argentina	$ 8,567	$ 8,507	$ 60	$ 4,708	$ 8,465
Bahamas	79	79	—	61	74
Barbados	133	133	—	61	141
Belize	96	96	—	4	80
Bolivia	195	195	—	52	233
Brazil	12,505	12,456	49	2,067	11,743
Chile	551	550	1	287	550
Colombia	4,813	4,791	22	664	4,294
Costa Rica	495	495	—	517	535
Dominican Republic	1,029	1,029	—	359	1,067
Ecuador	1,465	1,465	—	556	1,326
El Salvador	1,166	1,166	—	207	1,128
Guatemala	1,135	1,135	—	477	959
Guyana	3	3	—	16	6
Honduras	89	89	—	68	104
Jamaica	542	542	—	92	565
Mexico	4,574	4,574	—	1,055	3,999
Nicaragua	78	78	—	40	84
Panama	853	853	—	555	842
Paraguay	678	678	—	429	658
Peru	3,823	3,823	—	652	3,622
Suriname	55	55	—	25	49
Trinidad and Tobago	390	390	—	144	377
Uruguay	1,835	1,835	—	592	1,837
Venezuela	1,153	1,138	15	917	1,574
Regional	484	484	—	19	531
Non-sovereign-guaranteed loans	1,168	1,168	—	1,504	1,089
Inter-American Investment Corporation	—	—	—	300	—
Total 2007	$47,954	$47,807	$147	$16,428	
Total 2006		$45,779	$153	$16,080	$45,932

(1) This table excludes outstanding participated non-sovereign-guaranteed loans of $944 million at December 31, 2007 (2006—$1,205 million). This table also excludes guarantees outstanding of $689 million at December 31, 2007 (2006—$379 million).
(2) Includes $147 million of loans in borrowing country currencies, which have been swapped to United States dollars.

Non-sovereign-guaranteed loans outstanding have been made in the following countries (in millions):

	December 31, 2007	December 31, 2006
Argentina	$ 2	$ 52
Bolivia	81	93
Brazil	558	346
Chile	9	12
Costa Rica	10	11
Ecuador	25	22
Guatemala	25	—
Jamaica	$ —	$ 30
Mexico	105	236
Nicaragua	7	7
Peru	201	127
Suriname	7	—
Uruguay	—	10
Regional	138	143
	$1,168	$1,089

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT – NOTE E

December 31, 2007
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	$ 97	7.16	$ —	—	—	$ 97	7.16
Adjustable	1,959	4.25	12	4.53	5.24	1,971	4.25
Japanese yen							
Fixed	175	7.15	—	—	—	175	7.15
Adjustable	3,536	4.25	8	1.93	4.89	3,544	4.24
LIBOR-based floating	—	—	35	0.99	8.87	35	0.99
Swiss francs							
Fixed	94	7.22	—	—	—	94	7.22
Adjustable	1,839	4.25	—	—	—	1,839	4.25
United States dollars [1]							
Fixed	327	7.16	—	—	—	327	7.16
Adjustable	6,553	4.25	22,329	5.61	7.72	28,882	5.30
LIBOR-based fixed	—	—	417	5.71	3.63	417	5.71
LIBOR-based floating	—	—	10,426	5.62	9.42	10,426	5.62
Others							
Fixed	147	4.00	—	—	—	147	4.00
Loans outstanding							
Fixed	840	6.61	—	—	—	840	6.61
Adjustable	13,887	4.25	22,349	5.61	7.72	36,236	5.09
LIBOR-based fixed	—	—	417	5.71	3.63	417	5.71
LIBOR-based floating	—	—	10,461	5.60	9.42	10,461	5.60
Total	$14,727	4.38	$33,227	5.61	8.20	$47,954	5.23

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2007
Expressed in millions of United States dollars

	Multicurrency loans[2]		Single currency loans		All loans		
Year of maturity	Fixed	Adjustable	Fixed[3]	Adjustable[3]	Fixed	Adjustable	Total
2008	$223	$ 1,913	$ 66	$ 2,142	$ 289	$ 4,055	$ 4,344
2009	149	1,911	63	1,792	212	3,703	3,915
2010	124	1,834	65	2,038	189	3,872	4,061
2011	97	1,646	61	2,226	158	3,872	4,030
2012	82	1,384	58	2,267	140	3,651	3,791
2013 to 2017	140	3,863	89	10,882	229	14,745	14,974
2018 to 2022	22	1,168	15	7,451	37	8,619	8,656
2023 to 2027	3	168	—	3,376	3	3,544	3,547
2028 to 2032	—	—	—	636	—	636	636
Total	$840	$13,887	$417	$32,810	$1,257	$46,697	$47,954
Average maturity (years)	2.97	4.64	3.63	8.26	3.19	7.18	7.07

[1] Includes $147 million of loans in borrowing country currencies, which have been swapped to United States dollars.

[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.

[3] Includes LIBOR-based loans.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT – NOTE E

December 31, 2006
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	$ 131	7.18	$ —	—	—	$ 131	7.18
Adjustable	1,942	4.14	14	3.72	5.65	1,956	4.14
Japanese yen							
Fixed	241	7.17	—	—	—	241	7.17
Adjustable	3,584	4.14	5	1.79	5.39	3,589	4.14
LIBOR-based floating	—	—	4	0.87	9.87	4	0.87
Swiss francs							
Fixed	138	7.21	—	—	—	138	7.21
Adjustable	2,013	4.14	—	—	—	2,013	4.14
United States dollars(1)							
Fixed	522	7.18	—	—	—	522	7.18
Adjustable	7,735	4.14	21,486	5.41	7.92	29,221	5.07
LIBOR-based fixed	—	—	584	6.72	4.03	584	6.72
LIBOR-based floating	—	—	7,378	6.72	8.30	7,378	6.72
Others							
Fixed	155	4.00	—	—	—	155	4.00
Loans outstanding							
Fixed	1,187	6.77	—	—	—	1,187	6.77
Adjustable	15,274	4.14	21,505	5.41	7.92	36,779	4.88
LIBOR-based fixed	—	—	584	6.72	4.03	584	6.72
LIBOR-based floating	—	—	7,382	6.72	8.30	7,382	6.72
Total	$16,461	4.33	$29,471	5.76	7.94	$45,932	5.25

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2006
Expressed in millions of United States dollars

	Multicurrency loans(2)		Single currency loans		All loans		
Year of maturity	Fixed	Adjustable	Fixed(3)	Adjustable(3)	Fixed	Adjustable	Total
2007	$ 291	$ 1,885	$ 85	$ 2,280	$ 376	$ 4,165	$ 4,541
2008	229	1,894	76	2,100	305	3,994	4,299
2009	157	1,893	71	1,683	228	3,576	3,804
2010	133	1,817	71	1,854	204	3,671	3,875
2011	107	1,593	78	1,985	185	3,578	3,763
2012 to 2016	242	4,531	177	9,139	419	13,670	14,089
2017 to 2021	25	1,430	26	6,574	51	8,004	8,055
2022 to 2026	3	223	—	2,666	3	2,889	2,892
2027 to 2031	—	8	—	606	—	614	614
Total	$1,187	$15,274	$584	$28,887	$1,771	$44,161	$45,932
Average maturity (years)	3.10	4.92	4.03	8.02	3.41	6.95	6.81

(1) Includes $74 million of loans in borrowing country currencies, which have been swapped to United States dollars.
(2) (3) See footnotes on previous page.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES H AND I

December 31, 2007
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	$ 2,628	4.94	3.20	$ 181	6.70	1.67	$ —	—	—	$ 2,809	5.05	3.10
	—	—	—	(659)	5.57	2.25	(1,168)	4.16	4.40	(1,827)	4.67	3.62
Adjustable	806	5.33	8.32	3,672	4.50	3.57	1,168	4.61	4.40	5,646	4.64	4.42
	—	—	—	(806)	5.33	8.32	—	—	—	(806)	5.33	8.32
Japanese yen												
Fixed	2,133	2.91	3.03	677	0.95	0.83	45	1.71	0.37	2,855	2.43	2.47
	—	—	—	(90)	5.03	6.36	(1,190)	1.89	1.58	(1,280)	2.11	1.92
Adjustable	242	2.35	11.41	154	0.59	0.86	1,172	0.67	1.84	1,568	0.92	3.22
	—	—	—	(663)	1.19	4.75	(27)	1.23	10.83	(690)	1.19	4.99
Swiss francs												
Adjustable	—	—	—	1,237	2.56	3.13	—	—	—	1,237	2.56	3.13
	—	—	—	—	—	—	—	—	—	—	—	—
United States dollars												
Fixed	23,727	5.29	5.42	620	5.62	2.33	580	5.25	6.77	24,927	5.29	5.37
	—	—	—	(650)	6.69	0.50	(11,566)	4.89	6.82	(12,216)	4.98	6.48
Adjustable	150	2.46	6.73	14,739	4.92	6.28	12,939	4.87	5.71	27,828	4.88	6.01
	—	—	—	(4,167)	4.84	3.66	(2,531)	4.74	5.44	(6,698)	4.81	4.33
Others												
Fixed	17,967	6.37	6.21	—	—	—	—	—	—	17,967	6.37	6.21
	—	—	—	(17,967)	6.37	6.21	—	—	—	(17,967)	6.37	6.21
Adjustable	118	10.11	5.31	—	—	—	—	—	—	118	10.11	5.31
				(118)	10.11	5.31	—	—	—	(118)	10.11	5.31
Total												
Fixed	46,455	5.58	5.49	1,478			625			48,558	5.51	5.38
	—	—	—	(19,366)			(13,924)			(33,290)	5.60	6.00
Adjustable	1,316	4.89	8.44	19,802			15,279			36,397	4.61	5.55
	—	—	—	(5,754)			(2,558)			(8,312)	4.63	4.79
Principal at face value	47,771	5.56	5.57	(3,840)			(578)			43,353	4.85	5.15
SFAS 133 — Fair value adjustments	(9)			599			(116)			474		
Net unamortized discount	(2,917)			1,344			578[3]			(995)		
Total	$44,845	5.56	5.57	$ (1,897)			$ (116)			$42,832	4.85	5.15

[1] As of December 31, 2007, the average repricing period of the net currency obligations for adjustable rate borrowings was five 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 and interest rate swaps of $1,897 million and $116 million, respectively, shown in the above table, are represented by currency and interest rate swap assets at fair value of $3,019 million and currency and interest rate swap liabilities at fair value of $1,006 million, included on the Balance Sheet.

[3] Represents the unamortized discount on zero coupon interest rate swaps.

MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2007
Expressed in millions of United States dollars

Year of maturity	
2008	$ 7,460
2009	5,770
2010	6,014
2011	2,930
2012	6,483

Year of maturity	
2013 through 2017	$12,460
2018 through 2022	2,266
2023 through 2027	3,910
2037	478
Total	$47,771

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES H AND I

December 31, 2006
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	$ 2,593	5.04	3.91	$ 164	6.70	2.67	$ 196	3.65	0.89	$ 2,953	5.04	3.64
	—	—	—	(996)	5.57	2.27	(1,069)	4.15	5.34	(2,065)	4.84	3.86
Adjustable	896	5.26	7.73	3,153	3.37	3.08	1,069	3.45	5.34	5,118	3.72	4.37
	—	—	—	(896)	5.24	7.73	(196)	3.39	0.89	(1,092)	4.91	6.50
Japanese yen												
Fixed	2,463	3.03	3.31	635	0.95	1.83	42	1.71	1.37	3,140	2.59	2.98
	—	—	—	(464)	3.45	1.51	(1,115)	1.89	2.58	(1,579)	2.35	2.27
Adjustable	227	2.35	12.41	173	0.17	1.68	1,099	0.19	2.84	1,499	0.51	4.16
	—	—	—	(622)	0.90	5.75	(25)	1.23	11.83	(647)	0.91	5.98
Swiss francs												
Fixed	821	3.27	0.81	—	—	—	—	—	—	821	3.27	0.81
	—	—	—	—	—	—	—	—	—	—	—	—
Adjustable	—	—	—	616	1.42	2.94	—	—	—	616	1.42	2.94
	—	—	—	—	—	—	—	—	—	—	—	—
United States dollars												
Fixed	24,361	5.36	5.46	1,314	5.71	1.89	231	5.24	2.97	25,906	5.38	5.26
	—	—	—	(1,165)	5.68	1.19	(9,550)	4.70	6.71	(10,715)	4.81	6.11
Adjustable	150	2.46	7.73	12,906	5.20	5.59	10,786	5.14	6.54	23,842	5.16	6.03
	—	—	—	(2,558)	5.15	3.94	(1,468)	4.91	4.89	(4,026)	5.06	4.29
Others												
Fixed	14,789	6.19	5.49	—	—	—	—	—	—	14,789	6.19	5.49
	—	—	—	(14,789)	6.19	5.49	—	—	—	(14,789)	6.19	5.49
Adjustable	96	10.06	4.81	—	—	—	—	—	—	96	10.06	4.81
	—	—	—	(96)	10.06	4.81	—	—	—	(96)	10.06	4.81
Total												
Fixed	45,027	5.45	5.18	2,113			469			47,609	5.39	5.00
	—	—	—	(17,414)			(11,734)			(29,148)	5.38	5.43
Adjustable	1,369	4.81	8.30	16,848			12,954			31,171	4.64	5.60
	—	—	—	(4,172)			(1,689)			(5,861)	4.66	4.90
Principal at face value	46,396	5.43	5.27	(2,625)			—			43,771	4.96	5.16
SFAS 133 — Fair value adjustments	71			106			174			351		
Net unamortized discount	(2,437)			1,207						(1,230)		
Total	$44,030	5.43	5.27	$ (1,312)			$ 174			$42,892	4.96	5.16

(1) As of December 31, 2006, the average repricing period of the net currency obligations for adjustable rate borrowings was five 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 $1,312 million and the net fair value amount payable from interest rate swaps of $174 million, shown in the above table, are represented by currency and interest rate swap assets at fair value of $1,880 million and currency and interest rate swap liabilities at fair value of $742 million, included on the Balance Sheet.

MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2006
Expressed in millions of United States dollars

Year of maturity		Year of maturity	
2007	$ 6,272	2012 through 2016	$15,469
2008	6,908	2017 through 2021	2,722
2009	5,048	2022 through 2026	1,740
2010	4,893	2027	600
2011	2,744	Total	$46,396

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-6

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK – NOTE K

December 31, 2007 and 2006
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 2007	Total 2006
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	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	100,937.9
Unallocated(2)	1,299	0.9	—	14.8	15.7	15.7
Total 2007	8,368,563	$ 3,871	$ 469	$ 96,613	$ 100,953	
Total 2006	8,368,563	$ 3,871	$ 469	$ 96,613		$ 100,953

(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.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-7

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

December 31, 2007

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.

FUND FOR SPECIAL OPERATIONS

MANAGEMENT'S REPORT REGARDING THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

February 12, 2008

The Management of the Inter-American Development Bank (Bank) is responsible for establishing and maintaining effective internal control over financial reporting in the Bank. Management has evaluated the Bank's Fund for Special Operations internal control over financial reporting using the criteria for effective internal control established in the Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed the effectiveness of the Bank's Fund for Special Operations internal control over financial reporting as of December 31, 2007. Based on this assessment, Management believes that the Bank's internal control over financial reporting is effective as of December 31, 2007.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Ernst & Young LLP, an independent registered public accounting firm, has issued an opinion on the Bank's Fund for Special Operations internal control over financial reporting. In addition, the Bank's Fund for Special Operations financial statements, as of December 31, 2007, have been audited by Ernst & Young LLP.

Luis Alberto Moreno
President

Carlos Hurtado
Vice President for Finance and Administration

John R. Hauge
Finance General Manager and CFO
through January 31, 2008

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited Inter-American Development Bank (Bank)—Fund for Special Operations' internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Bank's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report Regarding the Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank's Fund for Special Operations internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank's Fund for Special Operations maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheet of the Inter-American Development Bank – Fund for Special Operations as of December 31, 2007 and 2006, and the related statements of income (loss) and general reserve (deficit), comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2007 and our report dated February 12, 2008 expressed an unqualified opinion thereon.

Ernst + Young LLP

Washington, D.C.
February 12, 2008

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) – Fund for Special Operations as of December 31, 2007 and 2006, and the related statements of income (loss) and general reserve (deficit), comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank – Fund for Special Operations as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with United States generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Inter-American Development Bank's Fund for Special Operations internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2008 expressed an unqualified opinion thereon.

Ernst + Young LLP

Washington, D.C.
February 12, 2008

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31, 2007		December 31, 2006	
ASSETS				
Cash and investments				
Cash	**$ 374**		$ 389	
Investments	**1,191**	**$1,565**	1,203	$1,592
Loans outstanding	**4,399**		8,044	
Allowance for debt relief	**(433)**	**3,966**	(4,311)	3,733
Accrued interest and other charges on loans		**25**		39
Receivable from members				
Non-negotiable, non-interest-bearing demand obligations	**545**		567	
Amounts required to maintain value of currency holdings	**200**	**745**	209	776
Other assets		**4**		8
Total assets		**$6,305**		$6,148
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses	**$ 6**		$ 6	
Undisbursed technical cooperation projects and other financings	**85**		84	
Due to IDB Grant Facility	**38**		—	
Amounts payable to maintain value of currency holdings	**374**	**$ 503**	300	$ 390
Fund balance				
Contribution quotas authorized and subscribed	**9,640**		9,639	
General reserve (deficit)	**(3,956)**		(3,965)	
Accumulated translation adjustments	**118**	**5,802**	84	5,758
Total liabilities and fund balance		**$6,305**		$6,148

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF INCOME (LOSS) AND GENERAL RESERVE (DEFICIT)

Expressed in millions of United States dollars

	Years ended December 31,		
	2007	**2006**	**2005**
Income			
Loans			
Interest	**$ 79**	$ 139	$ 135
Other loan income	**11**	13	14
	90	152	149
Investments	**56**	60	38
Total income	**146**	212	187
Expenses			
Administrative expenses	**64**	93	86
Total expenses	**64**	93	86
Income before technical cooperation, debt relief, and transfers	**82**	119	101
Technical cooperation expense	**23**	19	28
Debt relief expense	**—**	3,382	1
Transfers to Intermediate Financing Facility Account	**—**	61	62
Transfer to IDB Grant Facility	**50**	—	—
Net income (loss)	**9**	(3,343)	10
General reserve (deficit), beginning of year	**(3,965)**	(622)	(632)
General reserve (deficit), end of year	**$(3,956)**	$(3,965)	$(622)

STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Expressed in millions of United States dollars

	Years ended December 31,		
	2007	**2006**	**2005**
Net Income (loss)	**$ 9**	$(3,343)	$ 10
Translation adjustments	**34**	54	(89)
Comprehensive income (loss)	**$43**	$(3,289)	$ (79)

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2007	**2006**	**2005**
Cash flows from lending activities			
Loan disbursements	**$ (393)**	$ (398)	$ (424)
Loan collections	**275**	290	301
Loan participations, net	**(2)**	(2)	(1)
Net cash used in lending activities	**(120)**	(110)	(124)
Cash flows from financing activities			
Collections of receivable from members	**28**	101	130
Net cash provided by financing activities	**28**	101	130
Cash flows from operating activities			
Gross purchases of investments	**(572)**	(1,208)	(2,269)
Gross proceeds from sale or maturity of investments	**625**	1,233	2,237
Loan income collections	**93**	152	146
Income from investments	**23**	26	38
Administrative expenses	**(65)**	(99)	(77)
Technical cooperation and other financings	**(23)**	(29)	(34)
Cash transfers to the Intermediate Financing Facility Account	**—**	(61)	(62)
Cash transfers to the IDB Grant Facility	**(12)**	—	—
Net cash provided by (used in) operating activities	**69**	14	(21)
Effect of exchange rate fluctuations on cash	**8**	6	6
Net (decrease) increase in Cash	**(15)**	11	(9)
Cash, beginning of year	**389**	378	387
Cash, end of year	**$ 374**	$ 389	$ 378

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

FUND FOR SPECIAL OPERATIONS
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 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, the Intermediate Financing Facility Account (IFF), and the IDB Grant Facility (GRF). 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 GRF was established in 2007 for the purpose of making grants appropriate for dealing with special circumstances arising in specific countries (currently only Haiti) or with respect to specific projects.

Note B – Summary of Significant Accounting Policies

Effective in 2007, the financial statements of the FSO are prepared in conformity with United States generally accepted accounting principles (GAAP). Prior to 2007, the financial statements were prepared on a special accounting basis. The comparative financial information included in the accompanying financial statements has been adjusted to be in conformity with GAAP.

The preparation of financial statements in accordance with GAAP 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 and the determination of the adequacy of the allowances for loan losses and debt relief.

New accounting pronouncements

On January 1, 2008, the Bank will adopt Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. It is estimated that the adoption of this standard will not have a material impact on the FSO's financial position and results of operations.

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 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 Balance Sheet dates. 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) provision described below. Net adjustments resulting from the translation into United States dollars of assets and liabilities in currencies that do not have MOV protection, which are derived from the 1983, 1990 and 1995 increases in contribution quotas, are presented as a component of Comprehensive income (loss)[1] in the Statement of Comprehensive Income (Loss).

Investments

Investment securities transactions are recorded on the trade date. All investment securities are held in a trading portfolio carried at fair value, with changes in fair value included in Income from investments.

Loans

The Bank utilizes FSO resources to make highly concessional loans, denominated in the currencies of non-borrowing member countries, to the least-developed borrowing members, their agencies or political subdivisions. In previous years, the Bank also made concessional loans in local currencies to borrowing members. In the case of loans to borrowers other than national governments, central banks or other governmental or intergovernmental entities, the Bank follows the general policy of requiring a guarantee engaging the full faith and credit of the government. Under the loan contracts with the borrowers, the Bank sells participations in certain loans to the Social Progress Trust Fund, reserving to itself the administration of those loans.

Loans generally have up to 40 years final maturity and up to a 10 year grace period for principal payments, and generally carry an interest rate of 1% during the grace period and 2% thereafter. The principal amount of loans and accrued interest are repayable in the currencies lent. As a result of the Multilateral Debt Relief and Concessional Finance Reform approved

[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.

by the Board of Governors in 2007 (see Note N), the Bank now offers a blending of loans from the FSO and the Ordinary Capital ("parallel loans"). The FSO's portion of parallel loans are bullet loans with up to 40 years maturity and an interest rate of 0.25%.

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 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 and the Multilateral Debt Relief and Concessional Finance Reform discussed in Notes M and N, respectively, the Bank has never had a write-off on any of its FSO loans and has a policy of not rescheduling loan repayments. The Bank periodically reviews the collectibility of loans and, if applicable, records, as an expense, provisions for loan losses in accordance with its determination of the collectibility risk of the total loan 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, the Bank expects that each of its FSO loans will be repaid. As of December 31, 2007 and 2006, the allowance for loan losses was *de minimus*.

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are immaterial to the financial results.

Recognition of debt relief: The Bank participates in debt relief initiatives concerted by international organizations to address the debt problems of member countries identified as heavily indebted poor countries by partially or fully forgiving future debt service payments on outstanding FSO loans. The principal component of loans affected by the Bank's debt relief initiatives is recognized as Debt relief expense in the Statement of Income (Loss) and General Reserve (Deficit), and as a reduction in Loans outstanding, through an Allowance for debt relief, when the FSO commitment is probable and the amount of debt relief is estimable. Following this policy, under the Enhanced HIPC Initiative, the FSO recognizes the principal component of debt relief in full when the country reaches Decision Point, as defined in Note M. Under the Multilateral Debt Relief and Concessional Finance Reform, the FSO recognized the debt relief in full when the Board of Governors approved the Bank's participation in this initiative in 2006. When the debt relief is delivered, loans outstanding are written off and the corresponding Allowance for debt relief is reduced.

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: Contribution quotas are recorded in full on the effective date of the replenishment. Resulting contribution quotas receivable are presented as an offset to Contribution quotas authorized and subscribed until they are settled through the payment of cash or through delivery of non-negotiable, non-interest-bearing demand notes.

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

a decision by the Bank's governing board and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using as the basis of valuation the 1959 United States dollar, as valued in terms of United States dollars at July 1, 1974, whose value is equal to approximately 1.2063 of the then current United States dollars.

Maintenance of value
In accordance with the Agreement, each member is required to maintain the value of its currency held in the FSO to the extent established by the terms for the respective increases in contribution quotas. Likewise, and subject to the same terms of the 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 Balance Sheet, included in Amounts required/payable to maintain value of currency holdings.

Administrative expenses
All administrative expenses of the Bank, excluding realignment expenses, are allocated between the Ordinary Capital and the FSO pursuant to an allocation formula approved by the Board of Executive Directors. As a result of the Multilateral Debt Relief and Concessional Finance Reform, the Board of Executive Directors approved a new expense allocation formula, whereby, starting in 2007, the FSO bears a smaller percentage of the administrative expenses of the Bank. Following this allocation formula, the effective ratio of administrative expenses charged was 11.5% to the FSO and 88.5% to the Ordinary Capital during 2007 (2006—18.7% and 81.3%; 2005—18.5% and 81.5%, both years under the previous allocation formula).

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.

General reserve transfers
Up to December 31, 2006, the FSO made general reserve transfers to the IFF. Effective in 2007, transfers are made to the GRF. General reserve transfers are recognized as an expense when approved by the Board of Governors. However, funding of these transfers may be immediate (e.g., IFF) or in accordance with their funding requirements (e.g., GRF). The undisbursed portion of approved transfers to the GRF is presented under Due to IDB Grant Facility on the Balance Sheet.

Fair values of financial instruments
The following methods and assumptions were used by the Bank in measuring the fair value for its financial instruments:

Cash: The carrying amount reported on the Balance Sheet for cash approximates fair value.

Investments: Fair values for investment securities are based on quoted 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. Interest on all loans is accrued at fixed rates. For all loans and related commitments, the Bank believes that, due to its unique position in lending operations and the absence of a secondary market for development loans, it is not practicable to estimate a fair value for its lending portfolio.

Note C – Restricted Currencies
As of December 31, 2007, Cash includes $369 million (2006—$377 million) in currencies of regional borrowing members. One member has restricted the amount of $34 million (2006—$43 million) to be used for making payments for goods and services in its territory, in accordance with the provisions of the Agreement.

Note D – Investments
As part of its overall portfolio management strategy, the Bank invests FSO resources both directly and indirectly, through investment pools managed by the Bank, in high quality securities in accordance with established investment guidelines. FSO investments include government, agency, corporate and bank obligations, and asset-backed and mortgage-backed securities with credit ratings ranging from AAA to A+ (short-term securities carry the highest short-term credit ratings). The Bank limits its activities of investing in securities to a list of authorized deal-

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

ers and counterparties. Credit limits have been established for each counterparty.

A summary of the trading portfolio securities at December 31, 2007 and 2006 is shown in the Summary Statement of Investments in Appendix II-1. The average return on investments, including realized and unrealized gains and losses, during 2007 was 4.42% (2006—5.04%; 2005—3.09%).

Note E – Loans Outstanding and Allowance for Debt Relief

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, fulfill certain conditions precedent as required by contract. Loans outstanding by country are shown in the Summary Statement of Loans Outstanding in Appendix II-2. The average interest rate for loans outstanding at December 31, 2007 and 2006 was 1.81% and 1.74%, respectively, and the average maturity was 12.0 years and 13.0 years, respectively.

The changes in the Allowance for debt relief for the years ended December 31, 2007 and 2006 were as follows (in millions):

	2007	2006
Balance at January 1,	$ 4,311	$ 978
Debt relief expense	—	3,382
Debt relief delivered during the year:		
Enhanced HIPC Initiative	(893)	(49)
Multilateral Debt Relief Initiative	(2,985)	—
Balance at December 31,	$ 433	$4,311
Composed of:		
Allowance for Enhanced HIPC Initiative	$ 10	$ 903
Allowance for Multilateral Debt Relief Initiative	423	3,408
	$ 433	$4,311

Note F – Receivable from Members

The composition of the net receivable from members as of December 31, 2007 and 2006 is as follows (in millions):

	2007	2006
Regional developing members	$ 722	$ 751
Canada	(24)	4
Non-regional members	(327)	(279)
Total	$ 371	$ 476

These amounts are represented on the Balance Sheet as follows (in millions):

	2007	2006
Receivable from members	$ 745	$ 776
Amounts payable to maintain value of currency holdings	(374)	(300)
Total	$ 371	$ 476

Note G – Contribution Quotas Authorized and Subscribed

Non-negotiable, non-interest-bearing demand obligations have been 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 (2007—$1 million; 2006—$1 million). For a Statement of Contribution Quotas at December 31, 2007 and 2006, see Appendix II-3.

Voting power

In making decisions concerning operations of the FSO, the number of votes and percent of voting power for each member country are the same as those applicable for decisions involving the Ordinary Capital.

Note H – General Reserve (Deficit)

The General reserve (deficit) consists of income and losses from prior years.

As part of the Multilateral Debt Relief and Concessional Finance Reform, the Bank discontinued the transfer of FSO resources to the IFF effective January 1, 2007, as contemplated in previous agreements of the Board of Governors (see Note N for further details). In addition, in 2007, the Board of Governors approved the creation of the GRF, which will be funded by transfers from the FSO general reserve (calculated excluding the cumulative principal of loan write-offs from the HIPC Initiatives and other debt relief), and possible direct contributions from donor countries.

In 2007, the Board of Governors approved the transfer of $50 million from the FSO to the GRF to provide grants to Haiti. Estimated transfers from the FSO to the GRF are $50 million for each of 2008 and 2009. These transfers are subject to Board of Governors approval. Future transfers will be determined based on the future financial condition of the FSO.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

The following is a summary of changes in the General reserve (deficit) for the years ended December 31, 2007, 2006, and 2005 (in millions):

	Debt relief	Income, excluding debt relief	Total General reserve (deficit)
Balance at January 1, 2005	$(1,391)	$759	$ (632)
Debt relief expense	(1)	—	(1)
Net income, excluding debt relief	—	11	11
Balance at December 31, 2005	(1,392)	770	(622)
Debt relief expense	(3,382)	—	(3,382)
Net income, excluding debt relief	—	39	39
Balance at December 31, 2006	(4,774)	809	(3,965)
Net income, excluding debt relief	—	9	9
Balance at December 31, 2007	$(4,774)	$818	$(3,956)

Note I – Accumulated Translation Adjustments

The following is a summary of changes in the Accumulated translation adjustments for the years ended December 31, 2007, 2006, and 2005 (in millions):

	2007	2006	2005
Balance at January 1,	$ 84	$30	$119
Translation adjustments	34	54	(89)
Balance at December 31,	$118	$84	$ 30

Note J – Administrative Expenses

Pursuant to the policy described in Note B, the FSO shares in all of the expenses incurred by the Bank, except for realignment expenses, including those related to the pension and postretirement benefit plans.

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, 2007 and 2006 (in millions):

	2007	2006
Balance at January 1,	$ 84	$ 94
Approvals	34	28
Cancellations	(7)	(6)
Disbursements	(26)	(32)
Balance at December 31,	$ 85	$ 84

Note L – Reconciliation of Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities

A reconciliation of Net income (loss) to Net cash provided by (used in) operating activities, as shown in the Statement of Cash Flows, is as follows (in millions):

	Years ended December 31,		
	2007	2006	2005
Net income (loss)	$ 9	$(3,343)	$ 10
Difference between amounts accrued and amounts paid or collected for:			
Loan income	3	—	(3)
Income from investments	—	4	—
Net unrealized gain on investments	(32)	(39)	—
Administrative expenses	(2)	(6)	9
Technical cooperation and other financings	—	(9)	(6)
Transfer to the GRF	38	—	—
Net decrease (increase) in investments	53	25	(32)
Debt relief expense	—	3,382	1
Net cash provided by (used in) operating activities	$ 69	$ 14	$ (21)
Supplemental disclosure of noncash activities			
Increase (decrease) resulting from exchange rate fluctuations:			
Investments	$ 9	$ 4	$ (18)
Loans outstanding	95	128	(217)
Receivable from members-net	(78)	(84)	142

Note M – Heavily Indebted Poor Countries 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. At December 31, 2007, eligible member countries were Bolivia, Guyana, Haiti, Honduras and Nicaragua. This debt relief has been implemented through a combination of write-offs of the principal and interest of FSO loans, 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.

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. Up to January 1, 2007, additional debt service relief was funded by amounts received from the World Bank HIPC Trust Fund. Such amounts, including any investment income thereon, were kept separately from the resources of the FSO in the HIPC Account, and were used solely for the specific purpose of meeting debt service obligations of eligible countries. These resources were not included in the financial statements and did 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.

During 2006, Haiti reached Decision Point and the FSO recognized Debt Relief expense of $20 million under the Enhanced HIPC. All the other four eligible countries reached Completion Point between 2001 and 2005. During 2007, the FSO delivered debt relief under the Enhanced HIPC Initiative for a total of $893 million (2006—$49 million), including $10 million for Haiti.

Note N – Multilateral Debt Relief and Concessional Finance Reform

In 2006, the World Bank's International Development Agency, the International Monetary Fund and the African Development Fund approved their participation in the Multilateral Debt Relief Initiative (MDRI) to provide additional debt relief to HIPC countries. Although the MDRI did not include the Bank, the Bank's Board of Governors supported the principle of furthering FSO debt relief for HIPC-eligible countries in Latin America and the Caribbean.

In December 2006, the Board of Governors approved a structure that included one hundred (100) percent relief of eligible FSO debt for Bolivia, Guyana, Haiti, Honduras and Nicaragua, effective January 1, 2007, as well as (i) the continuance of access to concessional resources for FSO countries (other than Haiti) via parallel loans, (ii) Haiti's access to an appropriate mix of loans and/or grants with adequate levels of concessionality, (iii) the IFF's extension to 2015 via a blending of FSO resources and Ordinary Capital loans, and (iv) annual non-reimbursable technical assistance of $30 million. As a result of this approval, the FSO recognized Debt relief expense of $3,362 million, increasing the Allowance for debt relief for the same amount.

On March 15, 2007, the Board of Governors approved 100% debt relief for Bolivia, Guyana, Haiti, Honduras and Nicaragua on FSO loan balances outstanding as of December 31, 2004. Under this agreement, the Bank forgave approximately $3.4 billion in FSO loan principal payments, including approximately $0.4 billion for Haiti to be effective once it reaches Completion Point under the Enhanced HIPC Initiative, and $1.0 billion of future interest payments. FSO loan balances of $3,868 million were written off effective January 1, 2007, including $883 million related to debt relief remaining to be delivered to HIPC-eligible countries, other than Haiti, under the Enhanced HIPC Initiative. In addition, the FSO now bears a smaller percentage of the administrative expenses of the Bank currently allocated between the Ordinary Capital and the FSO, and countries eligible for IFF subsidies continue to receive concessional resources for new loans through 2015, in the form of parallel loans rather than a reduction in the interest rate billed, and still receive the reduction in interest rate billed for loans approved up to December 31, 2006, subject to availability of IFF resources.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-1

SUMMARY STATEMENT OF INVESTMENTS – NOTE D

December 31, 2007 and 2006
Expressed in millions of United States dollars

Investments	2007	2006
Investment Pools	$1,073	$1,097
Obligations of other governments and agencies	15	—
Bank obligations	103	106
	$1,191	$1,203

The currencies of the above investments are as follows:

Currencies	2007	2006
British pounds sterling	$ 13	$ 14
Canadian dollars	26	14
Danish Kroner	3	—
Euro	57	38
Swedish kronor	3	2
Swiss francs	—	1
United States dollars	1,089	1,134
	$1,191	$1,203

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-2

SUMMARY STATEMENT OF LOANS OUTSTANDING – NOTE E

December 31, 2007 and 2006
Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding 2007[1]	Currency in which outstanding balance is collectible: Non-borrowing country currencies	Currency in which outstanding balance is collectible: Borrowing country currencies	Undisbursed	Outstanding 2006[1]
Argentina	$ 99	$ —	$ 99	$ —	$ 109
Barbados	11	11	—	—	12
Bolivia	259	223	36	419	1,382
Brazil	252	—	252	2	281
Colombia	107	15	92	—	121
Costa Rica	58	54	4	—	71
Dominican Republic	343	329	14	—	353
Ecuador	490	436	54	2	504
El Salvador	428	412	16	—	450
Guatemala	323	278	45	12	331
Guyana	150	149	1	223	509
Haiti	711	702	9	388	609
Honduras	264	228	36	394	1,331
Jamaica	39	33	6	—	43
Mexico	13	—	13	—	17
Nicaragua	395	371	24	323	1,441
Panama	34	29	5	—	42
Paraguay	296	275	21	12	301
Peru	48	19	29	—	56
Suriname	1	—	1	—	1
Trinidad and Tobago	7	—	7	—	8
Uruguay	16	7	9	—	19
Regional	55	53	2	8	53
Total 2007	$4,399	$3,624	$775	$1,783	
Total 2006		$7,186	$858	$2,229	$8,044

[1]Excludes loan participations sold to the Social Progress Trust Fund for a total of $38 million (2006—$40 million), including $1 million (2006—$3 million) to Bolivia, $3 million (2006—$0 million) to Costa Rica, $7 million (2006—$8 million) to Dominican Republic, $7 million (2006—$4 million) to Ecuador, $10 million (2006—$3 million) to El Salvador, $7 million (2006 —$8 million) to Guatemala, $2 million (2006—$1 million) to Panama and $1 million (2006—$1 million) to Paraguay.

The non-borrowing country currencies in which the outstanding loans balance is collectible are as follows:

Currencies	2007	2006
British pounds sterling	$ 53	$ 100
Canadian dollars	201	407
Danish kroner	25	36
Euro	565	1,026
Japanese yen	140	340
Norwegian kroner	21	25
Swedish kronor	15	50
Swiss francs	31	71
United States dollars	2,573	5,131
	$3,624	$7,186

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-3

STATEMENT OF CONTRIBUTION QUOTAS – NOTE G

December 31, 2007 and 2006
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 2007	Total 2006
Argentina	$ 402.8	$ 29.5	$ 73.1	$ 505.4	$ 505.4
Austria	11.0	—	9.0	20.0	20.0
Bahamas	8.8	—	1.8	10.6	10.6
Barbados	1.4	—	0.4	1.8	1.8
Belgium	27.1	—	15.4	42.5	42.5
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	224.7	12.6	71.3	308.6	307.7
Chile	111.4	24.0	22.3	157.7	157.7
Colombia	111.4	20.1	22.2	153.7	153.7
Costa Rica	16.2	4.0	3.2	23.4	23.4
Croatia	3.1	—	2.8	5.9	5.9
Denmark	11.7	—	8.3	20.0	20.0
Dominican Republic	21.7	7.9	4.3	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	—	8.0	19.0	19.0
France	133.4	—	87.7	221.1	221.1
Germany	136.7	—	93.3	230.0	230.0
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	—	7.2	18.0	18.0
Italy	133.4	—	82.3	215.7	215.7
Jamaica	21.7	2.7	4.4	28.8	28.8
Japan	148.8	—	443.1	591.9	591.9
Mexico	259.2	15.0	54.8	329.0	329.0
Netherlands	20.3	—	16.6	36.9	36.9
Nicaragua	16.2	4.8	3.2	24.2	24.2
Norway	11.7	—	8.3	20.0	20.0
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	—	2.8	7.8	7.8
Slovenia	1.8	—	1.6	3.4	3.4
Spain	133.4	—	82.4	215.8	215.8
Suriname	5.3	—	1.0	6.3	6.3
Sweden	23.7	—	16.4	40.1	40.1
Switzerland	38.3	—	24.4	62.7	62.4
Trinidad and Tobago	16.2	1.5	3.2	20.9	20.9
United Kingdom	133.4	—	41.9	175.3	175.3
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	7,226.4	504.7	1,904.4	9,635.5	9,634.3
Unallocated (3)	4.0	—	1.4	5.4	5.4
Total 2007	$ 7,230	$ 505	$ 1,905	$ 9,640	
Total 2006	$ 7,229	$ 505	$ 1,905		$ 9,639

(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.

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, 2007 and 2006, and the related statements of changes in fund balance and cash flows for each of the three years in the period ended December 31, 2007. 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 Intermediate Financing Facility Account 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 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, 2007 and 2006, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2007, in conformity with United States generally accepted accounting principles.

Ernst + Young LLP

Washington, D.C.
February 12, 2008

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31, 2007	December 31, 2006
ASSETS		
Cash	**$ 2**	$ —
Investments	**303**	339
Total assets	**$305**	$339
FUND BALANCE		
Fund balance	**$305**	$339

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in millions of United States dollars

	Years ended December 31, 2007	2006	2005
Additions			
Transfers from Fund for Special Operations	**$ —**	$ 61	$ 62
Income from investments	**14**	17	9
Total additions	**14**	78	71
Deductions			
Interest paid on behalf of Ordinary Capital borrowers	**48**	43	43
Change in fund balance, before translation adjustments	**(34)**	35	28
Translation adjustments	**—**	—	(1)
Change in fund balance, after translation adjustments	**(34)**	35	27
Fund balance, beginning of year	**339**	304	277
Fund balance, end of year	**$305**	$339	$304

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31, 2007	2006	2005
Cash flows from operating activities			
Transfers from Fund for Special Operations	**$ —**	$ 61	$ 62
Income from investments	**3**	5	9
Interest paid on behalf of Ordinary Capital borrowers	**(48)**	(43)	(43)
Net decrease (increase) in investments	**47**	(28)	(26)
Net cash provided by (used in) operating activities and net increase (decrease) in cash	**2**	(5)	2
Cash, beginning of year	**—**	5	3
Cash, end of year	**$ 2**	$ —	$ 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. Up to December 31, 2006, the IFF was funded primarily through transfers from the FSO. As part of the Multilateral Debt Relief and Concessional Finance Reform approved in 2007 (see Note G), the Bank discontinued the transfers from FSO to the IFF.

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.

New accounting pronouncements

On January 1, 2008, the Bank will adopt Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. It is estimated that the adoption of this standard will not have a material impact on the IFF's financial position and results of operations.

Translation of currencies

The financial statements are expressed in United States dollars. While most of the IFF operations are conducted in United States dollars, some are conducted in other currencies. 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, if any, are shown in the Statement of Changes in Fund Balance as Translation adjustments.[1]

Investments

Investment securities transactions are recorded on the trade date and are held in a trading portfolio carried at fair value, with changes in fair value included in Income from investments. Fair values for investment securities are based on quoted prices, where available; otherwise, they are based on dealer prices of comparable instruments or discounted cash flows.

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 formula approved by the Board of Executive Directors.

Note C – Investments

As part of its overall portfolio management strategy, the Bank invests the IFF resources both directly and indirectly, through investment pools managed by the Bank, in high quality securities in accordance with established investment guidelines. IFF investments include government, agency, corporate, and bank obligations and asset-backed and mortgage-backed securities with credit ratings ranging from AAA to A+ (short-term securities carry the highest short-term credit ratings).

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 2007, including realized and unrealized gains and losses, was 4.41% (2006—4.99%; 2005—3.04%).

[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)

Note D – 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, 2007, 2006 and 2005 (in millions):

	2007	2006	2005
Cumulative adjustments at January 1,	$43	$43	$44
Translation adjustments	—	—	(1)
Cumulative adjustments at December 31,	$43	$43	$43

Note E – Commitments

The payment by the IFF of part of the interest due from borrowers is contingent on the availability of resources. At December 31, 2007, the amounts disbursed and outstanding and undisbursed, classified by country, under loans on which the IFF would pay part of the interest are as follows (in millions):

Country	Disbursed and Outstanding	Undisbursed
Barbados	$ 41	$ —
Bolivia	100	—
Costa Rica	76	—
Dominican Republic	331	32
Ecuador	379	116
El Salvador	344	67
Guatemala	447	64
Guyana	3	—
Jamaica	254	69
Nicaragua	78	—
Panama	74	—
Paraguay	211	132
Suriname	55	25
Trinidad and Tobago	73	—
Uruguay	65	—
Regional	34	—
	$2,565	$505

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 3.62% per annum (5% per annum) for selected loans with increased subsidy under the Heavily Indebted Poor Countries (HIPC) I Initiative.

As part of the Multilateral Debt Relief and Concessional Finance Reform, loans approved after December 31, 2006 are no longer eligible for subsidy (see Note G). It is expected that, over time, the Bank will distribute all of the IFF's resources to subsidize part of the interest payments for which certain Ordinary Capital borrowers are liable.

Note F – 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,		
	2007	2006	2005
Change in fund balance, before translation adjustments	$(34)	$ 35	$ 28
Difference between amounts accrued and amounts paid or collected for:			
Income from investments	—	1	—
Net unrealized gain on investments	(11)	(13)	—
Net decrease (increase) in investments	47	(28)	(26)
Net cash provided by (used in) operating activities	$ 2	$ (5)	$ 2
Supplemental disclosure of noncash activities:			
Decrease in investments resulting from exchange rate fluctuations	$ —	$ —	$ (1)

Note G – Multilateral Debt Relief and Concessional Finance Reform

In December 2006, the Board of Governors approved a structure that included one hundred (100) percent relief of eligible FSO debt for Bolivia, Guyana, Haiti, Honduras and Nicaragua, effective January 1, 2007 (Haiti will qualify once it reaches Completion Point for the Enhanced HIPC Initiative). As a result of this initiative, on March 15, 2007, the Board of Governors approved, inter alia, that countries eligible for IFF subsidies will continue to receive concessional resources for new loans through 2015, in the form of parallel loans (a blending of loans from the FSO and the Ordinary Capital) rather than a reduction in the interest rate billed, and will still receive the reduction in interest rate billed for loans approved up to December 31, 2006, subject to availability of IFF resources.

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX III-1

SUMMARY STATEMENT OF INVESTMENTS – NOTE C

December 31, 2007 and 2006
Expressed in millions of United States dollars

Investments	2007	2006
Investment Pools	$303	$337
Bank obligations	—	2
	$303	$339

The currencies of the above investments are as follows:

Currencies	2007	2006
Euro	$ —	$ 2
United States dollars	303	337
	$303	$339

FINANCIAL STATEMENTS
IDB GRANT FACILITY

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)–IDB Grant Facility as of December 31, 2007, and the related statements of changes in fund balance and cash flows for the period from June 29, 2007 (inception) to December 31, 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Bank's IDB Grant Facility internal control over financial reporting. Our audit 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 IDB Grant Facility 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank–IDB Grant Facility as of December 31, 2007, and the results of its operations and cash flows for the period from June 29, 2007 (inception) to December 31, 2007, in conformity with United States generally accepted accounting principles.

Ernst + Young LLP

Washington, D.C.
February 12, 2008

IDB GRANT FACILITY
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31, 2007
ASSETS	
Due from Fund for Special Operations	$ 38
Total assets	$ 38
LIABILITIES AND FUND BALANCE	
Liabilities:	
Undisbursed grants	$ 38
Fund balance	—
Total liabilities and fund balance	$ 38

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in millions of United States dollars

	From June 29, 2007 (inception) to December 31, 2007
Additions	
Transfers from Fund for Special Operations	$ 50
Total additions	50
Deductions	
Grants	50
Change in fund balance	—
Fund balance, beginning of period	—
Fund balance, end of period	$ —

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	From June 29, 2007 (inception) to December 31, 2007
Cash flows from operating activities	
Transfers from Fund for Special Operations	$ 12
Grants disbursements	(12)
Net cash flows from operating activities	—
Cash, beginning of period	—
Cash, end of period	$ —

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

IDB GRANT FACILITY
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 June 2007, the Board of Governors approved the creation of the IDB Grant Facility (GRF) for the purpose of making grants appropriate for dealing with special circumstances arising in specific countries (currently only Haiti) or with respect to specific projects. The GRF is funded by general reserve transfers from the FSO and possible direct contributions from donor countries.

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.

Grants
Grants[1] are recorded as a deduction from the fund balance when approved. Cancellations of the undisbursed portion of grants approved are recorded as an offset to Grants in the period in which they occur.

Transfers from FSO
Transfers from the FSO are recognized when approved by the Board of Governors. However, the FSO funds these transfers in accordance with the GRF funding requirements. The portion of approved transfers pending to be received from the FSO is presented under Due from Funds for Special Operations in the Balance Sheet.

Administrative expenses
Administrative expenses of the GRF are paid by the Bank and are allocated between the Ordinary Capital and the FSO, pursuant to an allocation formula approved by the Board of Executive Directors.

Note C – Undisbursed Grants
During 2007, the GRF approved three grants to Haiti for a total of $50 million. The following is a summary of changes in Undisbursed grants for the period from June 29, 2007 (inception) to December 31, 2007 (in millions):

Balance at June 29, 2007	$ —
Approvals	50
Disbursements	(12)
Balance at December 31, 2007	$ 38

[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.

GOVERNORS AND ALTERNATE GOVERNORS

Country	Governor	Alternate Governor
ARGENTINA	Martín Lousteau	Martín P. Redrado
AUSTRIA	Wilhelm Molterer	Kurt Bayer
BAHAMAS	Zhivargo S. Laing	Ruth Millar
BARBADOS	Mia Mottley	Grantley Smith
BELGIUM	Didier Reynders	Franciscus Godts
BELIZE	Said Musa	Joseph Waight
BOLIVIA	Gabriel Loza Tellería	Luis Alberto Arce Catacora
BRAZIL	Paulo Bernardo Silva	Alexandre Meira da Rosa
CANADA	Maxime Bernier	
CHILE	Andrés Velasco	María Olivia Recart Herrera
COLOMBIA	Óscar Iván Zuluaga Escobar	Carolina Rentería Rodríguez
COSTA RICA	Guillermo Zúñiga Chaves	Francisco de Paula Gutiérrez
CROATIA	Ivan Suker	Zdravko Maric
DENMARK	Ole E. Moesby	Lars Bredal
DOMINICAN REPUBLIC	Vicente Bengoa	Juan Temístocles Montas
ECUADOR	Fausto Ortiz de la Cadena	
EL SALVADOR	Eduardo Ayala Grimaldi	William J. Handal
FINLAND	Marjatta Rasi	Ilkka Helskanen
FRANCE	Christine Lagarde	Xavier Musca
GERMANY	Karin Kortmann	Rolf Wenzel
GUATEMALA	Mefi Rodríguez García	María Antonieta de Bonilla
GUYANA	Bharrat Jagdeo	Ashni Singh
HAITI	Daniel Dorsainvil	Jean-Max Bellerive
HONDURAS	Rebeca P. Santos	Gabriela Núñez
ISRAEL	Stanley Fischer	Oded Brook
ITALY	Tommaso Padoa-Schioppa	Mario Draghi
JAMAICA	Audley Shaw, MP	Wesley Hughes, CD
JAPAN	Fukushirou Nukaga	Toshihiko Fukui
KOREA, REPUBLIC OF	Okyu Kwon	Seongtae Lee
MEXICO	Agustín Carstens	Alejandro Werner Wainfeld
NETHERLANDS		Bert Koenders
NICARAGUA	Alberto José Guevara Obregón	Antenor Rosales Bolaños
NORWAY	Anne Margareth Fagertun Stenhammer	Henrik Harboe
PANAMA	Héctor Alexander	
PARAGUAY	César Amado Barreto Otazú	Manuel Alarcón Säfstrand
PERU	Luis Carranza Ugarte	José Berley Arista Arbildo
PORTUGAL	Fernando Teixeira dos Santos	Carlos Costa Pina
SLOVENIA	Andrej Bajuk	Andrej Kavcic
SPAIN	Pedro Solbes Mira	David Vegara Figueras
SURINAME	Humphrey Stanley Hildenberg	
SWEDEN	Jan Knutsson	Susanne Jacobsson
SWITZERLAND	Jöerg Al. Reding	Roger Denzer
TRINIDAD AND TOBAGO	Camille R. Robinson-Regis	Anthony Bartholomew
UNITED KINGDOM	Douglas Alexander, MP	Shahid Malik, MP
UNITED STATES	Henry Paulson	Reuben Jeffery III
URUGUAY	Danilo Astori	Enrique Rubio
VENEZUELA	Rodrigo Eduardo Cabeza Morales	

As of December 31, 2007

EXECUTIVE DIRECTORS AND ALTERNATE EXECUTIVE DIRECTORS

		Number of votes	Percentage of voting power
Adina Bastidas, **VENEZUELA** Fernando Eleta Casanovas (Alternate), **PANAMA**	**Elected by:** Panama Venezuela	518,658	6.194
Marcelo Bisogno, **URUGUAY** Hugo Rafael Cáceres Agüero (Alternate), **PARAGUAY**	**Elected by:** Bolivia Paraguay Uruguay	205,291	2.452
Jerry Christopher Butler, **BAHAMAS** Winston A. Cox (Alternate), **BARBADOS**	**Elected by:** Bahamas Barbados Guyana Jamaica Trinidad and Tobago	126,574	1.511
Jonathan Davis Arzac, **MEXICO** Roberto B. Saladín (Alternate), **DOMINICAN REPUBLIC**	**Elected by:** Dominican Republic Mexico	627,122	7.489
Eugenio Díaz-Bonilla, **ARGENTINA** Martín Bès (Alternate), **ARGENTINA**	**Elected by:** Argentina Haiti	936,545	11.185
Luis Guillermo Echeverri, **COLOMBIA** Xavier Eduardo Santillán (Alternate), **ECUADOR**	**Elected by:** Colombia Ecuador	295,653	3.531
Hans Hammann, **GERMANY** Francesca Manno (Alternate), **ITALY**	**Elected by:** Belgium Germany Israel Italy Netherlands Switzerland	426,204	5.089
Nelly Lacayo-Anderson, **EL SALVADOR** Raúl Barrios (Alternate), **NICARAGUA**	**Elected by:** Belize Costa Rica El Salvador Guatemala Honduras Nicaragua	202,692	2.420
Luis Linde, **SPAIN** Olivier Myard (Alternate), **FRANCE**	**Elected by:** Austria Denmark Finland France Norway Spain Sweden	400,427	4.783
José Carlos Miranda, **BRAZIL** Sérgio Portugal (Alternate), **BRAZIL**	**Elected by:** Brazil Suriname	907,766	10.841
Héctor E. Morales, **UNITED STATES** Jan E. Boyer (Alternate), **UNITED STATES**	**Appointed by:** United States	2,512,664	30.008
Jaime Quijandría, **PERU** Alejandro Foxley Tapia (Alternate), **CHILE**	**Elected by:** Chile Peru	367,878	4.393
Tsuyoshi Takahashi, **JAPAN** Stewart Mills (Alternate), **UNITED KINGDOM**	**Elected by:** Croatia Japan Korea, Republic of Portugal Slovenia United Kingdom	511,113	6.105
Vinita Watson, **CANADA** Jill Johnson (Alternate), **CANADA**	**Elected by:** Canada	335,022	4.001
TOTAL		**8,373,609**	**100.00***

Office of Evaluation and Oversight
Stephen A. Quick, Director
Sixto Felipe Aquino, Deputy Director

As of December 31, 2007
* The total may not add up due to rounding.

CHANNELS OF COMMUNICATION AND DEPOSITORIES

Member Country	Channels of Communication	Depositories
ARGENTINA	Ministerio de Economía	Banco Central de la República Argentina
AUSTRIA	Federal Ministry of Finance	Österreichische Nationalbank
BAHAMAS	Ministry of Finance	Central Bank of the Bahamas
BARBADOS	Ministry of Economic Development	Central Bank of Barbados
BELGIUM	Ministère des Finances	Banque Nationale de Belgique
BELIZE	Financial Secretary, Ministry of Finance	Central Bank of Belize
BOLIVIA	Banco Central de Bolivia	Banco Central de Bolivia
BRAZIL	Ministério do Planejamento, Orçamento e Gestão, Secretaria de Assuntos Internacionais—SEAIN	Banco Central do Brasil
CANADA	International Financial Institutions, Multilateral Programs Branch, Canadian International Development Agency	Bank of Canada
CHILE	Ministerio de Hacienda	Banco Central de Chile
COLOMBIA	Ministerio de Hacienda y Crédito Público	Banco de la República
COSTA RICA	Ministerio de Relaciones Exteriores	Banco Central de Costa Rica
CROATIA	Ministry of Finance	National Bank of Croatia
DENMARK	Danish International Development Agency (DANIDA)	Danmarks Nationalbank
DOMINICAN REPUBLIC	Banco Central de la República Dominicana	Banco Central de la República Dominicana
ECUADOR	Ministerio de Economía y Finanzas	Banco Central del Ecuador
EL SALVADOR	Secretaría Técnica de la Presidencia	Banco Central de Reserva de El Salvador
FINLAND	Ministry for Foreign Affairs	Bank of Finland
FRANCE	Ministère de l'Économie, des finances et de l'industrie	Banque de France
GERMANY	Federal Ministry for Economic Cooperation and Development	Deutsche Bundesbank
GUATEMALA	Banco de Guatemala	Banco de Guatemala
GUYANA	Ministry of Finance	Bank of Guyana
HAITI	Banque de la République d'Haïti	Banque de la République d'Haïti
HONDURAS	Banco Central de Honduras	Banco Central de Honduras
ISRAEL	Bank of Israel	Bank of Israel
ITALY	Ministry of the Economy and Finance	Banca d'Italia
JAMAICA	Ministry of Finance and Planning	Bank of Jamaica
JAPAN	Ministry of Finance	Bank of Japan
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 e da Administração Pública	Banco de Portugal
SLOVENIA	Ministry of Finance	Bank of Slovenia
SPAIN	Subdirección General de Instituciones Financieras Multilaterales, Ministerio de Economía	Banco de España
SURINAME	Ministry of Finance	Central Bank van Suriname
SWEDEN	Ministry for Foreign Affairs, Department for International Development Co-operation	Sveriges Riksbank
SWITZERLAND	Office fédéral des affaires économiques extérieures	Banque Nationale Suisse
TRINIDAD AND TOBAGO	Central Bank of Trinidad and Tobago	Central Bank of Trinidad and Tobago
UNITED KINGDOM	Department for International Development	Bank of England
UNITED STATES	Treasury Department	Federal Reserve Bank of New York
URUGUAY	Ministerio de Economía y Finanzas	Banco Central del Uruguay
VENEZUELA	Ministerio de Planificación y Desarrollo	Banco Central de Venezuela

As of December 31, 2007

PRINCIPAL OFFICERS

President	Luis Alberto Moreno
Executive Vice President	Daniel M. Zelikow
Vice President for Countries	Otaviano Canuto
Vice President for Sectors and Knowledge a.i.	Máximo Jeria
Vice President for Finance and Administration	Carlos Hurtado López
Vice President for Private Sector and Non-Sovereign Guaranteed Operations	Steven J. Puig
General Manager, Country Department — Central America, Mexico, Panama, and the Dominican Republic	Gina Montiel
General Manager, Country Department — Southern Cone	Manuel Rapoport
General Manager, Country Department — Andean Group	Alicia Ritchie
General Manager, Country Department — Caribbean	Dora Currea
General Manager, Structured and Corporate Financing Department	Hans Schulz
General Manager and Chief Financial Officer, Finance Department	John R. Hauge
General Counsel	Joseph Spinner
Secretary	Hugo Eduardo Beteta Méndez-Ruiz
General Manager and Chief Development Effectiveness Officer, Office of Strategic Planning and Development Effectiveness	Luis Estanislao Echebarría
Advisor, Office of Risk Management	Dominiek Vangaever
Sector Manager, Opportunities for the Majority Sector	Ana-Mita Betancourt
General Manager, Budget and Administrative Services Department	William E. Schuerch
General Manager and Chief Information Officer, Information Technology and General Services Department	Simon Gauthier
General Manager, Human Resources Department	Manuel Labrado
General Manager and Chief Economist, Department of Research	Santiago Levy Algazi
Sector Manager, Infrastructure and Environment Sector	Roberto Vellutini
Sector Manager, Social Sector	Kei Kawabata
Sector Manager, Institutional Capacity and Finance Sector	Mario Marcel Cullell
Sector Manager, Trade and Integration Sector	Antoni Estevadeordal
Sector Manager, Knowledge and Learning Sector	Graciela Schamis
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Advisor, Office of External Relations	Pablo Halpern
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As of December 31, 2007

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As of December 31, 2007

BOOKS PUBLISHED IN 2007

English

• ***Democracies in Development: Politics and Reform in Latin America***, by J. Mark Payne, Daniel Zovatto G. and Mercedes Mateo Díaz, ISBN: 978-1-59782-036-3, 348 pp., copublished with Harvard University. (Spanish version published in 2006)

• ***Do We Know What Works? A Systematic Review of Impact Evaluations of Social Programs in Latin America and the Caribbean***, by César Patricio Bouillon and Luis Tejerina, ISBN: 978-1-59782-063-9, 144 pp.

• ***Market or State? Three Decades of Reform in the Latin American Electric Power Industry***, by Jaime Millán, ISBN: 978-1-59782-055-4, 306 pp. (Spanish version published in 2006)

• ***Natural Partners: How People in Latin America Are Forging a New Relationship with Their Natural Environment***, by Roger Hamilton, ISBN: 978-1-59782-048-6, 151 pp. (English and Spanish)

• ***Outsiders? The Changing Patterns of Exclusion in Latin America and the Caribbean. Economic and Social Progress in Latin America, 2008 Report***, coordinated by Gustavo Márquez, Alberto Chong, Suzanne Duryea, Jacqueline Mazza and Hugo Ñopo, ISBN: 978-1-59782-059-2, 298 pp., copublished with Harvard University. (English and Spanish)

Spanish

• ***Aliados naturales: la gente de América Latina forja una nueva relación con su medio ambiente***, by Roger Hamilton, ISBN: 978-1-59782-050-9, 151 pp. (English and Spanish)

• ***Basilea II en América Latina***, edited by Rudy V. Araujo and Pietro Masci, ISBN: 978-1-59782-062-2, 488 pp.

• ***El boom de las microfinanzas: el modelo latinoamericano visto desde adentro***, edited by Marguerite Berger, Lara Goldmark and Tomás Miller-Sanabria, ISBN: 978-1-59782-065-3, 394 pp. (English version published in 2006)

• ***¿Cuál es la salida? La agenda inconclusa de la seguridad ciudadana***, edited by Erik Alda and Gustavo Beliz, ISBN: 978-1-59782-049-3, 410 pp.

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