

Inter-American Development Bank Group

Ordinary Capital (OC)

FY2002 Appropriation	FY2003 Request
\$0	\$0

Under the terms of the 1994 capital increase (IDB-8) for the Inter-American Development Bank's primary window, Ordinary Capital (OC), the U.S. agreed to purchase shares of paid-in capital worth a total of \$153.7 million, with subscriptions to be provided in six equal installments from 1995 through 2000. The FY2000 appropriation of \$25.6 million completed the U.S. funding commitment under IDB-8.

For FY2003, the Administration is not requesting any additional funding for the OC.

Key Facts

- The U.S. was co-founder of the IDB in 1959.
- The U.S. is the largest shareholder, with 30% of both the shares and votes in the institution.
- In 2001, IDB made new lending commitments of \$7.9 billion.
- Since its inception, IDB has made lending commitments totaling \$115 billion.
- As part of the IDB-8 replenishment agreement, the U.S. achieved two key objectives:
 - Further advancement of IDB policies on environmental protection, institution building, poverty reduction and support for the private sector, and
 - Ensuring that additional payments to the IDB come largely from other member countries eager to expand their share in this influential organization.

Supporting U.S. Objectives

With strong encouragement from the U.S., the Board of Governors at the March 2001 annual meeting created a working group to develop recommendations for enhancing the effectiveness and responsiveness of the IDB. The U.S. seeks to increase the IDB's focus on project lending and lessen the share of policy-based lending. Also, the U.S. and other donors stress the importance of measuring the development effectiveness of activities in borrowing member countries.

Institutional Effectiveness

- Management is committed to strengthening institutional effectiveness through a revamping of processes and of internal oversight operations. It is working with the Board on proposed guidelines to strengthen the quality and role of the country strategy paper for planning operations in borrowing member countries. Also, Management is working closely with the Office of Evaluation and Oversight (OVE) to define self-evaluation activities for improving project execution and portfolio management. Such activities include measures to enhance the monitoring system, with emphasis on extracting and disseminating lessons learned and facilitating feedback to improve the design of new operations. OVE is recommending increased focus on development effectiveness through initiatives in four areas: locate projects within the developmental challenges of the country, improve the rigor of project design, design explicit results frameworks for each project, and develop cooperative monitoring and evaluation systems with executing agencies and borrowing governments.
- To promote decentralization and efficiency improvements in its operations, the IDB began implementing the recommendations of a task force report on Country Office work procedures and new delegations of responsibility. Management also presented to the Board its priorities for efficiency improvements, which identified key target areas in operations, finance, and administration.
- The IDB is involved in a wide range of activities with the central purpose of promoting sustainable economic growth in order to increase standards of living, reduce poverty, and bring borrowers more fully into the global economy.

Combating Terrorism

- To help formulate a Bank response to support the countries of the region after the September 11 terrorist attacks, the IDB collaborated with the OAS in a conference to examine implications of emerging security issues on development. International experts discussed the economic, social and political implications for regional countries of the September 11 attacks. In addition, they analyzed policy alternatives to cushion the blow of the attacks on the region's democratic stability and economic growth prospects. Also, through its nonreimbursable technical cooperation program, the IDB supported a training program for public prosecutors and judges to prevent money laundering. At the request of the USG, the IDB has also strengthened its due diligence efforts to insure that no funds go inadvertently to terrorists.

Increasing Productivity

- Low productivity has been a key factor in lingering high levels of poverty in Latin America and the Caribbean. The IDB's 2001 report on Competitiveness: The Business of Growth seeks to help governments and the private sector identify obstacles to the efficient use of the region's resources and to build new productive

capacity. The report found that the growing income gaps between Latin America and the developed countries and among the countries of Latin America are the result of growing gaps in productivity. The quality of institutions (including deficiencies such as a weak rule of law, corruption, and ineffective government entities) is one of the principal reasons why productivity gaps between countries are widening. Another cause of growing productivity gaps is investment in education, since the capacity for innovation and assimilation of technologies is affected by the knowledge and capacity of workers to learn. Building on this report, the IDB plans to identify and review strategic areas that can enhance productivity and competitiveness in countries of Latin America and the Caribbean.

Private Sector Development

- Direct financing for private sector infrastructure projects together with support for privatization of state-owned enterprises is directly promoting private sector development throughout the region. In 2001, \$344 million in loans and investment guarantees for the private sector were approved, compared to \$437 million in 2000.

Lending to Support Social Development Goals

- The Bank remains strongly focused on investments that directly benefit the most vulnerable segments of the population, particularly through institutional and policy reforms. Social sector lending totaled \$3.0 billion in 2001, compared to \$1.9 billion in 2000.
- Under IDB-8, a core focus of Bank lending is support for social sector development, including education. The IDB is at the forefront of efforts to increase access to educational opportunities for all and improve the quality of education provided in Latin America and the Caribbean.
- The Bank's increasing focus on lending for education (primary and secondary, as well as technical and vocational training) will promote increased productivity and higher living standards. In 2001, the IDB approved \$711 million in loans for education projects (about 9% of loan approvals). These loans aimed to improve secondary education and teacher training in Uruguay, expand technological capacities in poor communities in Honduras, strengthen technical education in Bolivia, support education reform in Guatemala, and improve the education system in Argentina.

Lending to Support Environmental Goals

- Environmental protection and sound resource management are integral components of IDB operations in water and sanitation, urban rehabilitation, agriculture, energy and transportation.
- In 2001, the Bank approved \$140 million for environmental protection and natural disaster projects, including:

- El Salvador, Guatemala and Honduras: \$21.8 million for a regional program to support the sustainable development of the Upper Lempa River Basin. The objective is environmental improvement with economic and social progress, through investments in managing and protecting natural resources, local infrastructure, and basic sanitation. Also, an early warning and monitoring system will be established to help prevent or mitigate natural disasters, particularly landslides and floods.
- Honduras: \$25 million for strengthening national and local management of natural resources in priority watersheds to support sustainable rural development.
- In addition to the loans, a series of major environmental activities are being financed through technical cooperation projects in Ecuador, Guyana, Jamaica, and Peru to strengthen national capacities for sustainable environmental management. The project for Peru will also foster the participation of private, public, and civil society organizations in environmental projects in the energy, transportation, and forestry sectors.
- In addition, the Bank financed other programs with positive environmental impacts including \$122 million in water and sanitation projects.
- Ongoing consultations with local and international NGOs, civil society, and government authorities have substantially increased the diversity of influences on IDB project and program development.
- The Bank continues to upgrade its Internet website (www.iadb.org) to provide additional environmental and social information, policies, guidelines, assessments, and publications. IDB is the first multilateral development bank to provide direct access to full environmental impact assessments through its website.

Improving Borrower's Governance, Fiscal Transparency and Accountability

- The IDB actively promotes improved transparency and accountability by helping member countries to strengthen operations in the executive, judicial and legislative branches of their governments. Through its nonreimbursable technical cooperation program, in 2001 IDB supported the bolstering of civil society organizations and strengthening strategic partnerships among government, private enterprise, and civil society for social program development and delivery. Also, IDB supported the exchange of information on legislative processes among national legislatures of Central American countries.
- In 2001, the IDB added to its portfolio of 105 governance-related operations with 22 programs, worth \$2.4 billion for state modernization and reform. Highlights include the following:

Public Sector Reform and Decentralization:

- Mexico: \$300 million for a program to strengthen states and municipalities by strengthening their management of public funds, capacity to deliver public services, and their financial situation.
- Uruguay: \$150 million for a program to modernize government through boosting the quality and productivity of management and services provided by the central government, reducing costs for the private sector, and improving tax management and the quality and efficiency of public spending.
- Ecuador: \$4.8 million for a program to facilitate a gradual transfer of responsibilities from the central government to the provinces and municipalities; improve efficiency, transparency and equity in the distribution of public funds to subnational governments; and strengthen decision-making, transparency and accountability at the local levels. Part of the interest on the loan will be paid from the IFF account.

Fiscal Transparency And Accountability:

- Colombia: \$400 million for a program for subnational fiscal reform through adopting clear division of powers and responsibilities among the different levels of government to achieve coherent management, rationalize subnational government finances, and produce and disseminate transparent and reliable information on subnational government finances.
- Peru: \$250 million for a program for transparency and reform of fiscal, social, and judicial policy, through transparency and accountability in fiscal policy, protecting public spending in the social and justice sectors, and fostering civil society participation in public policy formulation.
- Ecuador: \$5 million to strengthen the Ministry of Economic Affairs and Finance in the critical areas of public debt management, public investment, macroeconomic policy, and monitoring finances of provinces and municipalities.

Strengthening Democratic Governance:

- Venezuela: \$75 million for a program to strengthen judicial institutions and the rule of law by improving the investigation and prosecution of offenses, boosting public participation and confidence in the justice system, and reducing violence in prisons.
- Jamaica: \$16 million loan to improve citizen security and justice through violence prevention activities by NGOs, strengthening the independent Police Public Complaints Authority, and developing a comprehensive national strategy to improve the ability of the Ministry of National Security and Justice to prevent violence. Part of the interest on the loan will be paid from the IFF account.

Encouraging Participation by Civil Society:

- Peru: Fostering civil society participation in public policy formulation, as part of the fiscal policy reform loan.
- Chile: \$35 million for a program to foster the economic, social, and cultural advancement of rural indigenous communities and environmental development in those communities.
- Honduras: \$1.6 million for a program to support black and indigenous communities by building infrastructure works, improving the legal and policy framework and articulating a mechanism for dialogue between the government and these communities.
- Social Entrepreneurship Program: Niche program that provided \$2.5 million in loans and \$1.7 million in technical cooperation to support community projects and partnerships of indigenous groups, women, young people, and other marginalized and low income groups. According to evaluation findings, the income and living standards of the beneficiaries have improved significantly thanks to Bank-funded technical and economic contributions.

Strengthening Microenterprises and Small- and Medium-Sized Firms

- Brazil: \$900 million for a program to deepen capital markets by providing loans to microenterprises and small- and medium-sized firms for working capital and medium- and long-term investment loans through intermediary financial institutions.

Financial Crisis Assistance

In response to the Asian Crisis and regional financial crisis in late 1998, the IDB approved a new lending initiative. Under this initiative, by end-1999 IDB approved a total of eight emergency loans to five countries (i.e., Argentina, Brazil, Colombia, Peru and Jamaica) totaling \$7.2 billion, net of cancellations. Of these approved amounts, nearly 100% has been disbursed. Except for Jamaica, all of these loans were for financial emergencies and incorporated key criteria including consistency with the borrowing country's overarching IMF-endorsed macroeconomic stabilization program. In addition the loans were focused on protecting the poor and enabling the country to maintain and advance its reform agenda. The small loan to Jamaica (\$9.2 million) was to fund corrective measures to make its computer systems Y2K compliant.

Beyond addressing the immediate needs in the face of crisis, the IDB continues to take steps to help countries avoid future crises by supporting sustainable growth and the reduction of poverty and inequality. The IDB is providing help through four interrelated areas: (1) social development such as better schools and health facilities; (2) modernization of the state such

as promoting the rule of law and modern public administration; (3) regional integration such as free trade and macroeconomic cooperation; and (4) competitiveness, such as development of small businesses and strengthening financial systems.

Disaster Assistance

In 2001, IDB used its Emergency Reconstruction Facility to respond to countries dealing with the effects of natural disasters, including:

- El Salvador: \$40 million total through 2 loans for urgent measures to contain the toll on people and infrastructure resulting from two earthquakes.
- Peru: \$20 million loan for an earthquake emergency relief program to help pay for goods and services needed for temporary reconstruction, stabilization and rehabilitation of infrastructure damaged by an earthquake in southern Peru.

Improving Internal Controls

In 2001 the Board of Executive Directors adopted a strategy (available on the Web site) on “Strengthening A Systemic Framework Against Corruption for the IDB” that reiterates the IDB’s commitment to address corruption comprehensively by:

- Ensuring that Bank staff act in accordance with the highest levels of integrity and that the institution’s internal policies and procedures are committed to this goal;
- Ensuring that activities financed by the Bank are free of fraud and corruption and executed in a proper control environment; and
- Supporting programs that will help the borrowing member countries strengthen good governance, enforce the rule of law and combat corruption.

The Bank’s strategy includes updating its Code of Ethics and reviewing its current policies and procedures for internal procurement. To monitor anticorruption activities at the Bank, an independent Oversight Committee on Corruption and Fraud was established in March 2001. The Committee will be responsible for handling allegations of fraud and corruption against Bank staff or in the Bank’s activities.

Energy

- Dominican Republic: \$75 million loan and a \$113 million syndicated loan to support investment by private sector electricity distribution companies to improve the quality and efficiency of electricity service and to strengthen environmental protection.
- Argentina – Brazil: \$75 million loan and up to a \$169.9 million syndicated loan from commercial banks to support a private sector regional project to build a second electricity interconnection between Argentina and Brazil.

- Central America: \$50 million (reformulated loan and FSO credit) for the Central American Electric Interconnection System to build the first regional transmission network, setting the stage for a wholesale electricity market between Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua, and Panama.

Information Disclosure/Accessibility to the Public

Throughout the year, the IDB has worked through a variety of venues to improve information flow within the organization and to the public. Key efforts include:

- Over 300 new documents were made available to the public via the Internet and Public Information Centers at Headquarters and the Country Offices. Documents and direct public information services were provided to 45,000 people in 2001.
- *IDBAmerica* magazine shifted its publication to the Internet, saving \$300,000 in printing and mailing costs while reaching 30,000 subscribers.
- *IDB Projects Online*, with 1100 paid subscribers, added an important enhancement of introducing Specific Procurement Notices as they occur.
- The Office of External Relations revamped its press releases with the latest information technology, including links to relevant documents, executing agencies' web sites, and other on-line resources.
- The Speakers Bureau organized some 50 events featuring speakers, presentations, and exhibits in Latin America and the Caribbean, the U.S., and Canada.
- *Chasqui*, the in-house newsletter, expanded its coverage of workplace issues, staff policy reforms, Bank-hosted events, activities in the Country Offices, and staff contributions to charitable institutions in the Washington area and in Latin America and the Caribbean.

Opportunities for U.S. Business

- For 2000, IDB (OC and FSO) operations produced \$1,089 million in business benefits to the U.S., including \$957 million in estimated exports and \$132 million in disbursements for goods of U.S. origin.
- The IDB's Commercial Liaison office (CS/IDB) helps companies win projects by identifying opportunities, tracking projects, providing contacts, and assisting with promotion and networking events. U.S. firms, both large and small, have benefited from CS/IDB assistance.