

Inter-American Development Bank Group

Fund for Special Operations (FSO)

FY2002 Appropriation	FY2003 Request
\$0	\$0

The Fund for Special Operations (FSO) focuses on economic development in the hemisphere's poorest nations: Bolivia, Guyana, Haiti, Honduras, and Nicaragua. The FSO makes concessional loans with interest rates of 1-2% and maturities of up to 40 years to help these countries address critical development needs.

In 1998, after two years of negotiations, an agreement was reached on a U.S.-initiated proposal that will allow a \$7.5 billion program through 2008 which would be implemented at zero additional cost to the United States.

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

Key Facts

- The FSO was constituted in 1959 under the agreement establishing the IDB.
- The U.S. is the largest contributor, providing over 50% of the total of funds pledged over the history of the fund.
- Over the years, the U.S. contribution to the FSO has fallen dramatically from a high of \$450 million annually in 1972 and 1973 to zero currently.
- In 2001, the FSO approved \$441 million of loans. Its lending is expected to total \$1.7 billion in 2001-2003, and \$2.0 billion in 2004-2008.
- Since its inception, FSO has made lending commitments totaling \$15.3 billion.
- In addition to highly concessional loans, FSO resources are used for technical assistance grants to subsidize a portion of the interest payments on loans made to lesser developed borrowing members such as Guatemala, Dominican Republic, Ecuador, El Salvador, Jamaica, Suriname and Paraguay.

Supporting U.S. Objectives

- The FSO advances key U.S. policy objectives by encouraging growth and stability in the poorest countries in the region, as well as by promoting counter-narcotics efforts,

environmental protection, and humanitarian assistance. By improving economic opportunities and addressing basic social needs of these countries' populations, the FSO is helping to reduce emigration pressures.

- In addition, in 2001, the Board approved the reallocation of available FSO resources based, as a transitory measure, on a country's performance in executing the Bank's portfolio. Looking toward a more permanent methodology for reallocation of unused FSO resources, Management has drafted a proposal that takes into account population, per capita GDP, performance of the Bank's portfolio, and an institutional and performance evaluation of the country based on economic policy, social policy, inclusion, and governance.

Terrorism

- Guatemala: \$310,000 technical cooperation grant from FSO net income to draft a law on citizen access to public finance information and to formulate a strategy for FATF negotiations and implementation of the necessary measures to prevent money laundering.

Increasing Productivity

- Nicaragua: \$25 million for comprehensive child care for children under 6 years old in low income families, which will help low income parents find employment or enter training programs.
- Bolivia: \$6 million for a new job training system for technical and technological skills, including providing marketable job skills to school dropouts.
- Honduras: \$8.5 million for computers and other technology equipment for community centers in remote poor communities to improve access to educational and business services.

Improving Borrowers' Governance, Fiscal Transparency and Accountability

In 2001, the FSO approved projects aimed at strengthening governance and accountability and building technical capacity in public institutions, including:

- Nicaragua: \$12 million to support judicial reform and modernization by promoting greater access to the judicial system by vulnerable groups, the use of new and more modern procedures and technologies, and to strengthen the development of personnel in the judicial system.
- Honduras: \$30 million to support creation of new financial and budgetary mechanisms to ensure transparency in raising and allocating resources for poverty reduction, and an Advisory Council to enable civil society and the donor community to participate in monitoring and implementing the poverty reduction strategy.
- Bolivia: \$40 million to support steps to improve government capabilities to monitor and evaluate poverty reduction programs, broaden the participation of civil society in public policy decision-making, and ensure social inclusion.

- Bolivia: \$20 million to support the establishment of an integrated financial management system in 91 municipalities and strengthen the national administration and the General Accounting Office

Lending to Support Environmental Goals

In 2001, the FSO continued its work to promote environmentally sustainable economic growth with the following operations:

- Nicaragua: \$32.7 million to promote the sustainable use and development of renewable natural resources in priority watersheds and to lessen the impact of natural disasters, by encouraging soil conservation and other sustainable practices on private farms and supporting development and implementation of management plans for national parks.
- Honduras: \$25 million to promote sustainable development of critical watersheds that are economically and environmentally vulnerable, by developing effective management instruments for sustainable land use and rural activities, financing investment projects to improve the income of small farmers and land use management, and supporting product certification and land tenure regularization.
- Guyana: \$1.28 million technical cooperation grant from FSO net income for environmental and natural resources management.

Lending for Basic Health

The FSO is undertaking major basic health care projects in Nicaragua, Bolivia, and Honduras. It is working closely with the Pan–American Health Organization (PAHO) and the World Bank on a Shared Agenda for Health in the Americas that seeks to coordinate efforts to help Latin American and Caribbean countries improve health conditions and public health services.