INTER-AMERICAN DEVELOPMENT BANK

Annual Report 2003

THE INTER-AMERICAN DEVELOPMENT BANK

The Inter-American Development Bank, the oldest and largest regional multilateral development institution, was established in 1959 to help accelerate economic and social development in Latin America and the Caribbean.

Efforts to create a development institution to focus on pressing problems in the region date to the First Inter-American Conference in 1890. A specific proposal toward that end by President Juscelino Kubitschek of Brazil in 1958 received support throughout the hemisphere. Shortly thereafter, the Organization of American States drafted the Articles of Agreement establishing the Inter-American Development Bank.

Today, the Bank's membership totals 46 nations, including 26 Latin American and Caribbean countries, the United States, Canada, and 18 nonregional countries.

The Bank has become a major catalyst in mobilizing resources for the region. Its principal functions are to utilize its own capital, funds raised in financial markets, and other available resources to finance the development of its borrowing member countries; to supplement private investment when private capital is not available on reasonable terms and conditions; and to provide technical assistance for the preparation, financing and implementation of development projects.

In carrying out its mission, the Bank has approved nearly $129 billion for projects that represent a total investment of almost $291 billion.

The Bank's operations cover the entire spectrum of economic and social development, with an emphasis on programs that benefit low-income populations. In the past, Bank lending focused on the productive sectors of agriculture and industry, the physical infrastructure sectors of energy and transportation, and the social sectors of environmental and public health, education and urban development. In 1995, the IDB began lending up to 10 percent of its ordinary capital resources directly to the private sector, without government guarantees. Current lending priorities include poverty reduction and social equity, modernization of the State, competitiveness, and integration.

The IDB group also includes the Inter-American Investment Corporation (IIC), an autonomous affiliate that promotes economic development by financing small and medium-scale private enterprises, and the Multilateral Investment Fund (MIF), which supports investment reforms and private sector development.

The financial resources of the Bank consist of the ordinary capital account—comprised of subscribed capital, reserves and funds raised through borrowings—and Funds in Administration, comprised of contributions made by member countries. The Bank also has a Fund for Special Operations for lending on concessional terms in countries classified as economically less developed.

Member country subscriptions to the Bank's ordinary capital consist of both paid-in and callable capital. Paid-in capital in the form of cash or notes represents 4.3 percent of total subscriptions. The major part of member subscriptions is for callable capital, which may be drawn only to service the Bank's borrowings and guarantees.

The Bank has borrowed funds for its operations from the capital markets of Europe, Japan, and the United States. The Bank's debt is AAA rated by the three major rating services in the United States, and is accorded equivalent status in the other major capital markets.

The Bank's highest authority is the Board of Governors, on which each member country is represented. Governors are usually Ministers of Finance, Presidents of Central Banks or officers of comparable rank. The Board of Governors has delegated many of its operational powers to the Board of Executive Directors, which is responsible for the conduct of the Bank's operations.

The Bank, whose headquarters are in Washington, D.C., has Country Offices in each of its borrowing member countries and in Paris and Tokyo.

COVER: An IDB-financed project in Concepción, Paraguay that supports sustainable agricultural development.

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Venezuela

Inter-American Development Bank
Washington, D.C.

February 6, 2004

Mr. Chairman:

Pursuant to Section 2 of the By-Laws of the Inter-American Development Bank, I transmit to you the Annual Report of the Bank for 2003, which the Board of Executive Directors submits to the Board of Governors.

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 2003.

In addition, the Report contains a description on a country-by-country basis and a regional basis of the Bank's various operations—loans, guarantees, financings for small projects and technical cooperation—on behalf of Latin America's development; a summary statement of the loans approved in 2003; the financial statements of the Bank, and its general appendices.

Complying with Article III, Section 3(a), of the Agreement Establishing the Bank, the Report contains separate audited financial statements for its various sources of funds. For the ordinary capital resources, these are presented pursuant to the provisions of Article VIII, Section 6(a) of the Agreement; for the Fund for Special Operations, in accordance with the provisions of Article IV, Section 8(d), of the Agreement; and for the Intermediate Financing Facility Account, complying with Section 5(d) of Resolution AG-12/83 of the Board of Governors.

Sincerely yours,

Enrique V. Iglesias

Chairman, Board of Governors
Inter-American Development Bank

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This report is printed on recycled paper.

TABLE I **TEN YEARS OF OPERATIONS, 1994–2003**

(In millions of U.S. dollars)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
CAPITAL										
Subscriptions (End of Year)										
Ordinary Capital	60,864	66,399	80,895	87,557	94,219	100,881	100,959	100,959	100,951	100,951
Fund for Special Operations	8,675	9,751	9,679	9,572	9,643	9,646	9,559	9,480	9,584	9,735
Other Funds	1,324	1,313	1,352	1,329	1,406	1,468	1,455	1,530	1,571	1,775
Total	**70,863**	**77,463**	**91,926**	**98,458**	**105,268**	**111,995**	**111,973**	**111,969**	**112,106**	**112,461**
BORROWINGS[1]										
Outstanding (End of Year)	25,198	26,338	26,629	27,331	32,511	38,784	41,394	42,186	47,471	50,821
Gross Annual Borrowings	955	2,746	4,250	5,569	5,761	8,865	8,139	7,097	9,140	9,309
OPERATIONS										
Loans and Guarantees Authorized (Cumulative)[2]										
Ordinary Capital[3]	56,242	63,512	66,088	68,739	79,742	88,226	89,959	93,518	100,834	110,436
Fund for Special Operations	12,269	13,011	13,363	13,580	14,273	14,663	14,924	15,328	15,774	16,652
Other Funds	1,621	1,636	1,648	1,722	1,735	1,726	1,724	1,719	1,736	1,769
Total	**70,132**	**78,159**	**81,099**	**84,041**	**95,750**	**104,615**	**106,607**	**110,565**	**118,344**	**128,857**
Loans and Guarantees Authorized (Annual)[4]										
Ordinary Capital[3]	4,698	6,437	6,376	5,680	9,364	9,061	4,969	7,411	4,143	6,232
Fund for Special Operations	543	795	374	283	686	417	297	443	406	578
Other Funds	14	16	16	85	13	8	–	–	–	–
Total	**5,255**	**7,248**	**6,766**	**6,048**	**10,063**	**9,486**	**5,266**	**7,854**	**4,549**	**6,810**
Loan Disbursements (Annual)[4]										
Ordinary Capital[3]	2,626	4,255	3,696	4,958	6,085	7,947	6,683	6,037	5,522	8,416
Fund for Special Operations	400	541	600	493	535	430	386	422	313	486
Other Funds	14	23	20	17	15	10	–	–	2	–
Total	**3,040**	**4,819**	**4,316**	**5,468**	**6,635**	**8,387**	**7,069**	**6,459**	**5,837**	**8,902**
Loan Repayments (Annual)[4]										
Ordinary Capital	2,099	2,852	2,287	2,244	1,946	1,988	2,312	1,926	4,106	7,279
Fund for Special Operations	301	288	289	285	283	289	289	268	256	296
Other Funds	35	38	36	40	29	29	15	14	13	12
Total	**2,435**	**3,178**	**2,612**	**2,569**	**2,258**	**2,306**	**2,616**	**2,208**	**4,375**	**7,587**
Loans Outstanding										
Ordinary Capital	24,478	26,581	26,028	27,301	32,635	38,552	41,872	44,951	47,958	50,655
Fund for Special Operations	6,043	6,284	6,547	6,734	6,827	6,955	7,025	6,637	6,763	7,216
Other Funds	303	271	241	209	189	164	146	133	118	104
Total	**30,824**	**33,136**	**32,816**	**34,244**	**39,651**	**45,671**	**49,043**	**51,721**	**54,839**	**57,975**
Nonreimbursable Technical Cooperation Authorized (Annual)[5]										
Fund for Special Operations	77	90	87	88	64	47	36	39	36	30
Other Funds	34	25	26	21	53	44	34	46	45	44
Total	**111**	**115**	**113**	**109**	**117**	**91**	**70**	**85**	**81**	**74**
FINANCIAL HIGHLIGHTS										
Income										
Loans										
Ordinary Capital	1,916	1,977	2,012	2,044	2,085	2,582	3,061	3,191	2,639	2,711
Fund for Special Operations	138	131	135	135	135	133	137	135	116	153
Investments										
Ordinary Capital	337	654	431	455	520	576	765	541	319	298
Fund for Special Operations	37	49	31	27	27	23	43	41	23	16
Net Income										
Ordinary Capital[9]	369	521	364	415	393	568	846	1,009	728	2,433
Fund for Special Operations[6]	89	84	82	77	95	103	135	129	81	114
Reserves (End of Period)										
Ordinary Capital[7]	5,303	5,969	6,072	6,307	6,867	7,436	8,103	8,913	9,929	12,772
Fund for Special Operations[8]	534	531	628	598	424	445	488	9	(64)	(113)
ADMINISTRATION										
Administrative Expenses										
Total - All Funds	**295**	**333**	**334**	**348**	**341**	**335**	**342**	**355**	**376**	**386**

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

LATIN AMERICA AND THE CARIBBEAN IN 2003

IDB-financed project to modernize the Port of Buenos Aires, Argentina.

Thanks to a combination of favorable external and internal circumstances, Latin America and the Caribbean have begun to recover from the period of stagnation that began in 1998. Externally, the growth of the world economy increased in 2003, prices of raw materials rose, and there was a noticeable improvement in the international financial risk climate. Thus the region obtained capital resources at cheaper rates. Internally, various factors are also contributing to the incipient recovery. External deficits have been corrected, high real exchange rates are fostering increased exports, and moderate inflation is allowing interest rates to decline.

Owing to this confluence of external and internal factors, real economic growth rose to 1.5 percent in 2003 and is expected to reach around 4 percent in 2004. The recovery is still fragile, however, because of a succession of severe after-effects following the period of stagnation. Public debt levels in many countries are very high, and even though fiscal deficits have narrowed, they remain too high in some countries to assure stability. Financial systems need further strengthening to weather macroeconomic risks. The prolonged economic stagnation has also had a series of social and political consequences. Unemployment rates stand at the highest levels ever recorded in the region, and the incidence of poverty is believed to have reached its highest level in the past four years. As a result, public opinion towards the economic reforms of the 1990s is unfavorable, and voters are demanding that governments make social issues a priority.

In the face of these challenges, macroeconomic policies during the recovery need to be channeled toward strengthening the fiscal situation and improving the public debt structure to prevent future disruptions. With regard to the policies of the different economic sectors, the focus should be on expanding export capacity and improving access to foreign markets, taking advantage of the possibilities for intraregional integration and agreements with the United States. The structural reforms of the past few years should be shored up through institutional improvements aimed at controlling corruption and strengthening the rule of law. At the same time, in the realm of social policies, urgent tasks include modernizing labor legislation and institutions, focusing social spending on protecting and supporting the poor, and improving the coverage and efficiency of basic education and health care services.

TABLE II THE EXTERNAL ENVIRONMENT

(In percent)

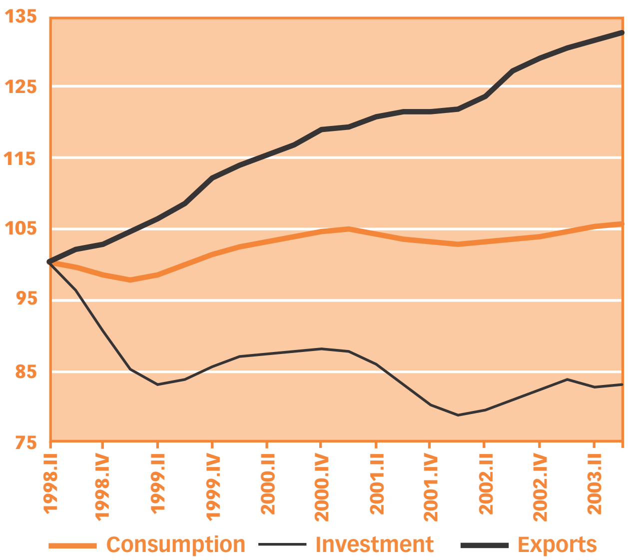
	2002	2003[e]
Output growth		
Developed countries	1.6	1.5
Developing countries	3.3	4.0
World trade volume growth	3.0	4.6
Short-term interest rates		
U.S. Dollar	1.8	1.0
Euro	3.4	2.1
International prices (change)		
Petroleum	2.4	6.3
Agricultural Products	8.5	7.0
Minerals and Metals	-3.6	7.3
Manufactured goods produced by developed countries	-0.1	4.0

e = Estimates
Source: World Bank, *Global Economic Prospects 2004.*

INTERNATIONAL SCENARIO

The international environment for the Latin American economies has been in a great deal of flux in

COMPONENTS OF DEMAND
(Index: 1998.II =100)



Source: IDB-Latin Macro Watch.
Note: Includes Argentina, Brazil, Chile, Colombia and Peru.

recent years. As recently as 1998, expanding world trade and an abundance of capital combined with optimism predicated on gains from rapid technological change and a climate of economic and political stability worldwide. But this context changed with the 1997 Asian crisis and the Russian debt moratorium, which undermined international financial stability. The stagnation of world trade since 2001 and various signs of fragility in some large world economies reduced the appetite for new investments. In addition to these financial and economic uncertainties, the events of September 11, 2001 highlighted the risks of international terrorism and altered the world geopolitical outlook. The economic and political climate became even more uncertain with the Iraq war and the tensions it generated in relations between the United States and some countries, particularly in Europe.

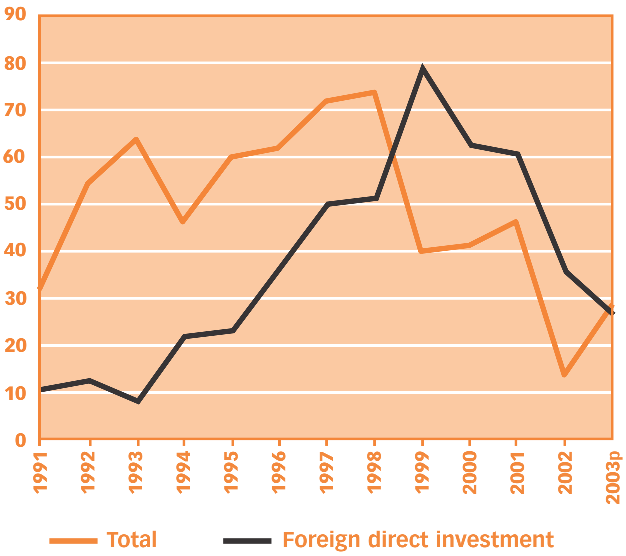
Although the sources of uncertainty have not completely disappeared, the international outlook has brightened since the end of the war in Iraq, with favorable implications for Latin America. As a result of the Federal Reserve's interest rate cuts and a very expansive fiscal policy, the U.S. economy showed clear signs of recovery. Estimates are that the U.S. growth rate in 2003 was 3 percent, higher than the previous year, and that it is picking up speed. Japan also provided a pleasant surprise. Against the rather pessimistic predictions of a few months ago, Japan achieved growth of 2.5 percent in 2003. Unfortunately, the opposite was the case in the European Union. Germany and Italy were in recession, and growth for the entire Euro zone was less than 1 percent for the year.

Although worldwide growth has been slight, it has generated a sharp rally in the prices of raw materials. Prices of foodstuffs and other commodities are already higher than they were in early 1998, when the downward trend and subsequent stagnation that persisted through mid-2002 first began. Even oil prices have remained high, contrary to predictions that prices would drop sharply with conclusion of the war in Iraq. As a result of higher prices for commodities, the terms of trade for Latin America and the Caribbean as a whole rose in 2003. The improvement was most notable for oil-exporting countries (Argentina, Colombia, Ecuador, Mexico, Trinidad and Tobago, and Venezuela), whose terms of trade rose around 3 percent, as calculated by the United Nations' Economic Commission on Latin America and the Caribbean (ECLAC).

The risk-averse financial climate that prevailed internationally in 2002 stemmed in part from the growing anxiety over terrorist threats and from the accounting fraud scandals at Enron and other large companies in the United States. The spread on high-yield corporate bonds jumped from 650 basis points above investments in U.S. Treasury bonds in April 2002 to over 1,000 basis points at its peak in October. This increase in perceived risk was reflected in investments in emerging economies, compounded in some cases by domestic or regional circumstances. Brazil, for instance, was affected by the uncertainty surrounding its presidential campaign and by the crisis in Argentina, where the cost of additional risk premiums of foreign debt bonds rose from 700 points in the first half of 2002 to over 2,000 points in October, before beginning to recede.

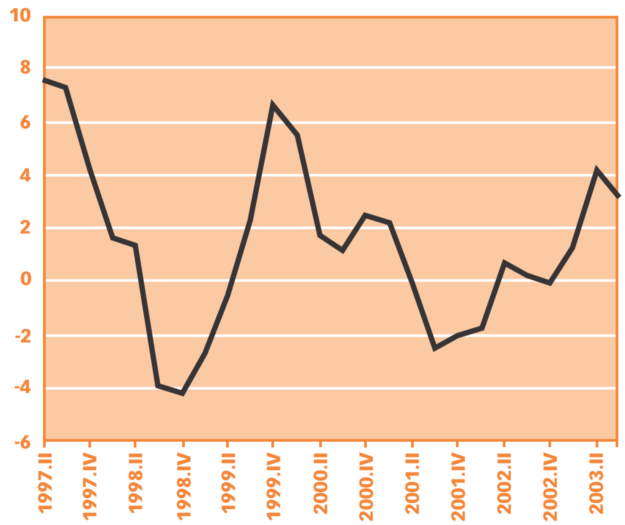
Conditions have since improved considerably. Since the second quarter of 2003, the spread on U.S.

CAPITAL FLOWS
(In billions of U.S. dollars)



p = projected
Source: Institute of International Finance.
Note: Includes Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela.

ECONOMIC GROWTH
(Annualized quarterly growth rates in percent)



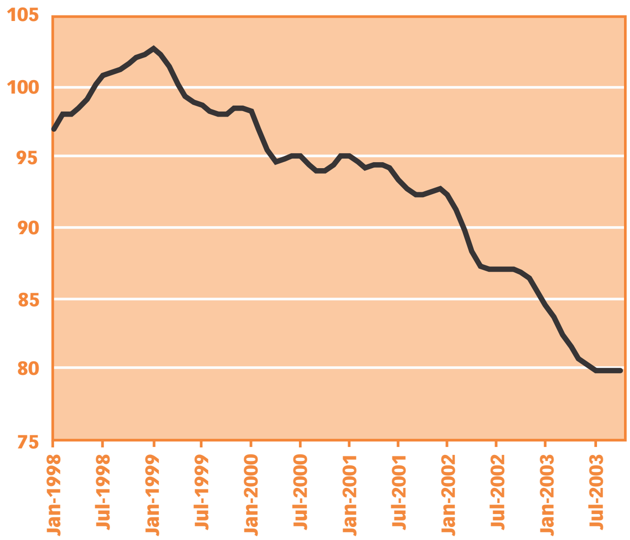
Source: IDB-Latin Macro Watch.
Note: Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

high-yield corporate bonds has returned to levels below those prevailing prior to the corporate scandals. This climate of greater financial confidence has carried over to emerging countries, including those in Latin America. At the end of 2003, the spread on Latin American debt issues (excluding Argentina) stood at 334 basis points. Brazil's bond spread narrowed from close to 2,400 points to 463 points in December 2003, and in Mexico, Peru and Colombia it dropped by approximately one-half.

The recovery of international financial confidence has begun to be reflected in the flows of capital to the region. In the seven largest economies of Latin America (representing 90 percent of regional GDP), capital inflows reached their lowest point in the last quarter of 2002, falling to one-sixth of the amount of just a year earlier, and to less than one-tenth of their peak at the time of the Russian crisis. While inflows in the third quarter of 2003 showed only slight growth, estimates available for the entire year for the region as a whole suggest that in the final quarter they had a more substantial upswing. According to the Institute of International Finance, net inflows of capital amounted to $27.9 billion in 2003, compared with $13 billion for the previous year; ECLAC estimates net inflows of $25.8 billion in 2003, compared with $10.6 billion in 2002. This recovery was achieved even though foreign direct investment declined by around $10 billion, due to sharp drops in flows, primarily to Brazil and Mexico. The strengthening of the capital account was due to a major decline in net financial outflows, which had been enormous in 2002 due to the crises in Argentina, Uruguay and Venezuela, and to the uncertainty in Brazil. In 2003, while net outflows of financial resources increased in the Dominican Republic due to an acute financial crisis, they declined in Argentina and Venezuela. Brazil and Uruguay, countries where there had been a net outflow in 2002, registered net inflows.

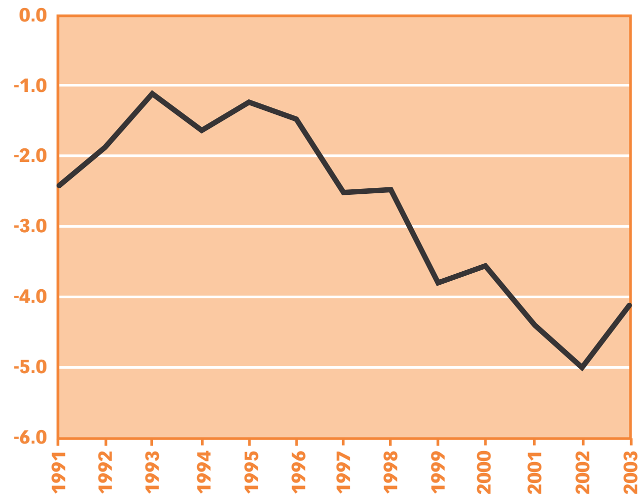
Another major sign that international financial markets were more favorably disposed toward Latin America in 2003 was bond market performance. International bond issues, which had fallen from $33.6 billion in 2001 to $18.2 billion in 2002, recovered significantly. During the first nine months of the year they totaled over $21.2 billion, with Mexico, Brazil, Venezuela and Chile being the most active

CREDIT TO THE PRIVATE SECTOR
(Index: June 1998 = 100)



Source: IDB-Latin Macro Watch.
Note: Loans in constant value, three-month moving average. Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

PUBLIC SECTOR BALANCE
(Percent of GDP)



Source: International Monetary Fund, World Economic Outlook.
Note: Includes 33 Latin American and Caribbean countries.

countries. The cost of new financing fell from an average of 12 percent in 2002 to 9.6 percent in 2003, with even greater reductions for issues in the final months of the year. The cost of foreign debt contracted in 2003 was similar to what it had been before the Asian crisis in 1997. The lower cost was the result of the significant decline in risk premiums and the fall in the yield of U.S. Treasury bonds.

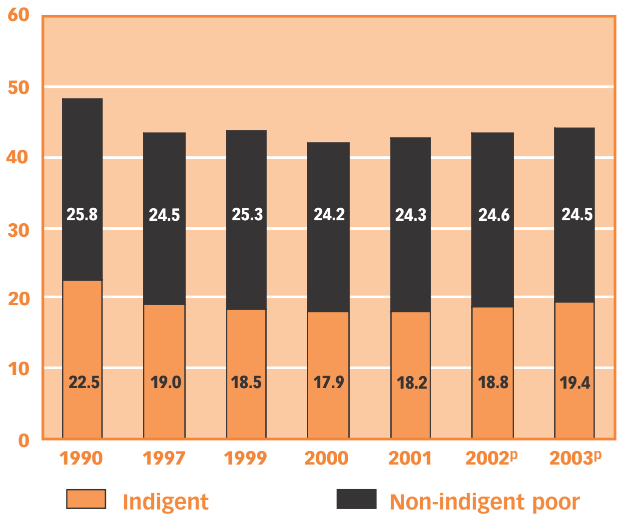
MACROECONOMIC PERFORMANCE

The economic growth of Latin America and the Caribbean over the past few years has been closely associated with the international economic environment. The region's growth rates have been modest since 1998, and in 2002 were slightly negative due to the recessions in Argentina, Venezuela, Paraguay, Uruguay and Haiti.

The region is now in a recovery phase, especially in Argentina, which achieved growth of over 7 percent in 2003. The situation in Brazil is also encouraging, and fears of a year ago that the country would fall into a crisis have vanished. Brazil's practically nonexistent growth in 2003 was due to the fact that economic authorities had to maintain high interest rates and strict fiscal discipline in order to restore financial confidence. Chile, Colombia, Mexico, Uruguay and several Central American countries achieved modest recoveries, but growth in Bolivia, Ecuador and Peru was less than in the previous year. In the English-speaking Caribbean, growth rates were positive but modest, with the exception of Trinidad and Tobago, whose GDP rose by over 5 percent. Throughout the region, only two countries had negative growth rates: the Dominican Republic, which was suffering from financial crisis, and Venezuela, where GDP fell by around 10 percent due to the strike at the beginning of the year and the climate of political confrontation. The final result for the region as a whole was thus one of modest recovery with overall growth on the order of 1.5 percent, barely enough to maintain the average per capita product for the entire region at the previous year's level (which in turn was 1.5 percent below the 1997 level). In seven countries, per capita production fell from the previous year, and in only seven countries did it increase by 2 percent or more.

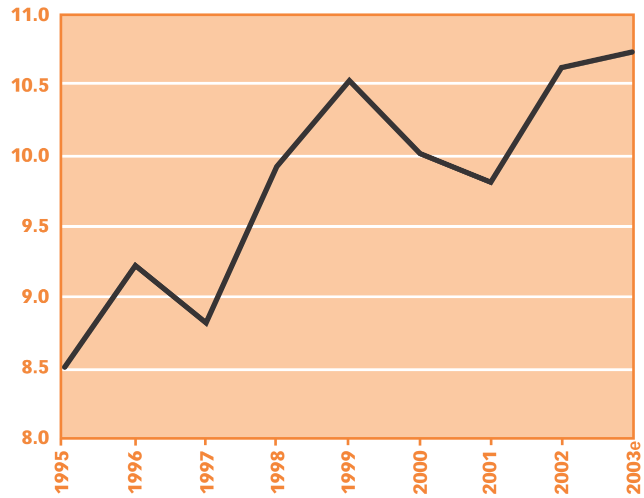
A number of internal factors are also contributing to improved economic growth in the region. The first is the decline in the need for foreign financing, thanks to correction of the swollen external deficits of many countries. The most dramatic cases are those

POVERTY
(Percent of population)



p= projected
Source: ECLAC, Social Panorama of Latin America, 2002-2003.

UNEMPLOYMENT
(In percent)



e= estimate
Source: ECLAC, Preliminary Overview of the Economies of Latin America and the Caribbean, 2003.

of Argentina, Venezuela, and more recently the Dominican Republic. Argentina went from a deficit of around 5 percent of GDP in 1998 to a surplus of 9.4 percent in 2002 and around 8 percent in 2003. Venezuela also went from a deficit of nearly 5 percent in 1998 to a surplus of 10 percent in 2002 and almost 13 percent in 2003. In the past year, the Dominican Republic went from a 4 percent deficit to a surplus of close to 5 percent of GDP. Aside from these examples of dramatic improvements, most countries in the region corrected their external deficits reasonably, thereby moderating their financing needs. Hence, although the flow of foreign capital resources to Latin America is still considerably below the levels of previous years, it has met the region's financing needs, thereby making it possible to restore domestic demand and economic activity.

The second internal factor favoring higher growth, closely connected to the previous one, is the level of real exchange rates, which is boosting exports and containing the demand for imports. For the seven largest countries in the region, real exchange rates rose approximately 20 percent from the onset of the Russian crisis in mid-1998 to the end of 2001, and a further 50 percent in the first ten months of 2002, due especially to the sharp devaluations by Argentina and Brazil. Although the trend has been toward appreciation since that time, real exchange rates have remained at high levels in most countries. Only Mexico and Trinidad and Tobago show exchange rates that have appreciated considerably from the levels in effect at the time of the Russian crisis. Ecuador has also experienced significant appreciation since the adoption of the dollar as its official currency in 2000.

Driven both by favorable external conditions and by high real exchange rates, exports rebounded significantly in 2003, after two years of poor performance. Exports from Latin American countries rose by an estimated 8 percent in 2003, thereby recovering ground lost in 2002. With the exceptions of Panama and Venezuela, all countries increased their exports in 2003. Particularly striking was the case of Brazil, whose exports rose 21 percent in response to the high real exchange rate and growing demand for Brazilian goods by Argentina and China. The performance of Brazilian exports was in fact the main reason for the 19 percent growth of exports from MERCOSUR as a whole, although Argentina also registered a double-digit increase, as did other Southern Cone countries, including Chile. Exports of the Central American Common Market also registered a significant increase of around 12 percent, while the exports of the Andean Community rose by a mere 3 percent. This was basically due to the decline of exports from Venezuela, which offset good performances by Bolivia, Ecuador and Peru. The suspension of oil exports from Venezuela due to the production stoppage that lasted for over a month explains the almost 5 percent reduction of exports from that country. Mexico also had a poor year in exports, growing by a mere 1.8 percent due to demand trends in the United States, which receives almost 90 percent of Mexican exports. Exporters of manufactured goods, such as Mexico, were also affected by growing competitive pressures from China and other Asian countries. However, the demand for raw materials by China contributed to strong regional exports of primary products, a trend that was especially beneficial to Brazil and other South American countries.

In contrast to the region's total export growth of close to 8 percent in 2003, ECLAC estimates that total imports increased by 2.5 percent, after having fallen by 2.5 and 6.8 percent, respectively, in the two previous years.

The third internal factor that has facilitated Latin America's recovery is that low inflation rates in most countries, despite sharp devaluations of recent years, have enabled interest rates to fall. In 2003, only six countries had inflation rates of over 10 percent (with three of those less than 15 percent). In Haiti and the Dominican Republic, inflation rose from around 10 percent to over 40 percent, while in Venezuela it declined slightly from 31 to 26 percent. By contrast, with inflation in check, Argentina and Uruguay managed to substantially reduce the high interest rates of the previous year. In response to noteworthy monetary and fiscal restraint, inflation fell in Brazil, although it still did not reach pre-2002 levels. The low inflation rates have been made possible by the credibility earned by the independent monetary authorities and the commitment of most governments to fiscal sustainability. Favorable inflation rates in 2003 translated into significant reductions in the interest rates that are subject to intervention by monetary authorities. In some countries, the impact could be seen in domestic borrowing costs. For example, the real interest rate on lending fell in Argentina, Colombia, Mexico and Venezuela in 2003. Rates were higher in Bolivia and Paraguay, however, despite the intentions of monetary policy. Real interest rates also rose in Brazil, primarily because the monetary authority kept market intervention interest rates high for a longer time in an effort to consolidate lower inflation.

MEDIUM-TERM OUTLOOK

Although 2003 was a year of recovery and 2004 might see growth in the region reach 3.5 or 4 percent, medium-term prospects remain uncertain because of the various after-effects of the long crisis of preceding years.

On the macroeconomic front, after several years of fiscal hardships and steep devaluations, public debt levels in the region's seven largest countries rose from an average of 37 percent of GDP in 1997 to 51 percent in 2002. In Argentina and Colombia, the increases were even greater, although this trend began to be corrected in 2003. The weakness of public finances implies that governments will not be able to play a very active role in supporting the expansion of demand. Even worse, it implies that the region is still vulnerable to new shocks that could affect tax revenues or make debt service more expensive. The recovery of 2003 and 2004 may help reduce fiscal deficits and improve the countries' relative debt positions, but not to the extent necessary to return quickly to the margins for fiscal management that existed in 1997. Governments that fail to take prompt advantage of greater growth to strengthen fiscal performance stand to miss their only opportunity to recover the margin that they will need if and when a new crisis comes to pass.

In most countries, a very high proportion of public debt is either denominated in foreign currencies or tied to exchange rate fluctuations. This is largely responsible for the increases in the debt ratios as a consequence of devaluation, and it is one of the reasons for the poor cyclical performance of fiscal policies in the region. Another unfortunate characteristic of government debt is its short duration, which exposes the servicing cost to the vicissitudes of domestic and foreign interest rates. A thorough solution to these problems will require strong action by countries to take advantage of the economic recovery phase to bolster their fiscal position and improve the profile of the currencies and time periods of the debts.

Another after-effect of the prolonged crisis has been the weakening of the response capacity of domestic credit. In the region's seven largest countries, bank lending for the private sector dropped by 20 percent in real terms between mid-1998 and October 2003. More than the result of a credit squeeze, which would be reflected in upward pressures on bank lending rates, what is taking place now in many countries is a type of financial paralysis, in which demand for credit is low and banks are reluctant to expand their credit operations due to uncertainty about economic growth, the risks associated with the recent exchange rate devaluations, and other macroeconomic adjustment policies. The restoration of lending will not automatically follow higher growth, but will depend on whether such fears are addressed. As has happened in the past, the danger is that the financial situation will suddenly shift from one of extreme caution to one of euphoria, making it difficult for the economic authorities to maintain control, and in turn sowing the seeds of future financial crises. This challenge is especially critical at present, in view of the vulnerabilities affecting some countries' financial systems, which are not deep enough to accommodate sudden changes in international financing flows. Many systems are exposed to exchange mismatch risks, either directly because liabilities are more dollarized than assets, or indirectly because they have extended loans in dollars to customers whose assets and income are denominated in currencies other than dollars. Although less prevalent than in the past, the third source of fragility is insufficient prudential regulation and deficiencies in oversight. These are areas that require immediate attention if credit in the region is to recover, and in order to improve resistance to the vagaries of international financing. In addition, in many countries the strengthening of financial systems requires improving legal and institutional frameworks to ensure respect for creditors' rights and suitable recognition of property rights for assets such as land and housing, so that they can be used as collateral. These measures are essential to expand access to credit; otherwise, financial systems will remain shallow and credit very concentrated.

In terms of productive capacity, the recession left some sectors weakened because of lack of investment, which is one of the most serious consequences of the adjustment of internal demand during the low-growth years. During the past two years, the investment rate in the region stood at a level 20 percent below its 1997 peak and was at its lowest level in the last ten years. Among the largest countries in the region, only Mexico managed to avoid these trends. Between 1997 and 2002, investment fell by over 60 percent in Argentina, 15 percent in Chile, and 10 percent in Brazil. Only Argentina experienced a significant recovery in 2003. By contrast, in the past year investment in Venezuela plummeted to less than half of its 1997 level. Despite the recovery expected in the region in 2004, a strong recovery in investment will be difficult because many businesses are overwhelmed by the weight of their debt in dollars and by higher prices for capital equipment as a result of devaluation. The financial systems have yet to recover an appetite for financing the expansion of productive capacity in the region, and as a result many countries are in a vulnerable situation.

The recovery will not be sustainable without increased productive capacity. Fiscal discipline and strengthened financial systems are the indispensable macroeconomic pillars for the recovery of investment, but in many countries they may not be sufficient. The best option that the region now has for restoring the appetite of investors is to explore possibilities that have opened up during the process of international integration. In 2003, negotiations were completed between the United States and Chile and between the United States and various Central American countries. It is hoped that similar agreements will be made in 2004 with Colombia, the Dominican Republic, Peru, Panama, and, possibly, Bolivia and Ecuador. Canada is negotiating a comprehensive free trade agreement with Central America, and other agreements are being negotiated between the European Union and MERCOSUR and between Japan and Mexico. Although in practice bilateralism is prevailing as the most feasible mechanism for integration between Latin America and the developed world, it is an imperfect substitute for the multilateral integration pursued by the World Trade Organization and within the hemisphere to set up the Free Trade Area of the Americas.

However these processes unfold, efforts to restore investment must focus on tapping new foreign markets. Thanks to competitive exchange rates in most countries, a range of new potential investors should prove particularly interested in Latin America. The current resurgence of industrial policies in many countries in the region should be aimed squarely at this objective.

Another after-effect of the crisis of the last few years that could have an impact on the medium-term growth outlook is the widespread discrediting of market reforms. According to the Latinobarómetro survey, which covers 17 countries, the percentage of Latin Americans who believe that privatization has not been beneficial rose from 43 percent in 1998 to 75 percent in 2003. Confidence in the reforms has weakened as a result of the poor performance of economies in recent years. Moreover, the questioning of the reforms, and especially of privatization processes, has been exacerbated by complaints that corruption has tainted these processes in various countries and that regulation of the newly privatized sectors has been deficient. Under these circumstances, it will be difficult for countries to consider new reforms that could stimulate investment and attract more stable long-term capital to the region. The economic, political and social situation in most countries in the region makes it unrealistic to expect a drive for reform similar to that of a decade ago. Instead, efforts should be focused on improving the effectiveness of economic liberalization and modernization already in motion. Despite advances in the regulation of the privatized sectors during the past decade, the lack of budgetary, administrative and political independence of the regulatory agencies continues to affect regulatory quality and credibility. More generally, in order to improve incentives for productive investment and employment, the rule of law must be enhanced through reform of judicial systems, control of corruption, and in some countries the reform of electoral and political systems. The modernization of public administration remains unfinished business in many countries. Its objective should not simply be cost-cutting for the state, but providing services more efficiently.

The crisis of the last few years has had serious consequences in the social area, which will affect and constrain future growth possibilities. The average unemployment rate in 2003 in Latin America is estimated at 10.7 percent, a slight increase over the previous year and the highest ever recorded for the region. Argentina, Colombia, the Dominican Republic, Panama, Uruguay and Venezuela recorded unemployment levels above 15 percent. This weakening of the labor market has sidetracked prior progress in reducing poverty. The incidence of poverty ($2 or less in daily income) dropped from 48.3 percent in 1990 to around 42.1 percent in 2000, but these trends were subsequently reversed. According to ECLAC calculations, the incidence of poverty reached 44 percent in 2003, affecting 225 million people.

The social debts accumulated during the crisis are a threat to Latin America's medium-term stability. Due largely to these social debts, there is considerable discontent in the region, not only with economic management but also with the results of democracy. According to Latinobarómetro surveys in 2003, more than 60 percent of Latin Americans believe that the economic situation in their countries is bad or very bad, and only one in four believes that the economy will soon improve. Dissatisfaction has been growing in recent years. Since 1997, the percentage of those who think that the situation is bad or very bad has increased in almost all countries.

The accumulation of social debts and an increase in popular discontent could lead to the adoption of unsustainable policies, such as freezing rates of public services or abrupt hikes in the minimum wage or government spending—moves that may momentarily assuage discontent, but which over the long run may hurt the poorest. In this regard, it should be noted that, contrary to popular perception, government social spending in the region has actually increased since the early 1990s. Unfortunately, social spending has had a pro-cyclical effect, and has not really addressed social needs when times have been hardest.

Social spending policy should aim to protect the poorest people in society and improve the coverage and quality of basic education and health care services. However, social expenditure is simply one component of a social development strategy. Due to the importance to the poor of income from labor, the primary objective of any strategy to improve social conditions ought to be the smooth functioning of the labor market. In most countries of the region, labor markets are uneven, which, combined with recurring macroeconomic volatility, exposes workers to risks of losing their job and swings in income. Although Latin American labor legislation seeks to protect workers from these risks, its coverage and effectiveness tend to be very limited, with the possible undesired effect of limiting the creation of stable employment and hindering the entry of young people and women into the labor market. While no labor legislation is ideal, many countries in the region are lagging behind in removing the statutory obstacles to stable employment. Another urgent social task is improving systems for workforce training, labor intermediation services, job registration practices and supervision of labor standards.

Latin America is entering a recovery phase based on a combination of favorable external and internal circumstances. Whether or not countries take advantage of the potential upswing will depend on how they deal with the after-effects of the crisis of recent years. In particular, they must maintain austere fiscal policies to dispel the risks lingering as a result of high levels of public debt; enhance financial oversight; reduce the risks associated with exchange rate mismatches; and better protect creditors' rights so that financial systems can recover confidence in lending operations. Efforts to foster investment must focus on export sectors that can take advantage of new prospects for international integration, and it is urgent that pro-market reforms be backed by efforts to strengthen the rule of law and control corruption. In the social realm, legislation and labor institutions must be modernized so that greater growth will translate into better working conditions and higher incomes for workers, while social spending should be focused on offering protection to the poorest and extending the coverage and quality of basic education and health care services.

PART I: THE BANK IN 2003 KEY AREAS

Lining up at a bank in Oaxaca, Mexico to pick up remittances from abroad. Several MIF operations and IDB studies are examining ways to lower transaction costs associated with this important source of income for many countries in the region.

OVERVIEW

In a context of guarded optimism, the Inter-American Development Bank provided strong support to the economic recovery that emerged slowly over the course of 2003 in Latin America and the Caribbean. The Bank's lending for the year was $6.81 billion, an increase of nearly 50 percent over the 2002 total of $4.55 billion. Bank disbursements in 2003 totaled $8.9 billion, an increase of 53 percent over the previous year, a record for the institution. For the tenth consecutive year, the IDB was the largest source of multilateral financing for Latin America and the Caribbean.

In its continuing effort to tailor support to the differing needs of its 26 borrowing member countries, the Bank used a greater variety of lending instruments than ever before. These included public sector investment loans, policy-based loans, guarantees, nonreimbursable technical assistance, direct loans to the private sector without a sovereign guarantee, operations under the new trade finance reactivation program, and emergency loans. The Board of Directors approved two new instruments in 2003—the conditional credit line for investment projects and a pilot program for performance-driven loans. The Bank also employed a variety of nonfinancial tools to improve understanding of the region and its development needs. These included high-level international conferences, training courses by the Inter-American Institute for Social Development and the Institute for the Integration of Latin America and the Caribbean, print and electronic publications, and applied and technical research.

In accordance with the target first established by the Bank's Board of Governors a decade ago, 44 percent of the number (and 52 percent of the volume) of operations approved during the year targeted the social sectors and poverty reduction, not including emergency loans. Poverty-targeted investment loans amounted to just over $1 billion for 23 separate operations in 2003.

In terms of lending modality, 49 of the 82 loan operations approved during 2003 were for investment projects, amounting to $1.6 billion or 23.4 percent of approvals. There were ten policy-based loans approved during the year, which accounted for $1.7 billion or 25.1 percent of the portfolio. The program of direct loans (seven) and guarantees (two) for the private sector encompassed nine operations totaling $333.9 million, or 5 percent of new operations. Emergency loans were few in number—including two to Argentina and one each to Colombia and Paraguay—but amounted to $3.18 billion, or 46.7 percent of total lending volume. The emergency window facility was established as a revolving fund in 2002 to help mitigate the impact of financial crises, particularly on vulnerable segments of the population.

Distributed by country group, 19 projects totaling $1.35 billion (37.2 percent of total project approvals for the year, excluding emergency loans) were for Group I counties, which are those with per capita incomes in 1997 dollars above $3,200 (Argentina, the Bahamas, Barbados, Belize, Brazil, Chile, Mexico, Trinidad and Tobago, Uruguay and Venezuela). A total of 49 projects amounting to $2.27 billion (62.8 percent of total approvals) were for Group II countries, whose per capita incomes in 1997 dollars are less than $3,200 (Bolivia, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru and Suriname).

Distributed among the "pillars" contained in the Bank's Institutional Strategy, excluding emergency loans, projects for ***social sector reform*** (including public investments, a private sector project and policy-based loans) accounted for $1.53 billion, or 42.3 percent of the lending program; projects to improve the ***competitiveness*** of countries totaled $1.32 billion, or 36.4 percent of approvals; and projects for ***reform and modernization of the state*** amounted to $772 million, equivalent to 21.3 percent of the year's lending.

The Bank continued to meet its commitments during the year to deliver debt relief under the original and enhanced Highly Indebted Poor Countries (HIPC) initiatives. IDB debt relief to the four eligible countries in the region included $35 million for Bolivia, $16 million for Guyana, $6 million for Honduras, and $39 million for Nicaragua.

Following the regularization of Haiti's financial status during the year, the Bank moved quickly to reestablish its lending program there. The new program included the reformulation of four previously approved but undisbursed investment loans, a reformulated investment sector loan, three new investment loans, and one new policy-based loan.

Ten policy-based loans approved in 2003 included two operations in Bolivia for fiscal sustainability and competitiveness; a health and social security reform program in Colombia; a social sector reform program in Ecuador; a competitiveness reform program in El Salvador; the public finance reform loan for Haiti; a loan for consolidation of Mexico's rural financial system; a loan to support modernization of the state and fiscal reform in Nicaragua; a program to bolster competitiveness in Peru; and an operation to strengthen the banking system in Uruguay.

The seven projects and two guarantees approved in 2003 through the Bank's ***private sector window*** amounted to $333.9 million, surpassing the $316.4 million approved a year earlier. A $30 million loan to Jamaica, the Bank's first loan to that country's private sector, will support Oceanic Digital Jamaica, Ltd., a firm that is expanding its cellular telephone and high-speed Internet access network across the island. The Bank also approved its first operation under the new trade finance reactivation program, a $50 million loan to *Banco Bradesco* in Brazil, complemented by a "B" loan syndication of up to $60 million. The operation will enable the country's largest privately owned, commercial bank to better finance exports by Brazilian firms and their subsidiaries, filling a financing need important to keeping the region's largest economy moving.

The Bank's ***Technical Cooperation Program*** provided $63.6 million for 327 operations in 2003. National technical cooperation programs amounting to $51.7 million accounted for 281 of the total number of operations, while regional technical cooperation grants worth $11.9 million accounted for the other 46 programs. Regional financing was provided for several initiatives to support the final phase of the Free Trade Area of the Americas (FTAA) negotiation process; for programs to help Caribbean member countries meet the challenges of globalization; and for a plan to promote the cultural heritage of the Inca Trail through the Andes while protecting it from environmental and archaeological degradation.

The ***Social Entrepreneurship Program*** provided financing in 2003 for 17 small-scale loans and grants totaling $8.3 million. More than half ($4.25 million) of the funds came from the net income of the Fund for Special Operations, with the balance of approximately $4 million from the European Commission and from Swedish Trust Funds administered by the Bank. This program has achieved considerable renown over the years for its disproportionately large developmental returns from relatively small operations. Examples from this year included operations to alleviate poverty by supporting income-generating activities for shrimp farming in El Salvador, small-scale coffee growers in the highlands of Peru, and recyclers of motor oil and plastic containers in Bogota, Colombia.

The year saw the establishment of five new ***funds in administration***: the Canada Trade Fund, supported by the Canadian International Development Agency; the Danish Trust Fund for Consulting Services, endowed by the Royal Danish Ministry of Foreign Affairs; the Italian Information and Communication Technology for Development Fund; the Fund for Social Inclusion, to which Norway was the first country to have made a firm commitment; and the Finnish Technical Assistance Program, which provides technical cooperation for social development, the environment, energy and information technology.

Commemorating its tenth year, the ***Multilateral Investment Fund (MIF)*** continued to pursue its mission, unique among international financial institutions, to promote inclusive private sector development in Latin America. The 70 MIF projects approved in 2003, totaling $70 million, brought the cumulative totals for the facility to 585 projects and over $900 million, not including cancellations. When counterpart funds are added to this total, MIF has leveraged roughly $1.6 billion for projects in fields ranging from improving financial market regulation to promoting the use of ISO environmental certification standards and providing seed capital for entrepreneurial start-ups. In 2003, the Fund continued its seminal work in the field of remittances and pursued work programs in seven additional project "cluster" areas.

The ***Inter-American Investment Corporation (IIC)***, an autonomous affiliate of the Bank, approved 26 projects in 15 countries plus one regional project in 2003 for a total of $193.7 million. This marked an increase of 57 percent over the previous year. IIC projects promote the establishment, expansion and modernization of the region's small and medium-sized enterprises.

With regard to financial matters, the IDB received a AAA credit rating from the major credit-rating agencies in 2003, as it has every year since the institution's founding. During the year, the Bank adopted a new risk-based capital adequacy policy and associated loan loss provisioning policy and lending rate methodology, with the latter providing a low and stable lending spread and fees. A LIBOR-based pricing option for single currency loans, with an interest-rate spike risk mitigation mechanism, was introduced as a liability management option for borrowers. The Bank's bond issues for the year totaled a face amount of $9.3 billion equivalent and net proceeds of $7.3 billion with an average life of 9.5 years. Operating income was significantly affected by a change in estimates for loan loss provisioning, resulting in an addition to income of approximately $1.4 billion and a total operating income of $2.4 billion.

Efforts to ensure the ***development effectiveness*** of all Bank operations gathered momentum in 2003 with the establishment of a Development Effectiveness Unit within the Office of the Executive Vice President. The Bank devoted particular attention to the quality-at-entry of prospective projects and the ex-post evaluation of operations. Following a pilot assessment of a sample of projects entering the pipeline, the Bank adopted and revised standards, ratings and methodologies that will be applied during the analysis of projects approved in 2003. The adoption of a new Bank policy on ex-post evaluation tightens the guidelines for preparation of Project Completion Reports and enables the Office of Oversight and Evaluation to increase the number and types of its ex-post project evaluations. The 2003 Annual Report on Projects in Execution rated 91 percent of operations as likely to achieve their development objectives as defined in the Bank's internal Project Performance Monitoring and Reporting System. This is the same percentage as that reported for the previous year, though the dollar value represented by the same 9 percent of "problem" projects rose significantly.

Attention to ***governance*** was a hallmark of the Bank's activities during the year, both in terms of performance in the region and internal guidance and control. The IDB established an Office of Institutional Integrity (OII), which reports directly to the president and has assumed all investigative functions related to allegations of fraud and corruption, violations of the Code of Ethics, and conduct prohibited by the Staff Rule on Respect in the Workplace. OII performs the same functions for the IIC and serves as the secretariat of the Bank's Ethics Committee, Conduct Review Committee and Oversight Committee on Fraud and Corruption.

A two-day meeting in October brought together the Bank's senior management from the region and headquarters to discuss an array of new tools to combat corruption, including adoption of a Whistleblower Protection Staff Rule, as well as the first Code of Ethics for the Board of Executive Directors. A revised code for staff was drafted, and independent consultants were hired to review the Bank's operational and administrative procurement systems. Following extensive public consultation on a draft of a new Information Disclosure Policy, the Board approved a final version that will expand access to Bank-created information and documents concerning operations and financial and other institutional matters.

Work on the topic of ***citizen participation*** continued during the year, as more Country Offices established Civil Society Advisory Councils, and as the operational departments strived to make use of best practices in consultation while designing projects and overseeing their implementation. The Bank's Interdepartmental Group on Participation and Civil Society continued its work on a variety of fronts. At a meeting in Lima, the president and executive vice president met with nearly 100 leaders from member country NGOs to discuss such issues as the Puebla-Panama Plan and the need to advocate on behalf of Afro-descendent populations. The Bank also continued its collaboration with the trade union movement in the region. Along with the Inter-American Regional Organization of Workers (ORIT), the IDB sponsored a conference in Brasilia on labor markets and globalization.

BOARD OF GOVERNORS

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

At the Bank's 44th Annual Meeting held March 24-26, 2003 in Milan, Italy, the Board of Governors approved the financial statements of the ordinary capital, the Fund for Special Operations, and the Intermediate Financing Facility for 2002, and appointed Ernst & Young LLP to carry out the external audits for the 2003 fiscal year. The board also assigned the equivalent of $75.2 million in convertible currency from the General Reserve of the Fund for Special Operations to the Intermediate Financing Facility. The board agreed to hold the 45th Annual Meeting in Lima, Peru from March 29-31, 2004, and it's 46th Annual Meeting in Okinawa, Japan from April 10-12, 2005.

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

- ***Demand for flexibility:*** Agreed that flexibility and careful analysis of possible courses of action are critical in order for the Bank to respond to the region's most pressing challenges, particularly in light of the prevailing regional and international economic environment;
- ***Mobilization of private investments:*** Agreed that private investment is the engine for economic growth, and that the reach of Bank activities must be broader in order to mobilize the private sector. In addition, the board noted the proposal from the IIC External Review Group that advocates regrouping IDB and IIC activities involving the private sector under a new umbrella;
- ***Development effectiveness:*** Stressed that the Bank must become more of a results-based institution, which requires framing outcomes when designing new operations;
- ***Governance:*** Stressed the importance of the Bank supporting its borrowing member countries in their efforts to modernize the state, considering that the lack of incentives as well as other deficiencies in this area discourage private investment and undermine the Bank's ability to implement its development agenda.

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

Also prior to their formal sessions, the governors held a meeting on the Multilateral Investment Fund and analyzed its outcomes, resources and future activities. The board agreed to create a Special Governors' Committee to review the replenishment of MIF funds.

The Committee of the Board of Governors met in Milan on March 22, 2003 as part of the Annual

Meeting to review progress in implementing the new financing framework approved in March 2002 and to examine future steps needed to reinforce the Bank's development effectiveness.

BOARD OF EXECUTIVE DIRECTORS

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

During 2003, the Board of Executive Directors approved the loan and technical cooperation operations as detailed in the section on the year's lending. The principal corporate issues resolved by the board are described in the following section detailing the activities of board committees.

Permanent Committees of the Board of Executive Directors

Steering Committee

The Steering Committee of the board coordinates the work of the standing committees and deals with administrative issues related to board management. The committee is made up of the chairs of the four standing committees, the dean and vice dean, and the director representing the United States.

During 2003, the committee discussed issues related to rules regarding its budget and travel as well as procedures for reducing the size of the board's work program while making its focus more strategic. The committee also set the agenda for a three-day board retreat where discussions were held on the Bank's work with the private sector, the board's work program, and budget and administrative matters.

Organization, Human Resources and Board Matters Committee

This committee deals with Bank organizational issues such as adjustments to the structure of the institution, human resources (including topics related to the new human resources strategy), matters related to board efficiency, matters related to the Bank's independent investigation mechanism, and the organization of the Bank's Annual Meeting.

In the area of Bank organization, the committee recommended approval of organizational changes to the Bank's Information Technology and General Services Department and approved a rotation scheme for board representation on the Pension Committee. The committee also met with the Bank's country representatives when they were attending a seminar at headquarters and had a spirited discussion on ways to strengthen the Country Offices.

In the human resources area, the committee considered the Bank's headcount proposal, discussed issues related to mobility, recommended approval of a domestic partner staff rule, discussed the Bank's staffing plan, and reviewed periodic reports on Bank progress in implementing the human resources strategy.

The committee spent considerable time discussing ways to improve the Bank's independent investigation mechanism. Other institutions were invited to speak on their respective mechanisms, and management presented an issues and options paper to help structure the elements for a new mechanism. The committee concluded its deliberations on the independent investigation mechanism report on the *Termoeléctrica del Golfo* Project in Mexico (www.iadb.org/cont/poli/investig/notices.htm) and considered requests for investigations concerning the Cana Brava project in Brazil and the Yacyretá project in Argentina and Paraguay. Finally, the committee recommended Lima, Peru, and Okinawa, Japan as sites for the next two annual meetings.

Programming Committee

This committee considers country and regional programming documents, reviews reports on the loan program and on technical cooperation and nonfinancial product pipelines, evaluates allocation guidelines for concessional resources, reviews reports from the Office of Evaluation and Oversight in areas related to country programming, and considers new initiatives that relate to the Bank's programming function.

Regarding country programming, the committee in 2003 reviewed and recommended for board approval the country strategies for Nicaragua, Costa Rica and Colombia. After intensive deliberations, the committee took note of country program evaluations for Costa Rica, Haiti, Nicaragua and the Bahamas. The committee reviewed a protocol for the conduct of country program evaluations, which was subsequently approved by the board. This protocol should facilitate the committee's task in reviewing program evaluations in subsequent years.

Members of the committee welcomed the fact that country strategy papers had more precise, better-defined and measurable indicators of achievement than in previous years, as a result of application of the country strategy guidelines approved the previous year. For the second year running, the committee met to consider the format for country strategy updates. The committee also discussed progress in implementing an action plan for the private sector window for group C and D countries

Budget, Financial Policies and Audit Committee

This committee oversees the Bank's administrative and capital budgets, reviews the Bank's financial policies, and supervises the external and internal auditing of the Bank's affairs.

The committee gave particular attention in 2003 to examining how the Bank might continue to strengthen its own control environment, and how the committee itself could further enhance its fiduciary role in protecting the interests of the Bank's member countries. The committee discussed a new work program with the Office of the Auditor General (AUG) designed to better focus AUG efforts on areas of potential risk. As a consequence of the Sarbanes-Oxley Act in the United States and similar legislation in other countries, as well as the widespread adoption of the COSO methodology to enhance management's corporate controls, industry best practice is evolving rapidly. The committee began a series of meetings designed to identify how the Bank should react to these developments. The meetings will culminate in a set of specific proposals to be developed by AUG, the Finance Department, Legal Department and the Bank's external auditors, and brought before the board.

The key policy achievement of 2003 was the development and approval of a new capital adequacy policy and lending rate methodology. The new policy replaces the former net income targeting policy and establishes the total equity to loan ratio (TELR) as a key financial indicator for the Bank. The policy is designed to protect the Bank's financial standing while ensuring that it can continue to meet the development needs of its borrowing member countries. Under the new policy, it is expected that the Bank will gradually increase its TELR to the target ceiling of 38 percent, further enhancing the institution's ability to act counter-cyclically and continue to lend to the region even in times of financial turbulence. Under the new policy approved by the board, a new and lower standard loan charge was adopted, to be reviewed by the board semiannually.

The committee took steps to ensure that the Bank's financial products will evolve to meet the changing needs of its borrowers. In the face of limited demand, the committee agreed that loans based on a basket of currencies (the currency pool system) would no longer be offered. Earlier in the year, in response to expectations that LIBOR rates might remain below rates for longer-term borrowing, the committee recommended approval of a management proposal to introduce LIBOR-based loans.

Modernizing the Bank's procurement policies and procedures and harmonizing them with those of other multilateral agencies continued to be an important committee concern. The committee reviewed reports throughout the year to update directors on implementation of the procurement action plan. Management contracted consultants to identify further opportunities for streamlining the Bank's handling of procurement for both corporate and operational purposes.

In light of the region's continuing economic difficulty, the committee recommended approval of an austere budget for 2004. Capital spending was cut sharply and the Bank's administrative expenditures were subject to a nominal increase of no more than 2.8 percent.

Policy and Evaluation Committee

This committee considers the policies and strategies that guide Bank operations in the region and the instruments used to implement them. It also reviews the reports that assess the success of the operational program in promoting social and economic development, and oversees the work of the Office of Evaluation and Oversight (OVE).

The committee devoted considerable time in 2003 to the ongoing effort to enhance the Bank's development effectiveness. Guided by recommendations from studies carried out by OVE, management took measures to strengthen each stage of the Bank's project cycle. The committee considered work done to assure that projects met specified standards as they entered the Bank's portfolio, and reviewed the significant modifications introduced to the Bank's instruments for monitoring project performance during and at the close of implementation. To complete the cycle, the committee reviewed a new policy on ex-post evaluation and agreed to a joint management-OVE proposal for a pilot program of impact evaluations. This pilot was designed to provide the Bank with lessons on how best to manage future work by OVE in assessing project results and measuring impact. To strengthen directors' ability to oversee these developments, the board approved a proposal to expand the scope of management's annual report to the committee on the performance of the Bank's portfolio and to provide more specific information on the results achieved by Bank operations.

The committee continued to be active in developing new instruments to improve the Bank's ability to meet the needs of borrowing countries (see Box 1). The committee reviewed (and the board approved) a new sector facility to help develop transnational infrastructure projects, and a contingent credit line that would help the Bank and borrowers establish a longer-term commitment to program financing.

Potentially the most far-reaching of the new instruments proposed is the performance-driven loan (PDL). PDLs will encourage borrowers, executing agencies and the Bank to move away from the traditional focus on the goods and services purchased with investment loans and instead, from the beginning of project preparation, emphasize identification and measurement of the project's expected social and economic results. This focus on development impact, together with features designed to simplify project disbursement, will combine a drive for greater development effectiveness with a push for more flexible lending.

An important milestone was achieved when the committee recommended approval of a set of seven key strategies that would guide the Bank's development agenda. Preparing these strategies involved intensive interdepartmental work within the Bank, and extensive consultations with experts and stakeholders outside the Bank. The next phase was also initiated as the committee reviewed an integrated action plan that would allow the Bank to monitor the implementation of these strategies. Following a report by OVE summarizing the Bank's experience with documents providing strategic guidance, the board and management agreed on the importance of focusing future strategy work at the country level.

In the policy area, the committee's most significant achievement was an agreement on a new information disclosure policy for the Bank. Once again, intensive work by management was complemented by a thorough process of consultation with stakeholders. The resulting policy puts the IDB in the vanguard of the trend among multilateral development banks to provide the public with broad access to the documents that provide a context for the institutions' decision-making.

Support for the Private Sector

Following up on discussions among the governors during the Annual Meeting in Milan concerning strengthening the Bank's efforts to support the private sector in the region, the Board of Executive Directors met on various occasions during the year

BOX 1

NEW LENDING INSTRUMENTS

As part of the ongoing effort to better meet the rapidly changing needs of its borrowing member countries, the Bank has been developing a series of new lending instruments, including the following approved in 2003:

Performance-driven loans (PDL): With its approval of a six-year pilot program featuring this new instrument, the Board of Executive Directors stressed the need for the Bank to improve its development effectiveness, emphasizing "verified development outcomes" as opposed to focusing on project inputs. These investment loans will disburse only when borrowers have proven to the Bank that the project described in the loan contract has been completed—and only when the Bank has verified that the expenditures against which it will disburse were used to attain the objectives in question. During project preparation, the Bank and the prospective borrower will jointly define measurable outcome indicators and agree on a schedule for attaining them. PDLs can be used for projects in any sector and in any country. Unlike traditional investment loans, they may also finance recurrent costs in any economic sector. PDLs will be subject to the Bank's matrix for the financing of foreign exchange and will disburse over a minimum of 36 months.

Conditional credit line for investment projects (CCLIP): This lending instrument for financing investment projects increases efficiency and speed in the loan preparation and approval process, and reduces the loan processing costs for both the Bank and its borrowers. It provides a credit line to finance investment projects where there is a good track record of similar Bank-financed operations in a given country and sector. The preparation and approval requirements for the individual loans financed under the line of credit are substantially reduced, making their approval process significantly shorter than that of other investment loans. The CCLIP is intended to provide incentives to executing agencies that have a track record of good performance to maintain or further improve performance. Since project supervision, monitoring and evaluation play a key role in this lending instrument, it is expected to enhance the executing agencies' capacity in these areas. Additional benefits of the CCLIP include (i) providing borrowers with timely resources, allowing investment programs to have continuity; (ii) providing a vehicle for efficient Bank support and a continuous presence in sectors in which its investments have achieved their development objectives; (iii) encouraging staff continuity in executing agencies; and (iv) placing a premium on ongoing institutional analysis.

Sector facility for activities related to transnational infrastructure projects: This new sector facility aims to (i) strengthen institutional, planning, concessioning, regulatory, and supervisory capacity for integration of infrastructure services in the countries of the region, and (ii) provide timely support for countries preparing specific transnational infrastructure projects and activities for infrastructure integration. Resources will be reimbursable, will finance individual operations up to $5 million, and be used to prepare and implement specific transnational infrastructure projects. The instrument aims to strengthen agencies involved with policymaking, regulation and concession-granting, and supervision of infrastructure integration.

For further information, see **http://www.iadb.org/goto.cfm?investments**

to consider the topic. In September, the members of the boards of the Bank and the IIC participated in a seminar to consider the final report of the External Advisory Group headed by Pedro-Pablo Kuczyinski. The Advisory Group's main recommendation was to reconfigure the IDB Group's private sector activities within a new organizational entity. On that occasion, the board decided to create an ad hoc working group to further study the subject and to guide the work of management. Subsequently, in two board retreats, discussions were held regarding the strategy for the private sector currently in preparation, as well as on the actions that might be approved and synergies that could be developed to improve the IDB Group's response capacity in terms of the private sector.

POVERTY REDUCTION AND SOCIAL EQUITY

Reducing poverty and promoting social equity represent one of the Bank's two overarching goals. In 2003, the Bank worked towards this goal through four lines of activity: support for borrowing member countries' poverty reduction strategies and other poverty-related initiatives; loans to finance projects to reduce poverty; activities to create and disseminate knowledge that improves the design and implementation of poverty reduction policies and programs; and monitoring living conditions in the region. The Bank started the implementation phase of its Poverty Reduction and Social Equity Promotion Strategy, which was endorsed by the Board of Directors in July 2003 and will guide the Bank's action in this area in future years.

The Bank continued to support the implementation of national poverty reduction strategies in HIPC-eligible countries (Bolivia, Guyana, Honduras and Nicaragua) through loans and technical assistance, as well as through the development of poverty reduction strategies in other countries (Belize, Colombia, Guatemala, Paraguay and Peru). The Bank also approved loans of $35 million to implement the poverty reduction strategy in Honduras; $200 million to consolidate a social protection network in Ecuador that will provide counter-cyclical financing for social programs; and $65 million to deliver social services to the poorest households in Haiti.

During 2003, the Bank continued to support programs that provide incentives for the accumulation of human capital among low-income populations, including a $210 million loan in Mexico to support local initiatives to provide education in areas where formal education services are unavailable. The Bank also approved a $400 million loan to Colombia to improve the coverage, quality, equity and sustainability of the national health and social security systems. In addition, the Bank approved loans to provide basic infrastructure to the poor, including a $40 million loan for rural electrification in Chile and a $150 million loan for low-income housing in Colombia.

In the area of knowledge creation and dissemination, the Bank sought to improve the quality of poverty reduction and equity enhancement policies in the region. Initiatives included the fifth meeting of the Social Equity Forum, which featured a presentation by Brazil's former President Fernando Henrique Cardoso. The fifth meeting of the Regional Policy Dialogue on Poverty Reduction included presentations about employment policies under fiscal constraints, social inclusion and country experiences with poverty reduction strategies. The Bank continued to support the activities of the LACEA/IDB/WB Research Network on Inequality and Poverty, including the sixth meeting of the network in Puebla, Mexico and the second Central American meeting in Costa Rica. A workshop was held at headquarters as part of the Financial Instruments and Poverty Reduction Initiative. The Bank also undertook several activities to sensitize the borrowing member countries about the Millennium Development Goals (see Box 2), including organization of a high-level conference in Brazil to promote consensus regarding those goals in Latin America.

The Bank continued its support for the Program to Improve Surveys and Measurement of Living Conditions in Latin America and the Caribbean (MECOVI). MECOVI conducts household surveys and aims to improve the quality of those already ongoing in the region in terms of their relevance for project monitoring and evaluation, open access, coverage, quality and frequency. In 2003, the program expanded to the English-speaking Caribbean and provided training and technical assistance to statistical institutes throughout the region. In addition, through the Outcome Indicators for Poverty Reduction (IndERPob) Project, the Bank promoted the construction of an interactive database containing indicators for Millennium Development Goals and other socioeconomic data.

For further information, see
http://www.iadb.org/goto.cfm?povertyred

SUSTAINABLE ECONOMIC GROWTH

The Board of Executive Directors endorsed the Strategy for Sustainable Economic Growth (www.iadb.org/exr/ENGLISH/POLICIES/2003strategies.htm), which examines alternatives for raising the income growth rates and per capita product of the member countries under conditions that lead to better living conditions, reduce poverty indices, and preserve or strengthen natural resources.

In order to spur the region's economic growth,

BOX 2

SUPPORT FOR THE MILLENNIUM DEVELOPMENT GOALS

The goals set forth in the United Nations Millennium Declaration pose formidable challenges for Latin America and the Caribbean, as well as for the Inter-American Development Bank.

A target of the first Millennium Development Goal is to reduce the percentage of the regional population living on less than $1 a day from the roughly 17 percent measured in 1990 to half that, or less than 9 percent, by 2015. A second target is to reduce the number of people suffering from hunger by half by 2015. By one measure, this would mean that no more than 5.5 percent of children under five in the region should be underweight by that date.

The second goal aims to ensure that children worldwide complete primary school, while the third goal would eliminate gender disparity in primary and secondary education by 2005 and in tertiary education by 2015. In the area of gender equity in education, Latin America measures up well, having largely met the goal.

The fourth goal calls for reducing by two-thirds—from more than 100 to 34 per 1,000—the number of children worldwide who die before the age of five.

The fifth goal is to cut by three-quarters the number of mothers worldwide who die during childbirth by 2015. In Latin America, the number was 190 per 100,000 live births in 1995.

The sixth goal is to reverse the increase in the spread of HIV/AIDS worldwide. The prevalence of HIV is still increasing in developing countries, and for women the rate is seven times higher than in the developed countries.

To help ensure sustainability of the environment, the seventh goal sets standards for reversing the loss of environmental resources worldwide by 2015, such as by lowering the use of chlorofluorocarbons and carbon dioxide emissions.

During 2003, the Bank made a major effort to incorporate the Millennium Development Goals into country strategies and programming. Representatives of the different units involved—including each of the Bank's operational departments as well as the Budget and Strategic Planning Department and the Office of Evaluation and Oversight—serve on a working group whose objective is to mainstream the goals into IDB programs and projects. The work plans of specific Bank units also focus on how to best implement and monitor the goals at the national and regional levels.

The Bank has strengthened its partnership with the World Bank, UNDP and ECLAC as a way to further support the efforts by borrowing member countries to achieve the millennium goals. In 2003, the institutions agreed to provide joint technical assistance to (i) adapt the goals and their targets to country-specific realities in Latin America; (ii) facilitate national dialogue around policies that help the poor and promote a sense of ownership of the millennium goals by the countries themselves; (iii) strengthen the capacity of national institutions to plan for national development goals as well as assess their cost and monitor progress; and (iv) support the preparation of country-led millennium goal progress reports, to be used by governments and civil society to design national development strategies, and by the IDB in its programming exercises.

Most of the Bank's loans for social equity and poverty alleviation contribute directly and on several fronts to achieving the Millennium Development Goals. Loans in 2003 for $23.4 million to Paraguay and $210 million to Mexico will support primary and pre-primary education, and loans of $100 million to Brazil and $50 million to Guatemala will increase access to clean drinking water in remote areas. A component of the $400 million emergency loan program to Colombia will increase the coverage, quality and equity of health services.

In addition, the Bank cosponsored an international conference in Brasilia in 2003 on political consensus for implementing the millennium goals in the region. High-ranking governmental authorities (including the presidents of Bolivia, Brazil, the Dominican Republic and Guyana) as well as representatives from parliaments, civil society and the international community conferred on their respective roles in developing an agenda to make the Millennium Development Goals a reality.

the Bank will pursue the following activities: (i) strengthen the institutional bases for macroeconomic stability in the region; (ii) improve competitiveness to better develop productive activities, with an emphasis on the economic and institutional environments in order to strengthen and stabilize financial systems and public infrastructure services; (iii) improve the quality and expand coverage of education and health services to strengthen human capital and social development; (iv) strengthen public institutions within the sphere of modernizing the state; and (v) foster regional integration and the positioning of the countries in the region within international markets. The environmental component will be an integral part of all activities in order to ensure the sustainability of economic growth.

This sustainable growth strategy is being implemented based on two criteria: defining national priorities given the needs and conditions of each country; and placing special emphasis on outcomes by increasing the capability to monitor and assess the Bank's activities.

The Bank recognizes that the proposed growth strategy does not constitute a detailed plan of action, but rather a cluster of policy prescriptions based on an awareness of the causes of and conditions for economic growth of the respective countries. The institution gears most of its research towards understanding the problems the region encounters as it pursues economic growth, and toward proposing alternatives and assessing the outcomes of the policies that are recommended. In 2003, the Research Department's efforts focused on four areas of special importance for the region: instability of international financial flows, operation of labor markets, economic liberalization reforms, and the credit system.

The instability of international financial flows is the main cause of the region's fluctuating economic growth cycles. Research on this phenomenon has tried to pinpoint the reasons for the region's vulnerability to these fluctuations, in order to develop country policies and strategies for the international community. Policy areas of particular relevance for the Bank are the size of the region's public debt and its structure in currency, terms and instruments. This research also examines policy implications for currency regimes, private sector financing and export development.

The main theme of the 2004 Economic and Social Progress Report was the performance of the region's labor markets, as underlined by the book's title, *Good Jobs Wanted*. The poor use of labor resources is key to explaining the low levels of productivity and income throughout the region, its main causes in turn being macroeconomic and institutional variables, rather than market liberalization policies or technological advances, as is often thought. In spite of the fact that the region's labor institutions are among the most protective in the world, the study notes that labor reform strategies cannot simply pursue greater flexibility in labor markets, but rather a balance among different objectives, attempting to make more efficient use of labor resources, generate good incomes for the workforce, and offer adequate protection to workers. Given that the effectiveness of structural reforms for economic liberalization is much debated in the region, the Bank's research program has reviewed the validity of the various arguments and examined the reasons for resistance to reforms by significant segments of the population. In 2003, studies focused on the labor effects of the reforms, the efficiency of privatization programs, and the political and public opinion implications of such reforms. The studies often concluded that while such reforms have contributed to greater efficiency and stronger growth, they have not produced the anticipated labor outcomes and have generated political costs that in many countries have resulted in "reform fatigue." These studies thus bring to bear important implications for institutional reform, citizen participation and public outreach strategies that could be implemented in the future.

Studies on credit systems have highlighted the lack of sources of credit in Latin America, as well as the expense and instability of credit. The reasons seem to center on international economics, macroeconomics, financial regulations and legal institutions. Studies on this topic will be the basis for the next Economic and Social Progress Report.

For further information, see
http://www.iadb.org/goto.cfm?econgrowth

MODERNIZATION OF THE STATE

In 2003, the Bank approved 19 projects totaling $772.1 million for modernization of the state. Financed using traditional, sector and flexible lending instruments, the projects include fiscal reform, reform and decentralization of the state, financial sector reform, public sector reform, the administration of justice, and the modernization of legislatures.

The Bank concentrated during the year on the lines of activity identified within the area of democratic governance. This focus is consistent with the Eighth Capital Replenishment, the Bank's Institu-

For further information, see
http://www.iadb.org/goto.cfm?modstate

tional Strategy, and the demand by countries in the region for support for their economic, social and institutional development. The emphasis on democratic governance stems from the recognition that it is the foundation upon which countries can develop dynamically, equitably and sustainably.

The attention that the Bank and member countries have given to modernization of the state continued to grow during 2003. In July, the board endorsed the Modernization of the State Strategy designed to identify current priorities for Bank action, reflect the lessons learned from Bank experience, and provide the basis for new operations, technical work and resource allocation. The Strategic Framework for Citizen Participation in IDB Activities was presented to the Board, and is under consideration. Both documents are fully consistent with the requirements of the Sustainable Economic Growth and Poverty Reduction Strategies and have clear and strong ties to the sectoral strategies related to social development, competitiveness, regional integration and the environment.

The leading areas for modernization of the state projects approved in 2003 were public sector reform and financial sector reform. Among the six projects in the former category is a $5 million loan to Trinidad and Tobago for a Public Sector Reform Strategy Program that will impact much of the country's national-level public sector management by installing information management systems and training human resources in key government entities. An important financial sector operation is the Pension Reform Program in the Dominican Republic, which will establish methodologies for quantifying annuities and conduct statistical and demographic surveys. A $5 million IDB loan is supporting the program.

Fiscal reform initiatives in 2003 included a $25 million loan for a Public Finance Reform Program in Haiti, which will improve the efficiency and transparency of management of public accounts. Important advances will be required to trigger the release of the loan tranches, among them a reworking of budgetary classifications to enable independent tracking of expenditures and transfers and the use of new accounting principles in line with international standards.

In terms of reform and decentralization of the state, a $14 million loan to strengthen the Office of the Attorney General in Colombia will buttress programs to minimize civil service corruption. Bank funds will be used to reduce case backlogs of alleged human rights violations and to finance a public information campaign to inform citizens of their rights in terms of governance.

In 2003, the Bank approved 102 technical cooperation projects for reform and modernization of the state, totaling $48.4 million. Through these national and regional programs, the Bank is introducing innovative approaches to such issues as public safety, civil society participation, electronic government and decentralization. The operations finance workshops, seminars, training sessions, publications and other activities designed to build consensus among all relevant parties.

COMPETITIVENESS

In 2003, the IDB's Board of Executive Directors endorsed the Competitiveness Strategy prepared by management. The objective is to support efforts by borrowing member countries to strengthen the economic and institutional conditions to formulate, implement and increase productive activities in the different sectors. Competitiveness is a basic element in fostering economic growth and reducing poverty. The strategy aims to resolve problems or compensate for deficiencies in domestic private markets. Program areas include providing support for the development of micro and small enterprises.

IDB Group activities to support competitiveness focus on (i) efficiently mobilizing financial and capital resources; (ii) improving human capital; (iii) providing effective infrastructure services; (iv) creating and assimilating new knowledge and technologies; (v) creating more effective institutions to support private productive activities; and (vi) productively and sustainably managing natural resources.

Since the Competitiveness Strategy covers diverse activities, each country's unique conditions, needs and potential must be taken into consideration when implementing it. Missions, studies, seminars and technical assistance in 2003 within the context of the newly approved strategy supported efforts by public and private sector authorities to examine a wide range of issues related to competitiveness in Colombia, Ecuador, Peru, Bolivia and Paraguay.

A program approved for Argentina will help small and medium-sized enterprises break into the international trade arena by diversifying products and markets. A loan to Brazil will support a program to improve competitiveness in the city of São Paulo by promoting downtown social and economic development and urban renewal, while a community-based tourism development program in Chile will foster employment opportunities and strengthen competitiveness in the tourism sector.

A $100 million loan to El Salvador to support competitiveness will reform maritime transport and vocational education, while several other Central American countries are launching initiatives to enhance national dialogue between the private and public sectors on competitiveness strategies.

To strengthen the competitiveness of agricultural outputs in Paraguay, a regional cadastre program will encourage efficient land use and regulation, while in Uruguay, a municipal development and management program will strengthen fiscal activities and improve the quality and efficiency of public services outside of Montevideo. Among programs approved by the Multilateral Investment Fund, the Learning from Business Alliances Project will strengthen competitiveness region-wide in the small and medium-sized enterprise sector, particularly through alliances with agricultural, tourism and textile firms with growth potential.

Microcredit entities are key to strengthening competitiveness among small producers without access to traditional sources of credit. The Bank financed eight operations in 2003 to support microcredit institutions in Ecuador, El Salvador, Guatemala, Haiti, Nicaragua and Paraguay.

For further information, see
http://www.iadb.org/goto.cfm?competitiveness

The Bank's technical cooperation programs have also helped to strengthen competitiveness by preparing and financing studies, programs and project assessments. Regional technical cooperation operations have supported corporate social responsibility and entrepreneurial development, studies to strengthen the effectiveness of the Social Entrepreneurship Program, and courses on local-level economic development.

The Bank published a number of studies in 2003 in support of policies and programs to strengthen competitiveness, including documents on conflict resolution in the small business and microenterprise sector and on microfinance practices, regulations and oversight, as well as case studies on specific industries. In addition, the Bank's Regional Operations Departments prepare studies on competitiveness issues in order to assess or refine Bank interventions and identify activities for future lending operations. Examples in 2003 included studies on credit demand in Argentina, strategies for the use of natural gas reserves in Bolivia, and a reference framework for Bolivia's transport sector.

The Bank's competitiveness strategy also takes into account the need to train and inform the public and private sectors. Activities during the year included a cooperation agreement between the IDB and the OECD to review competitiveness issues in the electricity, telecommunications and financial sectors; a series of workshops to foster dialogue in Central America; an initiative to launch a Competitiveness Fund in the Dominican Republic; studies on secured transactions and fiscal issues affecting competitiveness in Guatemala; a joint effort with the Central American Bank for Economic Integration and the Andean Development Corporation to prepare a study on competitiveness and entrepreneurial linkage promotion programs in El Salvador and Colombia; and a workshop to compare the experiences of Finland and Chile in implementing new technologies related to competitiveness and knowledge economics.

The effort to mainstream information and communication technology (ICT) as a tool in development continued in 2003. The Information and Communication Technology Innovation Program for E-Business and Small and Medium-sized Enterprise Development (ICT-4-Bus) helped countries to formulate and integrate national ICT strategies into development planning, e-government manuals and projects. The Bank also expanded its support of ICT efforts within regional integration projects such as the Puebla-Panama Plan (PPP) and the South American Regional Infrastructure Initiative (IIRSA). A newly-created ICT for Development Trust Fund and the formation of an IDB Strategy Group on ICT for Development strengthened the Bank's capacity to cooperate with other international organizations involved in ICT for development activities in the region.

SOCIAL SECTOR REFORM

In July 2003, the Board of Directors endorsed a Social Development Strategy to guide the Bank's future investment in this area. Its objective is to help countries accelerate social progress by fostering environments conducive to social welfare, with special emphasis on reducing poverty and addressing inequalities in opportunities. In conjunction with publication of the strategy, the Bank held the first Social Development Week (November 3-5), with participation of Bank specialists in social development as well as international and regional development experts.

To ensure the sustainability of reform efforts and their "ownership" by the specific countries involved, the Bank is helping member countries design and implement social dialogues and participatory methodologies. A social dialogue component was included in a $5 million loan to reform the public sector in Trinidad and Tobago, enabling the government to design a long-term strategy based on consultation with the main stakeholders as well as the political opposition.

During 2003, the Bank continued to implement the second phase of its Action Plan for Combating Social Exclusion Due to Race or Ethnic Background, which promotes Bank activities that advance social inclusion through policies, projects and practices. This extended action plan set specific goals to cover the June 2002-December 2003 period and defined activities and commitments to further advance IDB project and policy development on social inclusion. Priorities included capacity-building within the Bank and the region, knowledge-building to better identify and understand how to address social inclusion, and an expanded project pipeline that tests new approaches to addressing this important issue. Some 15 IDB operations targeted to Afro-descendants have been approved since May 2001, while over 10 percent of IDB operations in the social sector targeted indigenous peoples as direct or indirect beneficiaries.

The Bank developed new ties with the European Union over the issues of social inclusion and cohesion. In 2003, the Bank established a multi-donor Social Inclusion Trust Fund with contributions from Norway ($2.1 million over three years). Additional contributions from other sources are expected in 2004. The Fund will promote social inclusion in the region and target Afro-descendant and indigenous communities, people with disabilities, people living with HIV/AIDS, and poor women. Fund activities will promote cross-sectoral programs and encourage participation in project formulation by groups traditionally not included in such exercises.

Continuing its work on violence prevention, the Bank approved a $20 million loan to support Honduras' Social Peace and Citizen Security Program in 17 municipalities of Valle de Sula, an area that suffers high levels of crime and violence. The project aims to reduce delinquency and violence among youth by strengthening institutions responsible for security and promoting activities for social inclusion of youths involved in gangs. The Bank also provided support for public safety programs in Chile, Colombia, Peru, Guyana, Honduras and Jamaica.

An IDB book published in 2003, *Escaping the Poverty Trap: Investing in Children in Latin America*, proposes policies and principles to guide the design of early childhood care and development programs.

For further information, see
http://www.iadb.org/goto.cfm?social

BOX 3

INTER-AMERICAN INSTITUTE FOR SOCIAL DEVELOPMENT

The mission of the Inter-American Institute for Social Development (INDES) is to strengthen institutions responsible for formulating and implementing social policies and programs, while overseeing the performance of their social managers. By creating training initiatives at the national and regional levels for professionals working in the region, the institute has been working to consolidate its efforts to formulate policies and programs in the social management arena. In 2003, INDES provided training through its regional courses for 468 professionals, while another 550 benefited from courses organized by the institute at the national level. Course participants come from a spectrum of governmental as well as nongovernmental agencies, universities and training centers, and civil society organizations.

The social management course for managers and directors is the best known of the INDES initiatives. This course reinforces concepts, commitments and skills needed to review, manage and assess social policies and programs. INDES offered this course five times in 2003 for professionals throughout Latin America and the Caribbean. Participants attest to the significant impact this training has on work practices and procedures in their respective organizations, particularly when it comes to using flexible management techniques, monitoring and assessment processes, conflict resolution techniques, and participatory processes. Courses also help participants in incorporating equitable, efficient, and sustainable criteria in program design and management.

Other INDES initiatives during the year included training of target groups; events specifically geared toward young leaders; workshops for Latin American journalists; a gathering of the heads of social investment funds; and a course for members of parliaments. In addition, training was provided on specialized topics such as policies for the elderly, social management and leadership, and the use of case studies to research best practices on social management.

In addition to its work at Bank headquarters, INDES also carried out different activities in the region, with programs during the year held in Honduras, Peru and Guatemala, as well as a program administered jointly with the municipality of São Paulo in Brazil.

INDES made significant strides during the year in incorporating innovative approaches into its training methods through broader use of the Internet for interactive, virtual courses for teaching purposes, as well as for managing participant selection processes and communication. The institute made more effective and intensive use of videoconferencing and introduced different case studies to enrich training, while documenting best practices and the exchange of experiences.

For further information, see **http://www.iadb.org/goto.cfm?indeseng**

The Bank has been coordinating an extensive consultation process to receive feedback from the region on the issue of labor markets. As an outcome of two seminars on labor markets and employment policies—one for the Andean Region and another for the Southern Cone—the Bank published a series of working papers. Also published was a comprehensive report reviewing all IDB operations related to labor markets from 1990-2002. A seminar on child labor in Managua, Nicaragua reviewed innovative practices to address this critical issue in the region. In addition, the Bank directly financed labor market programs, such as a MIF grant for Peru to support a youth job training initiative.

In the health sector, the Bank approved a project in Costa Rica to strengthen the stewardship role of the Ministry of Health and improve regulation of the health insurance institution *(Caja Nacional de Salud)*. A $1.5 billion emergency loan to Argentina was approved to ensure budget protection during the economic crisis for critical health programs such as the distribution of essential medicines, epidemiological surveillance of transmissible diseases, maternal and child health, and HIV/AIDS prevention. Using Canadian funds, the Bank approved a regional technical cooperation operation to support efforts to implement national health accounts as a tool to improve health planning.

In 2003, the Bank participated in the first meeting between the Global Fund for AIDS, Tuberculosis and Malaria and the regional multilateral development banks. A tentative work program with the Fund was identified and a series of surveys was conducted on sexual behavior. The results are expected to assist

BOX 4

THE IDB AND THE SUMMITS OF THE AMERICAS

Throughout 2003, as it has since the first Summit in Miami in 1994, the IDB again played a leading role in providing continuity to the Summit of the Americas process. At the Quebec Summit of 2001, the Bank presented a set of 22 strategic programs in the fields of democratic governance, integration and economic development, the environment and sustainable development, social development and equity, and connectivity and technological development. Since then the IDB, in cooperation with countries and with other institutions and international organizations (the Central American Bank for Economic Integration, Andean Development Corporation, Inter-American Institute for Cooperation on Agriculture, Organization of American States, Pan American Health Organization and the UN Economic Commission for Latin America and the Caribbean), has developed a wide range of activities supporting those strategic programs that coincide with the priorities adopted by the heads of state in the Quebec Declaration and Plan of Action. A detailed description of the IDB's commitments and strategic programs linked to the work of the summits can be found at www.iadb.org/sds/quebec/.

In the past year the Bank endorsed a set of new strategies—sustainable economic growth, poverty reduction and promotion of social equity, modernization of the state, social development, competitiveness, integration and environment—which, in their objectives and fields of action, are consistent with the mandates established by the heads of state and government at the Summit of the Americas.

Throughout 2003 the Bank worked closely with other members of the Joint Summit Working Group and the Summit Implementation Review Group to prepare for the Special Summit of the Americas that took place in Monterrey, Mexico in January 2004.

in the design of prevention interventions focused on youth. The Bank completed a study identifying financial resources for AIDS programs in the region, and in the Southern Cone, the Bank supported capacity-building among NGOs and prevention interventions targeted at excluded populations. The Bank also financed "National Dialogues on Sexual and Reproductive Health" in Chile and Argentina.

In the urban development sector, the Bank approved several loans in support of municipal development and prepared case studies on best practices, including one entitled "Participative Planning in Brazil and Convergence of Social and Municipal Funds in Bolivia." Issues of management of metropolitan areas were the subject of a Bank-sponsored seminar, and governance challenges posed by subnational development imbalances were discussed at a seminar at the Annual Meeting in Milan. The Bank also completed the study entitled "The Challenge of an Urban Continent," which reviews 40 years of Bank activities in urban development and includes a summary of current mandates and approaches.

During 2003, the IDB began work on a strategic framework for indigenous development and a new operational policy on indigenous peoples. These documents will formalize the Bank's three-pronged approach to mainstreaming indigenous issues, which involves: (i) establishing safeguards to prevent, mitigate and compensate negative impacts from infrastructure projects; (ii) promoting "development with identity" by supporting indigenous productive activities that strengthen their territorial, natural and cultural heritage; and (iii) ensuring equal access to social and financial services and protection of individual and collective rights.

During the year, several important informational and methodological tools were completed, including the publication on the Bank's website of a comprehensive comparative database on indigenous legislation in the region (www.iadb.org/sds/IND/site_3152_e.htm); development of a methodology for the design of projects in indigenous communities; and installation of a GIS-based software tool to analyze culturally-based land-use concepts. The IDB also continued to promote community-based development initiatives to strengthen the capacity of communities to manage their own development. Innovative projects include the Chiloé natural resource management project, with participation of the Huilliche communities in Chile; a rural roads project in

Ecuador that draws on longstanding traditions of community work for road construction and maintenance; the Meso-American Biological Corridors community planning process; and the Qapaq Ñan (*Inca Trail*) initiative with indigenous communities in the Andes.

The IDB Gender Mainstreaming Action Plan (March 2003-June 2005) approved in 2003 responds to the commitments established in the Millennium Development Goals, the Summits of the Americas (see Box 4), and various Bank strategy documents.

Through the Women's Leadership and Representation Program (PROLEAD), the Bank organized a course entitled "Good Governance for Young Women Leaders in the Andean Region" in Quito, Ecuador, and a technical meeting on the "Impact of Women Ministers on Good Governance" in Washington. As a follow-up to the First Indigenous Women's Meeting of the Americas in Oaxaca, Mexico, the Bank approved a technical cooperation to promote indigenous women's political and civic participation and leadership in the Andean region.

Over the course of 2003, the Bank's portfolio in education reflected emerging trends across the region. Loans were approved to strengthen preschool education in Paraguay, support community involvement in schools in Mexico, and promote overall reforms of the education sector in Bolivia. In addition, several efforts were undertaken, often with the support of technical cooperation projects, to increase understanding of areas for which increased demand for loans is expected, including literacy and employability programs for youth and adults; accreditation and diversification of faculty at the tertiary, non-university level; and the use of technology and distance modalities to improve educational quality and delivery.

INTEGRATION

Support for integration, one of the four pillars of the IDB's Institutional Strategy, was evident in a number of Bank actions in 2003, including endorsement by the Board of Executive Directors of a new Strategy for Regional Integration; participation in various subregional, hemispheric and inter-regional integration initiatives; carrying out of a wide range of activities under the Bank's Special Initiative on Trade and Integration; and an extensive program of technical assistance operations. The Bank continued to help countries mainstream trade and integration into national development strategies and keep dialogue open with donors. The Bank also increasingly incorporated integration into its own operations in response to specific requests by its borrowing members. This process was reflected in preparation of a new regional programming strategy for MERCOSUR; updates of the Bank's strategies for the Andean Community, the Caribbean Community and the Central American Common Market; and eight sector notes on trade and integration for national programming processes.

The momentum of regional integration continued throughout 2003. Negotiations for the **Free Trade Area of the Americas** (FTAA) proceeded according to the established timetable. At the eighth meeting of the hemisphere's trade ministers in Miami in November, ministers confirmed their commitment to the FTAA and instructed their vice-ministers to continue negotiations on a common set of rights and obligations in each of the negotiating areas. Ministers released the third complete draft of the FTAA agreement and agreed on the next stage of implementation of the Hemispheric Cooperation Program (HCP), an initiative launched in 2002 to support trade-related capacity building in Latin America. In October, the Bank organized and hosted the first HCP donors' meeting, which provided countries with an opportunity to present to a wider donor community their prioritized needs for negotiating, implementing and adjusting to the FTAA. Canada subsequently made a Can$6.25 million grant to the IDB to finance trade-related capacity building projects in the region, under the framework of the HCP.

The **Andean Community** continued toward its goal to establish a common market by 2005. Peru has returned as a full member of the free trade zone, having liberalized nearly 100 percent of trade with its Andean partners. Consistent with the goal to implement a customs union by the end of 2003, the countries made final preparations to adopt a common external tariff. With the announcement of bilateral negotiations between the United States and Colombia and Peru, coupled with the possibility of later adding Ecuador and Bolivia, it is unclear what the effects would be on the tariff process. At their Quirama Summit in June 2003, Andean presidents agreed to develop common agendas on a number of political, social, cultural and economic issues. One of the Andean Community's political goals is a common foreign policy to facilitate shared positions in free trade negotiations with external partners. Finally, at a ministerial meeting in October 2003, guidelines were established for the final phase of Andean-MERCOSUR free trade negotiations.

In the **Caribbean Community** (CARICOM), integration efforts focused on implementing the Caribbean Single Market and Economy (CSME). There was considerable progress towards the removal of restrictions on the right of establishment, the provision of services and the movement of capital within the subregion. Most countries, moreover, instituted arrangements to allow CARICOM nationals from selected professions to seek and perform work without a permit throughout the area. More convenient travel within the subregion was promoted through establishment of common lines at immigration points that do not differentiate between host country and other Community nationals, and by the use of harmonized travel documentation. During 2003, moreover, CARICOM governments reaffirmed their commitment to inaugurate the Caribbean Court of Justice–a vital pillar of the CSME–by the end of the year. To that effect, they established a Regional Judicial and Legal Services Commission responsible for appointing court staff and a Board of Trustees to oversee its financial management. In a significant development related to the institutional structure of their integration arrangement, governments issued the Rose Hall Declaration on Regional Governance and Integrated Development in July 2003, which calls for the establishment of a CARICOM Commission or other executive mechanism to facilitate regional integration, and the adoption of the principle of automatic resource transfers for the financing of Community institutions. Proposals to that effect were developed by a specially appointed Expert Group on Governance and submitted to CARICOM in November. On the external front, CARICOM countries continued to pursue a heavy trade negotiation agenda covering the FTAA, WTO, EU-ACP and bilateral talks, and agreed to launch group-to-group negotiations for an Economic Partnership Agreement with the EU in February 2004.

During 2003, the members of the **Central American Common Market** (CACM) consolidated their existing free trade area by removing products from the list exempted from intra-regional free trade, and by publishing a listing of non-tariff barriers to discourage authorities from using them. There was progress in several other areas of regional integration, mainly through projects developed under the Puebla-Panama Plan. However, most attention in the subregion was given to free trade negotiations with the United States. This process, launched in March 2003, has involved intense consultations within the Central American negotiating teams to prepare for each of the ten negotiating rounds with the United States, as well as several mini-rounds. Negotiations between four Central American republics and the United States concluded in December 2003.

During 2003, presidential elections in three of the four full member countries of **MERCOSUR** produced a new political scenario characterized by strong support for integration and, as a result, a renewed intensification of regional ties following the difficulties in 2002. Despite an economic slowdown, Brazil was a key market for exports from the other three countries, all recovering from the impact of the Argentine crisis. During a Presidential Summit in July, Brazil presented an ambitious proposal for the bloc with goals for 2006, while Paraguay and Uruguay requested special treatment, accounting for the relatively small size of their economies. Although details are still being negotiated, the initiatives were well received, with each helping the group in managing its relations with other blocs and countries around the world. MERCOSUR has continued to negotiate as a bloc in different fora, including at the multilateral level (WTO), within the FTAA, and with the European Union, the Andean Community and

South Africa. Peru entered MERCOSUR during the year as an associate member. Key MERCOSUR decisions in 2003 included the creation of a presidency for the Commission of Permanent Representatives, agreement on a dispute settlement mechanism following the Olivos Protocol, and the strengthening of the group's secretariat.

The Bank's extensive support to the FTAA process continued in 2003 as negotiations intensified. As a member of the Tripartite Committee, along with the UN Economic Commission for Latin America and the Caribbean (ECLAC) and the Organization of American States (OAS), the Bank provided substantial technical support to FTAA negotiating groups and committees for market access, agriculture, government procurement, investment, institutional issues, smaller economies, civil society and the administrative budget. The Bank also provided significant support to the Hemispheric Cooperation Program, mainly by helping countries prepare their national strategies for strengthening trade capacity. The IDB provided technical and financial support to the FTAA Secretariat in Puebla, Mexico, and continues to maintain the hemispheric database on trade and tariffs.

Given the intense trade negotiation agenda faced by the Andean Community, the Bank supported preparation of analytical and policy papers as well as workshops and conferences related to the economic effects of trade liberalization and the participation of civil society in the negotiation process. Moreover, the Bank provided technical support to national and regional officials involved in the evaluation of trade and integration agreements. Other meetings and conferences organized in the Andean region during the year focused on regional harmonization of indirect taxes and on regional financial safety nets.

Among the regional technical cooperation projects approved for the subregion in 2003 is a program (cofinanced by the Andean Development Cooperation) to support hemispheric energy cooperation by analyzing the potential contribution of the Andean hydrocarbons sector. In addition, the Bank continued to support subregional infrastructure through the South American Regional Infrastructure Initiative (IIRSA), as well as the development and integration of border areas though the execution of various pilot projects.

IDB support for the CARICOM integration process advanced throughout the year on various fronts. Two projects supported implementation of the Caribbean Single Market and Economy: one covered aspects of the group's common external tariff, while the other focused on harmonizing investment laws, incentives and administrative procedures. The IDB continued to provide assistance to countries in implementing their WTO commitments. The year saw a comprehensive overview for each CARICOM country of the status of compliance with the various WTO agreements, as well as progress on technical assistance projects to harmonize procurement policies across CARICOM and establish the Caribbean Court of Justice. As regards external trade negotiations, the Bank continued to support the Caribbean Regional Negotiating Machinery, and, through the MIF, is working on mechanisms to strengthen the participation of the region's private sector in the negotiating process. The IDB also continued to promote enhanced donor cooperation in the region, deepening its working relationship with the European Commission in regional integration and trade. The two institutions agreed to cofinance a needs assessment of the CARICOM Secretariat to support the subregion's efforts to improve governance and institutional capacity.

In 2003 the Bank's support for trade and integration in Central America focused on the Puebla-Panama Plan (PPP) and the U.S.-Central America free trade negotiations (CAFTA). Many IDB-funded projects developed under the PPP reached execution phase and are progressing well, particularly in the areas of infrastructure and trade facilitation. The latter includes modernization of customs and border crossings, and harmonization of phytosanitary measures. As regards CAFTA negotiations, the Bank, working jointly with the Tripartite Committee, assisted the Central American countries in identify-

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http://www.iadb.org/goto.cfm?integrate

ing their trade-related capacity needs and preparing national strategies and action plans to meet those needs. The Bank also coordinated the participation of multilateral donors in a Cooperation Group that formed as part of the CAFTA negotiations and met during each negotiating round. Particularly relevant for the national action plans were the Bank's trade facility loans to Guatemala and Nicaragua, and the competitiveness loan to Honduras. A second response tier has been adaptation of the pipeline to meet the needs identified in the action plans. Particularly noteworthy was the design of a new Bank lending program for trade, integration and competitiveness to address needs arising from the transition to free trade.

The Bank supported the MERCOSUR integration process through a number of new and ongoing programs. The technical cooperation for global consolidated supervision provided guidelines on harmonization procedures for financial sector supervision. MERCOSUR's competition policy was strengthened by a technical cooperation program to train officials in this area. Ongoing support for regional infrastructure was provided under the Initiative for the Integration of Regional Infrastructure in South America (IIRSA). A new MIF program to support market access was approved, and a regional support strategy for MERCOSUR mirrors the development of national strategies for those countries that saw a change of government in 2003. The team preparing the regional strategy is also participating in developing national strategies, ensuring consistency with guidelines proposed in the Bank's Strategy on Regional Integration. The team has also established close contacts with counterparts from the European Commission to coordinate support to the bloc.

The Bank supported a wide range of activities under its three-year Special Initiative on Trade and Integration. Launched in 2002, the initiative is strengthening the Bank's capacity to influence the policy debate in trade and integration and serve as a reference point in these areas; providing technical support to governments; and conducting public outreach. Analytical work in 2003 focused on FTAA issues, macroeconomic coordination in MERCOSUR, the political economy of protection in Latin America, agricultural trade liberalization, the fiscal effects of trade liberalization, tax reform options to improve competitiveness, impact analysis of rules of origin, and European experiences with respect to compensation funds. As regards technical support to governments, activities in 2003 included a meeting of Andean trade ministers on the challenges of trade negotiations, a seminar in Brazil on a new agenda for MERCOSUR, regional technical workshops on the fiscal impact of trade liberalization, a training workshop in Nicaragua on methodologies for evaluating the impact of trade liberalization, and analysis of potential investment policy reforms in Jamaica and the Dominican Republic. Under the outreach subprogram, the initiative supported a conference between the EU and the Andean Community on methods of consultation with civil society on trade policy, three FTAA civil society seminars, outreach events to U.S. audiences on trade agreements, and a briefing on CAFTA for Central American media representatives.

In 2003, the Bank's **Institute for the Integration of Latin America and the Caribbean (INTAL)** focused its efforts on strengthening the institutional capacity of governments to formulate, negotiate and implement trade policy at the bilateral, subregional, hemispheric, inter-regional and multilateral levels. INTAL also supported actions to promote the participation of civil society in integration processes.

INTAL and the WTO Secretariat jointly organized several capacity-building programs related to trade negotiations and policymaking, with a focus on issues and disciplines involving the multilateral negotiations and their relationship with hemispheric and subregional initiatives. An example is INTAL's implementation of "toolkit" work programs for FTAA trade negotiators, a project carried out in conjunction with the IDB, the WTO, and SIECA. INTAL also conducted case studies in 15 countries of existing trade policy consultation mechanisms. In addition, INTAL initiated training and exchange programs targeted at representatives from NGOs and academia.

The REDINT Integration Research Network *(Red INTAL de Centros de Investigación en Integración)* completed the second round of subregional studies during the year on the impact of regional integration on inter- and intra-regional investment. INTAL also launched a Euro-Latin Trade and Integration Study Network.

INTAL performs an important outreach function in terms of disseminating information through a number of fora and special events, publications, databases and services. These activities have helped improve the analyses carried out by various regional and international sectors of civil society that focus on integration initiatives in the region.

Finally, the Bank was successful in strengthening inter-institutional cooperation in trade and integration under several memoranda of understanding with other organizations. The Bank supported the WTO's Trade Policy Review in Honduras, and is collaborating in the Caribbean Rim Investment Initiative (CRII) under its memorandum of understanding with the OECD. Jointly with the Asian Development Bank Institute, and with financing from the IDB's Japan Program, the Bank carried out a number of activities under the Latin American-Caribbean and Asia-Pacific Economics and Business Association (LAEBA) to promote comparative analysis on trade and financial issues.

ENVIRONMENT

The Environment Strategy endorsed in 2003 by the Board of Executive Directors provides a cross-sectoral underpinning to the goal of sustainable growth. It also reaffirms the Bank's commitment to support countries' efforts to meet environmental goals consistent with the Millennium Development Goals and agreements reached at the World Summit on Sustainable Development in Johannesburg (2002). The strategy provides an updated focus to make the Bank's work more effective in contributing to the sustainability and quality of economic growth in the countries of the region. Implementation of the strategy is reflected in several financial operations as well as nonfinancial activities, and will be strengthened further once the new environment policy for the Bank, scheduled for presentation to the board in 2004, is approved.

The Bank has continued to support the dissemination of information about critical environmental issues and has played a catalytic role on several fronts. Its support for regional dialogues in the water sector throughout the year included a number of regional conferences and training seminars. Central topics of high-level dialogues included environmental policy, the use of innovative management instruments, and the coordination and harmonization of environment-related procedures among multilateral and bilateral organizations. The Bank has continued to help countries establish links on such issues as the environment and free trade, climate change, and the mitigation of risks associated with natural disasters.

Of particular note during 2003 was the work done to mitigate risks associated with the Camisea gas pipeline project in Peru. Building on the 2002 public sector loan that strengthened the capacity of governmental entities charged with supervising project activities, the Bank's Private Sector Department engaged in a comprehensive due diligence process and collaborated with the Sustainable Development Department and Regional Operations Department 3, responsible for the public sector loan, to improve the social and environmental aspects of the pipeline project and related works elsewhere in the country.

The MIF approved projects in 2003 to support cleaner productive processes in Mexico, Costa Rica, Guatemala and Nicaragua. Cleaner production refers to a management process that seeks out and eliminates the causes of pollution, waste generation and resource consumption at their source by reducing or substituting inputs or preventing pollution, or through internal recycling and more efficient production technology and processes. Environmental performance by the private sector is becoming an increasingly important issue, especially in light of free trade negotiations. Thus, the aim of these projects is to provide timely and necessary assistance to

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companies that want to maintain or open access to international markets.

In rural development, a seminar held during the Bank's Annual Meeting in Milan focused on the need for concrete investment programs to promote economic growth, sustainable use of natural resources, and poverty reduction. A Consolidated Strategy for Rural Development was drafted to update and join previous strategies on rural poverty, agriculture and rural finance.

PRIVATE SECTOR DEVELOPMENT

During 2003, the Bank intensified its activities in support of private sector development through direct and indirect operations as well as nonfinancial products. The Private Sector Department managed approvals of $333.9 million for nine projects (seven loans and two guarantees) and mobilized an additional $231 million in B loans, with total project costs of $2.2 billion. The operations were distributed in four countries, including the first IDB private sector loan to Jamaica. The seven direct loans supported projects in energy, water, transportation, telecommunications and trade finance. The two partial credit guarantee operations helped companies in Peru and Chile access local institutional investors to finance investment programs in the construction and transportation sectors, respectively.

During the second quarter of 2003, a trade finance facility (TFF) of $110 million was successfully syndicated in the international financial markets. Proceeds from the facility were used to fund pre-export and post-export transactions by Brazilian companies. The project consists of an international trade finance facility to Banco Bradesco structured as an unsecured A loan of up to $50 million, with a maturity of up to two years, and an unsecured B loan of up to $60 million. Moreover, the transaction was structured together with the International Finance Corporation, which committed an additional $70 million towards the facility. This TFF for Bradesco is part of the International Trade Finance Reactivation Program approved by the Board of Governors in 2003.

The two loans in Brazil will support installation a major transmission line in the central part of the country and an investment program for an electricity distribution company in the State of São Paulo. Peru will benefit from the Bank's contribution to the Camisea natural gas project, a $1.6 billion undertaking that should bring significant economic benefits. Also in Peru, a partial credit guarantee will enable a large construction conglomerate to tap long-term financing in the Peruvian market. Finally, the Bank supported the first of several toll roads concessioned by the Peruvian government to the private sector. In Chile, the Bank provided financing to a desalination plant in the Antofagasta region and supported local market financing for a major toll road in metropolitan Santiago. In Jamaica, Bank financing is supporting expansion of a digital mobile telecommunications network that will improve the availability and reliability of telephone service.

The Private Sector Department completed two technical cooperation operations in 2003 related to the environment. The first supported development of a framework to incorporate environmental and social risks into traditional credit analysis, which includes a system to identify, assess and mitigate potential environmental, social and health and safety risks associated with implementation of large infrastructure projects. The second financed the development of an Electricity Demand-Side Management Program for EDE Sur and EDE Norte, two privatized distribution companies in the Dominican Republic.

The Bank's Social Entrepreneurship program in 2003 approved 17 projects for a total of $8.3 million, of which $3.1 million came from the European Community Trust Fund. An additional $4.25 million came from the FSO and $500,000 from the Swedish Trust Fund. Particularly innovative was a joint project with the private sector of El Salvador that pools resources raised by several enterprises as part of their corporate social responsibility programs and combines them with IDB resources to provide financing for

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microenterprise suppliers. Also during the year, the Italian government, with an endowment of 5 million euros, established a trust fund to provide financing for the Social Entrepreneurship Program.

The public sector arm of the Bank also processed operations to support private sector development. In particular, a $30 million loan to Nicaragua will be on-lent to small and medium-sized enterprises, and a $200 million loan to Uruguay will strengthen the capacity of the banking system to supply financial services to the private sector. Other loans and technical cooperation operations will indirectly support the private sector in such areas as participation in the electricity sector (Chile and Guyana); airport security; secured transactions; alternative methods for dispute resolution; and strengthening the financial sector.

The Bank also provides significant support for private sector development in the form of nonfinancial products, notably in the form of publications. The book *Focus on Capital*, for example, includes a series of studies that identify the technical, political and financial challenges of building capital markets in the region. Another title, *Medios privados para fines públicos*, analyzes contractual relationships between governments and private firms. Also in 2003 the Bank published *Keeping the Lights On: Power Sector Reform in Latin America*. The book presents the results of three years of analytical work and case studies of reform in the power sector.

Major conferences sponsored by the Bank on the role of the private sector included a groundbreaking international forum with key private and public stakeholders on financing water and sanitation services. The Sixth Inter-American Forum on Microenterprise held in Guatemala discussed strategies and tactics to deal with short-term economic problems as well as the risk involved in providing financial and business development services to small businesses. The Inter-American Conference on Corporate Social Responsibility held in Panama showed the benefits to be gained by businesses by adopting responsible practices. Finally, the Bank hosted the Public-Private Summit on Investment Climate, aimed to foster a business environment conducive to increasing foreign and domestic investment for the region.

Multilateral Investment Fund

During its ten years of operation, the Multilateral Investment Fund (MIF) has become a key instrument of the IDB group to promote inclusive private sector development in Latin America and the Caribbean. The MIF is the major source of technical assistance grants for microenterprise and small business development in the region, having approved to date 585 projects for over $900 million, not including cancellations. Including counterpart funds, this amount reaches $1.6 billion.

The MIF represents a new approach to delivering effective technical assistance. Since 75 percent of MIF projects are with NGO and business group partners, these initiatives not only address specific development needs, but also help to build broadly based, grassroots private sector institutions that support competitiveness. The MIF has been instrumental in the smaller and less developed countries of the region, which are the beneficiaries of more than two-thirds of MIF projects and most of its funding.

The MIF has worked to increase private sector resilience by strengthening practical business and worker skills, and by improving long-term competitiveness. It helps small business adapt to new trade and integration realities, enabling them to capitalize on opportunities offered by these changes. The MIF has improved the capacity of workers by identifying needed job skills and credentialing workers, and by helping workers and employers deal with market changes. MIF funding has proven to be a highly effective tool in building the financial mechanisms and institutions necessary to foster growth, facilitate business start-ups, and formalize and encourage entrepreneurship.

The MIF complements other IDB instruments by focusing on microenterprises and small businesses. Through its extensive network of partnerships with NGOs and business associations throughout the region the MIF has helped strengthen the institutions and business capabilities needed for broadly

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based growth. The MIF has piloted innovative concepts and provided demonstration projects needed to build support for further reform. It also has facilitated regional approaches across borders by increasing the transparency and security of financial markets and promoting convergence on standards for environmental products and international accounting and auditing.

The MIF approved 70 projects in 2003 for a total of over $70 million. Local counterpart accounted for $57 million, meaning that on average MIF partners contributed 45 percent of project costs. MIF financing averaged $885,000 per technical cooperation and $2.7 million per investment project. Six new investment projects totaling $16 million were approved.

In addition to financing specific projects, MIF has also made a significant difference through its unique ability to focus attention on subjects that may not otherwise receive international attention. MIF continues its work, for example, on "project clusters" that include cleaner production and environmental management; management system standards; remittances; international accounting and auditing standards; reducing regulatory burdens on small business; facilitating international trade and investment; small business networks and supply chains; and information and communication technology.

In the cluster area of remittances, the MIF held five conferences in 2003 that played an important role in bringing the topic to the attention of policymakers in the international arena and in harnessing private sector energy to address the issues.

OVE evaluations of over 80 percent of the projects in its portfolio enabled the MIF in 2003 to analyze where and why it has made a difference in the region. While concluding that the MIF has made a significant contribution to the development of the region's private sector, OVE findings also showed a need to improve efficiency and accountability. The MIF has undertaken a number of initiatives in response to these and other OVE findings.

A special Development Effectiveness Unit created during 2003 will not only continue to monitor the MIF portfolio but also improve the evaluability of projects by ensuring that they have time-bound indicators that measure results, and by systematically feeding the lessons learned back into project design. Work has been done to prepare better guidelines to assist agencies in project execution as well as to adapt Bank guidelines to MIF operations.

At a special meeting held during the Bank's Annual Meeting in Milan, the governors supported the move to explore the possibility of obtaining additional funding for the MIF. The consensus was in favor of establishing a Special Committee of Governors to guide a MIF renewal and replenishment process.

Inter-American Investment Corporation

The Inter-American Investment Corporation approved 26 projects in 15 countries for $193.7 million, including one project of regional scope. This amount represents a 57 percent increase over the corresponding figure for 2002. During 2003, $110.6 million was disbursed, in comparison with $87.8 million in 2002. The total gross income in 2003 amounted to $22 million, of which the loan portfolio generated 80.3 percent.

During 2003, the IIC approved an innovative program that uses larger firms to reach small and medium-sized enterprises. Subloans for small agribusiness will be financed to secure the supply of milk, through Nestlé, S.A., in Mexico. The initial amount of the pilot program is $10 million, while subloans will not surpass $50,000 per enterprise.

Another key area for the IIC in 2003 was export finance through financial institutions. The IIC approved four such projects—for the Banco del Istmo for firms in Costa Rica, Honduras and Panama; Produbanco and Banco Bolivariano in Ecuador; and Banco Safra in Brazil—for a total of $32 million.

For further information, see
http://www.iadb.org/goto.cfm?iic

Belgium became the 42nd IIC member country in 2003, completing the list of the five new non-borrowing countries (the others are Finland, Norway, Portugal and Sweden) whose membership was approved by the Board of Governors in 1999 within the context of the general increase of the IIC's resources.

DEVELOPMENT EFFECTIVENESS

The Bank continued to take steps in 2003 to ensure that its activities contribute effectively to the economic and social development of borrowing member countries. A management report on activities carried out during the previous year and future actions to strengthen the Bank's development effectiveness was regarded by the board as a key element for advancing development effectiveness and for strengthening the systems used to monitor the results of operations. A similar report will be prepared on an annual basis, and the 2004 version will include a proposal to establish a comprehensive Bank-wide system of self evaluation. At the Bank's 2003 Annual Meeting, the Board of Governors supported the need to enhance the Bank's development effectiveness and voiced its concern that the associated additional requirements should not become unnecessarily burdensome.

The Bank also participated in the dialogue on development effectiveness with other multilateral development banks and the OECD's Development Assistance Committee. An important element of the dialogue has been an effort to reach agreement on a set of core principles related to "managing for results."

Country Strategies and Programming

On the basis of recently approved guidelines, the Country Strategies prepared in 2003 take into account a number of factors, including:

- Country-specific lessons learned from implementation of the portfolio, as reflected in Country Portfolio Reviews;
- Conclusions and recommendations of independent assessments of country programs, as reflected in OVE's Country Program Evaluations;
- A "strategy matrix" that articulates a coherent link between a government's development objectives and strategies and those of all donors, including the Bank;
- Proposed Bank-assisted interventions that include performance indicators of outputs and outcomes.

The new Country Strategies have also proven useful as vehicles for organizing dialogues between the Bank and its borrowing member countries, and have helped increase the strength of borrower ownership with regard to macroeconomic and sector analyses as well as proposed Bank assistance.

Project Preparation

In 2003, the Bank carried out a pilot review of the quality-at-entry of a sample of projects approved the previous year. This was the first review of its kind at the Bank, and although the results were only indicative, the exercise provided an opportunity for institutional lesson-learning and improving accountability. Following the completion of this review, the Bank carried out a major redefinition of the relevant standards, rating guidelines, and related methodology, which will be applied to the 2004 quality-at-entry review.

The Bank also revised the procedures for preparing operations with a view to improving responsiveness to the needs of the borrowing member countries while ensuring that high quality project design standards are maintained. The new procedures are intended to enhance project preparation so that it becomes a vehicle for continuous and real-time problem-solving and institutional learning. They focus on empowering project teams and increasing the quality-control responsibility of the teams' supervisors. The Bank is committed to monitoring and evaluating the resulting realignment of authority and accountability, improvements in pro-

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cessing time, preparation costs, and quality-at-entry of each project.

Annual Report on Projects in Execution

Each year, the Bank's Annual Report on Projects in Execution (ARPE) examines the portfolio of operation in implementation as of December 31 of the previous year. Thus the ARPE prepared in 2003 examined the Bank's loans in execution as of the end of 2002 and identified factors affecting the size, composition and performance of the Bank's portfolio, primarily the worldwide economic slowdown and the continued effects of the events of September 11 in the region. The operational environment was further complicated by specific factors at the regional or country levels, including economic and fiscal crises, changes in government, social unrest, and a decline in regional trade and tourism in certain subregions. Compared to 2001, the amount and size of the Bank's active portfolio in 2002 decreased slightly from $40.9 billion to $40.1 billion and from 537 to 521 public and private sector projects. Ten percent more projects exited the portfolio in 2002 than in 2001, and new loan approvals fell by 6 percent. Lending levels declined by 58 percent in 2002 compared to 2001, as countries such as Argentina, Brazil and Colombia scaled back or postponed new loans.

Within this adverse environment, the ARPE points out that the Bank has maintained a growing social sector portfolio (since 1997) that now makes up about half of all commitments, consistent with the Eighth Replenishment mandate. The productive sector portfolio has also grown. The size of the infrastructure sector portfolio has declined as the emphasis has shifted from the financing of public sector to private sector projects, while the portfolio for the modernization of the state sector has fluctuated between 15 and 20 percent of total lending. In 2002, investment loans continued to be the primary lending modality (85 percent of the total), while financial emergency loans increased moderately and policy-based loans and private sector operations decreased. Average loan size also declined over 1997-2002 as a result of the contraction of the region's economies, ceilings on external financing, and limited amounts of counterpart funding available for project implementation.

Of the 487 projects tracked through the Bank's Project Performance Monitoring Reports, Country Offices rated 9 percent as problem projects (not likely to achieve their development objectives), the same percentage as in 2001. However, amounts represented by problem projects increased by 59 percent in 2002 to $4.3 billion, up from $2.7 billion in 2001. Of the $4.3 billion, 83 percent of the projects were in the social sector (urban development, education and water and sanitation), and 80 percent in countries with per capita GNP above $3,200 (Country Income Group I). Broken down by country, 46 percent of problem project dollars were in Argentina, followed by 9 percent each in Brazil and Mexico, 8 percent in Venezuela, and 4 percent in Trinidad and Tobago. The ARPE notes that this situation will require more intense monitoring by the Bank and borrowers.

According to data reported in the Bank's Project Alert Identification System, another tool used to gauge the health of the portfolio, projects on "alert status," increased by 29 percent in value in 2002, up from $10.1 billion in 2001 to $13 billion, indicating the need for more proactive portfolio management. Amounts for alert status projects were again predominant in the social sector (42 percent), followed by projects in the productive, modernization of the state, and infrastructure sectors. Projects in Country Income Group I, particularly Argentina, Brazil, Trinidad and Tobago and Venezuela, merit close attention, since they represent 65 percent of all alert status values. The combined value of projects in the problem and alert categories rose by 35 percent, from $12.8 billion in 2001 to $17.3 billion in 2002, reflecting the more difficult situation and the challenges noted above. As a percentage of the total portfolio of $40.1 billion in 2002, problem and alert status projects accounted for 42 percent, compared to 31 percent in 2001.

The ARPE also indicates that the Bank's private sector portfolio was not immune to the difficulties encountered in the region. At the end of 2002, that portfolio consisted of 51 active projects totaling

$2.38 billion, of which 63 percent corresponded to projects in Group I countries, mainly in the infrastructure sector. While 70 percent of commitment values for all projects were rated excellent or satisfactory in the Semi-Annual Review (SAR) of the private sector portfolio, 20 percent of that portfolio's risk exposure was attributed to projects classified as "impaired," mainly due to the crisis in Argentina. In an effort to diversify overall risk exposure of the portfolio, there were important advances in 2002 in promoting private sector development in Group II countries (those with per capita GNP less than $3,200); six of seven new private sector approvals were for projects in this group. With the aging of the portfolio and a more difficult environment in which to operate, the private sector portfolio is highlighted in the ARPE as an area that will also require more intense monitoring by the Bank and borrowers.

As part of the Bank's ongoing efforts to enhance portfolio management and performance, a number of intermediate targets and medium-term performance goals were developed and will be tracked as part of a phased portfolio improvement plan. Areas selected for targeting were based on analyses from previous Annual Reports on Projects in Execution, and from operational reports and baseline data. Indicators to be tracked for public sector projects include compliance and quality of audited financial statements; the percentage of projects pending eligibility greater than 12 months; the percentage of projects with disbursement extensions greater than 24 months; a "proactivity" index (identifying actions taken to address problem and alert status projects); Project Completion Report compliance rates; and the "convergence" index, which measures realism in performance reporting. Indicators to be tracked for private sector projects include the time to reach legal effectiveness greater than nine months, and the time to reach first disbursement greater than three months.

In response to recommendations in the 2002 ARPE, actions are underway to improve the clarity of pre-defined development objectives and components, performance indicators, and key project assumptions. Heightened emphasis has also been placed on ensuring that all projects have appropriate baseline data along with monitoring and evaluation mechanisms from the onset of project execution. Special efforts have also been made to analyze the issues affecting the health, urban development, and financial subsectors, areas noted as being more susceptible to developing difficulties during execution.

Two key initiatives were launched during the latter half of 2003 as part of management efforts to improve the Bank's monitoring system. The first is development of a new online system to prepare, review and disseminate Project Completion Reports (PCR) consistent with core standards for multilateral development banks issued by the OECD Development Assistance Committee. It focuses on project results, sustainability, and lessons learned, and promotes a more participative evaluation with borrowers and greater ownership of results. The new system, viewed by management as a key building block in the process of achieving development effectiveness, will require considerable learning on the part of Bank staff, borrowers and executing agencies in terms of new knowledge and skills, as well as strengthening results-based information systems.

The second initiative involves developing a new platform in the Bank's monitoring system to include select non-reimbursable technical cooperation operations. Advancements were also made in the development of the platform for Project Performance Monitoring Reports (PPMR) for Social Entrepreneurship Projects, which will allow for their inclusion in the monitoring system in 2004.

As a complement to these initiatives, OVE has begun to validate a sample of PPMRs in a way that goes beyond internal consistency checks and will compare them against what is actually happening on the ground with the projects in implementation.

Project Evaluation

The IDB adopted a new policy on ex-post evaluation of operations in 2003 that aims to increase the number of Bank-financed operations subject to ex-post evaluation. The new policy provides that: (i) within a year following project completion, management will prepare PCRs for all operations and OVE will review them; (ii) two years or more after operation completion, OVE will carry out ex-post performance and sustainability assessments on 20 percent of operations; (iii) four years or more after operation completion, OVE will carry out ex-post impact evaluations on at least two operations every year; and (iv) borrowers will carry out ex-post evaluations of outcome or impact on a voluntary basis. Together with the new PCR system, these are major steps towards strengthening evaluation at the Bank, and augur well for a sustainable process of lesson-learning and ongoing improvement.

Internal Organization, Processes and Instruments

In 2003, the Bank established a Development Effectiveness Office within the Office of the Executive Vice President. Its major responsibilities include (i) organizing management's review of OVE reports and consolidating management's comments for distribution to the board; (ii) participating in the reviews carried out by Regional Operations Departments during project preparation; (iii) preparing annual progress reports and action plans to enhance development effectiveness at the Bank; (iv) carrying out quality-at-entry reviews; and (v) fostering improved coordination within the Bank in the area of development effectiveness.

Also during the year, the Bank established a Task Force on Retooling Bank Operations and entrusted it with responsibility for reviewing Bank processes for preparing and implementing loans. The aim is to ensure that the Bank systematically operates in a manner that will lead to developmentally effective operations in each of its borrowing countries. The scope of the review is expected to include an evaluation of the current menu of products vis-à-vis the needs of the countries.

The Bank also approved a new investment lending instrument— the performance-driven loan—that reflects a growing emphasis on results (see Box 1). The loan disburses against the actual achievement, by the borrower, of outcomes. In this regard, "outcomes" are the effects that result from using the products and services (outputs) financed by a Bank-assisted operation

GOVERNANCE

The Bank strengthened its commitment during the year to systematically combat corruption and to ensure transparency across the full spectrum of institutional activities. Working within the framework of a comprehensive document approved by the Board of Executive Directors in 2001 to guide the institution in this area, the Bank in 2003 reiterated and expanded its ongoing efforts to thoroughly address corruption by dealing with three separate but closely linked areas: (i) activities that ensure that Bank staff act in accordance with the highest levels of integrity; (ii) activities that ensure that the Bank's lending programs are free of fraud and corruption and that they are executed in a proper control environment; and (iii) programs that help borrowing member countries strengthen good governance, enforce the rule of law, and combat corruption.

During 2003, pursuant to the action plan agreed to between management and the Board of Executive Directors, two consulting firms were selected through an international competitive process to execute reviews of (i) project procurement procedures, regulations, and systems for procurement of goods and services financed by Bank resources; and (ii) the corporate procurement procedures, regulations and systems for the IDB's internal procurement of goods and services. The purpose of the reviews is to determine if the Bank is fulfilling its procurement goals, and to make any necessary recommendations. The results of the two reviews are expected by March 2004.

The Board of Executive Directors adopted a Code of Ethics in October applicable to Executive Directors, Alternate Executive Directors and Counselors. The IIC Board of Executive Directors and the Donors Committee of the Multilateral Investment Fund adopted the same code in November for their respective uses. The code addresses such matters as financial disclosure; conflicts of interest; duty and loyalty to the institution; confidentiality of informa-

BOX 5

THE IDB INITIATIVE ON ETHICS AND DEVELOPMENT

This Inter-American Initiative on Social Capital, Ethics and Development, established by the Bank with support from the government of Norway, aims both to mobilize social capital and to carry out activities related to major ethical issues that have yet to be adequately addressed in Latin America and the Caribbean. The initiative has brought together 23,000 leaders from all sectors at its international meetings, co-sponsored by the State and Civil Society Division of the Regional Operations Department 1, with additional support from the Andean Development Corporation.

Events held under the umbrella of the initiative address such critical issues as the relationship between ethics and economics, the role of ethics in formulating economic policies, the ethical responsibilities of social stakeholders, and ways to build social capital.

These events have attracted some 20,000 participants from hundreds of organizations throughout the region. Events were held in Argentina, Bolivia, Chile, Brazil, Paraguay, Honduras, Uruguay and Venezuela.

Each meeting itself is a powerful source of social capital, bringing together government representatives, political leaders, heads of businesses and universities, religious leaders, NGOs, and other sectors of civil society. Five presidents from the countries in the region have participated, as have vice presidents, prime ministers and a score of ministers. The region in its entirety mobilized around the agenda and the discussions. In Chile, for example, the meeting organized jointly with the Office of President Ricardo Lagos under the slogan Juntos se puede ("Together We Can") was attended by representatives of over 900 organizations from 36 countries, including the United States, the European Union and Asia.

The momentum from these meetings has spurred a number of other initiatives, including projects, alliances and networks involving everything from volunteerism to formal training on issues raised during the discussions.

For example, together with leading universities from throughout the region, and with the support of the government of France, the initiative is building an Inter-University Network on Ethics and Development. The network will support efforts to incorporate topics related to ethics and development into curricula for courses on economics, management and other key areas related to development.

The initiative's webpage, www.iadb.org/etica, includes a digital library with over 300 original documents, abstracts of relevant works published at the international level, interviews and videoconferences. The initiative has an advisory committee that includes Nobel Laureate Amartya Sen, the philosopher Edgar Morin, and former Chilean President Patricio Aylwin.

At the Bank, workshops are periodically held for staff on the relevance of social capital and ethics in project design, monitoring and assessment. The initiative is directly assisting other areas of the Bank on the use of social capital and ethics in identifying new projects, as well as in the planning of joint activities with member countries. By embarking on such ventures, the Bank shows not only that it is an advocate for social capital and ethics as essential components of economic and social development, but also that it is committed to including these dimensions within the fabric of its own corporate culture.

For further information, see **http://www.iadb.org/etica**

tion; personal interests; and the relationship between directors and Bank management and staff. The Bank, the Corporation and the MIF will each have its own Ethics Committee and will be advised by the secretary and the general counsel.

An updated Bank Code of Ethics is expected to be adopted early in 2004. The new code is the result of a lengthy consultation process within the institution, involving focus groups at headquarters and at the Bank's Country Offices. The draft code also benefited from a review by the Ethics Resource Center, a highly respected independent entity that has advised governments, comparator international organizations and private sector companies on matters of ethics. The code is consistent with current best practices at comparator institutions and corporate ethical standards.

The Auditor General is coordinating a working group established to review and propose internal corporate governance processes at the Bank, in accordance with the statement of the president during the 2003 Annual Meeting of the Board of Governors in Milan. The group's proposals will take into account relevant provisions of legislation recently adopted in

BOX 6

OFFICE OF INSTITUTIONAL INTEGRITY

Since the Oversight Committee on Fraud and Corruption was established in June of 2001, the number of allegations of potential fraud and corruption received by the Bank has increased—as has the number of investigations that have been carried out. While the increase has been notable, it stems not from any significant increase in actual instances of corruption in Bank activities, but rather from a growing awareness in the region of the consequences of corruption and a determination to find and root it out.

The resources of the Bank's Office of the Auditor General were sufficient to cope with the investigations prior to the new push to encourage reporting, but it became apparent that larger, more specialized resources were required to go forward, and that the best way to cope with the increased demand would be to establish an independent investigating unit staffed with professional investigators. Thus, in October 2003, the Bank established a separate unit to conduct investigations of fraud, corruption, violations of the Code of Ethics, and matters related to conduct in the workplace. Once it has become fully operational, the new Office of Institutional Integrity (OII) will take over responsibility for conducting preliminary and, when warranted, full investigations, from the Office of the Auditor General.

In order to make more efficient use of other Bank resources, the OII will also take over the role of the secretariat of the Oversight Committee on Fraud and Corruption and will act as the secretariat for the Ethics Committee and the Conduct Review Committee. The responsibility for providing advice on and answering administrative questions in accordance with the Code of Ethics will rest with the Attorney Advisor in the OII.

a number of member countries, such as the Sarbanes-Oxley Act of the United States and similar legislation in other countries.

The board approved a new information disclosure policy applicable to Bank documents. First submitted by Bank management to the board in December 2002, the proposed policy was the subject of a public consultation process that resulted in valuable comments, some of which were incorporated into a revised draft. The new policy (www.iadb.org/cont/poli/OP-102E.htm) is based on the premise that operational, financial and institutional information concerning the Bank and its activities will be made available to the public in the absence of a compelling reason for confidentiality. The Office of the External Relations Advisor is responsible for managing the implementation process for the policy, to enter into effect in stages beginning in January 2004.

Late in 2003 the Bank adopted a staff rule that protects whistleblowers who come forward either publicly or in confidence, in good faith, with information related to improper behavior. The rule safeguards witnesses in investigations or other processes related to improper behavior or actions from retaliation of any kind. Responsibility for ensuring compliance with provisions of the rule rests with the Office of Institutional Integrity (see Box 6).

A policy providing for the sanctioning and debarment of firms accused of improper actions in relation to Bank-financed procurement is being finalized and will be presented for consideration of the Coordination Committee in early 2004. The policy has sanctioning procedures that include a review of the actions of individuals or firms when it has been found that an act of fraud or corruption may have occurred.

Under the direction of the Legal Department, anti-corruption and pro-transparency measures and mechanisms have been incorporated into Bank projects. The Legal Department also continues to coordinate with the Regional Technical Cooperation Division in implementing the Regional Dialogue on Transparency and Public Management-Civil Service Reform.

During 2003, the Bank prepared operations to strengthen the Controller's Office and modernize the procurement system in Guatemala, as well as to build capacity for monitoring and evaluating public sector reform in Nicaragua and El Salvador. The Bank has also carried out assessments of public procurement practices in Costa Rica, El Salvador and Honduras. Four Bank operations will increase transparency and accountability in Colombia's public sector. They include design of a national public information policy directed to ensure timely, accurate and trustworthy delivery of information; support for electronic information and for strengthening the Attorney General's Office to increase its capacity for prosecution of corruption; and support of monitoring exercises by NGOs.

In Peru, a Bank-financed operation to provide institutional support to Congress will improve the capacity for effective political oversight, budget analysis and discussion, and citizen participation in public debate.

The Bank continues to support member country efforts to counter money-laundering activities. Three regional technical cooperation operations in execution are a program to strengthen financial intelligence units financed by MIF; training in the mutual evaluation exercise in GAFISUD member countries, which has strengthened the rigor of national peer review in terms of compliance with international anti-money-laundering standards; and training in prevention and control of money laundering that will benefit both the private and public sectors in four Central American countries.

The Bank continued in 2003 to participate in global and subregional discussions on the prevention of money laundering and corruption. Collaborative efforts included work with the OAS, the UN, the World Bank and specialized agencies and NGOs such as the Financial Action Task Force and Transparency International.

THE YEAR'S LENDING

Beneficiaries of an IDB-financed nutrition project in Georgetown, Guyana.

SUMMARY

This chapter includes summaries by country with brief descriptions of loans, technical cooperation operations, small projects, and Multilateral Investment Fund (MIF) operations authorized by the Bank in 2003. The summaries and the introductory paragraph for each country refer only to operations of $1million and above. The chapter concludes with information related to the Bank's lending and technical cooperation program and the Statement of Approved Loans and Guarantees.

The loans and guarantees authorized by the Bank in 2003 came from the following sources:

TABLE III DISTRIBUTION OF LOANS BY SECTOR OF ACTIVITY[1]

(In millions of U.S. dollars)

Sector	2003	%	1961–03	%
Competitiveness				
Energy	$ 221.4	3.3	$18,272.4	14.2
Transportation and Communication	235.0	3.5	14,270.2	11.1
Agriculture and Fisheries	94.4	1.4	14,105.6	10.9
Industry, Mining and Tourism	126.5	1.9	12,410.5	9.6
Multisector Credit and Preinvestment	70.0	1.0	2,610.8	2.0
Science and Technology	5.4	0.1	1,705.5	1.3
Trade Financing	50.0	0.7	1,604.8	1.2
Support for Private Sector	506.4	7.4	1,549.9	1.2
Capital Market Development	10.0	0.1	15.2	0.0
Social Sector Reform				
Social Investment	3,540.5	52.0	14,565.6	11.3
Water and Sanitation	157.0	2.3	9,277.3	7.2
Urban Development	311.9	4.6	7,583.1	5.9
Education	284.4	4.2	5,510.6	4.3
Health	406.4	6.0	2,685.4	2.1
Environment	19.0	0.3	1,945.9	1.5
Microenterprise	0.0	0.0	428.2	0.3
Reform and Modernization of the State				
Public Sector Planning and Reform	78.7	1.1	10,063.3	7.8
Financial Sector Reform	506.6	7.4	5,688.3	4.4
Fiscal Reform	98.9	1.5	3,718.0	2.9
Decentralization Policies	67.8	1.0	426.4	0.3
Modernization and Admin. of Justice	0.0	0.0	311.7	0.2
Modernization of Legislatures	7.0	0.1	71.0	0.1
Strengthening of Civil Society	0.0	0.0	24.7	0.0
Trade Policy Development	12.9	0.2	12.9	0.0
TOTAL	**$6,810.0**		**$128,857.3**	

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

TABLE IV YEARLY (2003) AND CUMULATIVE LOANS AND GUARANTEES (1961–2003)[1]

(In millions of U.S. dollars)

	Total Amount		Detail by Funds					
			Ordinary Capital[2]		Fund for Special Operations		Funds in Administration	
Country	**2003**	**1961–03**	**2003**	**1961–03**	**2003**	**1961–03**	**2003**	**1961–03**
Argentina	$1,986.0	$ 19,634.3	$1,986.0	$18,940.3	$ –	$ 644.9	–	$ 49.1
Bahamas	–	357.1	–	355.1	–	–	–	2.0
Barbados	–	419.2	–	360.4	–	39.8	–	19.0
Belize	–	92.2	–	92.2	–	–	–	–
Bolivia	223.8	3,472.1	–	1,223.2	223.8	2,176.3	–	72.6
Brazil	339.3	26,134.1	339.3	24,444.2	–	1,558.1	–	131.8
Chile	143.1	5,295.3	143.1	5,047.8	–	204.3	–	43.2
Colombia	1,814.0	10,978.5	1,814.0	10,152.1	–	763.6	–	62.8
Costa Rica	6.4	2,312.8	6.4	1,815.5	–	355.0	–	142.3
Dominican Republic	30.8	2,616.0	30.8	1,798.6	–	730.6	–	86.8
Ecuador	232.9	4,172.2	232.9	3,130.2	–	952.9	–	89.1
El Salvador	100.0	3,004.8	100.0	2,082.5	–	773.2	–	149.1
Guatemala	112.5	2,684.4	112.5	1,962.5	–	647.5	–	74.4
Guyana	4.9	848.3	–	117.5	4.9	723.9	–	6.9
Haiti	201.9	971.4	–	–	201.9	965.1	–	6.3
Honduras	84.1	2,476.0	–	566.3	84.1	1,837.9	–	71.8
Jamaica	30.0	1,786.0	30.0	1,420.1	–	167.0	–	198.9
Mexico	510.0	17,220.6	510.0	16,604.8	–	559.0	–	56.8
Nicaragua	63.1	2,122.0	–	277.3	63.1	1,772.4	–	72.3
Panama	53.3	2,098.0	53.3	1,762.8	–	288.3	–	46.9
Paraguay	66.0	1,911.1	66.0	1,300.7	–	597.8	–	12.6
Peru	524.6	6,602.6	524.6	5,950.1	–	431.4	–	221.1
Suriname	12.5	90.2	12.5	88.2	–	2.0	–	–
Trinidad and Tobago	10.0	1,056.0	10.0	1,000.2	–	30.6	–	25.2
Uruguay	260.0	3,676.1	260.0	3,530.2	–	104.1	–	41.8
Venezuela	0.8	3,993.2	0.8	3,818.9	–	101.4	–	72.9
Regional	–	2,832.7	–	2,594.4	–	224.8	–	13.5
TOTAL	**$ 6,810.0**	**$128,857.3**	**$6,232.2**	**$110,436.0**	**$ 577.8**	**$16,651.9**	**–**	**$ 1,769.4**

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

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

■ **Ordinary capital resources:** 59 loans for $6,147 million and two guarantees for $85 million brought the cumulative total of loans, less cancellations, to 1,651 for $109,740 million; and the cumulative number of guarantees to nine operations totaling $696 million, as of December 31, 2003.

■ **Fund for Special Operations:** 23 loans totaling $578 million brought the cumulative total of loans, less cancellations, to 1,122 for $16,652 million, as of December 31, 2003.

■ **Other funds:** There were no loans approved in 2003. Cumulative total loans, less cancellations, were 209 for $1,769 million as of December 31, 2003.

The Bank agreed to partially defray up to five percentage points of the interest on four loans for $179 million, approved in 2003 from the ordinary capital resources, with funds from the Intermediate Financing Facility (IFF) created under the Sixth Replenishment.

TABLE V **YEARLY (2003) AND CUMULATIVE DISBURSEMENTS (1961–2003)[1]**

(In millions of U.S. dollars)

	Total Amount		Detail by Funds: Ordinary Capital[2]		Fund for Special Operations		Funds in Administration	
Country	**2003**	**1961–03**	**2003**	**1961–03**	**2003**	**1961–03**	**2003**	**1961–03**
Argentina	$2,646.2	$ 16,972.5	$2,642.3	$ 16,286.0	$ 3.9	$ 637.5	$ –	$ 49.1
Bahamas	6.7	295.5	6.7	293.5	–	–	–	2.0
Barbados	16.0	312.5	16.0	253.6	–	39.8	–	19.0
Belize	15.8	64.4	15.8	64.4	–	–	–	–
Bolivia	267.6	2,911.2	76.5	1,182.8	191.1	1,655.8	–	72.6
Brazil	1,107.5	22,187.3	1,102.0	20,519.1	5.5	1,536.4	–	131.8
Chile	123.9	4,785.3	123.9	4,537.8	–	204.3	–	43.2
Colombia	2,013.3	10,332.6	2,011.7	9,517.8	1.6	752.0	–	62.8
Costa Rica	88.5	2,010.5	88.4	1,527.4	–	355.0	0.1	128.2
Dominican Republic	155.1	1,918.5	155.1	1,101.0	–	730.6	–	86.8
Ecuador	159.3	3,878.0	157.2	2,836.3	2.1	952.6	–	89.1
El Salvador	97.9	2,533.5	97.4	1,625.7	0.5	772.9	–	134.8
Guatemala	52.0	2,095.0	51.4	1,388.2	0.6	646.7	–	60.1
Guyana	37.8	644.9	–	117.5	37.8	520.4	–	6.9
Haiti	48.0	620.0	–	–	48.0	613.7	–	6.3
Honduras	89.7	2,037.6	–	552.6	89.7	1,434.6	–	50.4
Jamaica	26.4	1,536.0	26.4	1,170.1	–	167.0	–	198.9
Mexico	1,024.9	14,961.0	1,024.9	14,345.2	–	559.0	–	56.8
Nicaragua	98.4	1,634.3	–	277.3	98.4	1,306.1	–	50.8
Panama	99.6	1,679.8	99.3	1,358.6	–	288.3	0.4	33.0
Paraguay	88.4	1,525.6	88.4	915.2	–	597.8	–	12.6
Peru	113.2	5,511.7	113.2	4,859.1	–	431.4	–	221.1
Suriname	15.7	54.2	15.7	52.2	–	2.0	–	–
Trinidad and Tobago	30.7	771.8	30.7	716.0	–	30.6	–	25.2
Uruguay	373.2	3,176.7	373.2	3,030.8	–	104.1	–	41.8
Venezuela	37.1	3,621.3	37.1	3,447.0	–	101.4	–	72.9
Regional	69.4	2,370.1	62.7	2,145.2	6.7	211.4	–	13.5
TOTAL	**$ 8,902.2**	**$110,441.8**	**$8,415.9**	**$ 94,120.4**	**$485.8**	**$14,651.5**	**$0.5**	**$1,669.9**

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

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

Total Cost of Projects

The $6.8 billion in Bank loans and guarantees help to finance projects involving a total investment of more than $9.4 billion. The Bank's loans cover only a part of the total cost of the projects being carried out by the borrowing countries. The balance over and above the Bank's contributions comes principally from the Latin American and Caribbean countries.

Disbursements

The Bank's disbursements on authorized loans amounted to $8,902 million in 2003, compared with $5,837 million in 2002. As of December 31, 2003, cumulative disbursements, including exchange adjustments, totaled $110,442 million, or 86 percent of the loans authorized by the Bank. The 2003 disbursements and cumulative totals by funds include:

- **Ordinary capital resources:** $8,416 million, bringing the cumulative total to $94,120 million as of December 31, 2003.

TABLE VI YEARLY (2003) AND CUMULATIVE (1961–2003) TOTAL COST OF PROJECTS[1]

(In millions of U.S. dollars)

Country	Total Cost 2003	Total Cost 1961–03	Bank Loans and Guarantees[2] 2003	Bank Loans and Guarantees[2] 1961–03	Latin America's Contributions 2003	Latin America's Contributions 1961–03
Argentina	$2,043.2	$42,129.1	$1,986.0	$19,634.2	$ 57.2	$22,494.8
Bahamas	0.0	555.7	0.0	357.1	0.0	198.7
Barbados	0.0	717.6	0.0	419.2	0.0	298.3
Belize	0.0	139.9	0.0	92.2	0.0	47.7
Bolivia	235.7	5,615.3	223.8	3,472.1	11.9	2,143.2
Brazil	1,007.9	72,193.4	339.3	26,134.1	668.6	46,059.3
Chile	578.7	12,860.3	143.1	5,295.3	435.5	7,565.0
Colombia	1,945.0	22,462.6	1,814.0	10,978.5	131.0	11,484.0
Costa Rica	8.1	3,717.7	6.4	2,312.8	1.7	1,404.9
Dominican Republic	37.4	3,842.7	30.8	2,616.0	6.6	1,226.7
Ecuador	296.7	7,268.5	232.9	4,172.2	63.8	3,096.3
El Salvador	100.0	4,377.6	100.0	3,004.8	0.0	1,372.8
Guatemala	127.3	4,293.3	112.5	2,684.3	14.8	1,609.0
Guyana	5.3	1,023.5	5.0	848.4	0.4	175.1
Haiti	221.6	1,274.1	201.9	971.5	19.7	302.6
Honduras	98.9	4,184.5	84.1	2,476.0	14.8	1,708.5
Jamaica	85.2	2,601.7	30.0	1,786.0	55.2	815.7
Mexico	650.0	45,097.5	510.0	17,220.6	140.0	27,876.9
Nicaragua	71.1	3,219.5	63.1	2,122.0	8.0	1,097.5
Panama	67.0	3,878.3	53.3	2,097.9	13.7	1,780.4
Paraguay	69.6	2,661.0	66.0	1,911.1	3.6	749.9
Peru	1,427.3	11,999.8	524.6	6,602.7	902.7	5,397.1
Suriname	14.0	111.4	12.5	90.3	1.5	21.1
Trinidad and Tobago	13.4	1,603.9	10.0	1,056.0	3.4	547.9
Uruguay	275.0	5,304.3	260.0	3,676.1	15.0	1,628.2
Venezuela	0.8	13,257.8	0.8	3,993.1	0.0	9,264.7
Regional	0.0	14,521.7	0.0	2,832.6	0.0	11,689.0
TOTAL	**$9,379.0**	**$290,912.8**	**$6,810.0**	**$128,857.3**	**$2,569.0**	**$162,055.5**

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

[2] Excludes private sector participations.

- **Fund for Special Operations:** $486 million, bringing the cumulative total to $14,652 million as of December 31, 2003.
- **Other funds:** $500,000, bringing the cumulative total from funds administered by the Bank to $1,670 million as of December 31, 2003.

Repayments

Loan repayments amounted to $7,587 million in 2003. Cumulative payments as of December 31, 2003 were $51,696 million. Repayments received by the Bank during the year, and cumulative as of December 31, 2003, were:

- **Ordinary capital resources:** $7,279 million, bringing the cumulative total, before repayments to participants, to $43,405 million as of December 31, 2003.
- **Fund for Special Operations:** $296 million, for a cumulative total of $6,681 million as of December 31, 2003.
- **Other funds:** $12 million, bringing the cumulative total to $1,610 million as of December 31, 2003.

Project Descriptions

ARGENTINA

In 2003, the Bank approved four loans and two MIF financings to Argentina. On a cumulative basis, the Bank has made 224 loans totaling $19,634 million and disbursements have totaled $16,973 million.

Emergency Social Protection Program
($1.5 billion loan from the OC)

The severe economic crisis in Argentina since 2001 has exacted a high social toll. This fast-disbursing emergency loan will help maintain public spending on social programs for the poor as the country works to restore macroeconomic stability. The financing will be released in tranches based on implementation of a stabilization program with the International Monetary Fund to strengthen tax systems and improve budgeting and financial management. Loan resources will enable the government to protect investments in priority social programs for employment, job training, health and education. At the same time, the operation will support efforts by the National Council for Social Policy Coordination to make social services more efficient and effective by better targeting expenditures and coordinating information systems, monitoring and evaluation.

Social Protection for the Poor (Phase II)
($400 million loan from the OC)

This emergency loan will mitigate the impact of Argentina's economic crisis on the poor by protecting the budgets of priority social programs, while supporting ongoing reforms to stabilize the economy. The financing will ensure that funding remains available for such services as maternal and child health, immunizations, prevention and treatment of AIDS and vector-borne diseases, primary and secondary schools in low-income areas, community kitchens, and cash transfers to the poorest families. To improve efficiency and effectiveness, the program will support measures that enhance intersectoral coordination, ensure transparency and accountability, and foster participation by civil society. Targeting mechanisms will be improved to better identify those most in need, and provincial and municipal management capacity will be strengthened to enhance program implementation at the local level.

Modernization of Production in Río Negro Province
($51.9 million loan from the OC)

Argentina's banking system has lost three-quarters of its lending capacity as a result of the economic crisis. In Río Negro, the south-central province that stretches from Chile to the Atlantic, the credit shortage has made it difficult for businesses to recover and grow. This program is designed to help small- and medium-sized firms become more competitive in international markets. Technical assistance will strengthen the capacity of borrowers to develop business plans and of lenders to evaluate them. The program will modernize provincial business support services, and promote exports by developing strategies for key sectors such as fruit production, tourism and technology. A privately administered trust fund, which will operate as a second-tier financial institution, will be established for a limited duration to provide financing for modernization projects and initiatives to improve competitiveness.

Tourism Sector Development in Salta Province
($34.1 million loan from the OC)

Tourist arrivals to this northwestern province have increased in recent years, drawn by Salta's array of natural, historical and archeological attractions. This program aims to make robust growth in the tourism industry sustainable by financing road and airport repairs, construction of a convention center, and development of historical and cultural heritage sites. To support both tourism and better living conditions, the program will finance improvements to essential social infrastructure, including expansion of drainage facilities in the city of Salta and construction of six sanitary landfills and other upgrades to solid waste disposal systems in 18 municipalities. Provincial fiscal management will be strengthened through technical assistance and training to improve tax collection, financial controls, and land use systems.

Expansion and Strengthening of FIE Gran Poder
($2 million MIF investment and $390,640 MIF grant)

This program will enable *FIE Gran Poder*, a financial institution operating in low-income neighborhoods of Buenos Aires, to expand the reach of its microfinance products and services. *FIE Gran Poder* operates in areas with large numbers of microentrepreneurs. The convertible loan funding will allow the institution to open three new financial services offices and expand its supply of products and services in geographic areas not served by other microfinance institutions.

Overcoming Technical Barriers to Rural Trade
($1.5 million MIF grant)

This program will help rural small and medium-sized enterprises (SMEs) enter into international trade flows by diversifying their products and markets. Agricultural and agroindustrial SMEs in Cuyo, Noreste and Pampa Humeda will receive assistance to adapt to the technical requirements of international markets, eliminate trade barriers, and develop an associative network. The program also includes a promotional component, development of plans for new exporters to access markets, assistance with marketing services, support for dialogue between the public and private sectors, and the creation of an institutionalized information network.

BAHAMAS

In 2003, no new loans were approved to the Bahamas. On a cumulative basis, the Bank has made 17 loans totaling $357 million and disbursements have totaled $296 million.

During 2003, the Bank stressed the need for sound management and performance of the current portfolio and focused in particular on questions of development effectiveness. Priority was also given to implementing action plans agreed upon with the government for those projects identified as requiring special attention. During the course of the year, the Bank prepared a new Country Strategy, which was to be considered by the Board of Executive Directors early in 2004. In cooperation with the government, the Bank initiated the process of identifying and preparing a new lending program for the 2003-2007 period, with an increased focus on social sector development and institutional strengthening. The Bank strengthened an already-close working relationship with the Civil Society Advisory Group during the year, with the group providing valuable feedback for the Country Strategy and the indicative investment program contained within the document. In addition to the formal lending program of projects in execution, the Bank also undertook a number of non-lending activities, the most notable of which was a two-day Project Performance Management Workshop for the entire top tier of the public service.

BARBADOS

In 2003, no new loans were approved to Barbados. On a cumulative basis, the Bank has made 39 loans totaling $419 million and disbursements have totaled $313 million.

The pace of new lending to Barbados declined as a consequence of the downturn in economic activity during 2001-02, prompted by reduced tourist earnings and exacerbated by the after-effects of September 11. Having pursued a strong countercyclical fiscal policy during the downturn, the government experienced a significant widening of its fiscal deficit and turned its attention in 2003 to narrowing that gap. The pace of preparation of new operations was slowed and no new operations were approved in 2003. In addition, the National Elections in May 2003, which resulted in victory for the incumbent Barbados Labour Party, absorbed much attention in the early part of the year. The Bank completed successful programming and portfolio review missions in 2003, setting the stage for completion of a new Country Strategy for Barbados in 2004. The programming mission identified a number of areas for project preparation in line with existing Bank and government priorities. Preparation of the Country Strategy will involve studies in such areas as tourism development and post-secondary education. One technical assistance grant approved during the year will support preparation by the Ministry of Housing and the Bank of a Housing and Neighborhood Upgrading Project.

BELIZE

In 2003, no new loans were approved to Belize. On a cumulative basis, the Bank has made nine loans totaling $92 million and disbursements have totaled $64 million.

After the national elections of March 2003, the Bank initiated a series of studies and analyses to identify key development challenges that affect the country's competitiveness, a central issue of the Country Strategy to be completed in 2004. As a result, two major initiatives were undertaken during the year. First, the Bank designed and distributed a survey to major private enterprises to assess the most significant constraints that inhibit competitiveness. The outcomes were discussed in the "IDB-Private Sector Business Forum," in which the largest firms and trade associations in the country participated. Second, staff from the Bank, the IIC and the MIF held a Policy Dialogue Meeting in San Pedro with high-ranking government officials to discuss Belize's development challenges, as well as prospective areas for collaboration. Discussions were based on the document "Belize: Towards Sustainable Growth and Competitiveness," which was prepared for the occasion. These activities were complemented by a portfolio review mission.

An important technical cooperation operation was approved in 2003 to support Belize's national poverty elimination plan. The project will assist the government in updating and strengthening its poverty elimination strategy for 2003-2008, and set specific poverty targets in line with the Millennium Development Goals. The project is financed by a grant of $300,000, from the Japan Special Fund.

BOLIVIA

In 2003, the Bank approved six loans and one technical cooperation operation to Bolivia. On a cumulative basis, the Bank has made 164 loans totaling $3,472 million and disbursements have totaled $2,911 million.

Strengthening Productivity and Competitiveness
($87 million loan from the FSO)

Attaining consistent export growth requires a comprehensive, systematic and long-term strategy to improve the competitiveness of the productive sector. This operation will strengthen the public institutions and policies whose aim is to help Bolivian firms better exploit export opportunities. The loan will be released in tranches based on progress in meeting program targets. Specifically, the program will support initiatives by Bolivian authorities to identify and correct bottlenecks in production chains at the municipal and departmental levels; streamline export product regulations; improve enforcement of intellectual property laws; and develop policies to galvanize firms with export potential, particularly within the framework of international trade agreements. Institutional strengthening will improve the operations, structure and coordination of the Bolivian Productivity and Competitiveness System, which was established in 2001 to promote the business sector.

Fiscal Sustainability Program
($63 million sector loan, $2 million TC loan and $500,000 grant from the FSO)

This operation will support fiscal sustainability and deficit reduction in Bolivia by backing reforms in tax administration and the public pension system. As this is a policy-based loan, funds will be disbursed in tranches based on progress in 1) increasing tax revenue by combating fraud, strengthening inspection, upgrading information systems, and training revenue service staff, and 2) reforming the nation's pension system through policy changes, management programs to reduce pension expenditures, and the restructuring of pension institutions to improve efficiency. The technical cooperation loan and grant will be used to finance consulting services and procure equipment needed for the reform program.

Education Reform Program (Second Stage)
($36 million loan from the FSO)

This program will consolidate reforms covering the eight grades of compulsory basic education by decentralizing planning, revising curriculum, and improving teacher training. The IDB has been supporting Bolivia's educational reforms since 1994. The operation will finance municipal projects to strengthen district- and school-level educational management, targeting and administration. Curricular reforms will focus on the upper primary grades, promoting innovative pedagogy by teachers and producing student texts and other learning materials. Training for primary teachers will be improved by equipping learning resource centers, strengthening management and monitoring of training courses, and developing a plan to diversify the range of education courses available at the secondary level for prospective instructors.

Land Regularization and Legal Cadastre Program
($22 million loan from the FSO)

Clarifying rural land tenure through titling and maintenance of the legal cadastre enables property owners to use land as collateral for investments, while creating the tax base needed to strengthen municipalities, promote productive land use, and develop a real estate market. This program will provide the technical, legal and administrative support to regularize 20.5 million hectares in the departments of Pando and Santa Cruz, where agriculture is critical to the economy. A mobile office will be set up to meet demand for land registration services in rural areas in Santa Cruz. To consolidate the cadastre, information systems will interconnect departmental titling and regularization databases, as well as digitalize and archive the property rights system and link all offices to the public registry. Access to the cadastre by municipalities participating in a pilot program will enable them to collect and administer property taxes.

Rural Productive Development
($13.5 million loan from the FSO)

The objective of this program is to contribute to a sustained reduction of rural poverty levels. The program will finance productive investments to create employment opportunities and generate greater income for the rural population. Projects must have a viable business plan and be presented by legally constituted entities such as rural cooperatives or associations. Eligible projects will receive grants to cofinance new production technologies, the use of quality certification systems, and technical assistance or training to improve business management. The program is expected to help implement 30 business plans that will benefit around 3,000 low-income producers in rural areas.

Environmental Assessment of the La Paz-Guayaramerín Corridor
(Grants of $750,000 from the Japan Social Fund and $250,000 from the FSO)

Upgrading and completion of a 1,300 km northern highway from the capital to the Brazilian border could facilitate sustainable development, increase commerce and create jobs. This operation will examine the potential environmental and social impact of the proposed road project in order to develop a design that mitigates any negative effects and protects fragile ecosystems and indigenous communities. The project's area of influence includes remote and inaccessible areas in the departments of Beni and Pando where much of the existing road system is closed during the rainy season, making it difficult for producers to ship their products to markets. The assessment will lay the foundation for a common social and environmental management strategy for Bolivia's entire northern transportation corridor.

BRAZIL

In 2003, the Bank approved six loans and two MIF financings to Brazil. On a cumulative basis, the Bank has made 303 loans totaling $26,134 million and disbursements have totaled $22,187 million.

Downtown São Paulo Renewal Program
($100.4 million loan from the OC)

This comprehensive urban renewal program will transform the downtown area of one of the world's largest cities into a vibrant economic and residential hub by upgrading infrastructure, restoring historic buildings, and promoting private investment. Focusing on São Paulo's historic but deteriorating Sé and República districts, the operation will repair buildings for business and residential use; upgrade parks and other public spaces, solid waste management and sewerage; and improve traffic circulation and public transportation. Informal businesses will be regularized and a range of initiatives will upgrade housing options for low-income residents. To renew the downtown area's productive fabric, the program will finance a public/private "business window" mechanism to attract high technology and service industries, as well as small businesses.

Ceará Sanitation Program
($100 million loan from the OC)

Potable water and sewerage coverage in the northeastern state of Ceará is below Brazil's national average. This operation will increase coverage statewide to 70 percent by expanding services in medium-sized cities as well as in the capital of Fortaleza, a major tourist destination. Fifteen water supply and 25 wastewater collection and treatment systems will be built in cities in the state's interior, providing for 60,000 new household connections. In Fortaleza, 63,000 households in under-served districts will get sewerage connections, and trunk sewers will be built along the banks of the Maranguapinho, Cocó and Ceará Rivers. Collected sewage will be conveyed to an existing treatment system, improving the environment along the city coastline. Operational upgrades will reduce unaccounted-for water by installing 300,000 new water meters, improving monitoring of connections, refurbishing meter network systems, and updating land registries.

Banco Bradesco Trade Finance Facility
($50 million loan from the OC with a "B" loan of $60 million)

This trade facility will expand Brazil's export capacity by increasing the financing available to export companies. The borrower, Banco Bradesco, is the largest private bank in the Brazilian trade finance market. The trade facility will enable Bradesco to finance pre- and post-shipment export transactions by Brazilian firms and their subsidiaries. The facility is part of the International Trade Finance Reactivation Program established by the Bank in 2003 to expand regional trade. The "B" loan was syndicated to international banks in order to address their short-term country exposure concerns and to support Brazil's efforts to persuade international lenders to retain credit lines to the nation's financial institutions.

Bandeirante Investment Program
($38.9 million loan from the OC with a "B" loan of $61.1 million)

This program will expand and improve electricity service in the Alto do Tietê and Vale do Paraiba regions of the state of São Paulo. The financing supports an investment program by a private distribution firm, Bandeirante Energia, awarded the concession to provide services in an area that includes 28 cities and an estimated four million residents. The aim is to attain universal electricity coverage as well as to improve system reliability and efficiency by reducing service interruptions and energy losses. The program will finance construction or repairs of substations and transmission lines, and renovations of networks and power transformers. To modernize operations, information systems will be installed for meter reading, invoicing and collection, and a telecommunications network will improve customer service. Commercial institutions will contribute "B" loan financing under participation agreements with the IDB.

Novatrans Energia Transmission Project
($30 million loan from the OC with a "B" loan of $36 million)

This project will double the capacity of Brazil's north-south electricity link by financing construction and operation of a 1,278 km transmission line between the state of Maranhão and the Federal District. The new 1,200 MW line, along with expansion of six substations, will reduce energy shortages and interruptions, generate savings in fuel costs, and alleviate transmission bottlenecks in the Southeast. The new line will follow the existing north-south interconnection, reducing the project's cost and environmental impact. The private firm awarded the project concession is a subsidiary of Enel S.p.A., which owns most of Italy's national electricity grid. Direct long-term IDB financing, along with mobilization of private funding through the "B" loan, are critical to support the long construction period and high capital costs associated with transmission line projects.

Social Inclusion through Culture Project
($20 million loan from the OC)

Cultural activities not only help young people acquire artistic skills, but also improve their school performance, self-esteem and social abilities. This loan will finance the construction and programming of community cultural centers in nine impoverished urban districts where children are at risk. An estimated 200,000 children and adolescents aged 7-19 will benefit from the program, which will provide staff and equipment for social and educational services, instruction, events and performances in the visual arts, theater, music, multimedia and the literary arts. Interventions will be coordinated with other public and private entities working to stem violence and integrate vulnerable children and families into society. The districts targeted for the program—Brasilandia, Cachoeirinha, Cidade Ademar, Capão Redondo, Jardim Angela, Itaim Paulista, Jardim Helena, Lajeado and Sapopemba—are all located within the metropolitan area of São Paulo.

Investment and Technical Cooperation for the Serra Gaucha Guarantee Corporation
($2.4 million MIF investment)

The objective of this project is to improve access of small enterprises to credit by providing technical and financial support to establish a guarantee corporation in the Serra Gaucha region.

Commercial Opportunities for Small Rural Producers
($1.1 million MIF grant)

This program will employ a regional and rural development approach to improve the competitive advantage of agricultural microenterprises and small businesses. The purpose is to increase socially responsible market opportunities for these firms by providing technical assistance to improve production quality and market access.

CHILE

In 2003, the Bank approved four loans, one guarantee and one MIF financing to Chile. On a cumulative basis, the Bank has made 131 loans totaling $5,295 million and disbursements have totaled $4,785 million.

Costanera Norte Toll Road Project
($75 million loan guarantee from the OC)

This private sector financing will be used to build an east-west expressway across metropolitan Santiago. The project includes construction of a six-lane Oriente-Poniente highway covering 30 km between the La Dehesa Bridge and Route 68, which will also be extended, as well as repairs and upgrades to Avenida Kennedy between Las Condes and Vitacura. Other project works include a 4 km tunnel under the Mapocho River, an extensive network of bridges and over and underpasses, access roads, landscaping and flood protection along the river, and maintenance and traffic safety measures. The electronic toll system to be used will make the highway the first in Latin America to use a “smart pass.” The IDB financing is a partial credit guarantee of a bond issue by the private company awarded the concession by the Chilean government to build, own and operate the toll road.

Rural Electrification Program
($40 million loan from the OC)

This program will promote private investment in rural electrification in the poorest regions in support of the national goal to have 90 percent coverage by 2006. Subsidies to distribution companies and cooperatives will enable them to extend or regularize electricity services to 28,300 households, most in the Coquimbo, La Araucania and De Los Lagos regions, where rural coverage is lowest. For another 8,300 households in isolated communities beyond the reach of the national power grid, the program will install micro-hydropower plants, aero-generators, photovoltaic panels, and other self-generation or renewable energy technologies. Technical assistance will strengthen the capacity of agencies based in the three principal project regions to formulate, evaluate and monitor rural electrification projects.

Tourism Development in Chiloé and Palena
($10.5 million loan from the OC)

The quality of sustainable tourism services and attractions in two southern provinces renowned for their natural beauty and historical sites will be improved under this program. On the Chiloé archipelago, the financing will be used to restore or repair 18th and 19th century churches on UNESCO’s World Heritage List. In both Chiloé and Palena, where ecotourism is a growing industry, the program will upgrade facilities such as visitor areas in national parks, hiking trails, municipal campgrounds, and craft markets. A number of ancient Spanish fortifications will be restored, and solid waste management systems will be designed for both provinces. Low-income families operating small tourism-related businesses will be eligible for grants, and municipal and provincial officials will receive training in several areas, including environmental management.

Public Safety Program
($10 million loan from the OC)

Chile's rates of crime and violence are low compared to other countries in the region, but the country has seen an increase in organized crime associated with drug trafficking over the past two years. This operation will strengthen law enforcement and community-based public safety programs in 76 municipalities in the most affected regions of Valparaiso, Bio Bio and Araucanía. Technical assistance and training in priority municipalities will support implementation of crime prevention and "Safe Neighborhood" programs to mobilize communities, provide assistance to at-risk groups, and improve access to the judicial system. Information systems will be installed to improve coordination among enforcement agencies. To improve relations between the general public and police, a training center will be established to train officers in community policing techniques.

Antofagasta Desalination Plant
($7 million loan from the OC with a "B" loan of $13.9 million)

This loan will finance construction and operation of a seawater desalination plant in an arid region with a growing population but limited access to sources of fresh water. Seawater will be collected and pumped through a 350-meter intake pipe, treated using a reverse-osmosis technology, and then sent through an 11 km delivery line to the local distribution system. Initial plant capacity will be 13,000 m3 per day, with phased-in expansions eventually quadrupling that amount. The plant will help meet regional consumption projected to increase 40 percent by 2020, and also support expansion of copper mining, the main industry in the area. The project will be carried out by a private firm, Desalant, which was awarded the concession by the local water utility. The firm is a subsidiary of Obrascon Huarte Lain Group, a Spanish construction company with 30 years of experience in water process engineering.

Corporate Social Responsibility
($1.3 million MIF grant)

The principal objective of this project is to increase the competitiveness of small and medium-sized Chilean enterprises by encouraging them to integrate corporate social responsibility policies and practices into business strategies in order to maximize both private gains and social benefits.

COLOMBIA

In 2003, the Bank approved four loans to Colombia. On a cumulative basis, the Bank has made 196 loans totaling $10,979 million and disbursements have totaled $10,333 million.

Social Emergency Program
($1.25 billion loan from the OC)

This loan will help maintain macroeconomic and fiscal stability and protect critical social investments as Colombia undertakes reforms to stimulate its economy. Funds will be released in tranches based on implementation of a macroeconomic stabilization agreement with the International Monetary Fund that sets targets for fiscal and monetary policy and structural reforms. To protect the poor during the reform process, loan resources will ensure continued operation of such social programs as temporary employment services, job training, day care, nutrition, health, education, and care for the elderly, indigent and displaced. The program will also promote reforms of the social sectors through initiatives to extend coverage for basic and secondary education, regulate the quality of health care, and better target funds for municipalities.

Health Care and Social Security Reform
($400 million loan from the OC)

This program will support government efforts to improve the coverage, quality, equity and financial sustainability of the public health and social security system. A series of reforms are expected to balance the accounts of the Social Security Institute's health promotion services; reduce operating and cumulative deficits of public hospitals; align the size of operations and payrolls of health care providers with demand for services; and allocate family allowances more equitably across different regions of the country. Increased efficiency as a result of the reforms will help sustain efforts to expand health care coverage, particularly for the poor. The loan will be released in tranches based on compliance with macroeconomic policy guidelines and progress in meeting reform targets.

Urban Social Housing Program
($150 million loan from the OC)

This operation will address Colombia's urban housing shortage by strengthening the household subsidy program that helps low-income residents buy, build or improve a home. Financing will be provided for an estimated 70,000 housing subsidies, including special subsidies for families displaced by violence or natural disasters. The program features control and supervisory mechanisms that ensure the quality of the housing and its immediate environment, including connections for potable water, sanitation, electricity and other household services. Technical assistance and installation of information systems will strengthen the capacity of national and municipal agencies to administer the subsidy program, including preparation of strategic planning and sector policy studies, formulation of land management plans, and training on ways to improve the supply of microcredit for housing.

Strengthening the Attorney General's Office
($14 million loan from the OC)

Under Colombia's constitutional system, the Attorney General's Office is responsible for disciplinary control over civil servants. This operation will strengthen prevention programs to head off corruption and human rights violations; reduce case backlogs; establish standards for judicial and administrative intervention; and improve coordination with other government oversight and investigative agencies. To enhance national and regional-level managerial and administrative practices, the program will upgrade information systems, redesign administrative processes and procedures, and establish a document management system. Staff training and service upgrades will improve interaction with the public, and a public information campaign will inform citizens of their fundamental rights.

COSTA RICA

In 2003, the Bank approved one loan to Costa Rica. On a cumulative basis, the Bank has made 98 loans totaling $2,313 million and disbursements have totaled $2,011 million.

Health Sector Development
($6.4 million loan from the OC)

This operation will strengthen the Ministry of Health and design an inspection system to promote healthier consumption and behavior. To help formulate public policy and prioritize health expenditure, systems will be developed for analysis of the disease burden, national health accounts, monitoring local health care quality and equity, and the use of human resources in the health sector. Operating in 33 of the country's poorest cantons, the program will provide technical assistance to design inspection, supervision and control standards for hospitals and restaurants. An extensive social marketing program will address such issues as mental health, reproductive health, and healthier lifestyles in terms of exercise, eating habits and the avoidance of tobacco, alcohol and drugs. An incentive program will reward municipalities, community organizations and businesses that devise innovative health promotion campaigns.

DOMINICAN REPUBLIC

In 2003, the Bank approved five loans and one MIF financing to the Dominican Republic. On a cumulative basis, the Bank has made 84 loans totaling $2,616 million and disbursements have totaled $1,919 million.

Development of Competitive Advantages
($9.4 million loan from the OC)

A Competitiveness Fund financed by this loan operation will provide matching grants for projects to increase or diversify exports from the country's key economic sectors. To facilitate the preparation of eligible projects, technical assistance will help develop production clusters of up to 50 small firms that operate within a particular business or industry and share buyer/vendor or supplier/client relationships. The Fund will focus on projects in the manufacturing, export processing, agribusiness and tourism sectors. To improve the overall business climate, the program will finance workshops with key public and private sector stakeholders; prepare studies to identify firms' structural strengths and weaknesses; and develop tools, policies and best practices to boost competitiveness.

Strengthening Banking System Supervision and Regulation
($6 million loan from the OC)

This technical cooperation program will help authorities carry out comprehensive inspections of all Dominican banks in order to assess solvency and identify problems with accounting practices. To strengthen the nation's financial system, the program will review and adjust prudential regulations for banking control and supervision. New operating regulations will be devised for the Monetary Board, the country's principal financial authority, and a coordination mechanism will be implemented to ensure efficient and effective financial sector oversight. Technical assistance will help convert the National Housing Bank into a second-tier bank, and consultants will advise authorities on updating and modernizing the regulations and functions of all state-owned banks. The operation is designed to lay the groundwork for a subsequent policy-based sector program with the IDB.

Institution Building for Information Technology
($5.4 million loan from the OC)

Information and communications technology (ICT) can boost commerce and expand access to education and public services. Yet many developing nations like the Dominican Republic—where only about 2 percent of the population uses the Internet—have yet to cross the digital divide. This program will provide advisory services to help develop a national strategy that promotes access, connectivity, e-commerce and e-government. A national network of 20 telecenters will provide the general public with computer access and training, with the aim of promoting local initiatives to develop Internet-based products. Through a new Dominican Enterprise Portal, the private sector will have access to on-line information and support services on such topics as business start-ups, financing opportunities and tax regulations. Technical assistance will help in integrating ICT into the education sector, and developing legislation to facilitate electronic commercial transactions.

Pension Reform Program
($5 million loan from the OC)

The pension system created by the 2001 Social Security Law aims to broaden coverage of pensions and health and accident insurance to both formal and informal sector workers. Technical assistance, training and information systems financed by this loan will support the agency charged with implementing the pension system. The project will also help design regulations for service delivery by pension fund administrators; develop a process to identify beneficiaries; carry out financial and actuarial calculations for the current system, as well statistical and demographic surveys; establish methodologies for calculating annuities and withdrawals; analyze the costs and sustainability of the new system; and develop and disseminate a public information strategy.

Strengthening Foreign Trade Management
($5 million loan from the OC)

This program aims to increase and diversify the country's exports by strengthening the government agencies responsible for trade negotiations and policies. Technical assistance, training and information systems will improve managerial capacity to implement trade agreements and participate effectively in bilateral, regional and international trade talks. An export promotion program launched jointly by the public and private sectors will develop a "one-stop" window for export processing, provide training for businesses and public officials involved with exports, and carry out promotional campaigns and studies on exportable products.

Distribution Channels for Remittances
($2.5 million MIF investment)

This program will facilitate access by the microfinance sector to capital by bolstering the impact of remittances on savings and channeling those savings to productive sectors. Project objectives include reducing intermediation commissions inherent in current remittance distribution mechanisms; promoting capitalization of the microfinance sector by enhancing the end value received by remittance recipients; encouraging remittance recipients and small commercial establishments that distribute remittances to participate in the formal banking system; and developing and implementing new technologies to attract, transfer, control and receive remittances.

ECUADOR

In 2003, the Bank approved three loans and one MIF financing to Ecuador. On a cumulative basis, the Bank has made 169 loans totaling $4,172 million and disbursements have totaled $3,878 million.

Social Sector Reform Program
($200 million loan from the OC with an IFF interest rate subsidy)

This operation will protect priority health, education and social welfare spending during a period of macroeconomic adjustment, while supporting reforms to improve the quality and efficiency of such programs. Reforms will require that cash transfers to impoverished families be conditioned on school attendance and medical check-ups; consolidate nutrition programs to improve their impact on health and reduce overlapping; allocate education resources using targeting mechanisms such as poverty indicators and school-age population density and vulnerability; modernize and better match vocational training to labor market needs; and introduce counter-cyclical financing mechanisms to make social expenditure more sustainable. Loan disbursements will be subject to compliance with agreed-upon macroeconomic policy measures.

Local Roads Program
($30 million loan from the OC with parallel financing from the World Bank)

Rural roads, most of them unpaved and in poor condition, account for nearly 80 percent of Ecuador's road network. This program will finance repairs and maintenance of 3,050 kms of rural roads using a low-cost system that is operated by the provincial and municipal governments and employs the local citizenry. An estimated 300,000 rural residents will benefit from reduced transportation time and costs and easier access to markets and health and education facilities. To be eligible for the program, jurisdictions must establish provincial road agencies that meet planning, financial and operational standards, as well as involve local communities in project selection. The agencies will be responsible for contracting and oversight of projects carried out by local firms. The program will also repair 500 kms of trails known as chaquiñanes in order to connect remote communities with local roads.

Foreign Trade Management Program
($2.9 million loan from the OC)

This program aims to increase Ecuador's foreign trade by strengthening governmental capacity to formulate and negotiate a comprehensive and consistent trade policy. To improve institutional coordination, the foreign trade sections of the principal ministries will be consolidated, and mechanisms will be put in place to improve communication with the private sector and civil society. Training and technical assistance will prepare negotiators for international trade agreement meetings and support legislative and regulatory reforms that facilitate trade management. A modern information system will be installed to make domestic and external trade databases available online to both public and private users. Finally, the program will help the Foreign Trade and Investment Council (COMEXI) design an overall foreign trade policy with specific short- and long-term targets.

Mitigating Market Access Barriers
($1.3 million MIF grant)

The purpose of this project is to help Ecuadorian companies comply with non-tariff regulations in order to improve their access to the U.S. market. The project will promote a systematic approach for dealing with technical barriers to that market both before and after expiration of the Andean Trade Preference Act.

EL SALVADOR

In 2003, the Bank approved one loan to El Salvador. On a cumulative basis, the Bank has made 104 loans totaling $3,005 million and disbursements have totaled $2,534 million.

Improved Competitiveness Program
($100 million loan from the OC with an IFF interest rate subsidy)

This operation will make the country's businesses more competitive by enhancing their productivity and access to markets. The financing will be released in tranches based on progress in implementing policy reforms to improve the efficiency of maritime and air transport services, expand coverage and upgrade the quality of job training programs, promote technological development, and establish legal frameworks against anti-competitive practices. The reforms, which will involve policy interventions and corresponding changes in the incentive structures for economic agents, will address constraints to private sector competitiveness that affect production, resources, market access costs, factor productivity, and equality of access to participation in domestic and international markets.

GUATEMALA

In 2003, the Bank approved three loans and one technical cooperation operation to Guatemala. On a cumulative basis, the Bank has made 112 loans totaling $2,684 million and disbursements have totaled $2,095 million.

Rural Water Investment Program
($50 million loan from the OC with an IFF interest rate subsidy)

This program will finance construction of safe and accessible small-scale water and sanitation systems for 500,000 people in impoverished rural areas. Nongovernmental organizations will promote the program and provide technical assistance to autonomous and legally constituted community associations, which will determine the most appropriate system design and assume responsibility for managing the system. Technical assistance and capital costs will be financed with a mix of grant and loan funds. Participating communities will average less than 1,000 in population, and systems will range from gravity-fed protected springs to boreholes with electrical pumps or river intakes. The communities will operate and maintain the systems, with residential meters installed for systems with household connections.

Guatemala-Mexico Electricity Interconnection Project
($37.5 million loan from the OC)

This project will lower costs and improve the quality and security of electricity services by building transmission lines and making substation upgrades to link the power grids of Guatemala and Mexico. A 400kV transmission line will be installed between Tapachula, Mexico and Los Brillantes in western Guatemala. The Guatemalan substation will be expanded to receive and transform the additional voltage, and upgraded to improve safety and efficiency and reduce environmental impacts. The project will initially add 200MW of available capacity to Guatemala's electricity system. Mexico's Federal Electricity Commission will finance that country's portion of the project. The overall operation is part of the Puebla-Panama Plan to integrate Central American power systems.

Strengthening Nationwide Censuses and the National Statistics Institute
($25 million loan from the OC)

National censuses are critical to economic and social development because they generate the reliable and timely statistics needed to formulate public policies and programs. This loan will help carry out population, housing and agricultural censuses by designing census instruments, updating statistical cartography, training 40,000 canvassers, and strengthening data processing. Technical assistance and information system upgrades will support implementation of household surveys and databases that monitor family incomes, living conditions and employment, ensuring long-term capacity to produce essential survey data available to all levels of government, the private sector and civil society.

Social Policy and Program Design and Management Training
($1.7 million grant from the Norwegian Agency for Cooperation and Development)

This grant will be used to improve the effectiveness of social programs by training the people who design and manage those programs in the theory, methods and tools of modern social management. Participants will include central government professional and technical staff as well as practitioners from provincial and municipal governments, nongovernmental organizations, trade unions and academia. The social management courses will be based on training programs developed by the IDB's Inter-American Institute for Social Development (INDES). The program also will establish a National Award for Excellence in Social Management to honor Guatemalan institutions and organizations that take innovative approaches to social management.

GUYANA

In 2003, the Bank approved one loan and one technical cooperation operation to Guyana. On a cumulative basis, the Bank has made 45 loans totaling $848 million and disbursements have totaled $645 million.

Social Statistics and Policy Program
($3.5 million loan from the FSO)

High-quality socioeconomic data generated through this program will strengthen the policy analysis, decision-making and monitoring necessary to carry out an effective poverty reduction strategy. Training and equipment for data collection and analysis will enable the Bureau of Statistics to incorporate census information into public policy-making, carry out household surveys, improve vital statistics, design a digitized cartography system, and update the national accounts and consumer price index. Technical assistance to social sector ministries will identify the range of operational data to be collected by each entity and improve data management methods and coordination.

Strengthening Public Sector Investment Management
($1 million grant from the FSO)

The economic and social impact of public investment depends in large part on the effectiveness of decision-making involved in project design and implementation. This operation will strengthen and modernize Guyana's investment project management system by implementing a new institutional framework for all aspects of the project cycle and by training the government personnel involved. Technical assistance will help design an operational model for project management, adjust the legal framework, and implement a project cycle information system. Initial financing will be provided for a revolving fund to finance the preparatory work necessary to develop a viable investment project pipeline, particularly in support of the country's poverty reduction strategy.

HAITI

In 2003, the Bank approved four loans to Haiti. On a cumulative basis, the Bank has made 50 loans totaling $972 million and disbursements have totaled $620 million.

Rehabilitation of Basic Economic Infrastructure
($70 million loan from the FSO)

The poor condition of Haiti's basic infrastructure constrains the development of all economic sectors. This program aims to spur economic recovery and improve living conditions by establishing a multi-sectoral finance facility to provide resources to ministries and line agencies to repair or overhaul roads, ports, airports, markets, electricity, irrigation, water supply, sewerage, telephones, waste disposal and other facilities and services. Project proposals will be subject to technical eligibility criteria based on their economic priority, sustainability, sectoral and regional compatibility, environmental factors, and community and local government participation. Resources will be released in tranches based on the progress of project implementation, and a Technical Executing Unit will be established to ensure project quality, transparency and sound resource management.

Local Development Program
($65 million loan from the FSO)

This program will improve the living conditions and income-generating capacity of the poorest and most vulnerable groups, particularly in rural areas. Resources will be used to build and equip schools and health centers; install water supply and sanitation facilities; provide nutritional supplements to pregnant and lactating women and to children; and offer social services and training to at-risk children and adolescents. Productive projects will finance rural infrastructure such as markets and irrigation works, small business development, nontraditional enterprises such as horticulture and crop diversification, and the sustainable use of natural resources.

Technical assistance and training to municipalities and communities will promote local participation in planning and managing the social and economic investments. The program will be carried out by the Economic and Social Assistance Fund (FAES), an autonomous state agency.

Agricultural Intensification Program
($41.9 million loan from the FSO)

This program aims to increase the incomes of approximately 30,000 small farmers in the Artibonite Valley by improving the efficiency and sustainability of water used for irrigation. The loan will support institutional strengthening of water management authorities and the organization of water users, providing technical assistance for agricultural intensification and diversification and improved land tenure security. Loan funds will finance investments to protect, repair, rehabilitate and expand irrigation and drainage infrastructure.

Public Finance Reform
($25 million loan from the FSO)

This policy-based loan will support public finance reforms that strengthen management of fiscal accounts, make resource allocation more efficient and transparent, and improve compliance with tax laws. Resources will be disbursed in tranches based on progress in implementing the reforms and compliance with macroeconomic policy guidelines. The operation will support legislation to establish a legal framework for government accounting and budgeting processes; introduce a chart of accounts in line with international accounting standards; rework budgetary classifications to more accurately and transparently reflect revenues and expenditures; computerize the public expenditure management system; and establish an oversight body to monitor public finances.

HONDURAS

In 2003, the Bank approved four loans and one MIF financing to Honduras. On a cumulative basis, the Bank has made 140 loans totaling $2,476 million and disbursements have totaled $2,038 million.

Poverty Reduction and Local Development Program (Phase II)
($35 million loan from the FSO)

This program will finance small-scale projects to build and repair roads and basic water and sanitation facilities as well as expand access to primary health care and early childhood and basic education. The program will target the poorest and most vulnerable groups, with an emphasis on promoting participatory planning and transferring project responsibilities to local levels. All projects will be funded through municipal investment plans developed in cooperation with groups traditionally excluded from government decision-making, such as indigenous and Afro-descendent communities. Training and technical assistance will strengthen the management and institutional capacity of municipalities to meet needs articulated by local populations. An incentive program will reward innovative practices in municipal finance, decentralization and modernization of public utilities, transparent governance, and land use planning.

Sula Valley Public Safety and Social Services Project
($20 million loan from the FSO)

The Sula Valley is among the most industrialized and fastest-growing regions of Honduras, accounting for over a quarter of the population, including large numbers of migrants looking for work. Poverty is widespread and more than a third of residents are under 25, factors contributing to the region's particularly high crime rates. This loan will finance a wide range of crime prevention and social assistance programs for youth in the valley's 17 municipalities. Working through community-based organizations, the operation will finance recreational facilities, job training, special centers for at-risk youth and young offenders, school and community programs to prevent delinquency, gangs and violence, and family protection services. A pilot program for community policing will be developed along with an integrated information system for the police and judiciary.

Sustainable Forest Development Program
($17.5 million loan from the FSO with cofinancing from the Nordic Development Fund)

This multiphase program will increase productivity and strengthen local economies in the country's expansive forest regions by improving forestry management and stimulating economic development. Using participative planning that involves local municipalities and communities, sustainable development plans will be implemented for four designated forest regions: Francisco Morazán, Olancho, Teupasenti Danli and Atlántida-Colón. A funding mechanism will be established to support small and medium-sized businesses involved in logging and reforestation, processing of forestry products, and ecotourism in forest areas. The program will also support land titling, promote policy changes that improve the investment climate, design information systems to monitor deforestation and fire risk, and promote private sector participation in the forestry sector.

Strengthening Business Competitiveness and Foreign Trade Management
($10 million loan from the FSO)

This operation will better integrate the Honduran economy into international markets by helping small and medium-sized firms develop competitiveness strategies and by funding export-oriented agroindustry, forestry and tourism projects. A special fund will be set up to provide subsidies and technical assistance to "clusters" of at least three firms to improve production processes, quality control, administration and marketing. To strengthen Honduran participation in regional and international trade agreements, the program will create working groups and prepare technical studies on key trade issues, improve inter-agency coordination, and design a national export promotion plan. A national competitiveness strategy will be developed to build consensus between government, the private sector and labor on ways to enhance business productivity.

Institutional Strengthening of Credit Unions
($1.4 million MIF grant)

This program will improve the administrative and financial capacity of credit unions, which often provide services to otherwise under-served segments of the population. The program will improve the access of low-income groups to the diversified and reliable financial services they need to improve their financial opportunities and security.

JAMAICA

In 2003, the Bank approved one loan to Jamaica. On a cumulative basis, the Bank has made 87 loans totaling $1,786 million and disbursements have totaled $1,536 million.

Oceanic Digital Jamaica
($30 million loan from the OC)

This private sector operation will finance installation and operation of a reliable nationwide digital mobile telecommunications network that provides affordable basic and expanded services. Using a Code Division Multiple Access (CDMA) system, the network will combine high-quality voice signals with high-speed Internet access comparable to telecommunications services in industrial countries. The project will be carried out by Oceanic Digital Jamaica Ltd., a private mobile phone operator licensed to compete to provide services as a result of reforms that have liberalized the telecommunications sector. Having already installed cell sites in metropolitan Kingston, the company will use this loan to expand services throughout the island. The project marks the first IDB loan to Jamaica's private sector without a government guarantee.

MEXICO

In 2003, the Bank approved two loans and four MIF financings to Mexico. On a cumulative basis, the Bank has made 177 loans totaling $17,221 million and disbursements have totaled $14,961 million.

Consolidation of Rural Financial Sectors
($300 million loan from the OC)

A substantial decline in agricultural lending in Mexico since the 1990s—despite government intervention—has prompted this initiative to strengthen the development of rural bank and nonbank financial intermediaries. The program is designed to address longstanding constraints to expanding rural credit, such as administrative costs, higher perceived risk and the quality of loan collateral. A series of reforms will support consolidation of the dozen existing regional banks that provide rural financial services into an independent agency, *Financiera Rural*. The goal of the new entity is to increase the number of rural users of credit, savings and hedging services, as well as the amount of resources intermediated by public and private financial institutions.

Comprehensive Community Education Program (Phase I)
($210 million loan from the OC)

The National Council for Educational Development (CONAFE) provides preschool, primary and post-primary instruction to 290,000 children in remote and impoverished areas where there are no formal schools. This operation will finance construction and expansion of community education centers to provide instruction to these children, whose educational achievement levels are the lowest in the country. Grants to young instructors who live with area families will improve their training and further their higher education. A new preschool model will be piloted in areas with large migrant and indigenous populations in nine states. Finally, to improve efficiency, the program will modernize CONAFE by financing feasibility studies, training staff, upgrading quality control, and installing information systems.

Strengthening Property Rights
($2 million MIF grant)

This program will strengthen the property rights framework in order to increase economic transactions—particularly credit—involving property. The objectives are to develop and apply models for strengthening state property rights systems, improve access to credit, and disseminate the results in order to encourage other states to adopt similar reforms. The program will support reforms to the property rights registry as well as development of a registry rating system applied on a pilot basis in different states.

Financial Information Standards
($1.7 million MIF grant)

The objective of this project is to make financial reporting on business activities more objective, reliable, comparable and transparent. The project will help establish independent and effective bodies to promote and support implementation of accounting standards that meet international standards. Additional project components include setting up agencies whose aim is to improve the quality of reporting, updating accounting training and certification, and disseminating corporate best practices.

Environmentally-sound Production Practices
($1 million MIF grant)

Two regional centers established under this program will help small and medium-sized enterprises in the regions of Chihuahua and Tabasco implement more efficient and environmentally-friendly productive practices. The centers will promote awareness among businesses of the importance of using cleaner production techniques. A pool of certified service providers will also be established.

Export-oriented SMEs in Guanajuato
($1 million MIF grant)

This program will support development of sustainable production chains for small and medium-sized enterprises (SMEs) that work with leather footwear and ceramics destined for export. The two industries are key sectors of the Guanajuato economy. The program will address coordination issues between enterprises and in the formation of production chains, implement sector integration plans, and help SMEs modernize their business services.

NICARAGUA

In 2003, the Bank approved three loans to Nicaragua. On a cumulative basis, the Bank has made 122 loans totaling $2,122 million and disbursements have totaled $1,634 million.

Global Multisector Credit Program
($30 million loan from the FSO)

This program will increase the productivity and competitiveness of small and medium-sized companies by expanding their access to credit for modernization and expansion. These firms account for a significant proportion of jobs and GDP, but are often viewed as a credit risk by commercial banks. The program will channel resources through supervised intermediary financial institutions (IFIs) to onlend to businesses for fixed assets, working capital, and technical and management support services. Both start-up and existing firms will be eligible for loans. Technical assistance will strengthen access to capital markets by the borrower, *Financeira Nicaragüense de Inversiones*, and help IFIs develop market-based pricing systems, improve credit risk management, and design financial products.

Modernization of the State and Fiscal Reform
($25 million loan from the FSO)

This operation aims to improve the country's fiscal situation by implementing reforms to increase tax and customs collection, and by restructuring the budgeting process to make it more efficient and transparent. To improve the legal and institutional framework for tax collection, the program will reform regulations on income and value-added taxes, implement a tax code in line with international standards, and install a customs management information system. On the expenditure side, the operation will support reforms to contain deficit spending, impose a public debt ceiling, adopt international accounting standards for the public sector, and present a multiyear planning framework. Resources from this policy-based loan will be released in tranches based on compliance with macroeconomic policy guidelines and progress in meeting reform targets.

Improvement of Plant and Animal Health and Forest Services
($7.3 million loan from the FSO)

By upgrading plant protection and animal health services to meet international standards, this program will help Nicaragua boost exports of key agricultural, livestock and forestry products. Technical assistance, training and improvements to facilities, equipment and management systems will strengthen food safety, quarantine procedures, laboratories, and standardization and accreditation systems. The focus will be on Nicaragua's chief export products, including beef, shrimp, chicken, peanuts and corn. The measures will boost productivity by reducing agricultural product rejections and losses, and better protect forestry products by reducing the incidence of animal and plant diseases, infestations and pests. A health quality seal will be used to certify products, and training and information campaigns will instruct farmers, ranchers, manufacturers, wholesalers, retailers and consumers about food safety and plant and animal health services.

PANAMA

In 2003, the Bank approved three loans to Panama. On a cumulative basis, the Bank has made 122 loans totaling $2,098 million and disbursements have totaled $1,680 million.

Puebla-Panama Plan Pacific Corridor Improvements
($37 million loan from the OC)

This operation will repair and upgrade two key highway segments along Panama's Pacific Corridor, reducing transport costs and facilitating movement of passengers and freight between the capital and the Costa Rican border. The Divisa-Santiago segment of the Pan-American Highway (39 kms) will be widened to four lanes, and three vehicle bridges and 12 pedestrian bridges will be built. Repairs to the Santiago-El Pajal section (53 kms) will include replacing concrete slabs and upgrading shoulders and drainage. The project forms part of the highway integration initiative of the Puebla-Panama Plan, which aims to enhance transport links in the Central American region in order to improve market access and competitiveness.

Urban Revitalization and Poverty Reduction in Colón
($8.5 million loan from the OC)

Using an innovative social model for urban renewal, this program will renovate a historic but deteriorating inner city area where many colonial-style buildings are considered architectural treasures. Nearly half the structures in Barrio Norte, the project area, have been condemned as uninhabitable yet are still overcrowded with low-income dwellers. This multisector program will refurbish and upgrade eight buildings for residential and commercial use, as well as support titling, social services, job training and small-scale productive projects for beneficiary families. Once renovations are completed, a portion of rent and mortgage payments will finance barrio improvements. The program will be carried out by a local NGO, the Colón Foundation for Investment and Development, and will include incentives for private sector investment in the project area.

Municipal Development and Decentralization
($7.8 million loan from the OC)

This program will finance priority investment projects in municipalities that undertake reforms to modernize their operations and improve efficiency. The 15 participating municipalities must implement action plans to modernize financial, tax and administrative operations, strengthen local planning, and improve service delivery. Jurisdictions that fulfill their institutional modernization targets will be eligible for funding for such projects as storm drainage upgrades, construction or repairs of parks, plazas, roads and markets, and installation of flood protection works and waste disposal and treatment facilities. Technical assistance and training will support development of a national decentralization policy, help municipalities set up the legal and institutional framework to facilitate reforms, and enhance citizen participation in local government.

PARAGUAY

In 2003, the Bank approved three loans to Paraguay. On a cumulative basis, the Bank has made 114 loans totaling $1,911million and disbursements have totaled $1,526 million.

Social Protection Program
($30 million loan from the OC)

The fiscal adjustments necessary for Paraguay to overcome successive shocks to its economy in recent years run the risk of jeopardizing access by the poor to basic social services. This emergency loan will sustain macroeconomic stabilization efforts while providing budgetary protection for priority social programs. The operation will also support ongoing modernization of the health and education sectors, including cabinet-level reforms to enhance intersectoral coordination, and implementation of a vital statistics system to improve health indicators. Protected social programs will include those for immunizations, disease prevention and treatment, maternal and child health, basic and technical education, water supply and sanitation, and selected agricultural and transportation initiatives. Loan resources will be released in tranches based on implementation of a macroeconomic program with the IMF and progress in meeting program objectives.

Preschool and Early Education
($23.4 million loan from the OC)

The objective of this program is to achieve universal preschool education for 5-year olds by building schools and equitably distributing the quality resources those schools need. Some 1,000 preschools will be built and another 500 upgraded in order to increase enrollment by 45,000, with an emphasis on reaching at-risk children. Schools will be equipped with libraries, expanded play areas, and furnishings. A comprehensive package of teaching materials suited for innovative educational approaches will be distributed to participating institutions. Training programs will prepare and certify new instructors, provide in-service training for administrators and teachers, and promote community and parental involvement with schools. A special nonformal preschool program will be designed for children in impoverished and remote areas, as well as for indigenous children.

Cadastre and Property Registry Program
($9 million loan from the OC)

Some 40 percent of rural properties in Paraguay have limited or no title due to the cost and slow processing of land registration and the limited availability of these services. This program will modernize registration and cadastral systems and establish new registry offices in Alto Paraná, Itapua and Caaguazú. To secure titles, technical assistance and training will support design of a legal framework to formalize cadastral activity, and the linking of geographic and legal databases with cadastral and registry systems. All registrations will be computerized, and the national cadastral database covering nearly 1.7 million properties will be updated. District boards will be established to update property information, and boundaries developed to lay the legal foundation for eventual municipal jurisdiction over land tenure.

PERU

In 2003, the Bank approved seven loans, one guarantee and one MIF financing to Peru. On a cumulative basis, the Bank has made 170 loans totaling $6,603 million and disbursements have totaled $5,512 million.

Competitiveness Reform Program
($300 million loan from the OC)

Competitiveness can be described as the quality of the economic and institutional environment for sustainable development of private productive activities. This policy-based loan will support public-private initiatives to increase productivity as well as reforms to improve competitiveness. The aim is to help companies improve efficiency and reduce costs. At the policy and institutional levels, the program will streamline procedures to resolve commercial disputes, reduce red tape for small business owners, improve access to credit, and provide demand-oriented training for microentrepreneurs, workers and youth. Under the aegis of Peru's National Competitiveness Council, the program will set up a funding mechanism to develop business "clusters" that link local-level firms and the public agencies that support them.

Camisea Project
($75 million loan from the OC with a "B" loan up to $60 million and cofinancing from the Andean Development Corporation)

By tapping a low-cost energy source, the Camisea natural gas project will reduce fuel prices for residential and industrial users, generate export opportunities, and provide an environmentally-friendly alternative to using other fossil fuels to generate electricity. The project involves construction and operation of parallel natural gas and liquid pipelines from the Camisea field in the Ucayali Basin to Pisco. The natural gas line will then extend north along the coast to Lima, bringing its total length to 714 kms. The Camisea reserves are ten times greater than all of Peru's other existing hydrocarbon reserves, and their development will support a gas-based petrochemical industry and generate foreign investment and employment. The project includes a range of social and environmental measures, including restoration of Paracas Bay, protection of parks and reserves, and social and economic benefits for communities along the pipeline route, including indigenous groups. The loan is to a private sector firm, *Transportadora de Gas del Perú S.A.*, an international consortium awarded the concession by the Peruvian government to carry out the project.

Housing Sector Program (Phase I)
($60 million loan from the OC)

Much of Peru's urban population lives in substandard developments or shantytowns. This operation will increase the supply of quality low-income housing by providing family housing subsidies, supporting barrio improvements, and promoting private sector involvement in low-cost housing production. Some 115,000 low-income beneficiaries will receive subsidies to purchase a new home, improve an existing home, or build on their property. To incorporate informal barrios into the formal housing market, the program will finance construction of water and sanitation systems, recreation facilities, parks, community centers and other neighborhood services. To spark the supply of low-income housing, underutilized State-owned properties will be developed as macrolots and then put up for bidding to private investors.

Metropolitan Lima Transportation Program
($45 million loan from the OC, with cofinancing from the World Bank)

This program will set up a rapid and reliable urban mass transit system using a network of buses running in special lanes apart from other traffic, helping to bring greater order, safety and efficiency to the capital's existing system. The system is initially expected to carry 630,000 passengers a day, many of them from low-income areas. Initial service will run north-south through central Lima. The loan will finance construction of 28.6 kms of special bus corridors and upgrading of 50 kms of feeder roads linking outlying neighborhoods to the main terminals. Other works will include 35 bus stops, two midway terminals, bus concourses and garages, cycle paths, sidewalks and pedestrian bridges. Neighborhood improvements will include street lighting and restoration of parks and plazas. Private firms will operate the system with a fleet of over 400 new buses using environmentally friendly fuel. The system will be financed by user fares that will cost the same or less than current ones.

Red Vial 5 Toll Road
($18 million loan from the OC with cofinancing from the International Finance Corporation)

Red Vial 5 is the only highway linking metropolitan Lima to Peru's productive regions in the north, as well as Ecuador and Colombia. This project will expand, upgrade and improve safety along the 182 km highway, with an emphasis on separating high-speed truck traffic from more populated areas. Project works will include construction of a two-lane, paved Supe-Barranca-Pativilca bypass; a similar Huacho-Primavera bypass, along with cloverleaf exchanges for each city; bridges over the Huaura and Pativilca Rivers; repairs of 23 kms of highway between Primavera and Ambar; and additional local lanes, entrances and intersections to improve traffic flow and safety. The loan is to Norvial S.A., a private Peruvian firm that was awarded the build-operate-transfer concession to manage the Red Vial 5 toll road network.

Graña & Montero Bond Guarantee
($10 million loan guarantee from the OC)

This partial credit guarantee will support a five-year investment program by Graña & Montero, Peru's leading engineering services and contracting firm. The financing will enable company subsidiaries to provide services in infrastructure concessions, fuel and oil operations, information technology and engineering, as well as upgrade and maintain terminal facilities to comply with environmental and safety rules. As the first private sector credit guarantee issued on Peruvian capital markets from a AAA-rated multilateral institution, the operation aims to promote future credit enhancement transactions in local and regional markets. The financing by the IDB, matched by the Netherlands Development Finance Company, will guarantee up to half the face value of the bond, enabling Graña & Montero to issue a bond with an upgraded investment rating.

Tax and Customs Integration and Modernization
($8.9 million loan from the OC)

This financing will support a government initiative in place since 2002 to merge the internal revenue and customs administrations in order to improve tax revenues and facilitate foreign trade. By strengthening administrative management and modernizing operations, the program will lay the groundwork for a better coordinated and more efficient and effective tax system. Technical assistance and training will be provided to modernize and streamline customs clearance processes; upgrade databases, software and communications to address complex tax processes; tighten auditing and collection procedures to increase compliance with tax obligations; and develop cross-cutting management processes for planning and finance, human resources, and the administration of goods and services.

Institutional Strengthening of the Peruvian Congress
($7 million loan from the OC)

This program will support Peru's democratic process by strengthening one of its basic institutions, the single-chamber Congress of 120 elected deputies. To bolster public confidence and citizen participation, forums will be held and information systems installed to improve congressional responsiveness to civil society. A Parliamentary Research Center and Advisory and Information Services System will be established to provide members with technical support on legislation and strengthen congressional oversight. New technologies will be applied to bolster administrative management, and consulting services will improve the quality and processing of draft legislation through reforms to parliamentary policies, rules and procedures.

Capital Market Development
($1.1 million MIF investment)

This project will support the development of a regulatory and legal framework conducive to capital market development. Training and advisory services will support efforts by small and medium-sized enterprises to obtain more favorable financing terms and access direct investments through diversification of capital ownership.

SURINAME

In 2003, the Bank approved one loan to Suriname. On a cumulative basis, the Bank has made 13 loans totaling $90 million and disbursements have totaled $54 million.

Basic Education Improvement Project
($12.5 million loan from the OC with an IFF interest rate subsidy)

This program will revise and strengthen the structure and curriculum of basic education, as well as renovate school facilities. The aim is to improve educational quality and promotion rates as well as reduce dropout and repetition rates. Primary and junior secondary schools will be consolidated into a single 10-year year primary cycle, with new student attainment standards, an upgraded tracking system, and revised texts and teaching materials. Some 70 primary and junior secondary school buildings will be renovated. To improve school management, the operation will implement a professional development program for principals, establish 25 multi-purpose teaching resource centers, and create special funds that foster innovative initiatives at the school and community levels. Consulting services and equipment will back ministry-level institutional reforms and support installation of a management information system to aid educational planning and administration.

TRINIDAD AND TOBAGO

In 2003, the Bank approved two loans to Trinidad and Tobago. On a cumulative basis, the Bank has made 35 loans totaling $1,056 million and disbursements have totaled $772 million.

Public Sector Reform Strategy
($5 million loan from the OC)

This program will provide technical assistance, training and equipment to support the initial design and implementation of a long-term public sector reform strategy. The goal is to improve public service delivery, rationalize expenditures, improve transparency, and remove structural rigidities that hinder effectiveness. Strategies will be developed to restructure public management and spending and to optimize human resources, the legal framework, and accountability and delivery mechanisms. To ensure that reforms address key political, social and institutional concerns, the program will finance studies to identify policy options, develop consensus-building and communications strategies, and establish a panel of experts to oversee the reform process. Installation of information management systems and training of human resources will prepare institutions such as the Central Statistical Office, the Ministry of Public Administration and Information and the Tobago House of Assembly to implement the reform process.

Trade Sector Support Program
($5 million loan from the OC)

This program will improve the country's international trade performance by strengthening institutional capacity to design and implement trade policies and agreements, participate effectively in trade negotiations, and increase and diversify exports. Resources will be used to acquire and install trade data information systems and to hire consultants to prepare studies on priorities such as dispute settlement and the domestic implications of trade measures. Training of trade agency staff will examine key issues in the context of different negotiating fora, including the Free Trade Area of the Americas and the World Trade Organization. Technical assistance will focus on developing strategic management plans and identifying and accessing funding sources to support the technological transformation of industries, labor market adjustment needs, and sectors affected by trade liberalization.

URUGUAY

In 2003, the Bank approved two loans to Uruguay. On a cumulative basis, the Bank has made 119 loans totaling $3,676 million and disbursements have totaled $3,177 million.

Strengthening the Banking System
($200 million loan from the OC)

Since the onset of Uruguay's financial crisis in 2002, the government has undertaken a series of reforms to stabilize bank liquidity and solvency and rebuild depositor confidence. This policy-based loan will be disbursed in tranches based on implementation of reforms to strengthen bank regulation and supervision, and on compliance with macroeconomic policy guidelines. The program will support legislation that gives the Central Bank added regulatory control over failing banks, and implementation of prudential regulation based on international standards for risk concentration, classification and management, loss provisioning, minimum capital rules, liquidity requirements, supervision and transparency. Structural and procedural reforms of the Superintendency of Financial Institutions will strengthen its oversight capacity, particularly the caliber of its routine bank inspections.

Municipal Development and Management Program
($60 million loan from the OC)

This program will finance economic and social projects in the 18 departments outside of Montevideo and support reforms to improve the quality and efficiency of local services. Based on priorities set forth in departmental investment and action plans, projects will include neighborhood improvements, upgrades to roads, utilities and sanitation services, environmental recovery operations, and local economic development. An estimated 95,000 households will benefit from the investments. To support decentralization, the program will provide financial incentives, technical support and training to improve fiscal and tax management by local governments, as well as reforms to make the formula used to distribute funds to departments more equitable. Departmental cadastres and taxpayer master files will be developed, and procedures and systems implemented to improve departmental procurement, asset and land management, and service delivery.

VENEZUELA

In 2003, no new loans were approved to Venezuela. On a cumulative basis, the Bank has made 76 loans totaling $3,993 million and disbursements have totaled $3,621 million.

Although no new loans were approved during the year, the Bank continued its dialogue with the government aimed at developing projects for infrastructure, the social sector and institutional reform. An $800,000 loan from the Bank's Project Preparation and Execution Facility was approved to help prepare the Basic Education Improvement and Extension Project, provisionally scheduled for presentation to the Board of Executive Directors during 2004.

During the year, the Multilateral Investment Fund approved a grant to analyze the feasibility of establishing a supply chain and network of small and medium-sized enterprises. Other important initiatives in the Bank's pipeline include interrelated projects for sustainable management of the Caroni River Watershed and partial financing for the Tocoma hydroelectric project.

REGIONAL

In 2003, the Bank approved one technical cooperation operation and ten MIF financings at the regional level. On a cumulative basis, the Bank has made 60 loans totaling $2,833 million and disbursements have totaled $2,370 million.

Support for the FTAA Administrative Secretariat
($3 million grant from the FSO with cofinancing from the Organization of American States and the UN Economic Commission for Latin America and the Caribbean)

This grant will provide administrative and logistical support for ongoing negotiations of an agreement for a Free Trade Area of the Americas. As a member of the Tripartite Commission with the OAS and ECLAC, the IDB has provided technical assistance to the negotiation process since 1995. This operation will support translation, document, interpretation and conference services during what is scheduled to be the final FTAA negotiating round from 2003-2005 in Puebla, Mexico. In addition to strengthening the Bank's role in facilitating regional economic integration, IDB support for the FTAA ensures the transparency of the deliberations and enables the 34 participating countries to dedicate their own often limited financial and human resources to the substance of the negotiating process.

Technological Innovation in Mesoamerica
($10.2 million MIF investment and $180,000 MIF grant)

This project marks the first step in what is envisaged as two independent but parallel funds directed toward promoting technical innovation—a $20 million technology venture capital fund for Central America and the Andean countries, with a $10 million first closing; and a $30 million technology venture capital fund for Mexico, with a $20 million first closing. The grant funding will provide for training on environmental compliance issues and for periodic evaluations by the MIF.

Central American Competitiveness Program
($5 million MIF grant)

The goal of this regional program is to improve the international competitiveness of small and medium-sized enterprises by strengthening business alliances. Key to that process is the creation of a strategic partnership with the Central American Institute for Business Administration (INCAE). The partnership will support a range of projects in specific economic sectors identified as having high growth potential.

Solidus Fund for Microfinance Institutions
($4 million MIF investment)

A specialized investment fund established through this project will promote the sustainable development of Latin American microfinance institutions that provide financial services to small businesses, using efficient commercial principles. The Solidus Fund has been created to extend long-term mezzanine financing and loans to help microfinance institutions with capitalization, including the process of attracting private sector investment.

Emergency Liquidity Facility for Micro Recovery during Shocks and Emergencies
($3.5 million MIF investment)

The emergency facility established through this investment will provide short-term loans to microfinance institutions that face liquidity problems during emergencies such as economic crises or natural disasters. To qualify for facility financing, the lending institutions will be required to meet strict criteria for solvency ratios, management, governance and transparency. The facility also will provide technical support to help microfinance institutions strengthen their administrative, management and planning capacity.

Competitiveness of Central American Coffees
($3 million MIF grant)

This program will enhance the competitiveness of the Central American coffee sector by supporting development of improved quality control measures. A region-wide quality management system will be put in place to upgrade coffee quality and to improve access to markets that recognize quality. Alternative market mechanisms for high quality Central American coffees will be consolidated and promoted. The project also will help producers target new markets, as well as establish relationships and partnerships with exporters and roasters.

Sustainable Tourism Certification System
($3 million MIF grant)

The goal of this project is to increase the competitiveness and market access of small and medium-sized enterprises (SMEs) working in sustainable eco-tourism. The project will help SMEs, non-governmental organizations and other industry stakeholders strengthen and promote internationally accredited private sector certification systems. Certification raises the profile and increases the international recognition and credibility of entities that have it. The project also will help implement best management practices that facilitate participation of SMEs in credible certification initiatives.

Market Access and Integration through Technical Standards
($2.8 million MIF grant)

This project will strengthen the competitiveness of small and medium-sized enterprises by promoting their involvement in industry-wide efforts to harmonize technical standards. These national and regional standardization efforts aim to facilitate the trade of goods and services and promote regional, hemispheric and global integration.

Improving MERCOSUR Access to Export Markets
($2.5 million MIF grant)

This project will promote the competitiveness of small and medium-sized enterprises through their participation in regional, national and sector standardization processes. The aim is to facilitate the exchange of goods and services and the integration of markets in a regional, hemispheric and global context. The project will help MERCOSUR countries improve access to their export markets by simplifying and harmonizing technical standards in competitive sectors within each country.

Promoting Social Responsibility
($1.1 million MIF grant)

This program will assist businesses in implementing corporate social responsibility (CSR) policies and practices as a way to become more competitive. CSR issues to be examined include the purpose and value of the business, how it treats its workforce, how it relates to the marketplace, whether it is environmentally conscious, its role in the community, and its human rights policies and practices. A further objective is to develop the capacity of local CSR service providers to encourage companies to adopt CSR measures and to help those firms implement those measures.

Strengthening Payment Systems
($1 million MIF grant)

The aim of this project is to strengthen payment systems in Central America and the Dominican Republic as a step toward creating the environment to standardize and develop a regional payment system. The specific objective is to define a set of standards for the region to be adopted as the regional norm.

TECHNICAL COOPERATION

In 2003, the Bank approved 327 technical cooperation projects for a total of $63.6 million. Of these, 281 were national technical cooperations amounting to $51.7 million, while 46 were regional technical cooperations amounting to $11.9 million.

The technical cooperation program provides important support for implementation of the Bank's Institutional Strategy. Its activities concentrate on transferring knowledge and sharing experiences in all four areas included in the strategy.

For *social sector reform*, 181 projects were approved for a total of almost $30.9 million. The sectors in which these projects will be carried out include rural development, corporate social responsibility, youth, violence prevention and protection of vulnerable groups, urban development, environmental protection, and education.

For *modernization of the state*, the Bank approved 70 operations for a total of $14.4 million, including projects to (i) carry out comparative studies reviewing state reform processes in Argentina, Brazil, Chile and Uruguay; (ii) support financial and fiscal reforms; (iii) support civil society in monitoring an action plan from the 2001 Summit of the Americas to strengthen representative democracy, promote good governance and protect human rights; (iv) support municipal development; and (v) promote the Sustainable Development Initiative of the Puebla-Panama Plan and strengthen environmental management at the subregional level.

In the area of *competitiveness*, 69 projects were approved totaling $13.1 million. These operations primarily will finance services and training for microenterprises and the creation of a macroeconomic and financial framework to foster private sector activities and foreign trade. Also approved was an initiative to implement a modern animal and horticultural sanitation system in the MERCOSUR countries in order to address food safety issues, particularly the prevention of hoof-and-mouth disease.

In *regional integration*, seven operations totaling $5.2 million were approved, including several financings to support the final and decisive stage of the negotiations regarding the Free Trade Area of the Americas (FTAA).

At the subregional level, the Bank approved operations to assist integration processes vis-à-vis regional trade negotiations and to assess alternatives for fostering competitiveness in each of the four subregions of Latin America and the Caribbean. For CARICOM, financing will strengthen negotiating capabilities involved in bilateral, regional and multilateral trade agreements. In the case of the Andean Community, an operation was approved to review strategies for the production of hydrocarbons. A program for Central America aims to disseminate better practices on international taxation matters.

TABLE VII NONREIMBURSABLE AND CONTINGENT-RECOVERY TECHNICAL COOPERATION[1]

(In thousands of U.S. dollars)

Country	2003	1961–03
Argentina	$ 216	$ 68,588
Bahamas	67	18,081
Barbados	133	21,007
Belize	446	6,975
Bolivia	4,089	78,317
Brazil	766	158,852
Chile	206	13,362
Colombia	3,371	57,995
Costa Rica	3,645	46,493
Dominican Republic	1,378	53,576
Ecuador	1,261	64,718
El Salvador	2,305	52,118
Guatemala	2,196	54,250
Guyana	1,977	51,987
Haiti	1,119	51,293
Honduras	3,905	62,087
Jamaica	1,269	37,600
Mexico	2,446	24,256
Nicaragua	3,204	73,259
Panama	1,191	35,296
Paraguay	2,034	60,915
Peru	2,213	84,217
Suriname	1,609	25,080
Trinidad and Tobago	175	19,649
Uruguay	399	31,567
Venezuela	38	11,992
Regional	21,931	687,304
TOTAL	**$63,591**	**$1,950,836**

[1] Does not include Social Entrepreneurship Program financings.

For further information, see
http://www.iadb.org/goto.cfm?rtc

Several Regional Policy Dialogues were financed and carried out with technical cooperation funds in 2003. They addressed seven critical issues: trade and integration; management and transparency; poverty and social safety nets; education and human resource training; natural disasters; central banks and finance ministries; and the environment.

COFINANCING

The persistent scarcity of local counterpart funds during the year affected overall lending levels as well as the speed at which development projects could be implemented. In such an environment, cofinancing is particularly important as a source of funding.

Prospects for project cofinancing are enhanced by the Bank's policy that recognizes third-party grants and concessionary loans as eligible counterpart equivalents. Moreover, to assist member countries in transparently administering external counterpart contributions and to alleviate local counterpart constraints, the Bank created a Local Counterpart Fund for donors. During its first year of operation, this mechanism mitigated the counterpart needs of one of the poorest countries in the region, and its role in steering bilateral resources for high-priority projects is expected to increase in the near future.

Cofinancing of IDB projects rose to $1.32 billion in 2003, an encouraging response to the Bank's renewed efforts in this area and an increase of one-third over the $991 million secured in 2002. The 2003 total amounts to approximately 20 percent of the Bank's total lending of $6.8 billion for the year. Of total cofinancing, eight bilateral agencies contributed $253 million and eight multilateral organizations provided $1.07 billion. The World Bank participated in five IDB projects for a total of $1.02 billion. Also approved were 16 cofinancing grants (called COFABs) administered by the Bank, for a total amount of $2.6 million. These included five grants from the private sector to help finance specific events and activities such as conferences, seminars and publications related to microenterprise, corporate social responsibility and alleviating urban poverty.

Throughout the year, the Cofinancing Division promoted strategic partnerships between the Bank and donor institutions, emphasizing the advantages for borrowers of partnerships with the Bank, donors and beneficiary countries. A number of coordination meetings—including 12 at IDB headquarters and others in East Asia, Latin America and Europe—reinforced the Bank's working relationship with bilateral and multilateral partners. Discussions in all events focused on improving project execution, institutional arrangements, social equity and development effectiveness.

In addition, a World Bank/IDB workshop helped establish a new cofinancing modality that entails joint project design, the use of a single executing agency, the adoption of a common set of sector policies, and pragmatic solutions to procurement eligibility stemming from differences in membership between the World Bank and the IDB.

A special mission during the year to European countries and institutions explored initiatives for private sector cofinancing, public/private partnerships and the reestablishment of cofinancing relationships with the European Investment Bank (EIB) and the International Fund for Agricultural Development (IFAD). Carried out in close coordination with the Bank's Special Office in Europe, the mission also included discussions with various bilateral donor institutions on future development strategies, priorities and policies, as well as on regional initiatives in Central and South America such as the Puebla-Panama Plan and the South American Regional Infrastructure Initiative.

Following up on the strategy outlined in the Memorandum of Understanding signed in 2002 between the Bank and the European Commission (EC), discussions took place at EC headquarters to explore cooperation opportunities in the areas of social equity, poverty reduction, regional integration, consolidation of democracy, administrative decentralization, regional and country strategies, and overcoming obstacles to joint cooperation. Exploratory coopera-

For further information, see
http://www.iadb.org/goto.cfm?cofinance

TABLE VIII COFINANCING IN 2003

(In millions of U.S. dollars)

Cofinancier	Recipient country	Project	IDB financing[1]	Cofinanced amount
European Commission	Bolivia	Santa Cruz-Puerto Suárez Corridor	$ 75.00	$ 41.00
Financial Fund for the Development of the River Plate Basin (FONPLATA)	Uruguay	Cattle Development Program	7.70	0.31
Japan Bank for International Cooperation (JBIC)	Mexico	Multisectoral Credit Program	300.00	250.00
Nordic Development Fund (NDF)	Honduras	Pro Bosque Program	20.00	7.00
United Nations Population Fund (UNFPA)	Guatemala	Public and Housing Census	25.00	0.20
U.S. Agency for International Development (USAID)	Guatemala	Public and Housing Census	25.00	0.20
World Bank	Colombia	Health and Social Security Reform Program	400.00	300.00
	Mexico	Consolidation of Financial System	300.00	505.06
	Peru	Competitiveness Reform Program	300.00	150.00
	Peru	Trade Policy Development Program	5.00	20.00
	Peru	Urban Transport in Lima	45.00	45.00
TOTAL			**$ 1,477.70**	**$1,318.77**

[1] This list represents those projects for which cofinancing was approved in 2003 by the cofinanciers, although IDB approvals may have been in previous years.

tion discussions also took place with USAID, UNDP, ECLAC and the European Investment Fund (EIF).

In February 2003, the Bank's Board of Governors approved the "International Trade Finance Reactivation Program for the Private Sector" for a two-year period to address liquidity shortfalls affecting the region. The first operation under this new mandate, undertaken jointly with the International Finance Corporation for Banco Bradesco S.A. in Brazil, successfully attracted 16 commercial lenders under the B-loan program.

The Bank's Private Sector Guarantee Program continued its growth with the approval of two operations, each involving the support of a co-guarantor. The Bank teamed up with Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) of the Netherlands to provide a $20 million partial credit guarantee supporting a $50 million bond issued by Graña y Montero, a Peruvian construction company. The Bank also teamed up with Ambac Assurance Corporation to provide a full wrap for a bond issuance in the local Chilean market for the Costanera Norte toll-road project equal to approximately $421 million.

FUNDS IN ADMINISTRATION

During 2003, the Bank administered 52 trust funds, for technical cooperation activities. This number includes the Fund for Agricultural Technology (FONTAGRO); five trust funds for microenterprise development; ten independent funds established by Austria, Canada, Japan, Korea, Spain, the United States and Venezuela; the Global Environment Facility; and 34 funds of the Program for Development of Technical Cooperation among Member Countries of the Bank (TC/Funds Program).

The TC/Funds Program was established to expand the range of expertise available for Bank projects through short- and medium-term consultancies and training. Since 1991, 47 funds have been established under the TC/Funds umbrella, with total contributions of $199.1 million, as well as five agreements in-kind for the provision of services.

TABLE IX **FUNDS IN ADMINISTRATION**

Name	Date Established	Entrusted by	Currency	Contributions[1] (US$ millions equivalent)	Sector Concentration or Purpose
Social Progress Trust Fund	1961	United States	USD	525	Agriculture, sanitation, education, social
Canadian Fund	1964	Canada	CAD	47.2	Physical infrastructure and other sectors
Venezuelan Trust Fund	1975	Venezuela	USD VBO	400 100	Integration, natural resources, industry, exports
Norwegian Development Fund for Latin America	1987	Norway	USD	2.0	Low-income groups, health, education, agriculture, small-scale industry
Japan Special Fund	1988	Japan	JPY	205.6	Technical assistance, small projects, emergency assistance
Spanish Quincentennial Fund	1990	Spain	EUR	83.8	Technical education, agriculture, health, communications, urban development
Belgian Trust Fund for Consultants	1991	Belgium	EUR	3.1	Technical assistance for the preparation of projects
IDB Graduate Scholarship Program	1991	Japan	JPY	23.7	Scholarship for advanced studies
Special Fund for Small Projects in Latin America	1991	European Commission	EUR	9.9	Small projects and technical cooperation
Austrian Technical Cooperation Trust Fund	1992	Austria	USD	0.6	Preparation, execution and supervision of projects
Israeli Consultant Trust Fund (Bank of Israel)	1992	Israel	USD	0.7	Preparation and appraisal of economic and social development projects
Italian Consulting Firms and Specialized Institutions	1992	Italy	USD	11.0	Sector studies and special programs
Italian Individual Consultant Trust Fund	1992	Italy	USD	4.8	Short-term consultancy for development projects
Norwegian Fund for Women in Development	1993	Norway	USD	8.0	Technical assistance, studies, training and seminars under the Women in Development Program
Norwegian Technical Cooperation Trust Fund for Consulting Services	1994	Norway	USD	7.7	Prefeasibility and feasibility studies in infrastructure, environment, health and education
Spanish Fund for Consultants (ICEX)	1994	Spain	EUR	13.8	All sectors, preferably in agroindustry and industrial restructuring
Swiss Consultants Fund	1994	Switzerland	USD	5.2	Activities sponsored by the Bank and the Bolívar Program
United Kingdom Fund for Consulting Services	1994	United Kingdom	GBP	0.8	All sectors of activities, particularly for project assessment and technical support studies
Japanese Trust Fund for Consultancy Services	1995	Japan	JPY	27.9	All sectors of activities for project preparation and implementation
USTDA-IDB Evergreen Fund for Technical Assistance	1995	United States	USD	5.6	All sectors, preferably in support of infrastructure and industrial projects
European Special Fund for Technical Assistance in Latin America	1997	European Union	EUR	3.9	Improve preparation of projects, transfer of technology and development of human resources
European Special Fund for Microenterprise	1997	European Commission	EUR	15.9	Small projects and technical assistance
Finnish Technical Cooperation Trust Fund for Consulting Services	1997	Finland	USD	2.0	Project identification, preparation and implementation, training, sector studies
French Technical Cooperation for Consultancy and Training Activities	1997	France	EUR	19.3	Consultancy services and training activities in all sectors sponsored by the Bank
Norwegian Fund for Innovation in Social Programs	1997	Norway	USD	5.6	Technical cooperation for social sector programs in the poorest countries of IDB Region 2
Indigenous Peoples' Fund	1998	Regional	USD	12.1	Endowment fund for assistance to indigenous peoples
Norwegian Fund for Microenterprise Development	1998	Norway	USD	1.6	Technical cooperation for microenterprise projects in the poorest countries

Name	Date Established	Entrusted by	Currency	Contributions[1] (US$ millions equivalent)	Sector Concentration or Purpose
Portuguese Technical Cooperation Fund	1998	Portugal	EUR	1.2	Technical assistance, scholarships and training
Regional Fund for Agricultural Technology (FONTAGRO)	1998	Regional	USD	33.2	Endowment fund for assistance in agricultural projects
Swedish Trust Fund for Governance, State Reform and Civil Society	1998	Sweden	USD	1.1	Financing of projects for modernization of the State and civil society
Danish Consultant Fund	1999	Denmark	USD	3.7	Prefeasibility and feasibility studies in infrastructure, environment, health and education
United Kingdom Capacity Building Fund for Local Institutions inCentral America	1999	United Kingdom	USD	3.1	Capacity building of local institutions in Central America
IDB Disaster Assistance and Reconstruction Fund	1999	Austria	USD	4.1	Disaster assistance and reconstruction of countries affected by Hurricane Mitch
Italian Trust Fund for MIF Project Preparation	2000	Italy	USD	2.4	Support for the preparation of MIF projects
Swedish Framework-Sida IDB Partnership Program	2000	Sweden	USD	2.2	Social sectors of the poorest countries in Central America affected by Hurricane Mitch
U.S. Department of Energy-Hemispheric Sustainable Energy Fund	2000	United States	USD	1.3	Support clean energy technology projects in all energy-consuming sectors
Partnership Program in Environment	2000	The Netherlands	USD	5.0	Support environmental projects
The Netherlands Framework-Program for Women's Leadership for Good Governance	2000	The Netherlands	USD	0.7	Support women’s leadership in civic and public life
Korean Trust Fund	2000	Korea	USD	0.8	Assistance to Central American countries and social projects in Colombia
Global Environment Facility Trust Fund	2000	GEF/World Bank	USD	1.9	Project development facility for the environment
Spanish Framework-General Cooperation Fund	2001	Spain	EUR	44.4	Support projects in modernization of the State and governance, regional integration and competitiveness
Canadian Technical Cooperation Program	2001	Canada	CAD	11.2	Consultancy services in all sectors with emphasis on social reform
Swedish Fund for Small Projects and Technical Assistance for Latin America	2001	Sweden	USD	5.3	Small project financing for low-income groups
Swedish Trust Fund for Consulting Services and Training Activities	2001	Sweden	USD	1.3	Consulting and training in areas of social and economic development
Korean Trust Fund for the Republic of Colombia	2002	Korea	USD	0.6	Assistance for social projects in Colombia
Netherlands Water Management Partnership Program	2002	The Netherlands	USD	2.7	Preparation of projects in water management
Italian Special Trust Fund for the Sustainable Development of the Republic of Argentina	2002	Italy	USD	0.5	Sustainable development for environmental, urban renewal and infrastructure projects in Argentina
Italian Trust Fund for Microenterprise Development	2002	Italy	USD	5.8	Support for microenterprise development projects
IDB-Canada Trade Fund	2003	Canada	CAD	4.7	Preparation of trade projects
Danish Consultants Fund	2003	Denmark	USD	0.6	Projects aimed at poverty reduction
Italian Information and Communication Technology Fund	2003	Italy	USD	3.5	Preparation of information technology projects
Social Inclusion Fund	2003	Norway	USD	1.4	Social inclusion projects

[1] Amounts reflect historical exchange rates.

In 2003, the nonborrowing member countries of the Bank contributed $47.1 million to trust funds. Funds have been established by Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Israel, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

In 2003, five new funds were established: the Italian Information and Communication Technology for Development Fund, established by the Italian Ministry of Foreign Affairs; the multi-donor Fund for Social Inclusion, to which Norway was the first country to commit and contribute; a Danish Trust Fund for Consulting Services established by the Royal Danish Ministry of Foreign Affairs; the Canada Trade Fund established by the Canadian International Development Agency; and the Finnish Technical Assistance Program, established by Finland.

In 2003, resources from the trust funds constituted the largest source of financing for the Bank's nonreimbursable technical cooperation program. Of the total of $63.6 million approved by the Bank's nonreimbursable technical cooperation program, $35.2 million was financed with resources from the trust funds for the financing of 196 technical cooperation operations. In addition to this amount, the trust funds financed nine operations in support of the Bank through other trust fund grants for $1.5 million.

Japanese Funds

Since its establishment in 1988, the Japan Special Fund (JSF) has acquired major importance in providing untied resources for the Bank's technical cooperation activities. One of the oldest and largest funds administered by the Bank, the JSF approved 13 projects in 2003 totaling $6.8 million, of which 60 percent was directed toward the social sectors. New contributions from Japan to the JSF in 2003 were approximately $1.6 million, raising the aggregate contribution to approximately $205.6 million.

In 2001, the government of Japan set aside $30 million from the JSF for the Poverty Reduction Program (JPO). The program was established for a period of five years (2001-2005) to finance activities related to poverty reduction. During 2003, the JPO approved five projects for $2.8 million.

In 2003, the Japan Program approved 12 technical cooperation projects for a total of $1.6 million. The Japan Program was created in 1999 with funds mainly from the government of Japan to facilitate the transfer of knowledge and the exchange of best practices between Latin America and Asia.

The largest of the Bank's TC Funds, the Japanese Trust Fund for Consultancy Services (JCF), was created in 1995. In 2003, the JCF approved seven projects for $2.5 million. JCF funding is tied, requiring that a minimum of 50 percent of project resources be used for Japanese consultants or consulting firms. Any Bank sectors in which there is recognized Japanese expertise—such as infrastructure and the environment—are eligible for financing. In 2003, Japan contributed approximately $1.8 million to the JCF, bringing cumulative contributions to approximately $27.9 million.

PROCUREMENT

Bank policies mandate that the procurement of goods, works and consulting services for IDB-funded projects comply with principles of economy, efficiency, competition, transparency, equal treatment of all bidders, and due process. Procurement must be carried out following a process of open selection and competition. Above specific thresholds, international competitive bidding must be used. Only firms from IDB member countries may participate in bidding for IDB-financed projects.

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

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

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

In the area of electronic government procurement (e-GP), the Bank has brought its activities in line with those of the other multilateral development banks through the e-GP Working Group, which is preparing a common strategy and joint website. In addition, the Bank has created a series of tools such as a worldwide e-GP information Web Tool Database, an e-GP readiness self-assessment questionnaire, and a Guide to Strategic Planning and Standards. The increased use of on-line instruments in Bank-financed procurement processes already is resulting in significant improvements in efficiency and transparency.

The Bank's Procurement Committee is a management-level interdepartmental group that reviews and oversees procurement policies and procedures. The committee is also responsible for reviewing requests for waivers to competitive bidding requirements and all protests submitted by bidders or potential bidders at any stage of the procurement process. Synopses of decisions rendered by the committee are posted on the Bank's website, at www.iadb.org/ros/prm/Committee.asp

A variety of procurement information, including Specific and General Procurement Notices, is available on the Bank's website, free of charge. As part of the program of outreach to the business community, the Office of External Relations organizes regular seminars for suppliers, contractors and consultants, both in Washington and in many of the Bank's borrowing and non-borrowing member countries.

With a view to increasing the Bank's client focus, two independent firms have been hired to review the Bank's procurement policies, procedures, systems and functions. The review will encompass project procurement as well as corporate procurement.

Disbursement of convertible currencies for the procurement of goods, works and consulting services under investment and sector loans totaled $8.9 billion in 2003. Borrowing member countries received $5.7 billion or 65 percent of the value. Local procurement of goods, works and consulting services for projects in the borrowing countries totaled $3.4 billion, while nonborrowing countries provided a total of $3.1 billion. The accompanying tables (Disbursements for Procurement of Goods and Services by Country of Origin, Tables X, XI, and XII) break out disbursements for all Bank lending, sector loans and investment loans. Where applicable, the tables include a detailed breakdown of local purchases and exports of goods, works and consulting services.

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

(In millions of U.S. dollars)

	1961–02						2003						1961–03					
	Local Purchases		Exports		Total		Local Purchases		Exports		Total		Local Purchases		Exports		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES																		
Argentina	$ 3,551.3	9.4	$ 1,780.8	4.2	$ 5,332.1	6.7	$ 253.0	7.4	$ 177.6	3.2	$ 430.6	4.9	$ 3,804.3	9.2	$ 1,958.4	4.1	$ 5,762.7	6.5
Bahamas	33.7	0.1	91.2	0.2	124.9	0.2	4.1	0.1	0.0	0.0	4.1	0.0	37.8	0.1	91.2	0.2	129.0	0.1
Barbados	77.2	0.2	7.5	0.0	84.7	0.1	12.0	0.4	0.2	0.0	12.2	0.1	89.2	0.2	7.7	0.0	96.9	0.1
Belize	40.2	0.1	30.1	0.1	70.3	0.1	12.2	0.4	0.0	0.0	12.2	0.1	52.4	0.1	30.1	0.1	82.5	0.1
Bolivia	879.3	2.3	101.6	0.2	980.9	1.2	51.1	1.5	85.0	1.6	136.1	1.5	930.4	2.2	186.6	0.4	1,117.0	1.3
Brazil	11,335.1	29.9	4,011.6	9.5	15,346.7	19.2	1,102.1	32.4	1,182.9	21.6	2,285.0	25.7	12,437.2	30.1	5,194.5	10.9	17,631.7	19.8
Chile	2,289.6	6.0	420.4	1.0	2,710.0	3.4	103.4	3.0	192.8	3.5	296.2	3.3	2,393.0	5.9	613.2	1.3	3,006.2	3.4
Colombia	2,081.0	5.5	418.8	1.0	2,499.8	3.1	110.5	3.2	43.4	0.8	153.9	1.7	2,191.5	5.3	462.2	1.0	2,653.7	3.0
Costa Rica	391.9	1.0	259.2	0.6	651.1	0.8	13.0	0.4	15.4	0.3	28.4	0.3	404.9	1.0	274.6	0.6	679.5	0.8
Dominican Republic	499.1	1.3	37.2	0.1	536.3	0.7	38.9	1.1	0.0	0.0	38.9	0.4	538.0	1.3	37.2	0.1	575.2	0.6
Ecuador	1,651.9	4.4	305.5	0.7	1,957.4	2.4	54.8	1.6	83.8	1.6	138.6	1.6	1,706.7	4.1	389.3	0.8	2,096.0	2.4
El Salvador	756.4	2.0	78.5	0.2	834.9	1.0	82.3	2.4	6.4	0.1	88.7	1.0	838.7	2.0	84.9	0.2	923.6	1.0
Guatemala	581.5	1.5	116.7	0.3	698.2	0.9	49.5	1.5	19.4	0.4	68.9	0.8	631.0	1.5	136.1	0.3	767.1	0.9
Guyana	98.2	0.3	2.4	0.0	100.6	0.1	14.3	0.4	0.3	0.0	14.6	0.2	112.5	0.3	2.7	0.0	115.2	0.1
Haiti	252.8	0.7	9.6	0.0	262.4	0.3	0.6	0.0	0.0	0.0	0.6	0.0	253.4	0.6	9.6	0.0	263.0	0.3
Honduras	488.0	1.3	44.8	0.1	532.8	0.7	91.3	2.7	7.9	0.1	99.2	1.2	579.3	1.4	52.7	0.1	632.0	0.7
Jamaica	248.4	0.7	86.9	0.2	335.3	0.4	11.5	0.3	0.8	0.0	12.3	0.1	259.9	0.6	87.7	0.2	347.6	0.4
Mexico	6,457.0	17.0	1,291.1	3.1	7,748.1	9.7	1,008.6	29.7	193.8	3.5	1,202.4	13.5	7,465.6	18.1	1,484.9	3.1	8,950.5	10.1
Nicaragua	416.6	1.1	26.9	0.1	443.5	0.6	45.9	1.3	1.5	0.0	47.4	0.5	462.5	1.1	28.4	0.1	490.9	0.6
Panama	571.6	1.5	108.9	0.3	680.5	0.9	94.2	2.9	3.4	0.1	97.6	1.2	665.8	1.6	112.3	0.2	778.1	0.9
Paraguay	686.7	1.8	122.7	0.3	809.4	1.0	55.9	1.6	39.4	0.7	95.3	1.1	742.6	1.8	162.1	0.3	904.7	1.0
Peru	1,725.5	4.5	189.5	0.5	1,915.0	2.4	92.6	2.7	51.4	0.9	144.0	1.6	1,818.1	4.4	240.9	0.5	2,059.0	2.3
Suriname	0.7	0.0	1.2	0.0	1.9	0.0	1.9	0.1	0.0	0.0	1.9	0.0	2.6	0.0	1.2	0.0	3.8	0.0
Trinidad and Tobago	269.8	0.7	130.2	0.3	400.0	0.5	16.7	0.5	2.6	0.0	19.3	0.2	286.5	0.7	132.8	0.3	419.3	0.5
Uruguay	1,087.4	2.9	232.4	0.6	1,319.8	1.7	47.4	1.4	48.8	0.9	96.2	1.1	1,134.8	2.7	281.2	0.6	1,416.0	1.6
Venezuela	1,487.5	3.8	917.8	2.2	2,405.3	3.0	33.6	1.0	190.8	3.5	224.4	2.5	1,521.1	3.7	1,108.6	2.3	2,629.7	3.0
Total Borrowers	**$37,958.4**	**100.0**	**$10,823.5**	**25.8**	**$48,781.9**	**61.1**	**$3,401.4**	**100.0**	**$2,347.6**	**42.8**	**$5,749.0**	**64.6**	**$41,359.8**	**100.0**	**$13,171.1**	**27.7**	**$54,530.9**	**61.5**
NONBORROWING COUNTRIES																		
Austria			$ 127.6	0.3	$ 127.6	0.2			$ 15.5	0.3	$ 15.5	0.2			$ 143.1	0.3	$ 143.1	0.2
Belgium			268.5	0.6	268.5	0.3			0.0	0.0	0.0	0.0			268.5	0.6	268.5	0.3
Canada			730.5	1.7	730.5	0.9			72.1	1.3	72.1	0.8			802.6	1.7	802.6	0.9
Croatia			4.5	0.0	4.5	0.0			0.5	0.0	0.5	0.0			5.0	0.0	5.0	0.0
Denmark			157.7	0.4	157.7	0.2			15.9	0.4	15.9	0.2			173.6	0.4	173.6	0.2
Finland			121.2	0.3	121.2	0.2			18.2	0.4	18.2	0.2			139.4	0.3	139.4	0.2
France			1,993.5	4.8	1,993.5	2.5			191.9	3.5	191.9	2.2			2,185.4	4.5	2,185.4	2.5
Germany			2,736.9	6.5	2,736.9	3.4			333.8	6.1	333.8	3.8			3,070.7	6.5	3,070.7	3.4
Israel			159.0	0.4	159.0	0.2			37.4	0.7	37.4	0.4			196.4	0.4	196.4	0.2
Italy			2,837.7	6.8	2,837.7	3.5			188.1	3.4	188.1	2.1			3,025.8	6.4	3,025.8	3.4
Japan			2,186.3	5.2	2,186.3	2.7			222.7	4.1	222.7	2.5			2,409.0	5.1	2,409.0	2.7
Netherlands			613.0	1.5	613.0	0.8			50.8	0.9	50.8	0.6			663.8	1.4	663.8	0.7
Norway			53.5	0.1	53.5	0.1			5.0	0.1	5.0	0.1			58.5	0.1	58.5	0.1
Portugal			60.6	0.1	60.6	0.1			15.1	0.3	15.1	0.2			75.7	0.2	75.7	0.1
Slovenia			43.5	0.1	43.5	0.1			1.6	0.0	1.6	0.0			45.1	0.1	45.1	0.1
Spain			1,413.0	3.4	1,413.0	1.7			227.7	4.2	227.7	2.6			1,640.7	3.5	1,640.7	1.7
Sweden			595.4	1.4	595.4	0.7			27.4	0.5	27.4	0.3			622.8	1.3	622.8	0.7
Switzerland			788.9	1.9	788.9	1.0			78.5	1.4	78.5	0.9			867.4	1.8	867.4	1.0
United Kingdom			1,014.0	2.4	1,014.0	1.3			123.1	2.2	123.1	1.4			1,137.1	2.4	1,137.1	1.3
United States			15,265.6	36.3	15,265.6	19.0			1,500.2	27.4	1,500.2	16.9			16,765.8	35.3	16,765.8	18.8
Yugoslavia			14.3	0.0	14.3	0.0			0.0	0.0	0.0	0.0			14.3	0.0	14.3	0.0
Total Nonborrowers			**$31,185.2**	**74.2**	**$31,185.2**	**38.9**			**$3,125.5**	**57.2**	**$3,125.5**	**35.4**			**$34,310.7**	**72.5**	**$34,310.7**	**38.5**
TOTAL	**$37,958.4**	**100.0**	**$42,008.6**	**100.0**	**$79,967.0**	**100.0**	**$3,401.4**	**100.0**	**$5,473.1**	**100.0**	**$8,874.5**	**100.0**	**$41,359.8**	**100.0**	**$47,481.7**	**100.0**	**$88,841.5**	**100.0**

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

(In millions of U.S. dollars)

	1990–02						2003						1990–03					
	Local Purchases		Exports		Total		Local Purchases		Exports[2]		Total		Local Purchases		Exports		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES																		
Argentina	$ 30.0	40.2	$ 917.7	4.5	$ 947.7	4.6			$ 157.8	3.2	$ 157.8	3.2	$ 30.0	40.2	$ 1,075.5	4.2	$ 1,105.5	4.3
Bahamas			6.4	0.0	6.4	0.0									6.4	0.0	6.4	0.0
Barbados			5.5	0.0	5.5	0.0			0.2	0.0	0.2	0.0			5.7	0.0	5.7	0.0
Belize			29.9	0.1	29.9	0.1									29.9	0.1	29.9	0.1
Bolivia			62.7	0.3	62.7	0.3			39.9	0.8	39.9	0.8			102.6	0.4	102.6	0.4
Brazil			2,121.2	10.3	2,121.2	10.3			1,094.7	21.9	1,094.7	21.9			3,215.9	12.6	3,215.9	12.5
Chile			338.7	1.6	338.7	1.6			166.2	3.3	166.2	3.3			504.9	2.0	504.9	2.0
Colombia			273.4	1.3	273.4	1.3			29.8	0.6	29.8	0.6			303.2	1.2	303.2	1.2
Costa Rica			94.0	0.5	94.0	0.5			9.8	0.2	9.8	0.2			103.8	0.4	103.8	0.4
Dominican Republic			0.6	0.0	0.6	0.0									0.6	0.0	0.6	0.0
Ecuador			247.3	1.2	247.3	1.2			83.3	1.7	83.3	1.7			330.6	1.3	330.6	1.3
El Salvador			42.7	0.2	42.7	0.2			2.6	0.1	2.6	0.1			45.3	0.2	45.3	0.2
Guatemala			54.8	0.3	54.8	0.3			4.4	0.1	4.4	0.1			59.2	0.2	59.2	0.2
Guyana			1.7	0.0	1.7	0.0			0.3	0.0	0.3	0.0			2.0	0.0	2.0	0.0
Haiti	14.6	19.5	0.0	0.0	14.6	0.1			0.0	0.0	0.0	0.0	14.6	19.5	0.0	0.0	14.6	0.1
Honduras			13.2	0.1	13.2	0.1			1.6	0.0	1.6	0.0			14.8	0.1	14.8	0.1
Jamaica			3.4	0.0	3.4	0.0			0.3	0.0	0.3	0.0			3.7	0.0	3.7	0.0
Mexico			546.8	2.7	546.8	2.7			187.3	3.7	187.3	3.7			734.1	2.9	734.1	2.9
Nicaragua	0.4	0.5	4.2	0.0	4.6	0.0			0.0	0.0	0.0	0.0	0.4	0.5	4.2	0.0	4.6	0.0
Panama	29.7	39.8	66.0	0.3	95.7	0.5			2.0	0.0	2.0	0.0	29.7	39.8	68.0	0.3	97.7	0.4
Paraguay			76.9	0.4	76.9	0.4			39.0	0.8	39.0	0.8			115.9	0.5	115.9	0.5
Peru			78.5	0.4	78.5	0.4			50.8	1.0	50.8	1.0			129.3	0.5	129.3	0.5
Suriname			1.0	0.0	1.0	0.0									1.0	0.0	1.0	0.0
Trinidad and Tobago			75.8	0.4	75.8	0.4									75.8	0.3	75.8	0.3
Uruguay			192.3	0.9	192.3	0.9			44.5	0.9	44.5	0.9			236.8	0.9	236.8	0.9
Venezuela			718.1	3.5	718.1	3.5			188.0	3.8	188.0	3.8			906.1	3.5	906.1	3.5
Total Borrowers	**$ 74.7**	**100.0**	**$ 5,972.8**	**29.0**	**$ 6,047.5**	**29.4**			**$2,102.5**	**42.1**	**$2,102.5**	**42.1**	**$ 74.7**	**100.0**	**$ 8,075.3**	**31.6**	**$ 8,150.0**	**31.8**
NONBORROWING COUNTRIES																		
Austria			$ 55.5	0.3	$ 55.5	0.3			$ 15.0	0.3	$ 15.0	0.3			$ 70.5	0.3	$ 70.5	0.3
Belgium			176.3	0.9	176.3	0.9			0.0	0.0	0.0	0.0			176.3	0.7	176.3	0.7
Canada			382.9	1.8	382.9	1.8			60.0	1.2	60.0	1.2			442.9	1.6	442.9	1.7
Croatia			2.1	0.0	2.1	0.0			0.5	0.0	0.5	0.0			2.6	0.0	2.6	0.0
Denmark			55.9	0.3	55.9	0.3			15.9	0.3	15.9	0.3			71.8	0.3	71.8	0.3
Finland			70.9	0.3	70.9	0.3			17.9	0.4	17.9	0.4			88.8	0.3	88.8	0.3
France			649.2	3.2	649.2	3.1			182.7	3.6	182.7	3.6			831.9	3.3	831.9	3.2
Germany			1,366.6	6.6	1,366.6	6.6			313.6	6.3	313.6	6.3			1,680.2	6.6	1,680.2	6.6
Israel			50.0	0.2	50.0	0.2			20.4	0.4	20.4	0.4			70.4	0.3	70.4	0.3
Italy			816.7	4.0	816.7	4.0			177.2	3.5	177.2	3.5			993.9	3.9	993.9	3.9
Japan			956.6	4.7	956.6	4.6			214.9	4.3	214.9	4.3			1,171.5	4.6	1,171.5	4.6
Netherlands			415.3	2.0	415.3	2.0			50.3	1.0	50.3	1.0			465.6	1.8	465.6	1.8
Norway			40.2	0.2	40.2	0.2			4.6	0.1	4.6	0.1			44.8	0.2	44.8	0.2
Portugal			15.0	0.1	15.0	0.1			10.9	0.2	10.9	0.2			25.9	0.1	25.9	0.1
Slovenia			5.6	0.0	5.6	0.0			1.6	0.0	1.6	0.0			7.2	0.0	7.2	0.0
Spain			599.1	2.9	599.1	2.9			185.8	3.7	185.8	3.7			784.9	3.1	784.9	3.1
Sweden			219.9	1.1	219.9	1.1			26.7	0.5	26.7	0.5			246.6	1.0	246.6	1.0
Switzerland			263.9	1.3	263.9	1.3			74.8	1.5	74.8	1.5			338.7	1.3	338.7	1.3
United Kingdom			402.4	2.0	402.4	2.0			108.2	2.2	108.2	2.2			510.6	2.0	510.6	2.0
United States			8,036.9	39.1	8,036.9	38.9			1,423.1	28.4	1,423.1	28.4			9,460.0	37.0	9,460.0	36.8
Yugoslavia			0.8	0.0	0.8	0.0									0.8	0.0	0.8	0.0
Total Nonborrowers	**$ 0.0**	**0.0**	**$14,581.8**	**71.0**	**$14,581.8**	**70.6**			**$2,904.1**	**57.9**	**$2,904.1**	**57.9**	**$ 0.0**	**0.0**	**$17,485.9**	**68.4**	**$17,485.9**	**68.2**
TOTAL	**$74.7**	**100.0**	**$20,554.5**	**100.0**	**$20,629.2**	**100.0**			**$5,006.6**	**100.0**	**$5,006.6**	**100.0**	**$ 74.7**	**100.0**	**$25,561.1**	**100.0**	**$25,635.8**	**100.0**

[1] Sector lending began in 1990.

[2] Since 1998, the information in this table has reflected adjustment loan disbursements to each borrower as pro rata shares of that borrower's eligible imports from supplying countries, using the latest available import data drawn from United Nations trade statistics.

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

(In millions of U.S. dollars)

	1961–02						2003						1961–03					
	Local Purchases		Exports		Total		Local Purchases		Exports		Total		Local Purchases		Exports		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES																		
Argentina	$ 3,521.3	9.3	$ 863.1	4.0	$ 4,384.4	7.4	$ 253.0	7.4	$ 19.8	4.2	$ 272.8	7.1	$ 3,774.3	9.1	$ 882.9	4.0	$ 4,657.2	7.4
Bahamas	33.7	0.1	84.8	0.4	118.5	0.2	4.1	0.1			4.1	0.1	37.8	0.1	84.8	0.4	122.6	0.2
Barbados	77.2	0.2	2.0	0.0	79.2	0.1	12.0	0.4			12.0	0.3	89.2	0.2	2.0	0.0	91.2	0.1
Belize	40.2	0.1	0.2	0.0	40.4	0.1	12.2	0.4			12.2	0.3	52.4	0.1	0.2	0.0	52.6	0.1
Bolivia	879.3	2.3	38.9	0.2	918.2	1.5	51.1	1.5	45.1	9.7	96.2	2.5	930.4	2.3	84.0	0.4	1,014.4	1.6
Brazil	11,335.1	29.9	1,890.4	8.8	13,225.5	22.3	1,102.1	32.4	88.2	18.9	1,190.3	30.8	12,437.2	30.1	1,978.6	9.0	14,415.8	22.8
Chile	2,289.6	6.0	81.7	0.4	2,371.3	4.0	103.4	3.0	26.6	5.7	130.0	3.4	2,393.0	5.8	108.3	0.5	2,501.3	4.0
Colombia	2,081.0	5.5	145.4	0.7	2,226.4	3.8	110.5	3.2	13.6	2.9	124.1	3.2	2,191.5	5.3	159.0	0.7	2,350.5	3.7
Costa Rica	391.9	1.0	165.2	0.8	557.1	0.9	13.0	0.4	5.6	1.2	18.6	0.5	404.9	1.0	170.8	0.8	575.7	0.9
Dominican Republic	499.1	1.3	36.6	0.2	535.7	0.9	38.9	1.1	0.0	0.0	38.9	1.0	538.0	1.3	36.6	0.2	574.6	0.9
Ecuador	1,651.9	4.4	58.2	0.3	1,710.1	2.9	54.8	1.6	0.5	0.1	55.3	1.4	1,706.7	4.1	58.7	0.3	1,765.4	2.8
El Salvador	756.4	2.0	35.8	0.2	792.2	1.3	82.3	2.4	3.8	0.8	86.1	2.2	838.7	2.0	39.6	0.2	878.3	1.4
Guatemala	581.5	1.5	61.9	0.3	643.4	1.1	49.5	1.5	15.0	3.2	64.5	1.7	631.0	1.5	76.9	0.4	707.9	1.1
Guyana	98.2	0.3	0.7	0.0	98.9	0.2	14.3	0.4		0.0	14.3	0.4	112.5	0.3	0.7	0.0	113.2	0.2
Haiti	238.2	0.6	9.6	0.0	247.8	0.4	0.6	0.0		0.0	0.6	0.0	238.8	0.6	9.6	0.0	248.4	0.4
Honduras	488.0	1.3	31.6	0.1	519.6	0.9	91.3	2.7	6.3	1.4	97.6	2.5	579.3	1.4	37.9	0.2	617.2	1.0
Jamaica	248.4	0.7	83.5	0.4	331.9	0.6	11.5	0.3	0.5	0.1	12.0	0.3	259.9	0.6	84.0	0.4	343.9	0.5
Mexico	6,457.0	17.0	744.3	3.5	7,201.3	12.1	1,008.6	29.8	6.5	1.4	1,015.1	26.2	7,465.6	18.2	750.8	3.4	8,216.4	13.0
Nicaragua	416.2	1.1	22.7	0.1	438.9	0.7	45.9	1.3	1.5	0.3	47.4	1.2	462.1	1.1	24.2	0.1	486.3	0.8
Panama	541.9	1.4	42.9	0.2	584.8	1.0	94.2	2.8	1.4	0.3	95.6	2.5	636.1	1.5	44.3	0.2	680.4	1.1
Paraguay	686.7	1.8	45.8	0.2	732.5	1.2	55.9	1.6	0.4	0.1	56.3	1.5	742.6	1.8	46.2	0.2	788.8	1.2
Peru	1,725.5	4.7	111.0	0.5	1,836.5	3.1	92.6	2.7	0.6	0.1	93.2	2.4	1,818.1	4.5	111.6	0.5	1,929.7	3.1
Suriname	0.7	0.0	0.2	0.0	0.9	0.0	1.9	0.1		0.0	1.9	0.0	2.6	0.0	0.2	0.0	2.8	0.0
Trinidad and Tobago	269.8	0.7	54.4	0.3	324.2	0.5	16.7	0.5	2.6	0.6	19.3	0.6	286.5	0.7	57.0	0.3	343.5	0.5
Uruguay	1,087.4	2.9	40.1	0.2	1,127.5	1.9	47.4	1.4	4.3	0.9	51.7	1.4	1,134.8	2.7	44.4	0.2	1,179.2	1.9
Venezuela	1,487.5	3.9	199.7	0.9	1,687.2	2.8	33.6	1.0	2.8	0.6	36.4	0.9	1,521.1	3.7	202.5	0.9	1,723.6	2.7
Total Borrowers	**$37,883.7**	**100.0**	**$ 4,850.7**	**22.7**	**$42,734.4**	**71.9**	**$3,401.4**	**100.0**	**$245.1**	**52.5**	**$3,646.5**	**94.4**	**$41,285.1**	**100.0**	**$ 5,095.8**	**23.3**	**$46,380.9**	**73.4**
NONBORROWING COUNTRIES																		
Austria			$ 72.1	0.3	$ 72.1	0.1			$ 0.5	0.1	$ 0.5	0.0			$ 72.6	0.3	$ 72.6	0.1
Belgium			92.2	0.4	92.2	0.2									92.2	0.4	92.2	0.1
Canada			347.6	1.6	347.6	0.6			12.1	2.6	12.1	0.3			359.7	1.6	359.7	0.6
Croatia			2.4	0.0	2.4	0.0									2.4	0.0	2.4	0.0
Denmark			101.8	0.5	101.8	0.2									101.8	0.5	101.8	0.2
Finland			50.3	0.2	50.3	0.1			0.3	0.1	0.3	0.0			50.6	0.2	50.6	0.1
France			1,344.3	6.3	1,344.3	2.3			9.2	2.0	9.2	0.2			1,353.5	6.2	1,353.5	2.1
Germany			1,370.3	6.4	1,370.3	2.3			20.2	4.3	20.2	0.5			1,390.5	6.3	1,390.5	2.2
Israel			109.0	0.5	109.0	0.2			17.0	3.6	17.0	0.4			126.0	0.6	126.0	0.2
Italy			2,021.0	9.4	2,021.0	3.4			10.9	2.3	10.9	0.3			2,031.9	9.3	2,031.9	3.2
Japan			1,229.7	5.6	1,229.7	2.1			7.8	1.7	7.8	0.2			1,237.5	5.6	1,237.5	2.0
Netherlands			197.7	0.9	197.7	0.3			0.5	0.1	0.5	0.0			198.2	0.9	198.2	0.3
Norway			13.3	0.1	13.3	0.0			0.4	0.1	0.4	0.0			13.7	0.1	13.7	0.0
Portugal			45.6	0.2	45.6	0.1			4.2	0.9	4.2	0.1			49.8	0.2	49.8	0.1
Slovenia			37.9	0.2	37.9	0.1									37.9	0.2	37.9	0.1
Spain			813.9	3.8	813.9	1.4			41.9	9.0	41.9	1.1			855.8	3.9	855.8	1.4
Sweden			375.5	1.8	375.5	0.6			0.7	0.2	0.7	0.0			376.2	1.7	376.2	0.6
Switzerland			525.0	2.4	525.0	0.9			3.7	0.8	3.7	0.1			528.7	2.4	528.7	0.8
United Kingdom			611.6	2.9	611.6	1.0			14.9	3.2	14.9	0.4			626.5	2.9	626.5	1.0
United States			7,228.7	33.7	7,228.7	12.2			77.1	16.5	77.1	2.0			7,305.8	33.3	7,305.8	11.5
Yugoslavia			13.5	0.1	13.5	0.0									13.5	0.1	13.5	0.0
Total Nonborrowers	**$ 0.0**	**0.0**	**$16,603.4**	**77.3**	**$16,603.4**	**28.1**			**$221.4**	**47.5**	**$ 221.4**	**5.6**	**$ 0.0**	**0.0**	**$16,824.8**	**76.7**	**$16,824.8**	**26.6**
TOTAL	**$37,883.7**	**100.0**	**$21,454.1**	**100.0**	**$59,337.8**	**100.0**	**$3,401.4**	**100.0**	**$466.5**	**100.0**	**$3,867.9**	**100.0**	**$41,285.1**	**100.0**	**$21,920.6**	**100.0**	**$63,205.7**	**100.0**

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2003

Ordinary Capital

COUNTRY	PROJECT	LOAN NUMBER	AMOUNT (Millions of US$)
ARGENTINA	Emergency Social Protection Program	1452/OC-AR	1,500.0
	Social Protection for the Poor (Phase II)	1517/OC-AR	400.0
	Modernization of Production in Río Negro Province	1463/OC-AR	11.5
		1464/OC-AR	40.4
	Tourism Sector Development in Salta Province	1465/OC-AR	34.1
BRAZIL	Downtown São Paulo Renewal Program	1479/OC-BR	100.4
	Ceará Sanitation Program	1502/OC-BR	100.0
	Banco Bradesco Trade Finance Facility	1457/OC-BR[1]	50.0
	Bandeirante Investment Program	1505/OC-BR[2]	38.9
	Novatrans Energia Transmission Project	1485/OC-BR[3]	30.0
	Social Inclusion through Culture Project	1486/OC-BR	20.0
CHILE	Costanera Norte Toll Road Project	1471/OC-CH	75.0
	Rural Electrification Program	1475/OC-CH	40.0
	Tourism Development in Chiloé and Palena	1507/OC-CH	10.5
	Public Safety Program	1495/OC-CH	10.0
	Antofagasta Desalination Plant	1514/OC-CH[4]	7.0
COLOMBIA	Social Emergency Program	1455/OC-CO	1,250.0
	Health Care and Social Security Reform	1480/OC-CO	400.0
	Urban Social Housing Program	1483/OC-CO	150.0
	Strengthening the Attorney General's Office	1459/OC-CO	14.0
COSTA RICA	Health Sector Development	1451/OC-CR	6.4
DOMINICAN REPUBLIC	Development of Competitive Advantages	1474/OC-DR	9.4
	Strengthening Banking System Supervision and Regulation	1498/OC-DR	6.0
	Institution Building for Information Technology	1494/OC-DR	5.4
	Pension Reform Program	1453/OC-DR	5.0
	Strengthening Foreign Trade Management	1511/OC-DR	5.0
ECUADOR	Social Reform Program	1466/OC-EC[5]	200.0
	Local Roads Program	1518/OC-EC	30.0
	Foreign Trade Management Program	1524/OC-EC	2.9
EL SALVADOR	Improved Competitiveness Program	1492/OC-ES[5]	100.0
GUATEMALA	Rural Water Investment Program	1469/OC-GU[5]	50.0
	Guatemala-Mexico Electricity Interconnection Project	1470/OC-GU	37.5
	Strengthening Nationwide Censuses and the National Statistics Institute	1450/OC-GU	25.0
JAMAICA	Oceanic Digital Jamaica	1513/OC-JA	30.0

[1] Complemented by a "B" loan syndication up to $60 million.
[2] Complemented by a "B" loan syndication up to $61.1 million.
[3] Complemented by a "B" loan syndication up to $36 million.
[4] Complemented by a "B" loan syndication up to $13.9 million.
[5] Interest rate partially subsidized by the Intermediate Financing Facility.

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2003 (CONTINUED)

Ordinary Capital

COUNTRY	PROJECT	LOAN NUMBER	AMOUNT (Millions of US$)
MEXICO	Consolidation of Rural Financial Sectors	1484/OC-ME	300.0
	Comprehensive Community Education Program (Phase I)	1456/OC-ME	210.0
PANAMA	Puebla-Panama Plan Pacific Corridor Improvements	1468/OC-PN	37.0
	Urban Revitalization and Poverty Reduction in Colón	1476/OC-PN	8.5
	Municipal Development and Decentralization	1522/OC-PN	7.8
PARAGUAY	Social Protection Program	1520/OC-PR	30.0
	Preschool and Early Education	1467/OC-PR	23.4
	Cadastre and Property Registry Program	1448/OC-PR	9.0
PERU	Competitiveness Reform Program	1503/OC-PE	300.0
	Camisea Project	1472/OC-PE[6]	75.0
	Housing Sector Program (Phase I)	1461/OC-PE	60.0
	Metropolitan Lima Transportation Program	1501/OC-PE	45.0
	Red Vial 5 Toll Road	1477/OC-PE	18.0
	Graña y Montero Bond Guarantee	1460/OC-PE	10.0
	Tax and Customs Integration and Modernization	1482/OC-PE	8.9
	Institutional Strengthening of the Peruvian Congress	1458/OC-PE	7.0
SURINAME	Basic Education Improvement Project	1521/OC-SU[5]	12.5
TRINIDAD AND TOBAGO	Public Sector Reform Strategy	1523/OC-TT	5.0
	Trade Sector Support Program	1454/OC-TT	5.0
URUGUAY	Strengthening the Banking System	1496/OC-UR	200.0
	Municipal Development and Management Program	1489/OC-UR	60.0

[5] Interest rate partially subsidized by the Intermediate Financing Facility.
[6] Complemented by a "B" loan syndication up to $60 million.

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2003 (CONTINUED)

Fund for Special Operations

COUNTRY	PROJECT	LOAN NUMBER	AMOUNT (Millions of US$)
BOLIVIA	Strengthening Productivity and Competitiveness	1519/SF-BO	87.0
	Fiscal Sustainability Program	1127/SF-BO	63.0
		1128/SF-BO	2.0
	Education Reform Program (Second Stage)	1126/SF-BO	36.0
	Land Regularization and Legal Cadastre Program	1512/SF-BO	22.0
	Rural Productive Development	1515/SF-BO	13.5
GUYANA	Social Statistics and Policy Analysis	1516/SF-GY	3.5
HAITI	Rehabilitation of Basic Economic Infrastructure	1493/SF-HA	70.0
	Local Development Program	1491/SF-HA	65.0
	Agricultural Intensification Program	1490/SF-HA	41.9
	Public Finance Reform	1499/SF-HA	25.0
HONDURAS	Poverty Reduction and Local Development Program (Phase II)	1478/SF-HO	35.0
	Sula Valley Public Safety and Social Services Project	1123/SF-HO	20.0
	Sustainable Forest Development Program	1506/SF-HO	17.5
	Strengthening Business Competitiveness and Foreign Trade Management	1125/SF-HO	10.0
NICARAGUA	Global Multisector Credit Program	1122/SF-NI	30.0
	Modernization of the State and Fiscal Reform	1497/SF-NI	25.0
	Improvement of Plant and Animal Health and Forest Services	1500/SF-NI	7.3

INSTITUTIONAL ASPECTS

Microenterprise project in San Pedro, Guatemala.

EVALUATION AND INTERNAL AUDIT

Meeting development challenges, especially those mandated by the Bank's Governors and reflected in the Millennium Development Goals, requires a coordinated drive to produce results in close partnership with key stakeholders, as well as transparent and objective assessments of development performance. Evaluation is an indispensable tool for asking difficult but necessary questions and for assessing what works and why. The renewed emphasis on development effectiveness in turn raises additional challenges for the Bank's evaluation system and its stakeholders to improve the "evaluability" and effectiveness of Bank-financed programs in order to ensure transparency and accountability.

As part of its multi-year work plan, the Office of Evaluation and Oversight (OVE) has undertaken a broad range of activities grouped under the six themes of its mandate: oversight, country programming, project monitoring in execution, strategy evaluation, policy and instrument evaluations, and evaluation capacity building.

A major change in the monitoring and evaluation framework adopted by the Bank in 2002 is the shift towards outcomes. Traditionally, monitoring and evaluation has focused on assessing inputs and implementation processes and has been project- or program-based. OVE has helped restructure the evaluation framework through the findings and recommendations made in the oversight studies listed below. These reviews focused on: (i) the effectiveness and efficiency of the Bank's monitoring and evaluation system; (ii) the evaluability of projects-at-entry, including the clarity of project goals, the relevance and strategic context of interventions, and the building of solid performance indicators at the onset; and (iii) the capacity to measure outputs associated with projects during implementation, outcomes at project completion and actual project impacts.

Management is in the process of implementing the 12 recommendations presented in the 2001 report entitled "Oversight Review of the IDB's Project Monitoring Review: Mid-Term Evaluation and the Project Completion Report." The design of the Project Performance Monitoring Review (PPMR) system has been revamped to capture the inputs of mid-term evaluations and report on financial issues. Likewise, new Project Completion Report (PCR) guidelines and an on-line template are being developed, each designed to assess both Bank and borrower performance, the project's contribution to institutional development, and the long-term sustainability of project benefits.

In coordination with management, OVE undertook a review during the year of all projects sent through management's Loan Committee and on to the Board of Executive Directors for approval during 2001. This evaluability report presented a detailed methodology to assess projects along eight dimensions. OVE recommended that management consider adapting this methodology to its own internal project review process. OVE will conduct a second evaluability assessment exercise for projects sent to the board in 2004.

Several of OVE's country program evaluations revealed concerns about the quality of project supervision, and the relationship between supervision and the ability of a project to achieve its developmental

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objectives. OVE conducted an oversight study on this subject that was sent to the board in 2003.

In February 2002, management proposed revising the guidelines for Country Papers (since renamed "Country Strategies") to improve the linkage between country programming and development effectiveness. As part of this process, OVE is working to produce country program evaluations on the same timetable as country strategies. In order to fit the new strategy guidelines, country program evaluations are to be carried out for each borrowing member country prior to each general election. During 2003, OVE developed, and the board approved, a protocol for the conduct of country program evaluations. During 2001-2003, nine country program evaluations were released to the Board of Executive Directors. In 2003, the board considered evaluations of the Bank's program in Nicaragua, Haiti, the Bahamas, Colombia and Costa Rica. Summaries of these evaluations are posted on OVE's website (www.iadb.org/cont/evo/ovedocs.htm). When the country involved agrees, the full text of the evaluation may also be posted.

One of the recommendations of the Institutional Strategy was to rationalize sector strategies and policies. The main components of this structure should be sector strategies, policies and operational guidelines. Pursuant to this guidance, management has developed a work program for the review of sector strategies in key areas. This work is the responsibility of the Bank's Sustainable Development Department, which has built evaluation criteria into the design of appropriate strategies.

Policies are explicit guidance for IDB action aimed at defining the space within which Bank actions are possible. Whereas strategies define approaches and priorities, policies define limits to action. Policies are always explicit and subject to approval by the board. An important subset of policies is the one defining distinct instruments available to support development in the region.

In 2002 and 2003, OVE produced policy and instrument evaluations dealing with the public utilities policy as applied to water and sanitation, the Emergency Reconstruction Facility, the policy related to information technology and development, and the natural disasters policy. In addition, OVE responded to a request from the board to provide a summary of its several evaluations on Bank Group instruments in support of the private sector. These included evaluation of Private Sector Department projects, Bank activities related to small and medium-sized enterprise, and the evaluation results obtained from contract evaluation work performed for both the MIF and the IIC.

As part of its capacity-building work, OVE subscribed to collaborative agreements with the Evaluation Offices of the Caribbean Development Bank, the Central American Bank for Economic Integration and the University of the West Indies (UWI). The purpose of these agreements was twofold: to conduct evaluations of projects funded with IDB resources and to provide the opportunity for joint evaluations by teams of evaluators from UWI as well as evaluation professionals from the funding and beneficiary institutions.

OVE's partnership with Brazil's Institute for Applied Economics Research (IPEA) in implementing a regional technical cooperation program to strengthen evaluation capacity produced three comparative studies on the use of evaluation as a tool for public sector administration in Argentina, Brazil, Chile, Colombia and Costa Rica. These reports, along with links to relevant national Internet sites, are published on the website of the Inter-American Roundtable on Evaluation and Performance Measurement (www.iadb.org/roundtable).

In the field of auditing, under the direction of newly appointed Auditor General Elizabeth Folsom, the Office of the Auditor General (AUG) launched initiatives to address corporate governance, enterprise-wide risk planning, and control and self-assessment and related frameworks. AUG also conducted Bank-wide seminars and training on issues related to fraud, corruption and ethics.

During 2003, AUG continued to coordinate all internal audits with the IDB's external auditors to provide maximum audit coverage of Bank activities. At headquarters, the office continued to monitor and review the selection, implementation and upgrade of significant computer applications, including the web-enabled version of PeopleSoft (the Human Resources Information System); the new Budget and Financial Management System, which replaced the prior system for budgeting, general ledger, accounts payable, purchasing, Country Office accounting, and project accounting; the replacement of the Bank's Investment Management System; enhancements to the Loan Management System, which is the system for the Bank's lending guarantee and technical cooperation programs; the Borrowing Management System, focusing on the cost of borrowings enhancement; and the migration to SWIFT NET.

AUG also reviewed test plans and improvements to the Bank's business continuity plan and disaster recovery plan for mission-critical Bank functions and computer systems; continued monitoring the deployment of Windows 2000 Bank-wide; and reviewed the Remote Access Strategy and Windows 2000 Security for the servers in the Private Sector Department. In addition, AUG reviewed the Bank's new Loan Loss Provisioning Policy. The office completed reviews of administrative and personnel policies and procedures, payroll processing, the contracting of consulting services and corporate procurement, and it is continuing a review of the Bank's trust fund activities. AUG has also undertaken a review of the Portfolio Management Unit of the Private Sector Department.

In the Regional Operations Departments and Country Offices, the Auditor General's Office focused on the Management Oversight System as well as all key operational control features in Country Offices pertaining to project supervision, procurement, disbursement, reporting and resource management. In addition to its ongoing audit of Country Office operations, and as required by the Budget, Financial Policies and Audit Committee of the board, the office assessed the status of compliance with management's action plan for implementation of AUG's recommendations on procurement and disbursement provisions. AUG continued reviewing the effectiveness of key control features for highly decentralized projects; the adequacy and timeliness of Bank supervision; the responsibilities of external auditors and consultants regarding projects; and the adequacy of existing reporting requirements. In addition, the office worked on developing the Bank's investigative procedures and supported reviews by Regional Operations Departments of certain executing agencies to strengthen their transparency and overall control environment. AUG also continued reviewing the involvement of national audit institutions in auditing Bank-financed projects.

Finally, AUG continued to perform inquiries and investigations, including those referred to the office from the Ethics Committee and from the Oversight Committee on Fraud and Corruption.

COUNTRY OFFICES

The Country Offices in 2003 played a major role in intensifying the Bank's dialogue with national authorities and executing agencies on portfolio issues. The difficult macroeconomic and fiscal environment in many countries of the region led the Bank and its borrowers to rethink priorities to maximize the use of limited financial and human resources, and to be more proactive in portfolio management and supervision. A number of actions were undertaken to restructure or reformulate existing portfolios (for example, the restructuring of the social portfolio in Argentina and reactivation of the portfolio in Haiti), or to cancel nonperforming operations to free up resources for other priorities.

Country Offices also assisted borrowers and executing agencies by organizing project start-up workshops to review operational procedures, Bank policies and project-specific logical frameworks; through administrative missions to help resolve project bottlenecks or to work with borrowers in refining key performance indicators to measure project results; and via mid-term evaluations and follow-up measures to support mid-course corrections for projects. Project exit workshops served to jointly review operational lessons learned, sustainability issues and development effectiveness.

Country Offices also provided or facilitated ongoing training to borrowers in procurement, the logical framework, financial management/controls to enhance transparency, and monitoring and evaluation. Resources from the C and D Country Training Program and the Project Preparation and Execution Facility (PROPEF) were both instrumental in this regard. Other types of support were provided to borrowers through videoconferencing, e-meetings or the provision of specialized software.

To address many of the institutional weaknesses in the countries, including high staff turnover in executing agencies and project implementation units, some Country Offices undertook innovative approaches to improve project execution.

In Guyana, for example, the Country Office rationalized resources by establishing a Work Services Group that replaced a series of donor project execution units. In agreement with the government, the Country Office also began a pilot program to introduce performance-based contracts for unit directors involved in project execution.

In Paraguay, the Country Office prepared guidelines for the hiring of national consultants and distributed them to national authorities, executing agencies and other international organizations that participate in Bank-financed projects. This has resulted in more transparent and competitive contracting processes, a reduction in the cost of professional services, and in contracts tied to the presentation of outputs.

The Country Office in the Dominican Republic inaugurated a new website for executing agencies in an effort to promote dialogue with clients. Key events and experiences are featured, along with standardized procedures to support borrowers during project execution.

NONREGIONAL OFFICES

Special Office in Europe

The Special Office in Europe (SOE) works to strengthen relations and cooperation between the Bank and the IDB's regional and 17 nonregional member countries (16 European countries and Israel), the European Union, and international organizations based in Europe (OECD, WTO, UNCTAD, UNESCO, UNIDO and the Paris Club). The key elements of its mission are to promote a greater awareness of the IDB's mandate, increase the Bank's visibility and the impact of its efforts to strengthen cooperation with Europe, and create activities to encourage the exchange of information and the generation of informed opinions in diverse European fora interested in Latin America and the Caribbean.

During the first part of 2003, SOE's activities were geared toward preparation and follow-up for the IDB Annual Meeting, held in March in Milan, Italy. Within the framework of a Memorandum of Understanding with the European Commission (EC), SOE helped organize a seminar on social cohesion in Latin America held in June in Brussels, Belgium. The seminar was chaired by IDB President Enrique V. Iglesias and EC Commissioner Chris Patten, with participation of ministers from Brazil, Chile, Ecuador, Nicaragua and Peru. In conjunction with the Andean Community, SOE helped to sponsor a seminar in Lima to promote dialogue with civil society on integration and trade negotiations. Together with French and Brazilian governments, SOE collaborated with the MERCOSUR Chair of the Institute of Political Studies (Paris) in organizing two workshops and a final conference held in September of the Working Group on EU-MERCOSUR negotiations.

SOE helped organize the first "Latin American Competition Forum" in Paris aimed at enhancing the role of competition in Latin American economies. On that occasion, the Bank and the OECD signed a Joint Statement of Priorities for cooperation between the two organizations.

The newly established Euro-Latin Study Network on Integration and Trade (ELSNIT) started its activities during 2003, with the participation of close to 100 leading European research centers. The aim of the network is to promote policy-oriented research on regional integration and international trade issues relevant to Latin America. A conference organized jointly with the Integration and Regional

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Operations Department and the Centre d'Études Prospectives et d'Informations Internationales (CEPII) was held in Washington to discuss the economic implications of the WTO Doha Development Agenda Round on Latin America and the Caribbean.

With the collaboration of Canning House and the European Commission, SOE helped organize a London seminar to examine the issue of security and citizenship. Additional seminars were held in cooperation with the Sorbonne University (Paris) to carry out a comparative institutional analysis of Europe and Latin America, and in cooperation with the Italian organization Active Citizenship to analyze corporate social responsibility and the representativeness of civil society organizations.

SOE has promoted the Bank's ICT-related activities with European governments and leading international organizations based in Europe through its participation in such events as the World Summit on Information Society (WSIS), held in Geneva. The office organized seminars on business opportunities and IDB procurement procedures in Barcelona, Lisbon, Ljubljana, London, Rome, Tel Aviv and Vienna.

Office in Japan

The principal objectives of the Office in Japan are to (i) inform the Japanese public about the social and economic situation in Latin America and the Caribbean and about business opportunities generated by Bank-financed operations in the region; (ii) promote trade and investment opportunities in the region; and (iii) foster an exchange of best practices and experiences in different development fields between Japan and East Asia and the Bank's borrowing member countries.

In coordination with the Bank's Inter-American Institute for Social Development (INDES) and the Japan Program, the Office in Japan organized workshops in Tokyo and in Saitama Prefecture entitled "Women's Participation in Social Development: Lessons from Asia and Latin America and the Caribbean." The workshop brought together researchers and practitioners from East Asia (Japan, Indonesia, Philippines, South Korea, Thailand and Vietnam) and Latin America and the Caribbean (Argentina, Brazil, Chile, Colombia, Peru, Suriname and Trinidad and Tobago), as well as from the Asian Development Bank and the IDB.

In the area of promotion of trade and investment for Latin American countries, the office sponsored seminars on the occasion of the visit to Japan of the President of Chile and Minister of Foreign Affairs of Argentina.

The office held a public outreach seminar in Tokyo on investment opportunities stemming from the Puebla-Panama Plan, the Initiative for Integration of Regional Infrastructure in South America, and the Mundo Maya sustainable tourism development program.

In conjunction with the Bank's Private Sector Department, the MIF and the IIC, the office conducted two business information seminars and several working sessions to inform interested Japanese commercial banks, investment groups and consulting firms on business opportunities created by Bank-financed operations in the region and on the Bank's policy for the procurement of goods and services.

Together with the Asian Development Bank Institute, the office organized seminars of the Latin America/Caribbean and Asia/Pacific Economics and Business Association. The first and second seminars, held in Osaka and Tokyo, respectively, addressed economic integration, while the third seminar, also in Tokyo, examined the implications for Japan and East Asia of the FTAA.

The office was instrumental in setting up an IDB-JBIC Coordination Meeting in Tokyo to discuss development policies, operational strategies, and regional initiatives of common interest to the two development organizations. A second meeting helped define areas of possible cooperation between the IDB and the Japan International Cooperation Agency (JICA) in terms of technical assistance for Latin American countries.

The office coordinated a visit to Japan of a selected group of eleven Latin American students

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TABLE XIII CONSOLIDATED ADMINISTRATIVE EXPENSES

(In thousands of U.S. dollars)

Category	2001 Actual	2002 Actual	2003 Actual
Board of Governors	$ 2,885.0	$ 3,232.4	$ 3,247.6
Board of Executive Directors	14,918.1	15,598.8	15,745.0
Office of Evaluation and Oversight	4,581.5	4,730.5	5,036.5
Headquarters and Country Offices	305,159.1	338,559.5	348,446.3
Total before Reimbursement[1,2,3]	**327,543.8**	**362,121.2**	**372,475.5**
Reimbursement from Funds in Administration and IIC	(2,333.9)	(1,885.4)	(2,671.3)
Total Administrative	325,209.9	360,235.8	369,804.2
Capital	20,206.2	26,059.9	17,607.4
TOTAL ADMINISTRATIVE AND CAPITAL	**$345,416.1**	**$386,295.7**	**$387,411.7**

[1] Excludes depreciation amounting to $15.3 million in 2001, $9.6 million in 2002 and $11.1 million in 2003.

[2] Net of certain income items in the amount of $11.6 million, $11.8 million, and $9.2 million in 2001, 2002 and 2003, respectively.

[3] Includes prepaid pension costs amounting to $7.8 million and $9.8 million in 2002 and 2003 respectively.

whose graduate studies were financed by the Japan-IDB Scholarship Program. The office also held seminars in universities in Tokyo, Yokohama and Tsukuba on the social and economic situation of the region and the role of the IDB.

ADMINISTRATION

The Bank continues to pursue efficiency in the administration of its resources at the institutional, operational, financial and administrative levels. In particular, the Bank focused in 2003 on increasing its efficiency in day-to-day operations. A working group chaired by the executive vice president initiated a study to streamline operations and increase efficiency in the lending cycle of Bank loans. A separate study initiated by the vice president for planning and administration is a Bank-wide workload analysis designed as input to a zero-budget effort that will be the basis of multiyear budgeting, possibly starting with the 2006 or 2007 budget exercise.

The Board of Executive Directors has mandated that the administration reduce its headcount from 2,010 to 1,910 over 2004-2006. As part of this institutional effort, the Bank will seek to maintain the productivity levels attained during recent years with a reduction of 5 percent of its human capital. To this end, the Bank has also undertaken a more flexible approach to human resources management, making greater use of turnover positions and increasing rotation of personnel both at headquarters and in the Country Offices.

Information technology continues to have a positive impact on day-to-day operations, reducing transactional costs and expediting processing times for routine business functions. In 2003, the Bank upgraded its human resources information database, and as a result, new functionality is being provided to end-users so that information will be more reliable and available to a wider audience. Also in 2003, the Bank initiated deployment to the Country Offices of the new Budget and Financial Management System to expedite financial reporting.

In the area of corporate risk management, the Bank continued to take measures to ensure the safety and security of its personnel by systematically reviewing the emergency procedures in each of the Country Offices. This is an ongoing exercise that has a high priority for day-to-day operations. The Bank has also invested considerable resources in developing a business continuity plan to ensure the institution's ability to continue critical operations in the event of an emergency that would render the headquarters building inoperable. A major milestone in this area was the approval by the Board of Executive Directors of purchase of a business continuity/disaster recovery site situated in Ashburn, Virginia, where the Bank will relocate its data processing center to provide ongoing business operations in the event of an emergency.

The Bank continues to uphold the highest standards of personal and business integrity in all its activities. To better enforce these standards while protecting the rights of employees and contractors, the IDB has created the Office of Institutional Integrity (see Box 6), reporting directly to the President, which will assume all investigative functions related to allegations of fraud and corruption, as well as violations of the Code of Ethics and conduct prohibited by the Staff Rule on Respect in the Workplace.

As part of the implementation of the Bank's Diversity Action Plan, various initiatives were undertaken to enrich the candidate pool for Bank staff. These included visits to universities, recruitment missions, and the identification of potential candidates by each of the Bank's Country Offices. In addition, the Human Resources Department is planning to design special programs targeted to minority ethnic populations and to strengthen efforts to include candidates from less represented countries in the summer and winter intern/employee programs and the research assistance program.

As of December 31, 2003, the Bank had 1,891 staff funded by the administrative budget, excluding the Board of Executive Directors and the Office of Evaluation and Oversight. Headquarters staff numbered 1,351 and Country Office staff 540. Of the total number of employees, 1,394 were professional staff, of whom 531, or 38 percent, were women.

FINANCIAL MATTERS

Textile plant in Pisco, Peru that benefited from an IDB-financed credit program.

HIGHLIGHTS

As of December 31, 2003, all ordinary capital loans were performing except for certain loans to private sector borrowers without sovereign guarantee, which were classified as impaired and were in nonaccrual. Ordinary capital operations generated operating income of $2.4 billion, compared with $728 million in 2002. Operating income increased mainly due to a reduction in the allowance for loan losses and an increase in loan charges approved by the Board of Executive Directors.

In October 2003, the Bank adopted a new capital adequacy policy and associated lending rate methodology to more closely align its risk management methods and procedures with current international banking practices. Under the new policy, the IDB will use the total equity-to-loans ratio (TELR) as a benchmark to measure capital adequacy, as opposed to the reserves-to-loans ratio (RLR) used in the past. The new measure of capital adequacy will take into account the Bank's total "tangible equity," defined as reserves and paid-in capital and the allowance for loan losses, adjusted for local currency cash balances, net receivables from members, prepaid pension benefit costs, and cumulative SFAS 133 impacts.

In addition, due to its strong financial position achieved during more than 40 years of net income accumulation, the Bank has implemented a set of sustainable "standard loan charges" that will enable it to protect and reinforce its strong level of capitalization and offer lower and more stable loan charges to its borrowing members.

For the first semester of 2003, the Bank set its lending spread at 0.5 percent. The inspection and supervision fee and credit commission were each set at 0.5 percent, reflecting partial waivers of 0.5 percent and 0.25 percent, respectively. For the second semester of 2003, the Bank applied the new standard ordinary capital loan charges established by the new capital adequacy policy; that is, a lending spread of

TABLE XIV CAPITAL OF THE BANK

(In thousands of U.S. dollars)[1]

	Subscriptions as of December 31, 2003		
Country	**Paid-in**	**Callable**	**Total**
Argentina	$ 465,118	$10,393,829	$ 10,858,947
Austria	6,900	153,688	160,588
Bahamas	11,533	198,347	209,880
Barbados	5,634	124,253	129,887
Belgium	14,235	316,762	330,997
Belize	7,202	103,516	110,718
Bolivia	37,324	834,355	871,680
Brazil	465,118	10,393,829	10,858,947
Canada	173,677	3,866,209	4,039,887
Chile	127,716	2,853,919	2,981,634
Colombia	127,716	2,853,919	2,981,634
Costa Rica	18,662	417,081	435,743
Croatia	2,087	46,384	48,471
Denmark	7,347	163,435	170,782
Dominican Republic	24,911	556,788	581,699
Ecuador	24,911	556,788	581,699
El Salvador	18,662	417,081	435,743
Finland	6,900	153,688	160,588
France	82,273	1,831,446	1,913,719
Germany	82,273	1,831,446	1,913,719
Guatemala	24,911	556,788	581,699
Guyana	7,793	153,773	161,566
Haiti	18,662	417,081	435,743
Honduras	18,662	417,081	435,743
Israel	6,804	151,541	158,345
Italy	82,273	1,831,446	1,913,719
Jamaica	24,911	556,788	581,699
Japan	217,106	4,833,154	5,050,260
Mexico	298,980	6,681,308	6,980,288
Netherlands	14,633	325,640	340,273
Nicaragua	18,662	417,081	435,743
Norway	7,347	163,435	170,782
Panama	18,662	417,081	435,743
Paraguay	18,662	417,081	435,743
Peru	62,235	1,390,745	1,452,980
Portugal	2,316	51,656	53,972
Slovenia	1,267	28,096	29,362
Spain	82,273	1,831,446	1,913,719
Suriname	5,718	82,852	88,570
Sweden	14,139	314,807	328,946
Switzerland	20,411	454,249	474,660
Trinidad and Tobago	18,662	417,081	435,743
United Kingdom	41,776	929,946	971,722
United States	1,303,020	29,006,704	30,309,724
Uruguay	49,870	1,114,335	1,164,206
Venezuela	249,339	5,568,456	5,817,795
Subtotal	4,339,289	96,596,415	100,935,704
Unallocated	905	14,765	15,670[2]
TOTAL	**$4,340,194**	**$96,611,180**	**$100,951,374**

[1] Data are rounded to the nearest one thousand: detail may not add up to subtotals and totals because of rounding.

[2] Total unallocated amount consists of 1,299 shares (75 paid-in and 1,224 callable) pertaining to the remainder of the former Social Federal Republic of Yugoslavia.

TABLE XV CONTRIBUTION QUOTAS TO THE FUND FOR SPECIAL OPERATIONS[1]

(In thousands of U.S. dollars)

Country	As of December 31, 2003
Argentina	$ 500,216
Austria	20,104
Bahamas	10,497
Barbados	1,786
Belgium	45,893
Belize	7,532
Bolivia	48,428
Brazil	541,487
Canada	306,516
Chile	156,865
Colombia	152,869
Costa Rica	23,247
Croatia	5,848
Denmark	21,401
Dominican Republic	33,744
Ecuador	30,135
El Salvador	21,271
Finland	19,301
France	236,717
Germany	239,579
Guatemala	32,679
Guyana	8,288
Haiti	21,652
Honduras	26,409
Israel	18,793
Italy	224,675
Jamaica	28,627
Japan	622,265
Mexico	327,135
Netherlands	39,540
Nicaragua	24,042
Norway	20,194
Panama	25,239
Paraguay	27,796
Peru	79,358
Portugal	7,664
Slovenia	3,375
Spain	223,104
Suriname	6,243
Sweden	40,259
Switzerland	66,199
Trinidad and Tobago	20,825
United Kingdom	179,151
United States	4,836,305
Uruguay	55,560
Venezuela	313,761
Subtotal	9,702,574
Unallocated	32,543
TOTAL	**$9,735,117**

[1] After exchange adjustments.

0.3 percent, a credit commission of 0.25 percent, and no charge for the inspection and supervision fee.

As a result of changes in management's assessment of the risk of loss on loans outstanding at December 31, 2003, the Bank revised certain estimates and assumptions used to compute the loan loss allowance. The resulting change in estimates caused a reduction of $1.4 billion in the allowance for loan losses which was credited to income.

Up to December 31, 2003, the Bank ensured that substantially all of its borrowing- and loan-related derivatives conformed to SFAS 133 hedge accounting requirements so that it could use hedge accounting to reduce net income volatility, while for management purposes focusing on operating income excluding the effects of SFAS 133. The Bank believes that its hedging strategies do and will serve to achieve its objectives for maintaining financially matched currency and interest rate exposures while achieving low funding costs. However, the application of SFAS 133 hedge qualification criteria to some desirable new transactions would result in different hedged instruments being carried on different bases. Compliance with complicated and resource intensive SFAS 133 hedge accounting cri-

TABLE XVI OUTSTANDING BORROWINGS BY CURRENCY AS OF DECEMBER 31, 2003[1]

(In millions of U.S. dollars)

Currency	Amount
Australian dollars	$ 2,998
British pounds sterling	2,818
Canadian dollars	2,171
Euro	4,904
Hong Kong dollars	560
Hungarian forints	82
Japanese yen	3,729
New Taiwan dollars	486
New Zealand dollars	629
Polish zlotys	40
South African rand	23
Swiss francs	1,862
United States dollars	30,519
Total	**$50,821**

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

TABLE XVII BORROWINGS, FISCAL YEAR 2003[1,7]

(Amounts in millions)

Type	Issue	Amount	Amount (US$equiv.)
Australian dollars	4.20%, due 2006	20	$ 12
	0.50% due 2013[5]	1,000	606
	1.00%, due 2013[5]	300	180
British pounds sterling	0.50%, due 2015[5]	250	403
Canadian dollars	0.50%, due 2015[5]	1,600	1,105
	0.50%, due 2023[5]	300	222
	3.40%, due 2010	400	285
Hungarian forints	6.00%, due 2005	12,000	53
	6.00%, due 2005	5,000	22
New Zealand dollars	0.50%, due 2013[5]	200	109
	0.50%, due 2013[5]	200	110
	0.50%, due 2013[5]	60	34
United States dollars	1.00%, due 2015[5]	200	200
	3.375%, due 2008	2,000	2,000
	2.35%, due 2007	220	220
	1.00%, due 2018[5]	83	83
	1.00%, due 2015[5]	500	500
	1.00%, due 2018[5]	162	162
	0.50%, due 2023[5]	200	200
	LIBOR/fixed, due 2013[2,4]	50	50
	1.00%, due 2018[5]	193	193
	1.00%, due 2018[5]	200	200
	5.01%, due 2023[3]	50	50
	0.50%, due 2014[5]	600	600
	1.00%, due 2018[5]	200	200
	1.00%, due 2018[5]	160	160
	1.00%, due 2018[5]	100	100
	1.00%, due 2015[5]	150	150
	0.50%, due 2023[5]	100	100
	3.50%, due 2013	1,000	1,000
Total borrowings			**$9,309[6]**

[1] Medium- and long-term borrowings at face value before swaps.

[2] LIBOR plus 94 basis points until August 15, 2004, 5.50% thereafter.

[3] The issuer has a single call option.

[4] The issuer has multiple call options.

[5] Deep discount issues.

[6] During the year, a substantial amount of deep discount bonds were issued. Net proceeds for the year amounted to $7,296 million.

[7] This table includes a $200 million issue (1%, due 2015) launched on December 5, 2002 with settlement on January 7, 2003.

teria has imposed constraints on the Bank's borrowing program, and has detracted from its efforts to minimize funding costs. Therefore, effective January 1, 2004, the Bank elected to discontinue hedge accounting, while continuing to measure and report all derivatives at fair value. This will reinforce the need to focus on results of operations exclusive of SFAS 133-induced income volatility that is not reflective of the underlying economics of hedge funding transactions.

The Bank was again rated AAA by the major credit agencies in 2003, as it has been ever since it was first rated.

As of December 31, 2003, the loan portfolio of the Fund for Special Operations (FSO) was fully performing. FSO operations generated net income before technical cooperation expense and HIPC debt relief in an amount of $113.8 million, compared to $81 million in 2002. The increase in FSO income during 2003 was largely due to the release of Haiti from nonaccrual status.

In 2003, the amount of $75.2 million (as compared to $ 70.2 million in 2002) was allocated from the FSO to the Intermediate Financing Facility (IFF), for its standard operations, for the Highly Indebted Poor Countries (HIPC) initiative, and in connection with the agreement on concessional resources approved by the Board of Governors in 1999.

During 2003, the Bank continued its participation in the HIPC initiative by providing debt relief to the four HIPC eligible countries in the region. Through 2003, the Bank has delivered $150.2 million net present value (NPV) in total debt relief to Bolivia, $32.9 million (NPV) to Guyana, $44.3 million (NPV) to Honduras, and $85.8 million (NPV) to Nicaragua. Of the four HIPC eligible countries, Bolivia is the only one that has reached the completion point, which resulted in a $514 million loan write-off from the FSO in 2001. The remaining countries are expected to reach the completion point either in 2004 or 2005.

The audited financial statements of the ordinary capital, the Fund for Special Operations and the Intermediate Financing Facility appear on pages 99 to 149 of this report.

BORROWINGS

In 2003, the Bank issued bonds for a total face amount of $9.3 billion equivalent and net proceeds of

$7.3 billion with an average life of 9.5 years. The funding continued within a strategy of combining a few very large global benchmark bonds in the Bank's core currency with smaller transactions targeted to particular segments of demand. Accordingly, the Bank marketed two U.S. dollar denominated global benchmark bonds—a $2 billion issue with a maturity of five years and a $1 billion issue with a maturity of 10 years. In addition, the Bank diversified its market access by selling bonds in five currencies other than U.S. dollars. The retail market absorbed over half of the Bank's 2003 borrowing program due to the increase in Japanese retail demand for Bank securities. The Bank continues to sell a large portion of its bonds to Asian investors, with over 80 percent placed into that region in 2003 and the remainder split about evenly into the Americas and Europe/Middle East/Africa.

PART II:
FINANCIAL STATEMENTS

ORDINARY CAPITAL

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited the accompanying balance sheet of the Inter-American Development Bank (Bank)—Ordinary Capital as of December 31, 2003 and 2002, and the related statements of income and general reserve, comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Washington, D.C.
February 19, 2004

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in thousands of United States dollars

	December 31,			
	2003		2002	
ASSETS				
Cash and investments				
Cash	$ 347,038		$ 205,858	
Investments				
Trading	11,371,657		11,298,628	
Held-to-maturity	3,607,578	$15,326,273	3,391,282	$14,895,768
Loans outstanding	50,654,815		47,957,857	
Allowance for loan losses	(183,165)	50,471,650	(1,560,885)	46,396,972
Accrued interest and other charges				
On investments	109,035		113,688	
On loans	601,803		694,037	
On swaps, net	188,304	899,142	181,719	989,444
Receivable from members				
Capital subscriptions	2,270		6,191	
Non-negotiable, non-interest bearing demand obligations	422,663		499,506	
Amounts to maintain value of currency holdings	68,092	493,025	244,774	750,471
Currency and interest rate swaps				
Investments—trading	140		18,860	
Borrowings	1,680,486	1,680,626	1,293,803	1,312,663
Other assets				
Property, net	293,690		287,152	
Unamortized borrowing costs	243,248		143,972	
Miscellaneous	261,700	798,638	254,386	685,510
Total assets		$69,669,354		$65,030,828
LIABILITIES AND EQUITY				
Liabilities				
Borrowings				
Short-term	$ 1,569,093		$ 729,434	
Medium- and long-term	48,719,644	$50,288,737	48,129,872	$48,859,306
Currency and interest rate swaps				
Investments—trading	306,077		288,829	
Loans	46,736		64,932	
Borrowings	666,520	1,019,333	613,362	967,123
Payable for investment securities purchased		165,235		—
Amounts payable to maintain value of currency holdings		199,429		32,888
Accrued interest on borrowings		718,997		781,735
Accounts payable and accrued expenses		165,782		121,014
Total liabilities		52,557,513		50,762,066
Equity				
Capital stock				
Subscribed—8,368,379 shares	100,951,374		100,951,374	
Less callable portion	(96,611,180)		(96,611,180)	
	4,340,194		4,340,194	
General reserve	9,622,616		7,217,356	
Special reserve	2,665,500		2,665,500	
Accumulated other comprehensive income	483,531	17,111,841	45,712	14,268,762
Total liabilities and equity		$69,669,354		$65,030,828

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF INCOME AND GENERAL RESERVE

Expressed in thousands of United States dollars

	Years ended December 31, 2003	2002
Income		
Loans		
Interest	**$2,602,359**	$2,615,576
Credit commissions	**59,769**	564
Supervision and inspection and other fees	**48,585**	22,731
	2,710,713	2,638,871
Investments	**298,032**	318,596
Other	**18,732**	27,384
Total income	**3,027,477**	2,984,851
Expenses		
Borrowing expenses		
Interest	**1,577,381**	1,801,147
Amortization of borrowing costs	**49,428**	37,520
Debt repurchase costs	**9,246**	2,694
	1,636,055	1,841,361
Provision (credit) for loan and guarantee losses	**(1,369,707)**	99,884
Administrative expenses	**327,795**	315,972
Total expenses	**594,143**	2,257,217
Operating income	**2,433,334**	727,634
Net loss from hedging activities under SFAS 133	**(874)**	(18,899)
Net income	**2,432,460**	708,735
Allocation to the Fund for Special Operations	**(27,200)**	(27,200)
Addition to general reserve for the year	**2,405,260**	681,535
General reserve, beginning of year	**7,217,356**	6,535,821
General reserve, end of year	**$9,622,616**	$7,217,356

STATEMENT OF COMPREHENSIVE INCOME

Expressed in thousands of United States dollars

	Years ended December 31, 2003	2002
Net income	**$2,432,460**	$ 708,735
Other comprehensive income		
Translation adjustments	**449,246**	372,928
Net loss on cash flow hedges under SFAS 133	**(11,427)**	(38,891)
Total other comprehensive income	**437,819**	334,037
Comprehensive income	**$2,870,279**	$1,042,772

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

Expressed in thousands of United States dollars

	Years ended December 31, 2003	2002
Cash flows from lending and investing activities		
Lending:		
Loan disbursements (net of participations)	**$ (8,415,900)**	$ (5,521,825)
Loan collections (net of participations)	**7,279,284**	4,106,227
Net cash used in lending activities	**(1,136,616)**	(1,415,598)
Net decrease (increase) in trading investments	**469,599**	(2,482,936)
Gross purchases of held-to-maturity investments	**(1,291,345)**	(3,111,823)
Gross proceeds from maturities of held-to-maturity investments	**1,582,409**	3,056,072
Purchase of property	**(23,997)**	(25,328)
Miscellaneous assets and liabilities	**(4,885)**	(21,608)
Net cash used in lending and investing activities	**(404,835)**	(4,001,221)
Cash flows from financing activities		
Medium- and long-term borrowings:		
Gross proceeds	**7,295,140**	8,575,159
Repayments	**(8,937,837)**	(6,058,863)
Short-term borrowings:		
Gross proceeds	**4,623,116**	897,801
Repayments	**(3,794,922)**	(655,814)
Collections of receivables from members	**81,763**	83,415
Net cash (used in) provided by financing activities	**(732,740)**	2,841,698
Cash flows from operating activities		
Loan income collections	**2,876,046**	2,785,447
Interest and other costs of borrowings	**(1,568,064)**	(1,708,692)
Income from investments	**295,766**	309,070
Other income	**10,232**	14,677
Administrative expenses	**(319,873)**	(326,031)
Net cash provided by operating activities	**1,294,107**	1,074,471
Cash allocation to the Fund for Special Operations	**(27,200)**	(27,200)
Effect of exchange rate fluctuations on cash	**11,848**	50,633
Net increase (decrease) in cash	**141,180**	(61,619)
Cash, beginning of year	**205,858**	267,477
Cash, end of year	**$ 347,038**	$ 205,858

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. The principal purpose of the Bank 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 with such operations supplemented by those of the Fund for Special Operations (FSO) and the Intermediate Financing Facility Account (IFF). The FSO was established for the purpose of making loans in the less developed member countries in Latin America and the Caribbean by providing financing on terms which are highly concessional. The IFF's purpose is to subsidize part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital.

Note B – Summary of Significant Accounting Policies

The Bank's financial statements are prepared in conformity with United States generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

New accounting pronouncements

In April 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This standard did not have a material impact on the Bank's financial statements for the year ended December 31, 2003. In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This interpretation clarifies the requirements for a guarantor's accounting for and disclosures of certain guarantees issued and outstanding. The initial recognition and measurement provisions of this interpretation, which require the recognition of a liability for the fair value of a guarantee, are applicable to guarantees issued or modified after December 31, 2002, while the disclosure requirements were effective for the Bank's 2002 financial statements. The Bank adopted the provisions of this interpretation during 2002 and enhanced its guarantee disclosure accordingly. The initial recognition and measurement provisions of the interpretation do not have a material impact on the Bank's financial statements.

Reclassifications

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

Translation of currencies

The Bank's financial statements are expressed in United States dollars; however, the Bank conducts its operations in the currencies of all of its members, which are considered functional currencies. The Bank's resources are derived from capital, borrowings and accumulated earnings in those various currencies. The Bank has a number of general policies aimed at minimizing exchange-rate risk in a multicurrency environment. The Bank generally follows the policy of investing and lending the proceeds of borrowings (after swaps) and paid-in capital in the currencies received. In addition, up to the fourth quarter of 2003, the Bank undertook periodic currency conversions to match more closely the currencies underlying its general and special reserves with those of the outstanding loans. Under a capital adequacy policy approved by the Board of Executive Directors in October 2003, the Bank will now undertake periodic currency conversions to match more closely the currencies underlying its equity and allowance for loan losses with those of the outstanding loans and guarantee exposure.

Assets and liabilities in functional currencies are translated into United States dollars at approximate market exchange rates prevailing at the dates of the financial statements. Net adjustments resulting from the translation of functional currencies derived from borrowings are charged or credited to translation adjustments and are presented as a separate component of other comprehensive income in the Statement of Comprehensive Income. Exchange rate fluctuations do not have any effect on the United States dollar equivalent of currencies from paid-in capital because of the maintenance of value described below. Income and expenses are translated at approximate market exchange rates prevailing during each month.

Valuation of capital stock

The Agreement Establishing the Bank (Agreement) provides that the Ordinary Capital 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, and consequently the General Counsel of the Bank has rendered an opinion that the Special Drawing Right (SDR) has become the successor to the 1959 United States dollar as the standard of value of the Bank's capital stock and for the purpose of maintaining the value of the Bank's currency holdings. The SDR has a value equal to the sum of the values of specific amounts of stated currencies, including the United States dollar. Pending a decision by the Bank's governing boards and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using the 1959 United States dollar, which pursuant to the devaluations of the United States dollar in 1972 and 1973 is equal to approximately 1.2063 current United States dollars, as the basis of valuation. If the 1959 United States dollar were to have been substituted with the SDR on December 31, 2003, the financial position and the results of operations of the Bank would not have been materially affected.

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 held in the Ordinary Capital, 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.

Effective in 2003, 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 to maintain value of currency holdings. Prior to 2003, this amount was presented as a component of cash and investments. Prior year amounts have been reclassified to reflect this change.

General and special reserves

In accordance with resolutions of the Board of Governors, the net income from the Ordinary Capital resources of the Bank is generally added to the general reserve to provide for possible annual excess of expenses over income.

The special reserve consists of loan commissions set aside from the Bank's inception to 1998 pursuant to the Agreement, which are held in investments. These investments may be used only for the purpose of meeting liabilities of the Bank on its borrowings and guarantees in the event of defaults on loans made, participated in, or guaranteed by the Bank.

Investments

Investment securities are classified based on management's intention on the date of purchase. 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 market value, with realized and unrealized gains and losses included in income from investments on the Statement of Income and General Reserve.

Effective in 2003, the net change in trading investments is presented as a component of cash flows from lending and investing activities in the Statement of Cash Flows. Prior to 2003, this amount was included in the Statement of Cash Flows as cash equivalents. Prior year amounts have been reclassified to reflect this change.

Loans

The Bank makes loans to its developing member countries, agencies or political subdivisions of such members or 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 Bank's outstanding loans and guarantees, not including emergency lending, may be made directly to private sector entities without a government guarantee on the basis of market-based pricing and provisioning (Private Sector Program). These financings are subject to a number of restrictions, including a ceiling on financing of the lesser of 25% of the total costs of an individual project or $75 million, although in the case of certain specified countries the Bank may finance up to the lesser of 40% of the total costs of an individual project or $75 million. There is also a ceiling on partial risk guarantees of the lesser of 50% of the total costs of an individual project or $150 million.

Loans representing approximately 45% of the outstanding balances have repayment obligations in various currencies determined on the basis of a currency pooling system (Currency Pooling System). The principal amount of Currency Pooling System loans is repayable, in aggregate, in the currencies lent. Multicurrency loans approved prior to January 1, 1983 and single currency loans are repayable in the specific currencies disbursed.

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are considered immaterial to the financial results of the Bank. Front-end fees on emergency loans are deferred and amortized over the first four years of the loan on a straight-line basis, which approximates the effective interest method.

It is the policy of the Bank to place on nonaccrual status all loans made to or guaranteed by a member of the Bank if principal, interest or other charges with respect to any such loan are overdue by more than 180 days. In addition, if loans made to a member country by the FSO or any fund owned or administered by the Bank are placed on nonaccrual status, all loans made to or guaranteed by that member government will also be

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placed on nonaccrual status by the Bank. On the date a member's loans are placed on nonaccrual status, unpaid interest and other charges accrued on loans outstanding to the member are deducted from the income of the current period. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have actually been received by the Bank. On the date a member pays in full all overdue amounts, the member's loans emerge from nonaccrual status, its eligibility for new loans is restored and all overdue charges (including those from prior years) are recognized as income from loans in the current period.

For Private Sector Program loans, it is the policy of the Bank to place on nonaccrual status loans made to a borrower when interest or other charges are past due by more than 90 days, or earlier when management has doubts about the future collectibility of principal or interest. Income is recorded thereafter on a cash-basis or a combination of cash-basis and cost-recovery methods, until loan service is current and management's doubts about future collectibility cease to exist. If the collectibility risk is considered to be particularly high at the time of arrears clearance, the borrower's loans will not automatically emerge from nonaccrual status.

The Bank does not reschedule public sector loan repayments and has never had a write-off on any of its public sector loans. The Bank reviews the collectibility of loans and guarantees on a continuous basis and records, as an expense, provisions for loan and guarantee losses in accordance with its determination of the collectibility risk of the total loan and guarantees portfolio. Such reviews consider the probabilities of default associated with external credit ratings of each individual borrower, adjusted for the Bank's preferred creditor status, as well as the potential for loss arising from delay in the scheduled loan repayments.

The Bank considers a Private Sector Program loan as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the loan's original contractual terms. Specific allowance for losses on impaired loans are set aside based on management's judgment of the present value of expected future cash flows discounted at the loan's effective interest rate or based on the fair value of the collateral. Income on impaired loans is generally recognized following a combination of cash-basis and cost-recovery methods.

Guarantees

The Bank may make partial guarantees either without a government counter-guarantee under the 10% limit for the Private Sector Program operations mentioned above or for public sector operations with a member government counter-guarantee. To date, the Bank has issued partial guarantees designed to encourage private sector investments and local capital market development. The partial risk guarantees and partial credit guarantees are provided mostly for infrastructure projects and may be offered on a stand-alone basis or in conjunction with a Bank loan. Partial risk guarantees cover specific risk events related to non-commercial factors (e.g. currency convertibility, transferability of currencies outside the host country, government contract frustration) and partial credit guarantees cover payment risks for selected project borrowings or debt issuances. The terms of all guarantees are specifically set in each guarantee agreement and are primarily tied to a project or the terms of debt issuances. On a case-by-case basis, depending upon the risks covered and the nature of each individual project, the Bank may reinsure certain guarantees to reduce its exposure. Guarantee fees, net of reinsurance premiums, are charged and recognized as income over the term of the guarantee.

Guarantees are regarded as outstanding when the borrower incurs the underlying financial obligation and are called when a guaranteed party demands payment under the guarantee. The outstanding amount represents the maximum potential risk if the payments guaranteed for these entities are not made. Guarantee exposure is measured as the future guaranteed cash flows, net of reinsurance, when applicable, discounted to the current period.

Receivable from members

Receivable from members includes non-negotiable, non-interest bearing demand obligations that have been accepted in lieu of the immediate payment of all or any part of a member's subscribed paid-in capital stock.

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 lending and liquidity purposes, the Bank borrows in the international capital markets, offering its securities to private and public investors. The Bank issues medium- and long-term debt instruments denominated in various currencies with both fixed and adjustable interest rates. The Bank also issues short-term discount notes for liquidity management purposes. Borrowings are carried on the Balance Sheet at their par value (face value) adjusted for changes in fair value attributable to the hedged risk, when part of a hedging re-

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lationship (basis adjustment), and for any unamortized premiums or discounts. Basis adjustments on hedged borrowings are recorded in net gain (loss) from hedging activities under SFAS 133 on the Statement of Income and General Reserve. The Bank starts amortizing basis adjustments when the related hedge is terminated. Basis adjustments and premiums or discounts are amortized on a straight-line basis, which approximates the effective interest method. Amortization of premiums and discounts is included in interest under borrowing expenses, on the Statement of Income and General Reserve. Borrowing costs associated with a bond offering are deferred and amortized on a straight-line basis, which approximates the effective interest method, over the period during which the related indebtedness is outstanding. The unamortized balance of the borrowing costs is presented separately under other assets on the Balance Sheet and the amortization of the borrowing costs is presented as a separate element under borrowing expenses on the Statement of Income and General Reserve.

Derivatives

As part of its asset and liability management, the Bank uses derivatives, mostly currency and interest rate swaps, in its investment, loan and borrowing operations. These derivatives modify the interest rate and/or currency characteristics of the respective operation to produce the desired interest and/or currency type.

The Bank complies with the derivative accounting requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, (herein after referred to as SFAS 133). Following SFAS 133, all derivatives are recognized in the Balance Sheet at their fair value and are classified as either assets or liabilities, depending on the nature (debit or credit) of their net fair value amount. On the date the derivative contract is entered into, the Bank designates the derivative as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge) or as held in the trading portfolio (investment derivatives). Changes in the fair value of a derivative that is highly effective, and that is designated and qualifies as a fair-value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk (including gains or losses on firm commitments) are recorded in net gain (loss) from hedging activities under SFAS 133 on the Statement of Income and General Reserve. The effective portion of the changes in fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge is recorded in other comprehensive income, until earnings are affected by the variability of cash flows. The ineffective portion, resulting from excess expected cash flows on the derivative, is recorded in net gain (loss) from hedging activities under SFAS 133 on the Statement of Income and General Reserve. Changes in the market value of investment derivatives are recorded in income from investments. The interest component of derivatives is recorded as an adjustment to investment income, loan income, or borrowing expense, as applicable, on the Statement of Income and General Reserve over the life of the derivative contract.

The Bank occasionally issues debt instruments 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 instrument (i.e., the host contract), excluding the embedded derivative features. If the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, not already marked to market through earnings, and would separately meet the definition of a derivative, then the embedded derivative is separated from the host contract, carried at fair value, and designated as a fair value or cash flow hedge.

Effective January 1, 2004, the Bank discontinued hedge accounting for all its SFAS 133 hedging relationships (See Note H for further discussion).

Administrative expenses

Substantially all administrative expenses of the Bank, including depreciation, are allocated between the Ordinary Capital and the FSO pursuant to an allocation method approved by the Board of Executive Directors. Following this allocation method, during 2003 the effective ratio of administrative expenses charged to the Ordinary Capital was 84.6% and 15.4% to the FSO (2002—83.6% and 16.4%, respectively).

Fair values of financial instruments

The following methods and assumptions were used by the Bank in estimating the fair value for its financial instruments:

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

Investments: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on dealer prices of comparable instruments or discounted cash flows.

Loans: The Bank is one of very few lenders of development loans to Latin American and Caribbean countries. There is no secondary market for development loans. For all loans and related commitments, the Bank is of the opinion that, due to its

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unique position in lending operations and the absence of a secondary market, it is not practicable to estimate a fair value for the Bank's lending portfolio.

Swaps: Fair values for the Bank's interest rate and currency swaps are based on dealer prices or pricing models and represent the estimated cost of replacing these contracts.

Borrowings: The fair values of the Bank's borrowings are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on dealer prices of comparable instruments or discounted cash flows.

Note C – Restricted Currencies

At December 31, 2003, cash includes $124,987,000 (2002—$118,557,000) in non-convertible currencies of regional borrowing members, of which $22,783,000 (2002—$23,356,000) has been restricted by one of the members, in accordance with the provisions of the Agreement, to be used for making payments for goods and services produced in its territory.

Note D – Investments

As part of its overall portfolio management strategy, the Bank invests in government, agency, bank and corporate obligations, time deposits, asset- and mortgage-backed securities, and related derivative instruments, in particular currency and interest rate swaps.

Government and agency obligations: These obligations include unsubordinated and marketable bonds, notes and other obligations issued or unconditionally guaranteed by a government of a country, an agency or instrumentality of a government of a country, a multilateral organization, or any other official entity. The Bank invests only in (i) obligations of or guaranteed by the government of the member country whose currency is being invested, (ii) obligations issued or unconditionally guaranteed by an agency or instrumentality of the government of certain countries or any other official entity, in any currency, with credit quality equivalent to a AA– or better rating (asset- and residential mortgage-backed securities require a credit quality equivalent to a AAA rating), (iii) obligations of multilateral organizations, in any currency, with credit quality equivalent to a AAA rating, and (iv) non-local currency obligations of or guaranteed by certain governments with credit quality equivalent to a AA– or better rating.

Bank obligations and time deposits: These obligations include certificates of deposit, bankers' acceptances, and other obligations issued or unconditionally guaranteed by banks or other financial institutions. The Bank invests in these types of obligations if the entity issuing or guaranteeing them has a senior debt securities rating of at least A+.

Corporate securities: These obligations include publicly issued, unsubordinated and marketable bonds, notes or other debt obligations issued or unconditionally guaranteed by non-bank corporate entities or trusts. The Bank invests only in these types of securities with credit quality equivalent to a AAA rating.

Asset- and mortgage-backed securities: Asset- and mortgage-backed securities include unsubordinated, marketable asset-backed and residential mortgage-backed obligations issued or unconditionally guaranteed by corporate entities or trusts. The cash flow of these instruments is based on the cash flows of the pool of underlying assets managed by a special purpose vehicle, or trust, which provides credit enhancements to ensure higher credit ratings. The Bank invests only in these types of securities with credit quality equivalent to a AAA rating. In addition, the Bank invests in short-term asset-backed securities and short-term asset-backed commercial paper carrying only the highest short-term credit ratings.

Currency swaps: Currency swaps are agreements to exchange cash flows denominated in different currencies at one or more certain times in the future. Cash flows are based on a predetermined exchange rate and a formula, which reflects fixed or floating rates of interest and an exchange of principal.

Interest rate swaps: Interest rate swaps are agreements involving the exchange of periodic interest payments of differing character, based on an underlying notional principal amount for a specified time.

Trading portfolio: A summary of the Bank's position in trading portfolio instruments at December 31, 2003 and 2002 is shown in the Summary Statement of Trading Investments and Swaps in Appendix I-1.

Net unrealized gains (losses) on trading portfolio instruments, held at December 31, 2003, of $5,479,000 (2002—($3,118,000)), were included in income from investments. The average return on trading investments, after swaps, including realized and unrealized gains and losses, during 2003 and 2002 was 1.48% and 1.79%, respectively.

Held-to-maturity portfolio: A summary of the Bank's held-to-maturity portfolio and the portfolio's maturity structure at December 31, 2003 and 2002 are shown in the Summary Statement of Held-to-Maturity Investments in Appendix I-2. The average return on held-to-maturity investments for the years ended December 31, 2003 and 2002 was 3.67% and 3.87%, respectively.

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Note E – Loans and Guarantees Outstanding

Approved loans are disbursed to borrowers in accordance with the requirements of the project being financed; however, disbursements do not begin until the borrower and guarantor, if any, take certain actions and furnish certain documents to the Bank. Of the undisbursed balances, the Bank has entered into irrevocable commitments to disburse approximately $30,368,000 at December 31, 2003.

The average interest rate earned on loans outstanding was 5.29% in 2003 and 5.68% in 2002. The average total return on loans outstanding was 5.51% in 2003 and 5.73% in 2002.

A summary statement of loans is presented in Appendix I-3 and a summary of the Bank's outstanding loans by currency and product type and their maturity structure at December 31, 2003 and 2002 is shown in Appendix I-4.

Single currency loans – With a government guarantee

Adjustable rate loans: The Single Currency Facility (SCF), introduced in 1996, gives borrowers the option to choose to denominate each loan in one of four currencies (United States dollars, Euro, Japanese yen and Swiss francs) or in a combination of such currencies. The interest rate charged on SCF loans for which the LIBOR-based pricing alternative is not selected resets semi-annually to reflect the effective cost during the previous six months of each of the single-currency pools of borrowings allocated to fund such loans, plus a spread which, along with loan fees, is estimated to cover administrative and other costs and to meet desired financial targets.

LIBOR-based loans: The Bank has an emergency lending facility in a revolving aggregate amount of up to $6 billion to address financial emergencies in the region. Loans under this facility are for a term not to exceed five years, with principal repayments beginning after three years, and carry a six-month LIBOR interest rate plus a spread of 400 basis points, a front-end fee of 1% on the total amount of the loan, and a commitment fee of 0.75% per annum on the undisbursed balance. These loans are currently not eligible for the standard fees described below. As of December 31, 2003, the Bank had approved loans amounting to $3,680,000,000 (2002—$500,000,000) under this emergency lending facility with an outstanding balance of $3,670,000,000 (2002—$340,000,000). Outstanding loans under a temporary emergency lending program approved for 1998 and 1999 with essentially the same terms and conditions, amounted to $1,333,601,000 at December 31, 2003 (2002—$5,235,951,000).

During 2003, a LIBOR-based pricing alternative was established for new SCF loans and for SCF loans approved where no disbursements had yet been made. The Bank uses derivatives to mitigate the risks of significant increases in interest rates. The cost of risk mitigation is added to the LIBOR based cost of the pool of borrowings allocated to fund these loans. The lending rate under this alternative resets quarterly and is based on the currency-specific three-month LIBOR plus a pool-based margin reflecting the Bank's sub-LIBOR funding cost and the risk mitigation cost, and the Bank's approved spread. As of December 31, 2003, the Bank had approved loans amounting to $975,794,000 under this pricing alternative, of which $185,489,000 were disbursed and outstanding.

The U.S. Dollar Window Program allows private sector borrowers to enter into loans that are denominated and disbursed only in United States dollars and guaranteed by a government. The amount approved for this program is currently $500,000,000 per calendar year. Borrowers under the U.S. Dollar Window Program have the option of electing either a LIBOR-based fixed or floating-rate loan. For fixed rate loans, the interest rate is fixed for each disbursement, for the life of the loan, at a rate based on a LIBOR funding cost. For floating-rate loans, the interest rate resets every six months based on a LIBOR rate. In either case, the borrower pays the Bank's spread and fees.

Multicurrency loans – With a government guarantee

Fixed rate loans: Prior to January 1, 1983, the interest rate due on all amounts disbursed under each loan was the interest rate prevailing at the time that the loan was approved. In 1982, the Bank established the Currency Pooling System (CPS) to equalize exchange risk among the borrowers in determining their repayment obligations. The interest rate due for CPS loans approved from January 1, 1983 to December 31, 1989 is fixed at the time of each disbursement, for the life of the loan. As of December 31, 2003, all fixed rate CPS loans have been disbursed.

Adjustable rate loans: On January 1, 1990, the Bank mitigated its interest rate risk by moving from fixed rate to adjustable rate lending for all CPS loans made after that date. This 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 a spread which, along with loan fees, is estimated to cover administrative and other costs and to meet desired financial targets. New CPS loans are no longer available to borrowers effective September 17, 2003.

Currency composition: The Bank maintains a targeted currency composition in its CPS. The target ratio is 50% United States dollars, 25% Japanese yen and 25% European currencies (primarily Swiss francs and euro). The composition of the multicurrency loans is affected by the selection of currencies for disbursements on those loans and by the currencies selected for the

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billing of the principal repayments, both of which are managed so as to maintain the alignment of the multicurrency loans' composition with the target ratio.

Average maturity: The selection of currencies by the Bank for billing purposes does not permit the determination of average maturity information for multicurrency loans by individual currency. Accordingly, the Bank discloses in Appendix I-4 the maturity periods for its multicurrency loans and the average maturity for the total multicurrency loan portfolio on a combined United States dollar equivalent basis.

Charges on loans with a government guarantee (excluding emergency lending)

In addition to the interest rate, for loans made under the SCF, the U.S. Dollar Window Program and the CPS, the Bank charges a credit commission of up to 0.75% per annum on the undisbursed convertible currency portion of a loan and a one-time supervision and inspection fee of up to 1% on the principal amount of a loan, which is capitalized into the loan balance in quarterly installments during the disbursement period of the loan. Until the capital adequacy policy was approved during the second semester of 2003, waivers of loan charges and a portion of the lending spread, down to a minimum spread of 0.10%, were granted at the discretion of the Board of Executive Directors when their collection was not needed to meet desired financial targets. The capital adequacy policy with its associated lending rate methodology established standard loan charges at 0.30% lending spread, 0.25% credit commission fee and no supervision and inspection fee, subject to semi-annual approval by the Board of Executive Directors. Under the policy, these loan charges are expected to remain constant, except under extraordinary circumstances. Lending spreads, credit commissions and one-time supervision and inspection fees prevailing during 2003 and 2002 were as follows:

	Lending spread %	Credit commission %	One-time supervision & inspection fee %
2002: First six months	0.10	—	—
Second six months	0.10	—	—
2003: First six months	0.50	0.50	0.50
Second six months	0.30	0.25	—

Single currency loans – Without a government guarantee

The Bank is authorized to lend under the Private Sector Program up to 10% of outstanding loans and guarantees, not including emergency lending, directly to private sector entities without a government guarantee on the basis of market-based pricing and provisioning, subject to a number of restrictions. Disbursements are denominated in United States dollars and borrowers have the option of either a LIBOR-based fixed or floating-rate loan. For fixed-rate loans, the interest rate is fixed upon approval or for each disbursement, for the life of the loan, at a rate based on a LIBOR funding cost plus a credit spread. For floating-rate loans, the interest rate resets every one, three or six months based on a LIBOR rate plus a credit spread. The credit spreads and fees for Private Sector Program loans are set on a case-by-case basis.

As of December 31, 2003, cumulative Private Sector Program loans approved, net of cancellations and participations, amounted to $2,058,987,000 (2002—$1,814,759,000). Outstanding loans, net of participations, under this Program amounted to $1,203,728,000 at December 31, 2003 (2002—$1,254,353,000).

Inter-American Investment Corporation (IIC)

Currently, the Bank has an approved loan to the IIC, an affiliated entity, in the amount of $300,000,000. Disbursements under this loan are to be denominated in United States dollars and carry a LIBOR-based interest rate. There were no amounts outstanding as of December 31, 2003 and 2002.

Loan participations and guarantees

Under the loan contracts with the borrowers, the Bank may sell participations in the loans to commercial banks or other public or private organizations, but it reserves to itself the administration of the loans. As of December 31, 2003, there were $2,097,837,000 (2002—$2,156,068,000) in outstanding participations in Private Sector Program loans not included in the Balance Sheet.

As of December 31, 2003, the Bank had approved, net of cancellations, guarantees without government counter-guarantees in the amount of $696,450,000 (2002—$611,450,000) of which $342,270,000 (2002—$335,420,000) was outstanding and subject to call. As of December 31, 2003, no guarantees provided by the Bank have been called. The net present value of guarantee exposure, net of reinsurance, which is the amount counted towards the Private Sector Program's limit, was $197,200,000 at December 31, 2003 (2002—$193,600,000).

IFF subsidy

The IFF was established in 1983 by the Board of Governors of the Bank for the purpose of subsidizing part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital resources of the Bank. In addition, under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative,

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which is a concerted, international initiative for addressing the debt problems of a group of countries identified as heavily indebted poor countries in which the Bank is participating, the IFF will subsidize 100% of certain principal and interest payments on Ordinary Capital loans. During 2003, the IFF paid $62,629,000 (2002—$68,917,000) of interest and $10,146,000 (2002—$10,525,000) of principal on behalf of the borrowers. The IFF is funded primarily from the general reserve of the Bank's FSO.

Nonaccrual and impaired loans and allowance for loan losses

At December 31, 2003, all loans were performing except for certain Private Sector Program loans, which were classified as impaired and were in nonaccrual. The Bank's recorded investment in impaired Private Sector Program loans at December 31, 2003 was $236,633,000 (2002—$315,561,000). The average recorded investment in impaired Private Sector Program loans during 2003 was $301,599,000 (2002—$256,722,000). Income recognized on Private Sector Program loans while impaired was $5,171,000 in 2003 and $7,129,000 in 2002. Income that would have been recognized on a cash basis for the period of impairment was $11,266,000 in 2003 and $14,308,000 in 2002. All impaired loans have specific allowances for loan losses amounting to $70,407,000 at December 31, 2003 (2002—$98,687,000).

At December 31, 2003, as a result of changes in management's assessment of the risk of loss on loans and guarantees, the allowance for loan losses was reduced by $1,369,707,000 which has been credited to the provision for loan and guarantee losses on the Statement of Income and General Reserve.

The changes in the allowance for loan losses for the years ended December 31, 2003 and 2002 were as follows (in thousands):

	2003	2002
Balance at January 1,	$ 1,560,885	$1,423,849
Provision (credit) for loan losses	(1,369,707)	99,884
Write offs—Private Sector Program	(60,670)	—
Translation adjustments	52,657	37,152
Balance at December 31,	$ 183,165	$1,560,885

Note F – Property

As of December 31, 2003 and 2002, the property of the Bank—Ordinary Capital—consists of the following (in thousands):

	2003	2002
Land, buildings, improvements, capitalized software and equipment, at cost	$ 509,471	$ 491,863
Less: accumulated depreciation	(215,781)	(204,711)
	$ 293,690	$ 287,152

Note G – Borrowings

The primary objective of the Bank's borrowing policy is to obtain the necessary resources to finance its lending program at the lowest possible cost for borrowers. The medium- and long-term borrowings of the Bank at December 31, 2003 consist of loans, notes and bonds issued in various currencies at contracted interest rates ranging from 0.50% to 14.00%, before swaps, and from (0.54%) to 12.25%, after swaps, with various maturity dates through 2027. A summary of the Bank's medium- and long-term borrowing portfolio and its maturity structure at December 31, 2003 and 2002 is shown in Appendix I-5.

The Bank has a short-term borrowing facility under which discount notes are issued in amounts not less than $100,000 and maturities of up to 360 days.

The average cost of total borrowings during 2003 and 2002 was 5.39% and 5.79%, respectively, before swaps, and 3.37% and 3.97%, respectively, after swaps.

The estimated fair values of borrowings as of December 31, 2003 and 2002 amounted to $51,920,000,000 and $51,413,000,000, respectively.

Note H—Derivatives and Hedging Activities

Risk management strategy and use of derivatives

The Bank's financial risk management strategy is designed to strengthen the Bank's ability to fulfill its purposes. Such strategy includes establishing and maintaining financial practices consistent with its risk preference primarily by implementing, updating, and monitoring its interrelated set of financial policies and guidelines and by 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 facilitate increasing its financial efficiency while achieving its risk management objectives. The Bank uses financial derivative instruments, mostly currency and interest rate swaps, for hedging purposes as part of its asset and liability management. This approach enables the Bank to lower funding costs and enhance investment returns without increasing the Bank's exposure to market risk. Consequently, whenever it enters into a derivative contract, the Bank identifies the specific hedging relationship and, when designated in accordance with SFAS 133, documents the hedge transaction and evaluates its hedge effectiveness to determine whether or not the transaction qualifies for hedge accounting.

The majority of the Bank's current borrowing operations include swaps to hedge a specific underlying liability, producing the funding required (i.e., the appropriate currency and rate type). The Bank's operations also include interest rate swaps to

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hedge private sector fixed-rate loans and investment swaps that hedge a particular underlying investment security and produce the appropriate vehicle to invest existing cash. Investment swaps are held in the trading portfolio which is carried and reported at market value. The Bank follows hedge accounting under SFAS 133 for all currency and interest rate swaps, except for a small number of basis swaps and the investment swaps, as described below:

Fair-value hedges

To hedge the change in fair value of fixed-rate debt resulting from changes in the benchmark interest rates and currencies, while obtaining the currencies and interest rate types required, the Bank enters into currency and/or interest rate swap agreements. In aligning its private sector loans with the funding obtained for such loans, the Bank also enters into interest rate swap agreements to hedge the changes in fair value of fixed-rate loans and loan commitments resulting from changes in the benchmark interest rate. During 2003, the Bank recognized a net loss of $7,323,000 (2002—$9,749,000) (included in Net gain (loss) from hedging activities under SFAS 133 on the Statement of Income and General Reserve), which represented the ineffective portion of all its fair value hedges.

Cash-flow hedges

The Bank enters into currency swap agreements to convert debt into the currencies required while hedging foreign currency fixed-rate medium- and long-term debt against the variability of cash flows resulting from changes in exchange rates. The ineffectiveness of cash-flow hedges for the years ended December 31, 2003 and 2002 was not significant. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness. The estimated amount, included in accumulated other comprehensive income as of December 31, 2003, expected to be reclassified into earnings within the next 12 months to offset the variability of cash flows during this period is not material. As of December 31, 2003, the maximum term over which the Bank is hedging its exposure to the variability of future cash flows was 7.3 years (2002—8.3 years).

Hedge effectiveness assessment

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the Balance Sheet or to specific firm commitments. The Bank formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items and whether they are expected to continue to be highly effective in the future.

Discontinuation of hedge accounting

The Bank discontinues hedge accounting when the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item or when management determines that designation of the derivative as a hedging instrument is no longer appropriate. In general, when hedge accounting is discontinued, the derivative designated in a fair value hedge continues to be carried on the Balance Sheet at its fair value, the hedged asset or liability no longer is adjusted for changes in fair value and the related basis adjustment is amortized over the remaining life of the asset or liability. Similarly, the derivative designated in a cash flow hedge continues to be carried on the Balance Sheet at its fair value, and the gains and losses that were accumulated in other comprehensive income are reclassified to earnings in the same period or periods in which the hedged transaction affects earnings. Also, the Bank discontinues hedge accounting when the derivative expires, is sold, terminated, or exercised.

Effective January 1, 2004, the Bank de-designated all hedging relationships established under SFAS 133. While Management believes that the Bank's hedging strategies achieve its objectives, the application of SFAS 133 qualifying hedge criteria to certain new financial instrument transactions would no longer make fully evident the Bank's risk management strategies as certain hedged instruments would be carried at fair value, while other similar hedged instruments would be carried at amortized cost. Consequently, as allowed by SFAS 133, 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.

Note I – Commercial Credit Risk

Commercial credit risk is the potential loss that could result from either the default or the downgrade by a credit rating agency of one of the Bank's investment, trading or swap counterparties. The main sources of commercial credit risk are the debt instruments in which the Bank invests its liquid holdings. The primary objective in the management of the Bank's liquid assets is the maintenance of a conservative exposure to market, credit and liquidity risks. Consequently, the Bank will only invest in high quality debt instruments issued by sovereigns, agencies, banks and corporate entities.

In addition, as part of its regular investment, funding and asset and liability management activities, the Bank uses derivative instruments, primarily swaps, for hedging purposes without incurring additional market risk. To manage the credit risk of its investment, funding and asset and liability management activities, the Bank limits these activities to authorized dealers and counterparties selected on the basis of conservative risk management policies. The Bank also establishes strict credit limits for each counterparty and, for swap counterparties, has entered into master swap agreements which contain enforceable close-out netting provisions and has agreements in place providing for collateralization in the event that the mark-to-market exposure exceeds certain contractual limits, which are a function of the counterparty's credit rating. Monitoring the Bank's exposures and managing such risks are continuous processes. The Bank does not expect nonperformance by any of its counterparties. As of December 31, 2003, the Bank had received collateral of $414,600,000 (2002—$456,600,000) in connection with swap agreements. None of this collateral has been included in the assets of the Bank.

The credit risk exposures below represent the maximum potential loss, based on the gross fair value of the financial instrument, the Bank would incur if the parties to the derivative financial instruments referred to in the preceding paragraphs 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, 2003 and 2002, such credit risk exposures, prior to considering any master swap or collateral agreements, are as follows (in thousands):

	2003	2002
Investments – Trading Portfolio		
Currency swaps	$ —	$ 18,120
Interest rate swaps	1,185	1,170
Borrowing Portfolio		
Currency swaps	1,316,443	493,460
Interest rate swaps	558,235	1,007,796

Note J – Capital Stock and Voting Power

Capital stock

The capital of the Bank consists of "paid-in" and "callable" shares. The subscribed "paid-in" capital has been or is to be paid in gold and/or United States dollars and in the currency of the respective member, which in some cases must be made freely convertible, in accordance with the terms for the respective increase in capital. Non-negotiable, non-interest bearing demand obligations have been or will be accepted in lieu of the immediate payment of all or any part of 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 Bank's 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 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. For a Statement of Subscriptions to Capital Stock at December 31, 2003 and 2002, see Appendix I-6.

The composition of the net receivable from members as of December 31, 2003 and 2002 is as follows (in thousands):

	2003	2002
Regional developing members	$ 459,406	$500,890
United States	5,122	15,366
Canada	(12,426)	113,605
Non-regional members	(158,506)	87,722
Total	$ 293,596	$717,583

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

	2003	2002
Receivable from members	$ 493,025	$750,471
Amounts payable to maintain value of currency holdings	(199,429)	(32,888)
Total	$ 293,596	$717,583

During 2003, the Bank credited $342,293,000 (2002—debited $154,018,000) to amounts to maintain value of currency holdings representing MOV on non-borrowing member countries currency holdings.

Voting power

Under the Agreement, each member country shall have 135 votes plus one vote for each share of Ordinary Capital stock held by that country. The Agreement, as amended by the Eighth General Increase in the Resources of the Bank, also provides that no increase in the subscription of any member to the Ordinary Capital stock shall have the effect of reducing the voting power of the regional developing members below 50.005%, of the United States below 30%, and of Canada below 4% of the total voting power, leaving the voting power available for nonregional members at up to 15.995%, including approximately 5% for Japan.

In making decisions concerning operations of the FSO and the IFF, the number of votes and percent of total voting power for each member country are the same as determined by

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the provisions of the Agreement referred to above, 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.

Total subscriptions to shares of Ordinary Capital stock and the voting power of the member countries as of December 31, 2003 are shown in the Statement of Subscriptions to Capital Stock and Voting Power in Appendix I-7.

Note K – Allocation of Net Income

The agreement for the Eighth General Increase in the Resources of the Bank provides for up to $136,000,000 of unallocated special contributions to the FSO to be paid by contributions from members. As stated in the agreement, any unpaid portion is to be paid to the FSO by periodic transfers from the net income of the Ordinary Capital, consistent with prudent financial management, between January 1, 2000 and December 31, 2004. As of December 31, 2003, no such contributions had been paid by members. Accordingly, the Bank has transferred $27,200,000, representing one fifth of the unallocated special contributions, from the net income of the Ordinary Capital to the FSO in each of the years 2000 through 2003.

Note L – Accumulated Other Comprehensive Income

Other comprehensive income comprises the effects of the implementation of SFAS 133 and currency translation adjustments. These items are presented on the Statement of Comprehensive Income.

The following is a summary of changes in accumulated other comprehensive income for the years ended December 31, 2003 and 2002 (in thousands):

	Translation Adjustments			
	General Reserve	Special Reserve	SFAS 133 Adjustments	Total
Balance at January 1, 2002	$ 16,970	$(328,900)	$ 23,605	$(288,325)
Translation adjustments	290,772	82,156	—	372,928
Net loss on cash flow hedges	—	—	(38,891)	(38,891)
Balance at December 31, 2002	307,742	(246,744)	(15,286)	45,712
Translation adjustments	364,932	84,314	—	449,246
Net loss on cash flow hedges	—	—	(11,427)	(11,427)
Balance at December 31, 2003	$672,674	$(162,430)	$(26,713)	$ 483,531

Note M – Pension and Postretirement Benefit Plans

The Bank has two defined benefit retirement plans (Plans), the Staff Retirement Plan (SRP) for the pension benefit of its international employees and the employees of the IIC and the Local Retirement Plan (LRP) for the pension benefit of local employees in the country offices. The Plans are funded by employee and Bank contributions in accordance with the provisions of the Plans. Any and all contributions to the Plans by the Bank 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 a premium schedule established by the Bank. The Bank contributes the remainder of the actuarially determined cost of future health and other benefits. While all contributions made by the Bank and all other assets and income of the PRBP remain the property of the Bank, they are held and administered separately and apart from the other property and assets of the Bank solely for the purpose of payment of benefits under the PRBP and are not included in the Balance Sheet.

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Obligations, funded status, and expected contributions

The following table summarizes the change in benefit obligation, change in plan assets, and funded status of the Plans and the PRBP and amounts recognized in the Balance Sheet for the years ended December 31, 2003 and 2002 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2003	2002	2003	2002
Change in benefit obligation				
Benefit obligation, beginning of year	$1,594,581	$1,567,003	$645,265	$624,126
Service cost	45,353	46,512	19,492	18,929
Interest cost	97,671	80,003	40,122	32,439
Plan participants' contributions	18,252	17,251	—	—
Actuarial gain	(14,696)	(68,248)	(569)	(18,721)
Plan amendment	7,121	—	11,261	—
Benefits paid	(52,891)	(47,940)	(12,861)	(11,508)
Benefit obligation, end of year	1,695,391	1,594,581	702,710	645,265
Change in plan assets				
Fair value of plan assets, beginning of year	1,679,928	1,842,893	662,887	754,841
Actual return on plan assets	378,420	(150,395)	161,227	(80,446)
Employer contribution	19,148	18,119	—	—
Plan participants' contributions	18,281	17,251	—	—
Benefits paid	(52,891)	(47,940)	(12,861)	(11,508)
Net payments from other plans	2,146	—	—	—
Fair value of plan assets, end of year	2,045,032	1,679,928	811,253	662,887
Funded status	349,641	85,347	108,543	17,622
Unrecognized:				
Net actuarial (gain) loss	(232,810)	25,037	(61,548)	32,139
Prior service cost	9,282	5,761	9,814	(3,249)
Net amount recognized	$ 126,113	$ 116,145	$ 56,809	$ 46,512
Amounts recognized in the Balance Sheet consist of:				
Prepaid benefit cost	$ 126,113	$ 116,145	$ 57,119	$ 46,716
Accrued benefit cost	—	—	(310)	(204)
Net amount recognized	$ 126,113	$ 116,145	$ 56,809	$ 46,512

The accumulated benefit obligation for the Plans was $1,461,000,000 and $1,353,000,000 at December 31, 2003 and 2002, respectively.

The Bank uses a December 31 measurement date for the Plans and the PRBP.

Contributions from the Bank to the Plans during 2004 are expected to be approximately $29,098,000. As of December 31, 2003, the Bank cannot estimate its expected contributions to the PRBP for 2004. All contributions are made in cash.

Components of Net Periodic Benefit Cost

Net periodic benefit cost (income) for the years ended December 31, 2003 and 2002 consists of the following components (in thousands):

	Pension Benefits		Postretirement Benefits	
	2003	2002	2003	2002
Service cost	$ 45,353	$ 46,512	$ 19,492	$ 18,929
Interest cost	97,671	80,003	40,122	32,439
Expected return on plan assets	(134,615)	(112,557)	(61,095)	(53,089)
Amortization of:				
Prior service cost	1,454	1,453	(1,802)	(1,774)
Unrecognized net gain	(683)	(5,033)	(7,014)	(12,076)
Net periodic benefit cost (income)	$ 9,180	$ 10,378	$(10,297)	$(15,571)

The Bank allocates the net periodic benefit income and costs between the ORC and the FSO in accordance with the allocation method approved by the Board of Executive Directors for administrative expenses. The portion of the PRBP benefit income and the Plans benefit cost related to the ORC that has been included in other income and administrative expenses, respectively, for the year ended December 31, 2003 is $8,416,000 (2002—$12,544,000) and $7,503,000 (2002—$8,361,000), respectively. The balance has been credited/charged to the FSO.

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 10.8, 13.1 and 11.8 years, respectively.

Unrecognized prior service cost is amortized over 10.8 years for the SRP, 13.1 years for the LRP, and 7.5 years for the PRBP.

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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	
	2003	2002	2003	2002
Discount rate	5.75%	6.25%	5.75%	6.25%
Rate of salary increase SRP	3.4%–10.3%	3.9%–10.8%		
Rate of salary increase LRP	4.8%–11.7%	5.3%–12.2%		

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31,	Pension Benefits		Postretirement Benefits	
	2003	2002	2003	2002
Discount rate	6.25%	5.25%	6.25%	5.25%
Expected long-term return on plan assets	7.25%	6.00%	7.25%	6.00%
Rate of salary increase SRP	3.9%–10.8%	3.1%–10.0%		
Rate of salary increase LRP	5.3%–12.2%	4.5%–11.4%		

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

For participants assumed to retire in the United States, the accumulated postretirement benefit obligation was determined using the following health care cost trend rates at December 31:

	2003	2002
Health care cost trend rates assumed for next year:		
Medical	8.75%	9.75%
Prescription drugs	14.75%	16.75%
Dental	7.25%	8.25%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.75%	5.25%
Year that the rate reaches the ultimate trend rate	2013	2013

For those participants assumed to retire outside of the United States, a 8.75% (2002—9.75%) health care cost trend rate was used.

Assumed health care cost trend rates have a significant effect on the amounts reported for the PRBP. A one-percentage point change in assumed health care cost trend rates would have the following effects as of December 31, 2003 (in thousands):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$11,330	$ (9,224)
Effect on postretirement benefit obligation	77,084	(64,853)

Plan assets

The Plans and PRBP weighted-average asset allocations at December 31, 2003 and 2002, by asset category, are as follows:

	Plans		PRBP	
Asset category	2003	2002	2003	2002
U.S. equities	37%	35%	41%	39%
Non-U.S. equities	33%	29%	32%	28%
Fixed income bonds and funds	19%	22%	17%	26%
U.S. inflation-indexed bonds	6%	7%	9%	6%
Real estate investments funds	3%	5%	—	—
Commodity index futures	2%	2%	—	—
Other	—	—	1%	1%
Total	100%	100%	100%	100%

The assets of the Plans and the PRBP are managed primarily by investment managers employed by the Bank who are provided with investment guidelines that take into account the Plans and PRBP investment policies. Investment Policies have been developed so that, consistent with historical returns, there is a high equity allocation with the expectation of sufficient returns to meet long-term funding needs.

Investments maintain an average exposure between 65% and 70% to a well-diversified pool of equities. Assets are also invested in fixed income securities (20% to 25%) to protect against severe dis-inflation, and investments that are expected to react positively to rising inflation (5% to 15%) to provide protection against loss of purchasing power. The investment policy target allocations are:

	SRP	LRP	PRBP
U.S. equities	35%	40%	40%
Non-U.S. equities	30%	30%	30%
Fixed income	20%	25%	20%
Inflation-Sensitive investments[1]	15%	5%	10%

[1] Comprises U.S. inflation-indexed bonds (7%), real estate investment funds (6%), and commodity index futures (2%) for the SRP and U.S. inflation-indexed bonds for the LRP and PRBP.

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2003 and 2002

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 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.

Recent developments

On December 8, 2003, the President of the United States of America signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). In accordance with FASB Staff Position 106-1 "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", the Bank has elected to defer the recognition of the effects of the Act, if any, on the PRBP accumulated postretirement benefit obligation and net periodic benefit cost disclosures presented above. Specific authoritative guidance, when issued, could require the Bank to change previously reported information.

Note N – Reconciliation of Net Income to Net Cash Provided by Operating Activities

A reconciliation of net income to net cash provided by operating activities, as shown in the Statement of Cash Flows, is as follows (in thousands):

	Years ended December 31,	
	2003	2002
Net income	$ 2,432,460	$ 708,735
Difference between amounts accrued and amounts paid or collected for:		
Loan income	171,287	146,576
Investment income	2,001	(10,623)
Net unrealized (gain) loss on trading investments	(4,267)	1,097
Interest and other costs of borrowings	(159,275)	(54,261)
Administrative expenses, including depreciation	(577)	(22,766)
Net unrealized loss from hedging activities under SFAS 133	222,185	205,829
Provision (credit) for loan and guarantee losses	(1,369,707)	99,884
Net cash provided by operating activities	$ 1,294,107	$1,074,471
Supplemental disclosure of noncash activities		
Increase (decrease) resulting from exchange rate fluctuations:		
Trading investments	$ 382,754	$ 252,870
Held-to-maturity investments	451,408	(36,567)
Loans outstanding	1,621,006	1,591,283
Borrowings	1,882,809	1,626,622
Receivable from members-net	(342,293)	154,018

Note O – Segment Reporting

Management has determined that the Bank has only one reportable segment since the Bank does not manage its operations by allocating resources based on a determination of the contributions to net income of individual operations. The Bank does not differentiate between the nature of the products or services provided, the preparation process, or the method for providing the services among individual countries. For the year 2003, loans made to or guaranteed by three countries individually generated in excess of 10 percent of loan income. Loan income from these three countries was $664,500,000, $457,462,000 and $379,107,000, respectively.

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APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D

December 31, 2003
Expressed in thousands of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	British pounds sterling	All currencies
Obligations of the United States Government and its corporations and agencies:						
Carrying value	439,606	79,816	—	405,572	—	924,994
Average balance during year	348,483	61,938	—	485,184	—	895,605
Net gains (losses) for the year	(4,610)	(581)	—	269	—	(4,922)
Obligations of other governments and agencies:						
Carrying value	346,100	525,184	—	289,390	—	1,160,674
Average balance during year	328,965	381,173	—	347,619	1,117	1,058,874
Net losses for the year	(9,326)	(1,948)	—	(10,168)	(92)	(21,534)
Bank obligations and time deposits:						
Carrying value	705,530	82,923	—	2,667,378	—	3,455,831
Average balance during year	839,802	77,235	87,490	3,321,630	784	4,326,941
Net gains (losses) for the year	(1,612)	—	—	6,111	—	4,499
Corporate securities:						
Carrying value	12,602	143,097	—	232,945	35,822	424,466
Average balance during year	15,015	141,574	—	313,038	34,233	503,860
Net gains (losses) for the year	236	110	—	1,635	(298)	1,683
Asset- and mortgage-backed securities:						
Carrying value	1,708,668	78,049	—	3,618,975	—	5,405,692
Average balance during year	1,032,051	102,774	—	3,720,838	—	4,855,663
Net gains for the year	743	69	—	391	—	1,203
Total trading investments:						
Carrying value	3,212,506	909,069	—	7,214,260	35,822	11,371,657
Average balance during year	2,564,316	764,694	87,490	8,188,309	36,134	11,640,943
Net losses for the year	(14,569)	(2,350)	—	(1,762)	(390)	(19,071)
Currency swaps receivable:						
Carrying value [(1)]	—	—	—	836,155	—	836,155
Average balance during year	—	45,489	—	883,658	—	929,147
Net gains (losses) for the year	—	44	—	(73)	—	(29)
Currency swaps payable:						
Carrying value [(1)]	(980,088)	(92,525)	—	—	(35,822)	(1,108,435)
Average balance during year	(1,026,393)	(71,251)	—	(38,749)	(35,349)	(1,171,742)
Net gains for the year	13,749	788	—	480	409	15,426
Net interest rate swaps:						
Carrying value [(1)]	(3,603)	(2,135)	—	(27,919)	—	(33,657)
Average balance during year	(2,723)	(1,933)	—	(36,566)	—	(41,222)
Net gains for the year	1,864	1,318	—	18,447	—	21,629
Total trading investments and swaps:						
Carrying value	2,228,815	814,409	—	8,022,496	—	11,065,720
Average balance during year	1,535,200	736,999	87,490	8,996,652	785	11,357,126
Net gains (losses) for the year	1,044	(200)	—	17,092	19	17,955
Return for the year (%)	2.68	0.23	0.35	1.43	3.55	1.48

[(1)] Carrying value of currency swaps represents the fair value of each individual receivable or (payable) leg, classified by their currency. As explained in Note B to the financial statements, currency and interest rate swap agreements are stated in the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.

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APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D

December 31, 2002
Expressed in thousands of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	British pounds sterling	All currencies
Obligations of the United States Government and its corporations and agencies:						
Carrying value	93,017	—	—	307,329	—	400,346
Average balance during year	113,018	—	—	171,531	—	284,549
Net gains (losses) for the year	6,938	—	—	(484)	—	6,454
Obligations of other governments and agencies:						
Carrying value	474,644	136,221	—	423,598	9,586	1,044,049
Average balance during year	501,624	284,603	—	410,128	10,021	1,206,376
Net gains (losses) for the year	(7,145)	(1,865)	—	16,015	(554)	6,451
Bank obligations and time deposits:						
Carrying value	1,460,743	—	298,792	2,004,240	6,007	3,769,782
Average balance during year	1,478,400	168,134	448,031	1,686,128	3,019	3,783,712
Net gains (losses) for the year	240	—	—	(209)	—	31
Corporate securities:						
Carrying value	31,196	133,279	—	274,275	32,326	471,076
Average balance during year	14,248	99,115	—	274,044	48,232	435,639
Net gains (losses) for the year	(30)	(98)	—	(381)	356	(153)
Asset- and mortgage-backed securities:						
Carrying value	582,034	121,357	—	4,909,984	—	5,613,375
Average balance during year	246,691	95,198	—	4,766,083	—	5,107,972
Net gains (losses) for the year	(421)	22	—	17,452	—	17,053
Total trading investments:						
Carrying value	2,641,634	390,857	298,792	7,919,426	47,919	11,298,628
Average balance during year	2,353,981	647,050	448,031	7,307,914	61,272	10,818,248
Net gains (losses) for the year	(418)	(1,941)	—	32,393	(198)	29,836
Currency swaps receivable:						
Carrying value [1]	—	221,539	—	1,338,548	—	1,560,087
Average balance during year	—	448,609	—	1,905,505	—	2,354,114
Net gains for the year	—	330	—	687	—	1,017
Currency swaps payable:						
Carrying value [1]	(1,521,610)	(33,571)	—	(182,080)	(41,913)	(1,779,174)
Average balance during year	(2,015,199)	(58,231)	—	(397,032)	(59,751)	(2,530,213)
Net gains for the year	238	142	—	1,441	199	2,020
Net interest rate swaps:						
Carrying value [1]	(13)	(1,192)	—	(49,677)	—	(50,882)
Average balance during year	(1)	119	—	(34,162)	—	(34,044)
Net gains (losses) for the year	(13)	1,360	—	(17,748)	—	(16,401)
Total trading investments and swaps:						
Carrying value	1,120,011	577,633	298,792	9,026,217	6,006	11,028,659
Average balance during year	338,781	1,037,547	448,031	8,782,225	1,521	10,608,105
Net gains (losses) for the year	(193)	(109)	—	16,773	1	16,472
Return for the year (%)	3.31	0.14	1.07	1.96	3.99	1.79

[1] Carrying value of currency swaps represents the fair value of each individual receivable or (payable) leg, classified by their currency. As explained in Note B to the financial statements, currency and interest rate swap agreements are stated in the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-2

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

December 31, 2003
Expressed in thousands of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Other currencies	All currencies
Obligations of the United States Government and its corporations and agencies:						
Net carrying amount	211,030	—	—	5,032	—	216,062
Gross unrealized gains	3,183	—	—	—	—	3,183
Gross unrealized losses	123	—	—	10	—	133
Market value	214,090	—	—	5,022	—	219,112
Obligations of other governments and agencies:						
Net carrying amount	408,229	521,245	145,595	327,874	724,209	2,127,152
Gross unrealized gains	4,874	758	4,183	9,917	12,412	32,144
Gross unrealized losses	1,779	40	52	1,117	1,069	4,057
Market value	411,324	521,963	149,726	336,674	735,552	2,155,239
Bank obligations and time deposits:						
Net carrying amount	556,951	—	89,659	16,386	109,845	772,841
Gross unrealized gains	11,441	—	—	46	—	11,487
Gross unrealized losses	13	—	—	—	8	21
Market value	568,379	—	89,659	16,432	109,837	784,307
Corporate securities:						
Net carrying amount	—	9,435	—	45,169	15,511	70,115
Gross unrealized gains	—	10	—	598	81	689
Gross unrealized losses	—	—	—	—	—	—
Market value	—	9,445	—	45,767	15,592	70,804
Asset- and mortgage-backed securities:						
Net carrying amount	37,845	23,354	12,126	200,946	147,137	421,408
Gross unrealized gains	900	—	190	9,847	5,381	16,318
Gross unrealized losses	—	12	—	1	2	15
Market value	38,745	23,342	12,316	210,792	152,516	437,711
Total held-to-maturity investments:						
Net carrying amount	1,214,055	554,034	247,380	595,407	996,702 [(1)]	3,607,578
Gross unrealized gains	20,398	768	4,373	20,408	17,874	63,821
Gross unrealized losses	1,915	52	52	1,128	1,079	4,226
Market value	1,232,538	554,750	251,701	614,687	1,013,497	3,667,173
Return for the year (%)	3.82	0.26	2.67	4.68	4.97	3.67

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

Canadian dollars	$701,538
British pounds sterling	217,845
Other	77,319
Total	$996,702

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2003
Expressed in thousands of United States dollars

Year of Maturity	Net Carrying Amount	Market Value
2004	$1,169,293	$1,176,906
2005 to 2008	2,433,405	2,485,384
2010	4,880	4,883
Total	$3,607,578	$3,667,173

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-2

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

December 31, 2002
Expressed in thousands 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	166,240	—	—	—	16,043	182,283
Gross unrealized gains	4,683	—	—	—	104	4,787
Gross unrealized losses	—	—	—	—	—	—
Market value	170,923	—	—	—	16,147	187,070
Obligations of other governments and agencies:						
Net carrying amount	375,296	499,987	163,431	300,073	593,235	1,932,022
Gross unrealized gains	3,425	1,114	5,913	14,363	20,574	45,389
Gross unrealized losses	—	31	—	—	—	31
Market value	378,721	501,070	169,344	314,436	613,809	1,977,380
Bank obligations and time deposits:						
Net carrying amount	405,314	—	11,448	34,322	318,133	769,217
Gross unrealized gains	12,300	—	—	—	—	12,300
Gross unrealized losses	—	—	—	—	—	—
Market value	417,614	—	11,448	34,322	318,133	781,517
Corporate securities:						
Net carrying amount	—	16,019	—	67,244	28,711	111,974
Gross unrealized gains	—	18	—	1,966	433	2,417
Gross unrealized losses	—	25	—	—	—	25
Market value	—	16,012	—	69,210	29,144	114,366
Asset- and mortgage-backed securities:						
Net carrying amount	14,470	20,851	10,726	187,512	162,227	395,786
Gross unrealized gains	490	—	260	13,106	6,873	20,729
Gross unrealized losses	—	9	—	—	—	9
Market value	14,960	20,842	10,986	200,618	169,100	416,506
Total held-to-maturity investments:						
Net carrying amount	961,320	536,857	185,605	589,151	1,118,349 [(1)]	3,391,282
Gross unrealized gains	20,898	1,132	6,173	29,435	27,984	85,622
Gross unrealized losses	—	65	—	—	—	65
Market value	982,218	537,924	191,778	618,586	1,146,333	3,476,839
Return for the year (%)	4.00	0.30	2.83	5.22	5.15	3.87

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

Canadian dollars	$ 541,423
British pounds sterling	515,239
Other	61,687
Total	$1,118,349

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2002
Expressed in thousands of United States dollars

Year of Maturity	Net Carrying Amount	Market Value
2003	$1,162,841	$1,170,427
2004 to 2007	2,080,628	2,149,536
2008 to 2010	147,813	156,876
Total	$3,391,282	$3,476,839

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-3

SUMMARY STATEMENT OF LOANS – NOTE E

December 31, 2003 and 2002
Expressed in thousands of United States dollars

Member in whose territory loans have been made	Loans approved, less cancellations[(1)]	Principal collected[(2)]	Undisbursed	Outstanding 2003	Currency in which outstanding portion of approved loans is collectible: Freely convertible currencies	Other currencies	Outstanding 2002
Argentina	$ 18,547,050	$ 7,274,034	$ 2,654,311	$ 8,618,705	$ 8,530,876	$ 87,829	$ 8,042,394
Bahamas	355,070	222,515	61,555	71,000	71,000	—	194,844
Barbados	360,383	88,161	106,785	165,437	165,437	—	149,376
Belize	92,215	485	27,802	63,928	63,928	—	48,601
Bolivia	1,105,028	680,244	355	424,429	423,960	469	456,382
Brazil	23,719,660	8,429,427	3,616,928	11,673,305	11,628,045	45,260	12,138,908
Chile	4,840,840	3,868,916	353,024	618,900	616,003	2,897	524,589
Colombia	10,083,932	4,639,790	597,880	4,846,262	4,816,744	29,518	3,468,066
Costa Rica	1,799,045	763,572	288,185	747,288	747,288	—	691,631
Dominican Republic	1,423,557	318,288	397,521	707,748	707,748	—	568,648
Ecuador	3,130,225	1,351,253	293,906	1,485,066	1,485,066	—	1,378,658
El Salvador	2,082,455	511,285	456,719	1,114,451	1,114,389	62	1,049,469
Guatemala	1,937,461	562,866	549,259	825,336	825,336	—	804,016
Guyana	117,539	98,644	—	18,895	18,895	—	22,376
Honduras	542,925	374,846	—	168,079	168,079	—	177,562
Jamaica	1,390,100	535,198	219,987	634,915	634,915	—	632,216
Mexico	16,211,347	6,789,984	2,247,373	7,173,990	7,173,668	322	6,710,705
Nicaragua	266,563	152,164	—	114,399	114,399	—	117,602
Panama	1,742,476	543,718	404,214	794,544	794,544	—	716,903
Paraguay	1,300,708	282,856	385,506	632,346	632,346	—	555,743
Peru	5,780,564	1,857,590	988,009	2,934,965	2,933,910	1,055	2,913,317
Suriname	88,234	10,604	36,071	41,559	41,559	—	27,146
Trinidad and Tobago	1,000,235	271,769	284,213	444,253	444,253	—	438,434
Uruguay	3,507,704	731,382	494,936	2,281,386	2,281,386	—	1,970,235
Venezuela	3,818,871	1,325,408	371,859	2,121,604	2,112,583	9,021	2,163,869
Regional	2,061,358	1,238,877	94,184	728,297	728,297	—	741,814
Private Sector Program[(3)]	2,058,987	466,726	388,533	1,203,728	1,203,728	—	1,254,353
Inter-American Investment Corporation	375,000	75,000	300,000	—	—	—	—
Total 2003	$109,739,532	$43,465,602	$15,619,115	$50,654,815	$50,478,382	$176,433	
Total 2002	$100,210,226	$33,682,696	$18,569,673		$47,774,532	$183,325	$47,957,857

(1) This table excludes participated Private Sector Program loans which amounted to $2,997,215 at December 31, 2003 (2002—$2,785,118). This table also excludes guarantees approved in the amount of $696,450 at December 31, 2003 (2002—$611,450).
(2) Includes full principal repayments of loans previously sold.
(3) Principal collected includes a loan write-off in the amount of $60,670.

The Bank has Private Sector Program loans outstanding in the following countries (in thousands):

	December 31, 2003	December 31, 2002
Argentina	$ 199,914	$ 266,480
Bolivia	77,096	5,635
Brazil	377,049	326,728
Chile	41,092	24,312
Colombia	14,689	22,218
Dominican Republic	—	69,375
Mexico	335,842	344,827
Peru	14,181	51,540
Regional	92,909	89,636
Other	50,956	53,602
	$1,203,728	$1,254,353

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

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

December 31, 2003
Expressed in thousands of United States dollars

	Multicurrency loans		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	$ 425,539	7.42	$ —	—	—	$ 425,539	7.42
Adjustable	2,841,112	4.85	12,593	4.84	7.85	2,853,705	4.85
Japanese yen							
Fixed	733,152	7.39	—	—	—	733,152	7.39
Adjustable	4,983,280	4.85	2,434	1.13	7.62	4,985,714	4.85
Swiss francs							
Fixed	386,074	7.43	—	—	—	386,074	7.43
Adjustable	2,542,329	4.85	—	—	—	2,542,329	4.85
United States dollars							
Fixed	1,424,554	7.40	—	—	—	1,424,554	7.40
Adjustable	9,606,396	4.85	20,238,248	4.96	8.90	29,844,644	4.92
LIBOR-based fixed	—	—	900,994	7.11	4.85	900,994	7.11
LIBOR-based floating	—	—	6,380,772	4.68	3.46	6,380,772	4.68
Others							
Fixed	177,338	4.03	—	—	—	177,338	4.03
Loans outstanding							
Fixed	3,146,657	7.21	—	—	—	3,146,657	7.21
Adjustable	19,973,117	4.85	20,253,275	4.96	8.90	40,226,392	4.91
LIBOR-based fixed	—	—	900,994	7.11	4.85	900,994	7.11
LIBOR-based floating	—	—	6,380,772	4.68	3.46	6,380,772	4.68
Total	$23,119,774	5.17	$27,535,041	4.97	7.51	$50,654,815	5.06

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2003
Expressed in thousands of United States dollars

	Multicurrency loans		Single currency loans		All loans		
Year of Maturity	Fixed	Adjustable	Fixed[(1)]	Adjustable[(1)]	Fixed	Adjustable	Total
2004	$ 713,666	$ 1,802,396	$ 78,953	$ 2,197,072	$ 792,619	$ 3,999,468	$ 4,792,087
2005	613,732	1,856,574	78,581	1,112,518	692,313	2,969,092	3,661,405
2006	477,655	1,869,377	115,169	2,302,698	592,824	4,172,075	4,764,899
2007	373,374	1,851,559	113,623	2,991,318	486,997	4,842,877	5,329,874
2008	285,131	1,854,136	102,841	2,247,542	387,972	4,101,678	4,489,650
2009 to 2013	593,437	7,449,552	376,421	7,276,981	969,858	14,726,533	15,696,391
2014 to 2018	78,654	2,648,392	35,406	5,556,626	114,060	8,205,018	8,319,078
2019 to 2023	10,784	595,484	—	2,506,346	10,784	3,101,830	3,112,614
2024 to 2028	224	45,647	—	437,108	224	482,755	482,979
2029	—	—	—	5,838	—	5,838	5,838
Total	$3,146,657	$19,973,117	$900,994	$26,634,047	$4,047,651	$46,607,164	$50,654,815
Average Maturity (years)	3.19	6.00	4.85	7.59	3.56	6.91	6.64

(1) 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, 2002
Expressed in thousands of United States dollars

	Multicurrency loans		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	$ 501,545	7.48	$ —	—	—	$ 501,545	7.48
Adjustable	2,766,682	5.27	7,435	5.35	9.23	2,774,117	5.27
Japanese yen							
Fixed	829,997	7.46	—	—	—	829,997	7.46
Adjustable	4,661,413	5.27	1,907	1.46	8.63	4,663,320	5.27
Swiss francs							
Fixed	499,632	7.50	—	—	—	499,632	7.50
Adjustable	2,717,328	5.27	—	—	—	2,717,328	5.27
United States dollars							
Fixed	1,700,468	7.47	—	—	—	1,700,468	7.47
Adjustable	9,476,363	5.27	17,048,109	5.39	9.29	26,524,472	5.35
LIBOR-based fixed	—	—	927,948	7.35	4.99	927,948	7.35
LIBOR-based floating	—	—	6,634,362	5.10	1.81	6,634,362	5.10
Others							
Fixed	184,668	4.04	—	—	—	184,668	4.04
Loans outstanding							
Fixed	3,716,310	7.30	—	—	—	3,716,310	7.30
Adjustable	19,621,786	5.27	17,057,451	5.39	9.29	36,679,237	5.33
LIBOR-based fixed	—	—	927,948	7.35	4.99	927,948	7.35
LIBOR-based floating	—	—	6,634,362	5.10	1.81	6,634,362	5.10
Total	$23,338,096	5.59	$24,619,761	5.39	7.11	$47,957,857	5.49

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2002
Expressed in thousands of United States dollars

	Multicurrency loans		Single currency loans		All loans		
Year of Maturity	Fixed	Adjustable	Fixed[(1)]	Adjustable[(1)]	Fixed	Adjustable	Total
2003	$ 722,910	$ 1,395,986	$ 82,448	$ 4,364,813	$ 805,358	$ 5,760,799	$ 6,566,157
2004	673,900	1,656,800	108,200	2,127,000	782,100	3,783,800	4,565,900
2005	581,700	1,716,500	114,100	1,038,000	695,800	2,754,500	3,450,300
2006	454,500	1,726,000	106,200	1,237,900	560,700	2,963,900	3,524,600
2007	357,400	1,710,100	101,700	1,351,900	459,100	3,062,000	3,521,100
2008 to 2012	774,700	7,623,300	343,800	6,148,300	1,118,500	13,771,600	14,890,100
2013 to 2017	138,300	3,018,000	62,900	4,814,800	201,200	7,832,800	8,034,000
2018 to 2022	12,200	730,300	8,600	2,231,700	20,800	2,962,000	2,982,800
2023 to 2027	700	44,800	—	366,200	700	411,000	411,700
2028 to 2029	—	—	—	11,200	—	11,200	11,200
Total	$3,716,310	$19,621,786	$927,948	$23,691,813	$4,644,258	$43,313,599	$47,957,857
Average Maturity (years)	3.46	6.46	4.99	7.20	3.77	6.86	6.56

(1) Includes LIBOR-based loans.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

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

December 31, 2003
Expressed in thousands of United States dollars

	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
Currency/Rate type	Amount	Wgtd. avg. cost (%)	Average maturity (years)	Amount[2] payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years)	Amount[2] payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years) [1]
Euro												
Fixed	$ 4,046,832	5.56	4.88	$ —	—	—	$ 439,882	4.22	3.31	$ 4,486,714	5.43	4.73
	—	—	—	(648,708)	5.89	1.67	(1,420,115)	3.98	6.77	(2,068,823)	4.58	5.17
Adjustable	856,939	5.26	10.73	1,555,246	1.96	3.26	1,420,115	2.35	6.77	3,832,300	2.84	6.23
	—	—	—	(942,571)	4.85	10.02	(439,882)	1.97	3.31	(1,382,453)	3.93	7.88
Japanese yen												
Fixed	3,626,829	3.68	5.08	843,122	0.93	4.82	46,707	1.71	4.37	4,516,658	3.15	5.02
	—	—	—	(562,840)	3.53	4.25	(1,240,542)	1.89	5.58	(1,803,382)	2.40	5.16
Adjustable	102,756	3.23	7.61	1,083,432	(0.23)	2.84	1,221,859	(0.21)	5.84	2,408,047	(0.07)	4.57
	—	—	—	(74,731)	4.01	4.90	(28,024)	1.23	14.83	(102,755)	3.25	7.61
Swiss francs												
Fixed	1,861,896	3.49	2.19	334,105	4.68	0.76	287,987	2.23	0.74	2,483,988	3.50	1.83
	—	—	—	(404,760)	2.17	0.39	(161,904)	3.33	0.83	(566,664)	2.50	0.52
Adjustable	—	—	—	287,987	0.13	0.74	161,904	0.06	0.83	449,891	0.10	0.77
	—	—	—	—	—	—	(287,987)	0.13	0.74	(287,987)	0.13	0.74
United States dollars												
Fixed	30,519,000	5.27	5.42	781,896	6.37	2.95	284,029	5.45	5.12	31,584,925	5.30	5.36
	—	—	—	(515,000)	5.69	4.14	(13,037,846)	4.49	5.43	(13,552,846)	4.54	5.38
Adjustable	—	—	—	8,985,658	1.03	7.26	14,617,646	1.09	4.99	23,603,304	1.07	5.85
	—	—	—	(2,089,879)	1.05	3.19	(1,863,829)	1.04	1.91	(3,953,708)	1.05	2.59
Others												
Fixed	9,806,584	5.51	7.05	—	—	—	—	—	—	9,806,584	5.51	7.05
	—	—	—	(9,736,749)	4.68	7.01	—	—	—	(9,736,749)	4.68	7.01
Total												
Fixed	49,861,141	5.16	5.55	1,959,123			1,058,605			52,878,869	5.08	5.42
	—	—	—	(11,868,057)			(15,860,407)			(27,728,464)	4.41	5.82
Adjustable	959,695	5.04	10.40	11,912,323			17,421,524			30,293,542	1.19	5.72
	—	—	—	(3,107,181)			(2,619,722)			(5,726,903)	1.74	3.86
Principal at face value	50,820,836	5.16	5.64	(1,103,792)			—			49,717,044	3.47	5.56
SFAS 133 —												
Basis adjustment	607,564									607,564		
Market value adjustment[2]				311,179			(221,353)			89,826		
Net unamortized discount	(2,708,756)									(2,708,756)		
Total	$48,719,644	5.16	5.64	$ (792,613)			$ (221,353)			$47,705,678	3.47	5.56

[1] As of December 31, 2003, the average repricing period of the net currency obligations for adjustable rate borrowings was four months.

[2] Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or (receivable) leg, classified by their currency. Both currency and interest rate swaps are adjusted, in total, to fair value as indicated. The net fair value amount receivable from currency swaps of $792,613 and the net fair value amount receivable from interest rate swaps of $221,353 as of December 31, 2003, shown in the above table, are represented by currency and interest rate swap assets at fair value of $1,680,486 and currency and interest rate swap liabilities at fair value of $666,520, included in the Balance Sheet.

MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2003
Expressed in thousands of United States dollars

Year of Maturity	
2004	$ 7,609,952
2005	5,732,952
2006	4,963,663
2007	4,300,100
2008	5,060,303
2009 through 2013	$15,261,297
2014 through 2018	5,782,007
2019 through 2023	860,562
2024 through 2027	1,250,000
Total	$50,820,836

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

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

December 31, 2002
Expressed in thousands of United States dollars

	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
Currency/Rate type	Amount	Wgtd. avg. cost (%)	Average maturity (years)	Amount[2] payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years)	Amount[2] payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years) [1]
Euro												
Fixed	$ 3,959,851	5.62	5.30	$ —	—	—	$ 363,387	4.22	4.31	$ 4,323,238	5.50	5.21
	—	—	—	(744,340)	5.48	3.51	(1,173,159)	3.98	7.77	(1,917,499)	4.56	6.12
Adjustable	950,134	5.83	12.10	825,547	2.80	3.76	1,173,159	3.40	7.77	2,948,840	4.02	8.04
	—	—	—	(1,020,874)	5.61	11.53	(363,387)	2.77	4.31	(1,384,261)	4.86	9.63
Japanese yen												
Fixed	3,463,319	3.80	5.85	752,762	0.93	5.82	293,544	0.01	1.09	4,509,625	3.07	5.54
	—	—	—	(502,519)	3.53	5.25	(1,024,187)	1.85	6.52	(1,526,706)	2.40	6.10
Adjustable	91,743	3.23	8.61	1,219,160	(0.25)	3.12	1,007,506	(0.20)	6.79	2,318,409	(0.09)	4.94
	—	—	—	(66,722)	3.84	5.90	(276,863)	(0.21)	1.78	(343,585)	0.58	2.58
Swiss francs												
Fixed	2,438,849	4.00	2.30	486,134	4.61	1.40	255,183	2.23	1.74	3,180,166	3.95	2.12
	—	—	—	(358,654)	2.17	1.39	(143,462)	3.33	1.83	(502,116)	2.50	1.51
Adjustable	—	—	—	255,183	0.60	1.74	143,462	0.58	1.83	398,645	0.59	1.77
	—	—	—	—	—	—	(255,183)	0.60	1.74	(255,183)	0.60	1.74
United States dollars												
Fixed	28,776,000	5.79	4.88	888,383	6.51	3.55	319,129	5.54	5.70	29,983,512	5.81	4.85
	—	—	—	(15,000)	3.60	4.68	(12,243,910)	5.04	3.49	(12,258,910)	5.04	3.49
Adjustable	86,000	5.04	5.82	8,012,468	1.28	5.33	13,739,710	1.44	3.26	21,838,178	1.40	4.03
	—	—	—	(2,089,878)	1.31	4.19	(1,814,929)	1.74	2.15	(3,904,807)	1.51	3.24
Others												
Fixed	7,647,978	6.14	4.40	—	—	—	—	—	—	7,647,978	6.14	4.40
	—	—	—	(7,252,734)	5.64	4.16	—	—	—	(7,252,734)	5.64	4.16
Adjustable	57,499	1.58	0.38	—	—	—	—	—	—	57,499	1.58	0.38
	—	—	—	(57,499)	1.58	0.38	—	—	—	(57,499)	1.58	0.38
Total												
Fixed	46,285,997	5.59	4.77	2,127,279			1,231,243			49,644,519	5.47	4.70
	—	—	—	(8,873,247)			(14,584,718)			(23,457,965)	4.96	4.04
Adjustable	1,185,376	5.37	10.81	10,312,358			16,063,837			27,561,571	1.54	4.49
	—	—	—	(3,234,973)			(2,710,362)			(5,945,335)	2.20	4.60
Principal at face value	47,471,373	5.59	4.92	331,417			—			47,802,790	3.86	4.92
SFAS 133—												
Basis adjustment	1,270,177									1,270,177		
Market value adjustment [2]				(227,341)			(784,517)			(1,011,858)		
Net unamortized discount	(611,678)									(611,678)		
Total	$48,129,872	5.59	4.92	$ 104,076			$ (784,517)			$ 47,449,431	3.86	4.92

[1] As of December 31, 2002, the average repricing period of the net currency obligations for adjustable rate borrowings was four months.

[2] Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or (receivable) leg, classified by their currency. Both currency and interest rate swaps are adjusted, in total, to fair value as indicated. The net fair value amount payable from currency swaps of $104,076 and the net fair value amount receivable from interest rate swaps of $784,517 as of December 31, 2002, shown in the above table, are represented by currency and interest rate swap assets at fair value of $1,293,803 and currency and interest rate swap liabilities at fair value of $613,362, included in the Balance Sheet.

MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2002
Expressed in thousands of United States dollars

Year of Maturity	
2003	$ 7,701,269
2004	7,298,703
2005	5,428,997
2006	4,737,769
2007	3,807,114

Year of Maturity	
2008 through 2012	$15,074,753
2013 through 2017	1,262,728
2018 through 2022	610,040
2023 through 2027	1,550,000
Total	$47,471,373

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-6

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK – NOTE J

December 31, 2003 and 2002
Expressed in thousands of United States dollars[1]

		Paid-in portion of subscribed capital				
Members	Shares	Freely convertible currencies	Other currencies	Callable portion of subscribed capital	Total 2003	Total 2002
Argentina	900,154	$ 361,059	$104,059	$10,393,829	$ 10,858,947	$ 10,858,947
Austria	13,312	6,900	—	153,688	160,588	160,588
Bahamas	17,398	7,479	4,054	198,347	209,880	209,880
Barbados	10,767	3,879	1,755	124,253	129,887	129,887
Belgium	27,438	14,235	—	316,762	330,997	330,997
Belize	9,178	3,601	3,601	103,516	110,718	110,718
Bolivia	72,258	28,964	8,360	834,355	871,680	871,680
Brazil	900,154	361,059	104,059	10,393,829	10,858,947	10,858,947
Canada	334,887	173,677	—	3,866,209	4,039,887	4,039,887
Chile	247,163	99,149	28,566	2,853,919	2,981,634	2,981,634
Colombia	247,163	99,161	28,554	2,853,919	2,981,634	2,981,634
Costa Rica	36,121	14,500	4,162	417,081	435,743	435,743
Croatia	4,018	2,087	—	46,384	48,471	48,471
Denmark	14,157	7,347	—	163,435	170,782	170,782
Dominican Republic	48,220	19,338	5,573	556,788	581,699	581,699
Ecuador	48,220	19,338	5,573	556,788	581,699	581,699
El Salvador	36,121	14,500	4,162	417,081	435,743	435,743
Finland	13,312	6,900	—	153,688	160,588	160,588
France	158,638	82,273	—	1,831,446	1,913,719	1,913,719
Germany	158,638	82,273	—	1,831,446	1,913,719	1,913,719
Guatemala	48,220	19,338	5,573	556,788	581,699	581,699
Guyana	13,393	5,223	2,570	153,773	161,566	161,566
Haiti	36,121	14,500	4,162	417,081	435,743	435,743
Honduras	36,121	14,500	4,162	417,081	435,743	435,743
Israel	13,126	6,804	—	151,541	158,345	158,345
Italy	158,638	82,273	—	1,831,446	1,913,719	1,913,719
Jamaica	48,220	19,338	5,573	556,788	581,699	581,699
Japan	418,642	217,106	—	4,833,154	5,050,260	5,050,260
Mexico	578,632	232,076	66,904	6,681,308	6,980,288	6,980,288
Netherlands	28,207	14,633	—	325,640	340,273	340,273
Nicaragua	36,121	14,500	4,162	417,081	435,743	435,743
Norway	14,157	7,347	—	163,435	170,782	170,782
Panama	36,121	14,500	4,162	417,081	435,743	435,743
Paraguay	36,121	14,500	4,162	417,081	435,743	435,743
Peru	120,445	48,278	13,957	1,390,745	1,452,980	1,452,980
Portugal	4,474	2,316	—	51,656	53,972	53,972
Slovenia	2,434	1,267	—	28,096	29,362	29,362
Spain	158,638	82,273	—	1,831,446	1,913,719	1,913,719
Suriname	7,342	3,486	2,232	82,852	88,570	88,570
Sweden	27,268	14,139	—	314,807	328,946	328,946
Switzerland	39,347	20,411	—	454,249	474,660	474,660
Trinidad and Tobago	36,121	14,500	4,162	417,081	435,743	435,743
United Kingdom	80,551	41,776	—	929,946	971,722	971,722
United States	2,512,529	1,303,020	—	29,006,704	30,309,724	30,309,724
Uruguay	96,507	38,699	11,171	1,114,335	1,164,206	1,164,206
Venezuela	482,267	216,008	33,331	5,568,456	5,817,795	5,817,795
Total before unallocated amount	8,367,080	3,870,529	468,760	96,596,415	100,935,704	100,935,704
Unallocated [2]	1,299	905	—	14,765	15,670	15,670
Total 2003	8,368,379	$3,871,434	$468,760	$96,611,180	$100,951,374	
Total 2002	8,368,379	$3,871,434	$468,760	$96,611,180		$100,951,374

[1] Data are rounded; detail may not add up to subtotals and totals because of rounding.
[2] Represents the remaining shares of the former Socialist Federal Republic of Yugoslavia. Possible membership of the Federal Republic of Yugoslavia (Serbia and Montenegro) is still pending.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-7

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

December 31, 2003

Member countries	Subscribed shares	Number of votes	% of total number of votes [(1)]
Regional developing members			
Argentina	900,154	900,289	10.752
Bahamas	17,398	17,533	0.209
Barbados	10,767	10,902	0.130
Belize	9,178	9,313	0.111
Bolivia	72,258	72,393	0.865
Brazil	900,154	900,289	10.752
Chile	247,163	247,298	2.953
Colombia	247,163	247,298	2.953
Costa Rica	36,121	36,256	0.433
Dominican Republic	48,220	48,355	0.577
Ecuador	48,220	48,355	0.577
El Salvador	36,121	36,256	0.433
Guatemala	48,220	48,355	0.577
Guyana	13,393	13,528	0.162
Haiti	36,121	36,256	0.433
Honduras	36,121	36,256	0.433
Jamaica	48,220	48,355	0.577
Mexico	578,632	578,767	6.912
Nicaragua	36,121	36,256	0.433
Panama	36,121	36,256	0.433
Paraguay	36,121	36,256	0.433
Peru	120,445	120,580	1.440
Suriname	7,342	7,477	0.089
Trinidad and Tobago	36,121	36,256	0.433
Uruguay	96,507	96,642	1.154
Venezuela	482,267	482,402	5.761
Total regional developing members	4,184,669	4,188,179	50.018
Canada	334,887	335,022	4.001
United States	2,512,529	2,512,664	30.008
Nonregional members			
Austria	13,312	13,447	0.161
Belgium	27,438	27,573	0.329
Croatia	4,018	4,153	0.050
Denmark	14,157	14,292	0.171
Finland	13,312	13,447	0.161
France	158,638	158,773	1.896
Germany	158,638	158,773	1.896
Israel	13,126	13,261	0.158
Italy	158,638	158,773	1.896
Japan	418,642	418,777	5.001
Netherlands	28,207	28,342	0.338
Norway	14,157	14,292	0.171
Portugal	4,474	4,609	0.055
Slovenia	2,434	2,569	0.031
Spain	158,638	158,773	1.896
Sweden	27,268	27,403	0.327
Switzerland	39,347	39,482	0.472
United Kingdom	80,551	80,686	0.964
Total nonregional members	1,334,995	1,337,425	15.973
Total before unallocated amount	8,367,080	8,373,290	100.000
Unallocated [(2)]	1,299	1,434	
GRAND TOTAL	8,368,379	8,374,724	

[(1)] Data are rounded; detail may not add to subtotals and grand total because of rounding.

[(2)] Represents the remaining shares of the former Socialist Federal Republic of Yugoslavia. Possible membership of the Federal Republic of Yugoslavia (Serbia and Montenegro) is still pending.

FUND FOR
SPECIAL OPERATIONS

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited the accompanying special purpose statement of assets, liabilities and fund balance of the Inter-American Development Bank (Bank)—Fund for Special Operations as of December 31, 2003 and 2002, and the related special purpose statements of changes in general reserve, comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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.

As described in Note B, the accompanying special purpose financial statements have been prepared for the purpose of complying with Article IV, Section 8(d) of the Agreement Establishing the Inter-American Development Bank, and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States.

In our opinion, the accompanying special purpose financial statements of the Inter-American Development Bank—Fund for Special Operations as of December 31, 2003 and 2002 and for the years then ended, present fairly, in all material respects, the information set forth therein on the basis of accounting described in Note B.

This report was prepared solely for the information and use of the Board of Governors, Board of Executive Directors, and management of the Inter-American Development Bank. However, under the Agreement Establishing the Inter-American Development Bank, this report is included in the Annual Report of the Bank and is therefore a matter of public record and its distribution is not limited.

Ernst + Young LLP

Washington, D.C.
February 19, 2004

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

SPECIAL PURPOSE STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE

Expressed in thousands of United States dollars

	December 31,			
	2003		2002	
ASSETS				
Cash and investments				
Cash	**$ 403,846**		$ 482,383	
Investments	**1,186,733**	**$ 1,590,579**	1,133,919	$1,616,302
Loans outstanding		**7,216,418**		6,762,891
Accrued interest and other charges				
On investments	**1,502**		2,464	
On loans	**40,023**	**41,525**	35,485	37,949
Receivable from members				
Contribution quotas	**28,715**		57,019	
Non-negotiable, non-interest bearing demand obligations	**829,207**		944,183	
Amounts to maintain value of currency holdings	**329,886**	**1,187,808**	418,931	1,420,133
Other assets		**7,752**		7,411
Total assets		**$10,044,082**		$9,844,686
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses	**$ 24,166**		$ 9,704	
Undisbursed technical cooperation projects and other financings	**99,786**		118,628	
Amounts payable to maintain value of currency holdings	**298,266**	**$ 422,218**	196,453	$ 324,785
Fund balance				
Contribution quotas authorized and subscribed	**9,735,117**		9,583,764	
General reserve	**(76,021)**		(53,604)	
Accumulated translation adjustments	**(37,232)**	**9,621,864**	(10,259)	9,519,901
Total liabilities and fund balance		**$10,044,082**		$9,844,686

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

SPECIAL PURPOSE STATEMENT OF CHANGES IN GENERAL RESERVE

Expressed in thousands of United States dollars

	Years ended December 31, 2003	2002
Income		
Loans		
Interest	**$137,484**	$106,706
Credit commissions	**9,572**	4,504
Service charges	**450**	408
Supervision and inspection fees	**5,743**	3,929
	153,249	115,547
Investments	**16,351**	22,791
Other	**2,165**	2,931
Total income	**171,765**	141,269
Expenses		
Administrative expenses	**58,012**	60,247
Total expenses	**58,012**	60,247
Excess of income over expenses before technical cooperation expense and HIPC debt initiative	**113,753**	81,022
Technical cooperation expense	**23,495**	31,056
HIPC debt relief	**37,475**	37,494
Excess of income over expenses	**52,783**	12,472
General reserve, beginning of year	**(53,604)**	4,124
Allocations to Intermediate Financing Facility Account	**(75,200)**	(70,200)
General reserve, end of year	**$ (76,021)**	$(53,604)

SPECIAL PURPOSE STATEMENT OF COMPREHENSIVE INCOME

Expressed in thousands of United States dollars

	Years ended December 31, 2003	2002
Excess of income over expenses	**$ 52,783**	$ 12,472
Translation adjustments on assets and liabilities	**123,242**	88,892
Comprehensive income	**$176,025**	$101,364

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

SPECIAL PURPOSE STATEMENT OF CASH FLOWS

Expressed in thousands of United States dollars

	Years ended December 31,	
	2003	**2002**
Cash flows from lending and investing activities		
Lending:		
Loan disbursements	**$ (485,849)**	$ (312,910)
Loan collections	**296,423**	255,611
Loan participations, net	**(8,339)**	(6,567)
Net cash used in lending activities	**(197,765)**	(63,866)
Net increase in investments	**(30,995)**	(80,973)
Miscellaneous assets and liabilities	**(286)**	2,518
Net cash used in lending and investing activities	**(229,046)**	(142,321)
Cash flows from financing activities		
Collections of receivables from members	**160,908**	132,142
Net cash provided by financing activities	**160,908**	132,142
Cash flows from operating activities		
Loan income collections	**131,407**	115,895
Income from investments	**17,846**	23,159
Other income	**2,165**	2,931
Administrative expenses	**(43,675)**	(52,042)
Technical cooperation and other financings	**(42,337)**	(44,450)
Net cash provided by operating activities	**65,406**	45,493
Cash allocations to the Intermediate Financing Facility Account	**(75,200)**	(70,200)
Effect of exchange rate fluctuations on cash	**(605)**	(258)
Net decrease in cash	**(78,537)**	(35,144)
Cash, beginning of year	**482,383**	517,527
Cash, end of year	**$ 403,846**	$ 482,383

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

December 31, 2003 and 2002

Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. The principal purpose of the Bank 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 Bank (Agreement) for the purpose of making loans in the less developed member countries in Latin America and the Caribbean by providing financing on terms which are highly concessional. The FSO also provides technical assistance both related to projects and not connected to specific loans. The FSO complements the activities of the Ordinary Capital and the Intermediate Financing Facility Account (IFF). The IFF's purpose is to subsidize part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital. The FSO makes annual general reserve allocations to the IFF, as indicated in Note G.

Note B – Summary of Significant Accounting Policies

Due to the nature and organization of the FSO, the accompanying financial statements have been prepared on a special accounting basis. As described below, this special accounting basis is not consistent with United States generally accepted accounting principles (GAAP) with respect to certain items. These special purpose financial statements have been prepared to comply with Article IV, Section 8(d) of the Agreement.

Reclassifications

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

Basis of accounting

The FSO's special purpose financial statements are prepared on the accrual basis of accounting for loan income, investment income and administrative expenses. That is, the effect of transactions and other events is recognized when they occur (not as cash is received or paid) and they are recorded in the accounting records and reported in the annual financial statements of the period to which they relate. The FSO follows a special accounting basis for loans and contribution quotas as described below.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Translation of currencies

The FSO's financial statements are expressed in United States dollars; however, the Bank conducts the operations of the FSO in the currencies of all of its members. Assets and liabilities denominated in currencies other than the United States dollar are translated at approximate market exchange rates prevailing at the dates of the financial statements. Income and expenses in such currencies are translated at approximate market rates of exchange prevailing during each month. Exchange rate fluctuations generally do not have any effect on the United States dollar equivalents of such currencies because of the maintenance of value provisions described below. Net adjustments resulting from the translation into United States dollars of assets and liabilities in currencies that do not have maintenance of value protection, which are derived from the 1983, 1990 and 1995 increases in contribution quotas, are presented as a component of comprehensive income in the Special Purpose Statement of Comprehensive Income. The adjustments resulting from the translation of contribution quotas authorized and subscribed that do not have maintenance of value protection are charged or credited directly to accumulated translation adjustments in the Special Purpose Statement of Assets, Liabilities and Fund Balance. Under United States GAAP, the contribution quotas authorized and subscribed should be reported at historical rates of exchange prevailing at the date of the relevant replenishment's approval.

Investments

All of the FSO's investment securities are held in a trading portfolio carried at market value, with realized and unrealized gains and losses included in income from investments. Effective in 2003, the net change in investments is presented as a component of cash flows from lending and investing activities in the Special Purpose Statement of Cash Flows. Prior to 2003, this amount was included in the Special Purpose Statement of Cash Flows as cash equivalents. Prior year amounts have been reclassified to reflect this change.

Loans

The FSO makes highly concessional loans in convertible currencies to the Bank's least-developed borrowing members, agencies or political subdivisions of such members, or to private enterprises located in their territories. In previous years, the FSO also made concessional loans in local currencies to borrowing members. In the case of loans to borrowers other than national governments, central banks or other governmental or inter-governmental entities, the FSO 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 FSO sells participations in certain loans to the Social Progress

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December 31, 2003 and 2002

Trust Fund (SPTF), reserving to itself the administration of those loans.

Loans generally have up to 40 years final maturity and up to a 10 year grace period for principal payments and generally carry an interest rate of 1% during the grace period and 2% thereafter. The principal amount of loans and accrued interest are repayable in the currencies lent.

It is the policy of the FSO 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 by the FSO. On the date a member pays in full all overdue amounts, the member's loans emerge from nonaccrual status, its eligibility for new loans is restored, and all overdue charges (including those from prior years) are recognized as income from loans in the current period. Except for the debt relief loan write-offs resulting from the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative discussed in Note L, the FSO has never had a write-off on any of its loans and has a policy of not rescheduling loan repayments.

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

Under United States GAAP, loans are recorded at their net realizable value, including an allowance for amounts estimated to be uncollectible. Management has elected to present loans under a special accounting basis to provide for recording loans and accrued interest at the full face amount of the borrowers' outstanding obligations. Any loan losses that might occur would be charged to income of the current period.

The principal component of FSO loans affected by the enhanced HIPC Initiative is recognized as HIPC debt relief in the Special Purpose Statement of Changes in General Reserve and as a reduction in loans in the Special Purpose Statement of Assets, Liabilities and Fund Balance when the Board of Executive Directors determines that a country has reached completion point. Interim debt relief, which is revocable, during the period between decision and completion points (as defined in Note L) is recognized when relief is delivered to the country. HIPC loans continue to accrue interest and other charges until principal debt relief is delivered. The interest and other charges component of debt relief, if any, is recognized as HIPC debt relief in the period it is forgiven.

Contribution quotas

Recognition: Under United States GAAP, contribution quotas authorized and subscribed should not be recorded until the Bank receives a promissory demand note, which is guaranteed by the member country, as payment of the amount due. To present the full amount of the member country's commitment, management has elected to report contribution quotas under a special accounting basis that provides for the recording of member's contribution quotas in full as contribution quotas receivable upon approval of the relevant replenishment by the Board of Governors.

Contribution quotas come due as a receivable throughout the replenishment period in accordance with an agreed 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. If the receivable is settled in cash, the cash is recorded in cash and investments. The notes are encashed by the FSO as provided in the relevant replenishment resolution.

Valuation: The Agreement provides that the FSO 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, and consequently the General Counsel of the Bank has rendered an opinion that the Special Drawing Right (SDR) has become the successor to the 1959 United States dollar as the standard of value of the FSO's member contributions and for the purpose of maintaining the value of the FSO's currency holdings. The SDR has a value equal to the sum of the values of specific amounts of stated currencies, including the United States dollar. Pending a decision by the Bank's governing board and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using the 1959 United States dollar, which, pursuant to the devaluations of the United States dollar in 1972 and 1973, is equal to approximately 1.2063 current United States dollars, as the basis of valuation. If the 1959 United States dollar were to have been substituted with the SDR on December 31, 2003, the financial position and the results of operations of the FSO would not have been materially affected.

Maintenance of value (MOV)

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 FSO is required to return to a

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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, as provided in the Agreement. Currency holdings derived from the 1983, 1990 and 1995 increases in contribution quotas do not have maintenance of value protection.

Effective in 2003, the amount related to MOV on non-borrowing member countries currency holdings is presented as an asset or liability on the Special Purpose Statement of Assets, Liabilities and Fund Balance, included in amounts to maintain value of currency holdings. Prior to 2003, this amount was presented as a component of cash and loans. Prior year amounts have been reclassified to reflect this change.

Administrative expenses

Substantially all administrative expenses of the Bank, including depreciation, are allocated between the Ordinary Capital and the FSO pursuant to an allocation method approved by the Board of Executive Directors. Following this allocation method, during 2003 the effective ratio of administrative expenses charged to the FSO was 15.4% and 84.6% to the Ordinary Capital (2002—16.4% and 83.6%, respectively).

Technical cooperation

Non-reimbursable technical cooperation projects, as well as certain financings whose recovery is explicitly contingent on events that may not occur, are recorded as technical cooperation expense at the time of approval.

Cancellations of undisbursed balances and recuperations of contingently recoverable financings are recognized as an offset to technical cooperation expense in the period in which they occur.

Fair values of financial instruments

The following methods and assumptions were used by the FSO in estimating the fair value for its financial instruments:

Cash: The carrying amount reported in the Special Purpose Statement of Assets, Liabilities and Fund Balance for cash approximates fair value.

Investments: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on dealer prices of comparable instruments or discounted cash flows.

Loans: The FSO is one of very few sources of development loans to Latin American and Caribbean countries. There is no secondary market for development loans. Interest on all loans within the FSO is accrued at fixed rates. For all loans and related commitments, the FSO is of the opinion that, due to its unique position in lending operations and the absence of a secondary market, it is not practicable to estimate a fair market value for the FSO's lending portfolio.

Note C – Restricted Currencies

As of December 31, 2003, cash includes $386,046,000 (2002—$461,697,000) in non-convertible currencies of regional borrowing members, of which $29,161,000 (2002—$38,478,000) has been restricted by one of the members in accordance with provisions of the Agreement, to be used for making payments for goods and services produced in its territory.

Note D – Investments

As part of its overall portfolio management strategy, the Bank invests FSO resources in government, agency, bank and corporate obligations, time deposits and asset- and mortgage-backed securities. The Bank limits FSO activities of investing in securities to a list of authorized dealers and counterparties. Strict credit limits have been established for each counterparty.

Government and agency obligations: These obligations include unsubordinated and marketable bonds, notes and other obligations issued or unconditionally guaranteed by a government of a country, an agency or instrumentality of a government of a country, a multilateral organization, or any other official entity. The Bank invests only in (i) obligations of or guaranteed by the government of the member country whose currency is being invested, (ii) obligations issued or unconditionally guaranteed by an agency or instrumentality of the government of certain countries or any other official entity, in any currency, with credit quality equivalent to a AA– or better rating (asset- and residential mortgage-backed securities require a credit quality equivalent to a AAA rating), (iii) obligations of multilateral organizations, in any currency, with credit quality equivalent to a AAA rating, and (iv) non-local currency obligations of or guaranteed by certain governments with credit quality equivalent to a AA– or better rating.

Bank obligations and time deposits: These obligations include certificates of deposit, bankers' acceptances, and other obligations issued or unconditionally guaranteed by banks or other financial institutions. The Bank invests in these types of obligations if the entity issuing or guaranteeing them has a senior debt securities rating of at least A+.

Corporate securities: These obligations include publicly issued, unsubordinated and marketable bonds, notes or other

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December 31, 2003 and 2002

debt obligations issued or unconditionally guaranteed by non-bank corporate entities or trusts. The Bank invests only in these types of securities with credit quality equivalent to a AAA rating.

Asset- and mortgage-backed securities: Asset- and mortgage-backed securities include unsubordinated, marketable asset-backed and residential mortgage-backed obligations issued or unconditionally guaranteed by corporate entities or trusts. The cash flow of these instruments is based on the cash flows of the pool of underlying assets managed by a special purpose vehicle, or trust, which provides credit enhancements to ensure higher credit ratings. The Bank invests only in these types of securities with credit quality equivalent to a AAA rating. In addition, the Bank invests in short-term asset-backed securities and short-term asset-backed commercial paper carrying only the highest short-term credit ratings.

Trading portfolio: A summary of the FSO's position in trading portfolio securities at December 31, 2003 and 2002 is shown in the Summary Statement of Investments in Appendix II-1.

Net unrealized (losses) gains on trading securities, held at December 31, 2003, of ($443,000) (2002—$259,000) were included in income from investments. The average return on investments, including realized and unrealized gains and losses, during 2003 and 2002 was 1.34% and 2.05%, respectively.

Note E – Loans Outstanding

Approved loans are disbursed to borrowers in accordance with the requirements of the project being financed; however, disbursements do not begin until the borrower and guarantor, if any, take certain actions and furnish certain documents to the Bank. Of the undisbursed balances, the FSO has entered into irrevocable commitments to disburse approximately $1,875,000 at December 31, 2003. The loans outstanding of the FSO are shown in the Summary Statement of Loans in Appendix II-2. The average maturity for loans outstanding at December 31, 2003 and 2002 was 13.60 years and 13.45 years, respectively, and the average interest rate was 1.71% and 1.75%, respectively.

In February 2002, loans made to or guaranteed by Haiti were placed on nonaccrual status. In July 2003, the FSO received payment of all amounts overdue on loans to borrowers in Haiti, and such loans came out of nonaccrual status. As a result, income from loans for the year ended December 31, 2003 has been increased by $11,585,000 corresponding to income that would have been recognized in prior years. As of December 31, 2003, there were no countries in nonaccrual status.

Note F – Contribution Quotas Authorized and Subscribed

Non-negotiable, non-interest bearing demand obligations have been or will be accepted in lieu of the immediate payment of all or any part of a member's contribution quotas. The payment of contribution quotas is conditional on the members' budgetary and, in some cases, legislative processes. The Canadian contribution quota is being increased by collections of principal, interest and service charges on loans extended from the Canadian Trust Fund administered by the Bank. For a Statement of Contribution Quotas at December 31, 2003 and 2002, see Appendix II-3.

Voting power

The number of votes and percent of voting power of the Ordinary Capital for each member country form the basis of decision making concerning the operations of the FSO.

Changes for the period

The following table summarizes the changes in contribution quotas authorized and subscribed for the years ended December 31, 2003 and 2002 (in thousands):

	Contribution quotas authorized and subscribed
Balance at January 1, 2002	$9,480,313
Contribution by Canada—	
Trust Fund collections	739
Contribution by Switzerland—	
Additional contribution from terminated trust fund	310
Translation adjustment of contributions approved in 1983, 1990 and 1995 due to exchange rate fluctuations	104,220
Withdrawal of Bosnia and Herzegovina	(1,818)
Balance at December 31, 2002	9,583,764
Contribution by Canada—	
Trust Fund collections	881
Contribution by Switzerland—	
Additional contribution from terminated trust fund	257
Translation adjustment of contributions approved in 1983, 1990 and 1995 due to exchange rate fluctuations	150,215
Balance at December 31, 2003	$9,735,117

As of December 31, 2003, the cumulative decrease in the United States dollar equivalents of contribution quotas because of exchange rate fluctuations was $46,282,000 (2002—$196,497,000).

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NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2003 and 2002

The composition of the net receivable from members as of December 31, 2003 and 2002 is as follows (in thousands):

	2003	2002
Regional developing members	$1,012,573	$1,020,880
Canada	32,740	83,371
Non-regional members	(182,971)	65,029
Unallocated	27,200	54,400
Total	$ 889,542	$1,223,680

These amounts are represented in the Special Purpose Statement of Assets, Liabilities and Fund Balance as follows (in thousands):

	2003	2002
Receivable from members	$1,187,808	$1,420,133
Amounts payable to maintain value of currency holdings	(298,266)	(196,453)
Total	$ 889,542	$1,223,680

During 2003, the FSO credited $187,870,000 (2002—$27,723,000) to amounts to maintain value of currency holdings representing MOV on non-borrowing member countries currency holdings.

On July 31, 1995, the Board of Governors of the Bank approved the Eighth General Increase in the Resources of the Bank which provided for an increase in the authorized contribution quotas for the FSO of approximately $1,000,000,000. Encashments of contributions under this increase are due annually through 2005. Under the increase, up to $136,000,000 of unallocated special contributions to the FSO are to be paid by contributions from members and any unpaid portion is to be paid to the FSO by periodic transfers from the net income of the Ordinary Capital, consistent with prudent financial management, between January 1, 2000 and December 31, 2004. As of December 31, 2003, no such contributions had been paid by members. Accordingly, the Bank has transferred $27,200,000, representing one fifth of the unallocated special contributions, from the net income of the Ordinary Capital to the FSO in each of the years 2000 through 2003. In accordance with the Agreement, these transfers are credited to the total contribution quotas of each member in the FSO in proportion to the number of Ordinary Capital shares held by each member. At December 31, 2003, unallocated special contributions not covered by net income transfers from the Ordinary Capital amounted to $27,200,000 (2002—$54,400,000).

Note G – General Reserve

In accordance with resolutions of the Board of Governors, the excess of income over expenses of the FSO is to be added to the general reserve.

In 2003, the Board of Governors allocated the equivalent of $75,200,000 (2002—$70,200,000) in convertible currencies from the general reserve of the FSO to the IFF for the purpose of subsidizing part of the interest and principal for which certain borrowers are liable on loans from the Ordinary Capital. Projected allocations from the general reserve of the FSO to the IFF in accordance with various agreements of the Board of Governors are shown in the following table (in thousands):

Year	Capital increases[(1)]	HIPC initiative [(2)]	Concessional resources agreement [(3)]	Total
2004	$ 30,000	$22,600	$ 20,000	$ 72,600
2005	30,000	12,300	20,000	62,300
2006	30,000	11,000	20,000	61,000
2007	30,000	11,000	20,000	61,000
2008	30,000	11,000	20,000	61,000
2009 to 2013	90,000	17,000	225,000	332,000
2014 to 2018	—	—	325,000	325,000
2019	—	—	65,000	65,000
Total	$240,000	$84,900	$715,000	$1,039,900

(1) Under the terms of the Sixth and Seventh General Capital Increases in the Resources of the Bank.

(2) Transfers to fund additional subsidy payments on Ordinary Capital loans to Bolivia, Guyana and Nicaragua. See Note L for a description of the HIPC Initiative.

(3) Mandated allocations under the Concessional resources agreement approved by the Board of Governors in 1999 amount to $20 million annually from 2000 to 2012 and $15 million in 2013. Additional transfers of approximatelly $65 million annually from 2012 to 2019 will be necessary to fund the 2000–2008 IFF lending mandated under the Concessional resources agreement of 1999. The level of these additional transfers may change as assumptions are revised in future years.

These allocations are subject to annual approvals by the Board of Governors and to adjustment for appropriate reasons related to the availability of funding for the IFF.

The following is a summary of changes in the general reserve for the years ended December 31, 2003 and 2002 (in thousands):

	HIPC Initiative	Income, Other than HIPC	Total General Reserve
Balance at January 1, 2002	$(717,905)	$722,029	$ 4,124
Allocation to IFF	(15,700)	(54,500)	(70,200)
HIPC debt relief	(37,494)	—	(37,494)
Income, excluding HIPC	—	49,966	49,966
Balance at December 31, 2002	(771,099)	717,495	(53,604)
Allocation to IFF	(14,200)	(61,000)	(75,200)
HIPC debt relief	(37,475)	—	(37,475)
Income, excluding HIPC	—	90,258	90,258
Balance at December 31, 2003	$(822,774)	$746,753	$(76,021)

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NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2003 and 2002

Note H – Accumulated Translation Adjustments

The following is a summary of changes in the accumulated translation adjustments for the years ended December 31, 2003 and 2002 (in thousands):

	Assets and liabilities	Contribution quotas authorized and subscribed	Total
Balance at January 1, 2002	$(295,648)	$300,717	$ 5,069
Translation adjustments	88,892	(104,220)	(15,328)
Balance at December 31, 2002	(206,756)	196,497	(10,259)
Translation adjustments	123,242	(150,215)	(26,973)
Balance at December 31, 2003	$ (83,514)	$ 46,282	$(37,232)

Note I – Administrative Expenses

Pursuant to the policy described in Note B, the FSO shares in all of the expenses incurred by the Bank in the Ordinary Capital including those related to the pension and postretirement benefit plans. During 2003 and 2002, the Bank's Postretirement Benefit Plan had benefit income of $10,297,000 and $15,571,000, respectively. The FSO's share of such income, which is included in other income, amounted to $1,881,000 (2002—$3,027,000).

Note J – Undisbursed Technical Cooperation Projects and Other Financings

The following is a summary of changes in undisbursed technical cooperation projects and other financings for the years ended December 31, 2003 and 2002 (in thousands):

	2003	2002
Balance at January 1,	$118,628	$132,023
Approvals	29,955	35,930
Cancellations	(4,802)	(3,434)
Disbursements	(43,995)	(45,891)
Balance at December 31,	$ 99,786	$118,628

Note K – Reconciliation of Excess of Income over Expenses to Net Cash Provided by Operating Activities

A reconciliation of excess of income over expenses to net cash provided by operating activities, as shown in the Special Purpose Statement of Cash Flows, is as follows (in thousands):

	Years ended December 31, 2003	2002
Excess of income over expenses	$ 52,783	$ 12,472
Difference between amounts accrued and amounts paid or collected for:		
Loan income	(21,842)	348
Income from investments	990	(114)
Net unrealized loss on investments	505	482
Administrative expenses	14,337	8,205
Technical cooperation and other financings	(18,842)	(13,394)
HIPC debt relief	37,475	37,494
Net cash provided by operating activities	$ 65,406	$ 45,493
Supplemental disclosure of noncash activities		
Increase (decrease) resulting from exchange rate fluctuations:		
Investments	$ 22,324	$ 11,749
Loans outstanding	274,499	87,157
Receivable from members—net	(174,112)	(9,924)
Contribution quotas authorized and subscribed	150,215	104,220

Note L – Heavily Indebted Poor Countries (HIPC) Initiative

The Bank is participating in the HIPC Initiative, a concerted, international initiative endorsed by the Group of Seven Countries (G-7), 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.

For the Bank, HIPC debt relief comprises HIPC I of 1998 and the enhanced HIPC Initiative approved in 2001. Eligible member countries are Bolivia, Guyana, Honduras and Nicaragua and debt relief was expected to total a net present value of approximately $1.1 billion, to be delivered from 1998 through 2019. This debt relief is being implemented through a combination of write-offs of FSO loans, transfers from the FSO general reserve to the IFF, conversion of Bank-held FSO local currencies to convertible currencies, and grants of member countries through the World Bank HIPC Trust Fund.

As part of HIPC I, in 1998 the FSO charged off loans to Bolivia and Guyana in the amount of $177.1 million. In addi-

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December 31, 2003 and 2002

tion, the FSO will transfer the equivalent of $138 million in convertible currencies during the period 1998 to 2010 from its general reserve to the IFF to provide for increased IFF subsidy payments during the period 1998 to 2015 on Ordinary Capital loans. Of this amount $66,000,000 had already been transferred as of December 31, 2003.

Enhanced HIPC Initiative

As part of the enhanced HIPC, the FSO will deliver debt service relief by forgiving a portion of an eligible country's FSO debt service obligations as they become due. Additional debt service relief to be delivered from 2001 to 2008 will be funded by amounts received from the World Bank HIPC Trust Fund which, including any investment income thereon, are kept separately from the resources of the FSO in the HIPC Account to be used solely for the specific purpose of meeting debt service obligations of eligible countries with the FSO. These resources are not included in the financial statements and do not affect the operations of the FSO.

Under the enhanced HIPC, decision point is reached once the country has established an adequate policy track record. The completion point is achieved once the country has demonstrated continued strong policy performance. During the period between decision point and completion point, referred to as the interim period, partial debt relief, not to exceed one-third of the total relief amount, may be granted to a country. Such interim debt relief is revocable and is contingent upon the country making satisfactory progress towards a strong policy performance. Once a country reaches completion point, the debt relief to the country becomes irrevocable.

Because of its revocable nature, interim debt relief is recognized only when actual relief is delivered to the country. Once the Board of Executive Directors determines that a country has reached completion point, the remaining nominal value of the principal component of the total debt relief to be provided from the FSO resources to the country is recorded as a reduction in loans in the Special Purpose Statement of Assets, Liabilities and Fund Balance and as HIPC debt relief in the Special Purpose Statement of Changes in General Reserve. The interest and other charges component of debt relief to be provided from the FSO resources, if any, is recognized as HIPC debt relief in the period the debt relief is delivered.

During 2003, there were no changes in the HIPC status of eligible countries while in 2002 Guyana reached decision point. During 2003 and 2002, the FSO recognized as HIPC debt relief the following amounts as per the accounting policy described above (in thousands):

	HIPC	HIPC Debt Relief	
Country	Status	2003	2002
Bolivia	Completion	$ 1,304	$ 2,192
Honduras	Decision	5,818	19,609
Guyana	Decision	5,051	5,208
Nicaragua	Decision	25,302	10,485
Total		$37,475	$37,494

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APPENDIX II-1

SUMMARY STATEMENT OF INVESTMENTS – NOTE D

December 31, 2003 and 2002
Expressed in thousands of United States dollars

	2003		2002	
Investments	Cost	Market value	Cost	Market value
Obligations of governments and agencies	$ 43,815	$ 43,135	$ 18,440	$ 18,437
Bank obligations and time deposits	543,266	543,418	404,947	404,966
Corporate securities	3,617	3,548	50,000	49,833
Asset- and mortgage-backed securities	596,702	596,632	660,699	660,683
	$1,187,400	$1,186,733	$1,134,086	$1,133,919

The freely convertible currencies of the above investments are as follows:

Currencies	2003	2002
British pounds sterling	$ 69,355	$ 58,144
Canadian dollars	21,404	10,027
Euro	78,528	31,557
United States dollars	1,017,446	1,027,826
Other	—	6,365
	$1,186,733	$1,133,919

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APPENDIX II-2

SUMMARY STATEMENT OF LOANS – NOTE E

December 31, 2003 and 2002
Expressed in thousands of United States dollars

						Currency in which outstanding portion of approved loans is collectible		
Member in whose territory loans have been made	Loans approved, less cancellations	Principal collected[1]	HIPC debt relief	Undisbursed	Outstanding 2003	Freely convertible currencies	Other currencies	Outstanding 2002
Argentina	$ 644,901	$ 500,540	$ —	$ 7,399	$ 136,962	$ 55	$ 136,907	$ 151,980
Barbados	39,834	23,350	—	—	16,484	16,328	156	18,908
Bolivia	2,176,276	323,968	614,299[2]	520,468	717,541	662,747	54,794	501,419
Brazil	1,558,085	1,169,051	—	21,729	367,305	1,481	365,824	396,469
Chile	204,295	199,852	—	—	4,443	1,868	2,575	6,457
Colombia	763,643	563,461	—	11,600	188,582	55,136	133,446	203,952
Costa Rica	354,977	249,436	—	—	105,541	97,188	8,353	115,350
Dominican Republic	730,614	315,471	—	—	415,143	394,361	20,782	413,795
Ecuador	952,889	368,098	—	304	584,487	523,013	61,474	595,843
El Salvador	773,230	252,606	—	320	520,304	496,311	23,993	524,143
Guatemala	647,465	260,583	—	778	386,104	332,179	53,925	383,826
Guyana	723,938	48,472	85,823	203,508	386,135	384,626	1,509	333,017
Haiti	965,128	131,726	—	351,417	481,985	468,799	13,186	435,538
Honduras	1,837,876	297,755	25,385	403,304	1,111,432	1,066,646	44,786	996,118
Jamaica	166,982	107,915	—	—	59,067	49,793	9,274	63,230
Mexico	558,986	532,135	—	—	26,851	—	26,851	30,449
Nicaragua	1,772,433	173,273	28,380	466,324	1,104,456	1,073,115	31,341	976,838
Panama	288,278	218,241	—	—	70,037	57,739	12,298	72,887
Paraguay	597,797	252,950	—	—	344,847	316,298	28,549	343,436
Peru	431,442	342,443	—	—	88,999	43,319	45,680	98,468
Suriname	2,030	622	—	—	1,408	—	1,408	1,445
Trinidad and Tobago	30,607	20,758	—	—	9,849	37	9,812	10,497
Uruguay	104,064	76,345	—	—	27,719	13,871	13,848	30,501
Venezuela	101,393	101,393	—	—	—	—	—	—
Regional	224,785	150,708	—	13,340	60,737	57,169	3,568	58,325
Total 2003	$16,651,948	$6,681,152	$753,887	$2,000,491	$7,216,418	$6,112,079	$1,104,339	
Total 2002	$15,737,578	$6,324,052	$730,814	$1,919,821		$5,584,245	$1,178,646	$6,762,891

(1) Includes full principal repayment of loans previously sold.
(2) Includes $477,940 of debt relief to be delivered in future years.

The freely convertible currencies in which the outstanding portion of approved loans is collectible are as follows:

Currencies	2003	2002
British pounds sterling	$ 96,659	$ 88,031
Canadian dollars	353,625	292,566
Danish kroner	35,114	28,670
Euro	878,480	731,826
Japanese yen	408,990	359,453
Norwegian kroner	25,176	24,156
Swedish kronor	49,031	37,545
Swiss francs	70,890	63,140
United States dollars	4,671,945	4,422,324
Venezuelan bolivars	109	25,702
	6,590,019	6,073,413
Less: HIPC debt relief not delivered yet (1)	477,940	489,168
	$6,112,079	$5,584,245

(1) Represents the principal component of loans recognized as HIPC debt relief in the Special Purpose Statement of Changes in General Reserve, and as a reduction of loans outstanding in the Special Purpose Statement of Assets, Liabilities and Fund Balance for which debt service relief has not yet been delivered and, accordingly, the related currency of the debt service to be forgiven has not been determined.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-3

STATEMENT OF CONTRIBUTION QUOTAS – NOTE F

December 31, 2003 and 2002
Expressed in thousands of United States dollars

	Contribution quotas authorized and subscribed				
	Subject to maintenance of value				
Members	Before adjustments	Adjustments[1]	Not subject to maintenance of value	Total 2003	Total 2002
Argentina	$ 402,819	$ 29,491	$ 67,906	$ 500,216	$ 493,789
Austria	10,955	—	9,149	20,104	18,500
Bahamas	8,800	—	1,697	10,497	10,440
Barbados	1,403	42	341	1,786	1,751
Belgium	27,098	—	18,795	45,893	42,597
Belize	—	—	7,532	7,532	7,502
Bolivia	32,535	9,671	6,222	48,428	48,193
Brazil	402,819	62,220	76,448	541,487	538,561
Canada	221,411	12,577	72,528	306,516	292,055
Chile	111,440	24,019	21,406	156,865	156,062
Colombia	111,385	20,077	21,407	152,869	152,065
Costa Rica	16,215	3,954	3,078	23,247	23,129
Croatia	3,121	—	2,727	5,848	5,398
Denmark	11,692	—	9,709	21,401	19,718
Dominican Republic	21,721	7,854	4,169	33,744	33,588
Ecuador	21,721	4,246	4,168	30,135	29,978
El Salvador	16,215	1,979	3,077	21,271	21,154
Finland	10,955	—	8,346	19,301	18,183
France	133,396	—	103,321	236,717	218,592
Germany	136,692	—	102,887	239,579	232,318
Guatemala	21,721	6,790	4,168	32,679	32,522
Guyana	6,980	—	1,308	8,288	8,244
Haiti	16,215	2,359	3,078	21,652	21,535
Honduras	16,215	7,116	3,078	26,409	26,291
Israel	10,794	—	7,999	18,793	18,237
Italy	133,396	—	91,279	224,675	208,645
Jamaica	21,721	2,737	4,169	28,627	28,470
Japan	148,825	—	473,440	622,265	570,748
Mexico	259,249	15,041	52,845	327,135	325,254
Netherlands	20,261	—	19,279	39,540	36,160
Nicaragua	16,215	4,758	3,069	24,042	23,925
Norway	11,692	—	8,502	20,194	19,848
Panama	16,215	5,946	3,078	25,239	25,121
Paraguay	16,215	8,504	3,077	27,796	27,679
Peru	54,492	14,340	10,526	79,358	78,967
Portugal	4,994	—	2,670	7,664	7,307
Slovenia	1,795	—	1,580	3,375	3,278
Spain	133,396	—	89,708	223,104	207,347
Suriname	5,280	—	963	6,243	6,219
Sweden	23,729	—	16,530	40,259	37,169
Switzerland	37,292	—	28,907	66,199	62,579
Trinidad and Tobago	16,215	1,532	3,078	20,825	20,707
United Kingdom	133,396	—	45,755	179,151	174,175
United States	4,100,000	243,666	492,639	4,836,305	4,822,778
Uruguay	43,502	3,714	8,344	55,560	55,246
Venezuela	250,060	12,109	51,592	313,761	312,194
Total before unallocated amount	7,222,258	504,742	1,975,574	9,702,574	9,524,218
Unallocated [2]	4,001	3	28,539	32,543	59,546
Total 2003	$7,226,259	$504,745	$2,004,113	$9,735,117	
Total 2002	$7,225,121	$504,745	$1,853,898		$9,583,764

(1) 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.

(2) Includes $27,200 (2002—$54,400) of remaining unallocated special contributions provided by the Eight General Increase in Resources of the Bank (Note F). The balance represents the remaining contribution of the former Socialist Federal Republic of Yugoslavia pertaining to the Federal Republic of Yugoslavia (Serbia and Montenegro) whose possible membership is still pending.

INTERMEDIATE FINANCING FACILITY ACCOUNT

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited the accompanying balance sheet of the Inter-American Development Bank (Bank)—Intermediate Financing Facility Account as of December 31, 2003 and 2002, and the related statements of changes in fund balance for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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—Intermediate Financing Facility Account as of December 31, 2003 and 2002, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Washington, D.C.
February 19, 2004

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in thousands of United States dollars

	December 31,			
	2003		2002	
ASSETS				
Cash and investments				
Cash	**$ 4,423**		$ 1,719	
Investments	**254,323**	**$258,746**	244,650	$246,369
Accrued interest on investments		**15**		19
Total assets		**$258,761**		$246,388
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses		**$ 1,221**		$ 896
Fund balance				
Accumulated translation adjustments	**$ 43,747**		$ 37,488	
Other changes in fund balance	**213,793**	**257,540**	208,004	245,492
Total liabilities and fund balance		**$258,761**		$246,388

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in thousands of United States dollars

	Years ended December 31,	
	2003	2002
Additions		
Allocations from Fund for Special Operations	**$ 75,200**	$ 70,200
Income from investments	**3,364**	4,413
Total additions	**78,564**	74,613
Deductions		
Interest and principal paid on behalf of Ordinary Capital borrowers	**72,775**	79,442
Increase (decrease) for the year	**5,789**	(4,829)
Translation adjustments	**6,259**	10,633
Increase for the year, after translation adjustments	**12,048**	5,804
Fund balance, beginning of year	**245,492**	239,688
Fund balance, end of year	**$257,540**	$245,492

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

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. The principal purpose of the Bank 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 Bank (Agreement) provides for operations of the Bank to be conducted through the Fund for Special Operations (FSO) and the Ordinary Capital. In 1983, the Board of Governors of the Bank established the Intermediate Financing Facility Account (IFF) for the purpose of subsidizing part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital. The IFF receives annual allocations from the FSO, as indicated in Note D.

In making decisions concerning operations of the IFF, the number of votes and percent of voting power for each member country are the same as determined for 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 IFF's financial statements are prepared in conformity with United States generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Translation of currencies

The IFF's financial statements are expressed in United States dollars; however, the IFF conducts its operations in various convertible currencies, including the United States dollar. Assets and liabilities denominated in currencies other than the United States dollar are translated at approximate market rates of exchange prevailing at the dates of the financial statements. Income and expenses in such currencies are translated at the approximate market rates of exchange prevailing during each month. The adjustments resulting from the translation of assets and liabilities are shown in the Statement of Changes in Fund Balance as translation adjustments.

Investments

All of the IFF's investment securities are in the trading portfolio carried at market value, with realized and unrealized gains and losses included in income from investments in the Statement of Changes in Fund Balance.

Administrative expenses

Administrative expenses of the IFF are paid by the Ordinary Capital and are allocated between the Ordinary Capital and the FSO pursuant to an allocation method approved by the Board of Executive Directors.

Fair values of financial instruments

The following methods and assumptions were used by the IFF in estimating the fair value for its financial instruments:

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

Investments: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on dealer prices of comparable instruments or discounted cash flows.

Note C – Investments

As part of its overall portfolio management strategy, the Bank invests IFF resources, both directly and indirectly through an investment pool managed by the Bank, in high quality securities. The Bank manages these resources in the same manner as its own investments. IFF investments include government, agency, bank and corporate obligations, time deposits and asset- and mortgage-backed securities with credit ratings ranging from A+ to AAA.

The Bank limits IFF activities of investing in securities to a list of authorized dealers and counterparties. Strict credit limits have been established for each counterparty.

Trading portfolio: Investment securities held in the trading portfolio are carried at market value as shown in the Summary Statement of Investments in Appendix III-1. Net unrealized gains on trading securities, held at December 31, 2003, of $2,313,000 (2002—$2,728,000) were included in income from investments. The average return on investments during 2003 and 2002, including realized and unrealized gains and losses, was 1.32% and 1.70%, respectively.

Note D – Fund Contributions

The IFF is funded primarily through transfers from the FSO. The IFF is also authorized to receive additional contributions from any member country.

For initial funding purposes, the equivalent of $61,000,000 in convertible currencies of the general reserve of

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2003 and 2002

the FSO was transferred to the IFF on December 15, 1983. Actual and projected allocations from the general reserve of the FSO to the IFF in accordance with various agreements of the Board of Governors are shown in the following table (in thousands):

Year	Capital increases[(1)]	HIPC initiative [(2)]	Concessional resources agreement [(3)]	Total
Through 2001	$372,000	$ 44,000	$ 52,000	$ 468,000
2002	23,500	26,700	20,000	70,200
2003	30,000	25,200	20,000	75,200
2004	30,000	22,600	20,000	72,600
2005	30,000	12,300	20,000	62,300
2006	30,000	11,000	20,000	61,000
2007	30,000	11,000	20,000	61,000
2008	30,000	11,000	20,000	61,000
2009 to 2013	90,000	17,000	225,000	332,000
2014 to 2018	—	—	325,000	325,000
2019	—	—	65,000	65,000
Total	$665,500	$180,800	$807,000	$1,653,300

(1) Under the terms of the Sixth and Seventh General Capital Increases in the Resources of the Bank.
(2) As part of the Heavily Indebted Poor Countries Initiative (HIPC), the IFF is increasing subsidy payments on Ordinary Capital loans to Bolivia, Guyana and Nicaragua. In order to fund these additional subsidy payments, the FSO is making additional annual transfers in convertible currencies from its general reserve to the IFF.
(3) Mandated allocations under the Concessional resources agreement approved by the Board of Governors in 1999 amount to $20 million annually from 2000 to 2012 and $15 million in 2013. Additional transfers of approximately $65 million annually from 2012 to 2019 will be necessary to fund the 2000–2008 IFF lending mandated under the Concessional resources agreement of 1999. The level of these additional transfers may change as assumptions are revised in future years.

Future allocations are subject to annual approvals by the Board of Governors and to adjustment for appropriate reasons related to the availability of funding for the IFF.

Note E – Accumulated Translation Adjustments

The following is a summary of changes in the accumulated translation adjustments for the years ended December 31, 2003 and 2002 (in thousands):

	2003	2002
Balance at January 1,	$37,488	$26,855
Translation adjustments	6,259	10,633
Balance at December 31,	$43,747	$37,488

Note F – Commitments

The payment by the IFF of part of the interest due from borrowers is contingent on the availability of resources. At December 31, 2003, 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 thousands):

Country	Disbursed and outstanding	Undisbursed
Barbados	$ 60,464	$ 766
Bolivia	237,007	—
Costa Rica	137,582	2,153
Dominican Republic	229,153	153,596
Ecuador	315,610	115,735
El Salvador	259,673	150,869
Guatemala	271,533	128,319
Guyana	18,895	—
Honduras	1,929	—
Jamaica	263,002	146,395
Nicaragua	114,399	—
Panama	112,597	—
Paraguay	172,478	96,801
Suriname	41,560	36,071
Trinidad and Tobago	117,565	—
Uruguay	94,885	—
Regional	47,639	—
	$2,495,971	$830,705

The rate of IFF subsidy of interest due from certain borrowers on Ordinary Capital loans is set twice annually by the Board of Executive Directors. The amount of subsidy of the lending rate of IFF subsidized loans can be no more than 5% of eligible loans outstanding, subject to the effective rate paid by the borrowers being at least 1.5% above the convertible currency FSO average interest rate. For certain loans with increased subsidy under the HIPC I, the effective rate paid by the borrowers can be as low as the convertible currency FSO average interest rate. Under the enhanced HIPC, the IFF will subsidize 100% of certain debt service payments (both principal and interest) on Ordinary Capital loans to Nicaragua. It is expected that over time, the IFF will distribute all of its fund balance to subsidize part of the interest and principal payments for which certain Ordinary Capital borrowers are liable.

INTERMEDIATE FINANCING FACILITY ACCOUNT APPENDIX III-1
INTER-AMERICAN DEVELOPMENT BANK

SUMMARY STATEMENT OF INVESTMENTS – NOTE C

December 31, 2003 and 2002
Expressed in thousands of United States dollars

	2003		2002	
Investments	Cost	Market value	Cost	Market value
Investment Pool	$218,729	$229,332	$169,983	$178,274
Time deposits	24,991	24,991	66,376	66,376
	$243,720	$254,323	$236,359	$244,650

The freely convertible currencies of the above investments are as follows:

Currencies	2003	2002
Euro	$ 9,822	$ 22,738
Japanese yen	9,341	31,219
Swiss francs	5,828	12,419
United States dollars	229,332	178,274
	$254,323	$244,650

GOVERNORS AND ALTERNATE GOVERNORS

Country	Governor	Alternate Governor
ARGENTINA	Roberto Lavagna	Alfonso Prat Gay
AUSTRIA	Karl-Heinz Grasser	Thomas Wieser
BAHAMAS	James H. Smith, CBE	Ruth Millar
BARBADOS	Owen S. Arthur, MP	Grantley Smith
BELGIUM	Didier Reynders	Franciscus Godts
BELIZE	Ralph Fonseca	Meliton J. Auil
BOLIVIA	Xavier Nogales	
BRAZIL	Guido Mantega	Demian Fiocca
CANADA	Bill Graham	Alister M. Smith
CHILE	Nicolás Eyzaguirre	María Eugenia Wagner Brizzi
COLOMBIA	Alberto Carrasquilla Barrera	Santiago Montenegro Trujillo
COSTA RICA	Alberto Dent	Francisco de Paula Gutiérrez
CROATIA	Mato Crkvenac	Josip Kulisic
DENMARK	Carsten Staur	Ole E. Moesby
DOMINICAN REPUBLIC	José Lois Malkun	Félix Calvo
ECUADOR	Mauricio Pozo Crespo	Gilberto Pazmiño
EL SALVADOR	Juan José Daboub	Luz María Serpas de Portillo
FINLAND	Pertti Majanen	Taisto Huimasalo
FRANCE	Francis Mer	Jean-Pierre Jouyet
GERMANY	Uschi Eid	Rolf Wenzel
GUATEMALA	Eduardo H. Weymann Fuentes	Lizardo Sosa
GUYANA	Bharrat Jagdeo	Saisnarine Kowlessar
HAITI	Faubert Gustave	Paul Duret
HONDURAS	Arturo Alvarado	María Elena Mondragón
ISRAEL	David Klein	Dan Catarivas
ITALY	Giulio Tremonti	Vincenzo Desario
JAMAICA	Omar Davies, MP	Shirley Tyndall
JAPAN	Sadakazu Tanigaki	Toshihiko Fukui
MEXICO	Francisco Gil Díaz	
NETHERLANDS	Gerrit Zalm	Agnes van Ardenne van der Hoeven
NICARAGUA	Norman José Caldera	Eduardo Montealegre
NORWAY	Olav Kjorven	Age Grutle
PANAMA	Norberto Delgado Durán	Domingo M. Latorraca
PARAGUAY	Dionisio Borda	José Ernesto Büttner
PERU	Jaime Quijandría Salmón	Javier Silva Ruete
PORTUGAL	Maria Manuela Dias Ferreira Leite	Francisco A. Gusmão Esteves de Carvalho
SLOVENIA	Dusan Mramor	Irena Sodin
SPAIN	Rodrigo de Rato y Figaredo	
SURINAME	Humphrey Stanley Hildenberg	Stanley B. Ramsaran
SWEDEN	Ruth Jacoby	Stefan Emblad
SWITZERLAND	Oscar Knapp	Peter Bischof
TRINIDAD AND TOBAGO	Camille R. Robinson-Regis	Victoria Mendez-Charles
UNITED KINGDOM	Hilary Benn	Gareth Thomas
UNITED STATES	John W. Snow	Alan P. Larson
URUGUAY	Isaac Alfie	Ariel Davrieux
VENEZUELA	Tobías Nobrega Suárez	Jorge Giordani

As of December 31, 2003

EXECUTIVE DIRECTORS AND ALTERNATE EXECUTIVE DIRECTORS

			Number of votes	Percentage of voting power
Charles Bassett, **CANADA** Alan F. Gill (Alternate), **CANADA**	**Elected by:** Canada		335,022	4.001
José Carlos Castañeda, **GUATEMALA** Sandra Regina de Midence (Alternate) **HONDURAS**	**Elected by:** Belize Costa Rica El Salvador	Guatemala Honduras Nicaragua	202,692	2.420
Eugenio Díaz-Bonilla, **ARGENTINA** Martín Bès (Alternate), **ARGENTINA**	**Elected by:** Argentina Haiti		936,545	11.185
Luis Guillermo Echeverri, **COLOMBIA** Jaime Pinto Tabini (Alternate), **PERU**	**Elected by:** Colombia Peru		367,878	4.393
José A. Fourquet, **UNITED STATES** Héctor E. Morales (Alternate) **UNITED STATES**	**Appointed by:** United States		2,512,664	30.008
Agustín García-López, **MEXICO** Héctor J. Santos (Alternate) **DOMINICAN REPUBLIC**	**Elected by:** Dominican Republic Mexico		627,122	7.489
Juan E. Notaro Fraga, **URUGUAY** Jorge Crespo Velasco (Alternate) **BOLIVIA**	**Elected by:** Bolivia Paraguay Uruguay		205,291	2.452
Michel Planque, **FRANCE** Paal I. M. Aavatsmark (Alternate) **NORWAY**	**Elected by:** Austria Denmark Finland France	Norway Spain Sweden	400,427	4.783
Germán Quintana, **CHILE** Víctor M. Acosta (Alternate), **ECUADOR**	**Elected by:** Chile Ecuador		295,653	3.530
Luis Alberto Rodríguez **TRINIDAD AND TOBAGO** Havelock Brewster (Alternate), **GUYANA**	**Elected by:** Bahamas Barbados Guyana	Jamaica Trinidad and Tobago	126,574	1.511
José Alejandro Rojas, **VENEZUELA** Eduardo E. Linares (Alternate), **PANAMA**	**Elected by:** Panama Venezuela		518,658	6.194
Martus Tavares, **BRAZIL** Frederico Álvares (Alternate), **BRAZIL**	**Elected by:** Brazil Suriname		907,766	10.841
Yoshihisa Ueda, **JAPAN** Toshitake Kurosawa (Alternate), **JAPAN**	**Elected by:** Croatia Japan Portugal	Slovenia United Kingdom	510,794	6.101
Michaela Zintl, **GERMANY** Paolo Cappellacci (Alternate), **ITALY**	**Elected by:** Belgium Germany Israel	Italy Netherlands Switzerland	426,204	5.089
TOTAL:			**8,373,290**	**100.00***

Office of Evaluation and Oversight
Stephen A. Quick, Director
Sixto Felipe Aquino, Deputy Director

As of December 31, 2003
* The figures listed represent the sum of the individual countries' voting percentages, rounded to the nearest one-hundredth of one percent. Consequently, the total of 100% shown may not be identical to the sum of the individual percentages listed.

CHANNELS OF COMMUNICATION AND DEPOSITORIES

Member Country	Channels of Communication	Depository
ARGENTINA	Ministerio de Economía	Banco Central de la República Argentina
AUSTRIA	Federal Ministry of Finance	Österreichische Nationalbank
BAHAMAS	Ministry of Finance	Central Bank of The Bahamas
BARBADOS	Ministry of Economic Development	Central Bank of Barbados
BELGIUM	Ministère des Finances	Banque Nationale de Belgique
BELIZE	Financial Secretary, Ministry of Finance	Central Bank of Belize
BOLIVIA	Banco Central de Bolivia	Banco Central de Bolivia
BRAZIL	Ministério do Planejamento, Orçamento e Gestão, Secretaria de Assuntos Internacionais—SEAIN	Banco Central do Brasil
CANADA	International Financial Institution, 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 Hacienda	Banco Central de Costa Rica
CROATIA	Ministry of Finance	National Bank of Croatia
DENMARK	Danish International Development Agency (DANIDA)	Danmarks Nationalbank
DOMINICAN REPUBLIC	Banco Central de la República Dominicana	Banco Central de la República Dominicana
ECUADOR	Ministerio de Economía y Finanzas	Banco Central del Ecuador
EL SALVADOR	Secretaría Técnica de la Presidencia	Banco Central de Reserva de El Salvador
FINLAND	Ministry for Foreign Affairs	Bank of Finland
FRANCE	Ministère de l'Économie, des Finances et de l'Industrie	Banque de France
GERMANY	Federal Ministry for Economic Cooperation and Development	Deutsche Bundesbank
GUATEMALA	Banco de Guatemala	Banco de Guatemala
GUYANA	Ministry of Finance	Bank of Guyana
HAITI	Banque de la République d'Haïti	Banque de la République d'Haïti
HONDURAS	Banco Central de Honduras	Banco Central de Honduras
ISRAEL	Bank of Israel	Bank of Israel
ITALY	Ministry of the Economy and Finance	Banca d'Italia
JAMAICA	Ministry of Finance and Planning	Bank of Jamaica
JAPAN	Ministry of Finance	Bank of Japan
MEXICO	Secretaría de Hacienda y Crédito Público	Banco de México
NETHERLANDS	Ministry of Finance	De Nederlandsche Bank N.V.
NICARAGUA	Ministerio de Hacienda y Crédito Público	Banco Central de Nicaragua
NORWAY	Royal Norwegian Ministry of Foreign Affairs	Bank of Norway
PANAMA	Ministerio de Economía y Finanzas	Banco Nacional de Panamá
PARAGUAY	Banco Central del Paraguay	Banco Central del Paraguay
PERU	Banco Central de Reserva del Perú	Banco Central de Reserva del Perú
PORTUGAL	Ministério das Finanças	Banco de Portugal
SLOVENIA	Ministry of Finance	Bank of Slovenia
SPAIN	Subdirección General de Instituciones Financieras Multilaterales, Ministerio de Economía	Banco de España
SURINAME	Ministry of Finance	Central Bank van Suriname
SWEDEN	Ministry for Foreign Affairs, Department for International Development Co-operation	Sveriges Riksbank
SWITZERLAND	Office fédéral des affaires économiques extérieures	Banque Nationale Suisse
TRINIDAD AND TOBAGO	Central Bank of Trinidad and Tobago	Central Bank of Trinidad and Tobago
UNITED KINGDOM	Department for International Development	Bank of England
UNITED STATES	Treasury Department	Federal Reserve Bank of New York
URUGUAY	Ministerio de Economía y Finanzas	Banco Central del Uruguay
VENEZUELA	Ministerio de Planificación y Desarrollo	Banco Central de Venezuela

As of December 31, 2003

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Vice-President for Planning and Administration	Paulo Paiva
Chief, Office of the Presidency	Euric A. Bobb
Chief Advisor, Office of the Executive Vice-President	Joseph Engelhard
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Secretary	Carlos Ferdinand
Deputy Secretary	Armando Chuecos P.
Auditor General	Elizabeth Joy Folsom
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Chief	Stephen L. Abrahams, a.i.
External Relations Advisor	Mirna Liévano de Marques
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Manager	Donald F. Terry
Deputy Manager	Noriaki Kishimoto
Regional Operations Department 1	
Manager	Ricardo L. Santiago
Deputy Manager	Luisa C. Rains
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Manager	Miguel E. Martínez
Deputy Manager	Jairo Sánchez
Deputy Manager Financial Support Services	Keisuke Nakamura
Regional Operations Department 3	
Manager	Ciro De Falco
Deputy Manager	Máximo Jeria-Figueroa
Regional Operations Support Office	
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Finance Department	
Manager	Charles O. Sethness
Senior Deputy Manager-Treasurer	Eloy B. García
Deputy Manager	Ira J. Kaylin
Deputy Manager	Hiroshi Naka
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General Counsel	J. James Spinner
Deputy General Counsel	José Roberto Nolasco
Deputy General Counsel	Ana-Mita Betancourt
Strategic Planning and Budget Department	
Manager	Manuel Rapoport
Integration and Regional Programs Department	
Manager	Nohra Rey de Marulanda
Deputy Manager	Robert Devlin
Private Sector Department	
Manager	Hiroshi Toyoda
Deputy Manager	Bernardo Frydman
Sustainable Development Department	
Manager	Carlos M. Jarque
Deputy Manager	Christof Kuechemann
Deputy Manager	Antonio Vives
Research Department	
Chief Economist	Guillermo Calvo
Information Technology and General Services Department	
Manager	Richard J. Herring
Deputy Manager and Chief Information Officer	Erico de Oliveira E. Silva
Deputy Manager	Frank G. Vukmanic
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Manager	Manuel Labrado
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As of December 31, 2003

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