

Inter-American Development Bank Group

Ordinary Capital (OC)

FY2005 Appropriation	FY2006 Scheduled Request	FY2006 Arrears Request	FY2006 Total Request
\$0	\$0	\$0	\$0

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

For FY2006, the Administration is not requesting any additional funding for the OC.

Key Facts

- The U.S. co-founded the IDB in 1959 and is the largest shareholder, with 30% of both shares and votes in the institution.
- In 2004, IDB made new lending commitments of \$6.6 billion.
- Since its inception, IDB has made lending commitments totaling \$136 billion.

Notes: Internet website: www.iadb.org; IDB Fiscal Year: January 1 – December 31

Supporting U.S. Objectives

Results Measurement

- After a major report by the independent Office of Evaluation and Oversight (OVE) indicating the need for improvement in project outcomes, the Bank continues to improve the project performance monitoring system by collecting and incorporating lessons learned into new projects and developing a project-at-risk alert system.
- At U.S. urging, the Board of Governors at their 2003 meeting called for enhancing development effectiveness by strengthening country strategies and programming, project preparation and execution, internal organization and approval procedures, monitoring and evaluation systems, and coordination and harmonization with other international financial institutions.

- Since then, the Board has approved a Medium Term Action Plan for Development Effectiveness. The action plan has an external pillar (helping borrowers build capacity to manage for results and enhancing Bank coordination with other development institutions), an internal pillar (strengthening internal approaches to risk management and managing for results) and a corporate pillar (interconnected corporate activities supporting the internal and external pillars).
- To help implement the action plan, a major internal reorganization was approved in late 2004. The reorganization created a Department of Development Effectiveness and Strategic Planning, with a Chief Development Effectiveness Officer reporting directly to the Executive Vice President, and a division dedicated to Development Effectiveness.

Transparency

- In 2003, the Board of Executive Directors approved a new Information Disclosure Policy. The new policy concludes a process of extensive public consultations that resulted in valuable contributions to the revised version. The policy also includes a presumption that documents will be disclosed to the public unless there is a compelling reason for confidentiality.
- Accordingly, the new policy makes available to the public a wide range of operations-related, financial and institutional information, such as loan disbursement and debt-service projections, and institutional information including the decisions of the Board of Executive Directors and the minutes of the meetings.
- Since 2002, the IDB has been posting Specific Procurement Notices on its public website, and making available decisions from the Bank's Procurement Committee.
- The Bank's Office of External Relations presented an implementation plan for the new policy under which it: created a staff handbook and provided training to staff, conducted outreach and consultations to civil society in borrowing member countries, and will present an annual review of the policy to the Board of Executive Directors in early 2005.

Multilateral Coordination

- The IDB and other multilateral development banks jointly committed to measure, monitor, and manage for development results.
- The IDB hosted the Second International Roundtable on Managing for Development Results in May 2004. The presidents of five multilateral banks and the chairman of the OECD's Development Assistance Committee (DAC) endorsed a plan to strengthen country capacity in the area of managing for results.
- The IDB presented a harmonization and alignment action plan to outline steps being taken in coordination with other development partners to streamline the delivery of development assistance and reduce transaction costs. The IDB also signed a new Memorandum of

Understanding with the World Bank to cooperate on country analytical work in areas that include procurement, financial management, and infrastructure.

Increasing Productivity Gains

- IDB Management forwarded to the Board a Strategy on Competitiveness, which made explicit that “the low productivity levels of the Latin American countries imply a potential for growth that must be activated. The main goal of this strategy is to help improve the economic and institutional environments for private sector development and enhanced productivity.”
- In 2004, the Bank approved 27 projects with a combined value of \$2.1 billion in the area of competitiveness, representing 36 percent of total loan approvals for the year. Of those projects, 11 were public sector and 16 were private sector, covering areas such as energy, transportation, telecommunications, and agriculture and rural development.
- Brazil: \$33 million loan to help improve the competitiveness of the agrifood sector, in terms of food security and export support. The loan will help strengthen R&D capacity for export diversification with high-quality and high-value products, improve market access to family producers, and modernize the management model of the sector in line with international practices.
- Uruguay: \$77 million loan to improve overland transportation of freight and passengers along the key corridors of Uruguay’s road system. The program is expected to lower transportation costs and travel times, preserve Uruguay’s road assets, and increase road safety by improving and resurfacing integration corridors with Argentina and Brazil and key national roads and highways linking Uruguayan production centers with domestic and external markets. It also supports road system sustainability by making road management more effective.

Investments in Human Capital and Health Care

- In 2004, the Board of Executive Directors approved a new health sector strategy profile. There are ongoing consultations with government ministries, health experts, and civil society organizations to facilitate the Bank’s creating its new health strategy. In 2004, five health-related projects were approved for \$135 million.
- Nicaragua: \$30 million loan to improve health conditions for the country’s poorest people, by helping to reduce the profile of maternal and infant morbidity and mortality from avoidable causes that especially affect people living in poor rural areas with a heavy concentration of indigenous people.
- Suriname: \$5 million loan to finance technical assistance, training, materials and primary health care team incentives to assure delivery of a basic package of primary health care services with a focus on prevention in the coastal region; build public health training capacity in primary and preventive health care; and reduce administrative costs and improve

accountability and quality of health services financed through the health sector's major financiers, the State Health Insurance Fund (SZF) and the Ministry of Social Affairs (MSA);

- The IDB also prepared a consolidated education strategy profile in 2004, which is also under public consultation. The strategy profile deals with issues of equity and access, relevance, institutional capacity building, and regional cooperation in education. In 2004, three projects for \$91 million were approved in the education sector.
- Honduras: \$30.6 million to further the goals set by country's poverty reduction strategy by expanding education coverage in the third and fourth cycles of secondary education and improving the employability of youths and adults.
- The IDB provided a number of technical assistance grants for HIV/AIDS research and seminars throughout the region. In 2004, the IDB and the Global Fund to Fight AIDS, Tuberculosis, and Malaria signed a Memorandum of Understanding for joint cooperation. The Bank also published a study detailing resource requirements to fight HIV/AIDS in Latin America and the Caribbean.

Encouraging Private Enterprise and Market-Oriented Mechanisms

- The Board approved a new private sector development strategy and an implementation plan to help internal coordination on private sector activities, to consider expansion of mandates, to and pilot coordination among the Bank's private sector entities on a country work program (Bolivia).
- In addition, a new Private Sector Coordinator was selected, with a three-year term beginning in 2005, to report directly to the President of the Bank and the Chairman of the Boards of Governors. The Coordinator will be responsible for coordinating the Bank's private sector activities, ensuring that private sector activities are consistent with public sector strategies and operations, and recommend business models to improve the performance of the Bank's private sector work.
- The Board approved eleven private-sector operations —six direct loans and five guarantees totaling \$146 million in "A" loans, \$125 million in "B" loan syndications, and \$310 million in guarantees. A regional trade finance facilitation program was also approved for \$400 million. Private sector projects included: electricity transmission lines in Bolivia, a hydroelectric plant in Brazil, a mortgage-backed security in El Salvador, and a Brazilian infrastructure investment fund.
- In addition, the Bank sponsored a number of important conferences on private-sector-led growth throughout the year, including events on property rights, infrastructure investment, bond market development, and remittances and microfinance.
- Other institutions in the IDB Group also promoted private sector development. The Inter-American Investment Corporation (IIC) Board approved a total of \$164 million in loans and equity investments in 2004 to promote economic development through small and medium-size enterprises.

- The Multilateral Investment Fund (MIF) Donors Committee approved 84 new projects totaling \$115 million to promote private sector small business development in the important areas of reduction of the regulatory burden, trade promotion and international investment, small business networks and supply chains,” and accounting and audit standards.
- A particularly fertile area of MIF activity centered on remittances. MIF sponsored a major study of the remittance patterns of workers in the United States remitting to Latin America. Path-breaking MIF research and grants in this area indicate that flows from nationals living abroad back to their countries of origin account for one-third of foreign direct investment in the region and at least 10 percent of GDP in five countries.

Good Governance and Anti-Corruption Measures

- The Board approved the **Action Plan to Reform Project Procurement** in December 2003. The Action Plan sets out eight thematic areas for Bank action, including strengthening the managerial and administrative functions to carry out procurement, issuing new procurement policies and MDB-harmonized Standard Bidding Documents, developing new staff manuals to implement the new policies, and improving technical and managerial capacity to carry out procurement oversight.
- In January 2005, the Board of Executive Directors approved *new project procurement and consultant policies and procedures* for the IDB, which are very similar to current best-practices as embodied by the World Bank’s policies. These policies, and the related implementation guides for staff, are expected to create strong centralized oversight while building capacity in the Country Offices and the borrowing member countries to execute procurement in a more efficient and transparent manner to the benefit of all IDB Group members.
- The IDB Board also adopted an Action Plan to reform corporate procurement consistent with the recommendations provided by an external consulting firm. Management recently introduced a draft Corporate Procurement Policy for Board discussion in February.
- During 2004, the IDB approved 19 projects totaling \$887.7 million (or 15.3 percent of the total for all projects approved) for government reform. These include projects to modernize fiscal administration in Sao Paulo, Brazil, strengthen tax and customs authorities in Barbados, reform the public service in Colombia, and improve public management in Guyana.
- As part of its mandate, the Bank’s Office of Institutional Integrity (OII) adopted a multi-pronged strategy including: educating and promoting awareness of Bank staff through training courses for sector and financial specialists, presentations by the OII to country offices in Argentina, Chile, Colombia, the Dominican Republic, Ecuador, El Salvador, Honduras, Mexico and Peru. The OII now serves as the central portal for those wishing to present allegations of corruption as well as for investigations of these allegations.
- The Office of Institutional Integrity issued its first report to the Board of Executive Directors on activities in 2004. A public report will be made available on the website of the OII in

early 2005. The report will detail the number of allegations received, the disposition of the allegations, the number of investigations initiated, and the number of investigations closed.

- The Bank established sanctions procedures to deal with allegations of fraud and corruption in Bank-funded activities, among other things, these procedures provide for the creation of a Sanctions Committee to review claims of corruption in coordination with the OII.
- In 2004 the Board considered a framework for implementing best practices in the area of internal controls and the adoption of the COSO Internal Control-Integrated Framework. Also in 2004, an audit committee of the Board of Directors was established to separate audit-related functions from the Budget Committee. The Audit Committee will help the Board oversee the Bank's financial reporting system and financial statements, internal controls, risk management, and the internal audit function.
- During 2004, the Board also discussed reforming the Independent Investigation Mechanism to review compliance with Bank policies in Bank-funded activities. In December 2004, the Board agreed to put out the draft Consultation and Compliance Review for public comment.