

Inter-American Development Bank Group

Multilateral Investment Fund (MIF)

FY2005 Appropriation	FY2006 Scheduled Request	FY2006 Arrears Request	FY2006 Total Request
\$10,912,000	\$0	\$1,741,515	\$1,741,515

The Multilateral Investment Fund (MIF), administered by the Inter-American Development Bank (IDB), works directly with private sector and public sector partners to strengthen the environment for business, build the capabilities and skills standards of the workforce, and broaden the economic participation of smaller enterprises. The MIF's ability to partner directly with NGOs and business groups, as well as government entities, has made it an important instrument for reaching out to a broader spectrum of groups in the development process. MIF projects incorporate a significant degree of counterpart financing with a goal of having 50% of project cost borne by local counterpart contributions.

For FY2006, the Administration is requesting \$1.7 million to clear a portion of U.S. arrears to the MIF.

When the MIF was founded in 1992, the U.S. pledged to contribute \$500 million.

In January 2005, the MIF Donors agreed to replenish the fund starting in 2007. Pledges received were nearly \$350 million, and are expected to reach the \$500 million target. The U.S. will become MIF's largest contributor (with Japan a distant second). The U.S. conditioned support for the replenishment on the adoption of new procurement policies for the IDB (including the MIF). In addition to procurement, the U.S. achieved commitments on improving results measurement, retaining the focus on grants, increasing efficiency and impact of operations, and allocating resources to maximize innovation.

Key Facts

- The MIF was established in 1992 as a key element of the United States' Enterprise for the Americas Initiative.
- The U.S. is the co-largest contributor with Japan. Each pledged \$500 million of the \$1.15 billion fund. Japan has provided its share of \$500 million.
- In 2004, the MIF donors approved 84 technical assistance and investment projects totaling \$115 million, of which \$56 million were grants.
- Since its inception in 1992, the MIF has approved 661 projects having a total committed value of \$950 million. When counterpart funds are included, this amount exceeds \$1.8 billion in commitments to MIF projects throughout the region.

- The MIF is providing highly-focused support for new private sector development and privatization in Latin America and the Caribbean through provision of technical assistance on regulatory and legal reforms, workforce re-training, increasing productivity and competitiveness of financing vehicles, and efficiency improvements for small businesses and microenterprises.
- The MIF continues to play a key role in the IDB's recently-launched Business Climate Initiative (BCI). MIF will fund diagnostic assessments of country investment climates, which will include clear recommendations addressing those issues raised in the assessment.

Supporting U.S. Objectives

Transparency

The MIF has undertaken a major effort to improve information disclosure to the public.

- In 2003, MIF continued enhancements of its public website, greatly facilitating public access to information on all projects, programs and strategies. Project information is readily accessible by country, sector and year of approval.
- The website also contains substantial information on lessons learned from projects in many sectors, including, microfinance, small business reform, labor reform, and skills standards and certification. The website was expanded in 2004 to include additional reports, evaluations, articles and case studies.
- In 2004, the MIF produced a series of booklets entitled "Lessons From Innovation Series" that present key lessons and success factors from MIF projects in a specific area. The first booklets produced covered Skills Standards and Certification, Alternative Dispute Resolution, and Quality Management Systems.
- The MIF implemented a regular program of workshops with executing agencies, other development professionals and IDB staff, including, cluster workshops and conferences in areas such as ISO, remittances, trade and investment, corporate social responsibility, cleaner production and supply chains;

Building Capacity through Investments in Human Capital and Health Care

- Colombia: \$1.05 million grant to provide youth entrepreneurship training in Bogota, Medellin, and Cali. The project will develop a model for creating sustainable and competitive enterprises for the young people of these three cities.
- Regional: \$4.3 million grant to increase job opportunities and generate income for young people with an entrepreneurial vocation who cannot obtain backing from other sources. The project will improve an existing model and extend its use to new areas by helping young

entrepreneurs to devise and develop business projects by mobilizing funds and support from the business community.

- Brazil: \$89,000 grant to strengthen the network of worker-managed microenterprises in the municipality of Diadema (São Paulo State) through courses in management, cooperativism, and environment, as well as, through the provision of technical assistance in strategic planning and marketing.

Encouraging Private Enterprise and Market-Oriented Mechanisms

In 2004, the MIF continued its efforts to provide important support for microenterprise and Small and Medium Enterprise (SME) development by funding financial intermediaries who serve them and providing advice on appropriate regulatory and supervisory frameworks for the financial intermediaries.

- Brazil: \$ 92,750 grant for the development of a sustainable technical support unit to develop seeds, compost and derivatives for the production of edible mushrooms in the fringe areas of the City of Rio de Janeiro. The program will support the implementation and technical and logistical monitoring of the cultivation as well as marketing of mushrooms.
- Chile: \$370,000 grant to create an enterprise resource planning (ERP) system for SMEs to facilitate adoption of management systems. The project will facilitate the access by SMEs to both, local and international markets, as well as their improved integration in the value chain.
- Guatemala: \$30,000 grant to expand credit services provided to rural microenterprises. The project will facilitate the merger of several credit programs into a single institution, FONDESOL, that will be financially sound and will operate efficiently and effectively, following microfinance industry good practices.
- Haiti: \$220,000 to expand financial services for microenterprises throughout Haiti. Its purpose is to expand commercial microfinance services, by strengthening Capital Bank's Micro Credit Capital's technical and operative capabilities which will expand the firm's geographic coverage and number of clients served.

Remittances play a key role in many countries of Latin America and the Caribbean, with the total amount transferred over the next decade (projected at \$300 billion), far larger than the flows of official development assistance.

- Regional: \$8.2 million grant to four microfinance institutions in El Salvador, Nicaragua, Ecuador, and Bolivia to expand their lending to microenterprises and small businesses and improve the remittance distribution channels and link the flow of those funds with the cross-selling of financial services for the microenterprise sector.

Good Governance and Anti-Corruption Measures

The MIF continued its efforts to promote the development of modern legal, financial and regulatory frameworks with particular impact on the private sector and small businesses. Examples of projects approved in 2004 include:

- Chile: \$1.1m grant program to enhance the competitiveness, transparency, integrity, and soundness of Chilean cooperatives as an alternative means of promoting the social and economic development of the country.
- Costa Rica: \$435,000 grant to help improve the business and investment climate as well as boost the efficiency of the financial market. The project aims to raise the quality of businesses' financial reporting through the application of international financial reporting standards (ISA) so that it is high-quality, more transparent, objective, and comparable.
- Guatemala: \$500,000 grant to increase the Guatemalan electricity sector's efficiency and contribute to its sustainability by strengthening the electricity regulator's technical and institutional capacities for overseeing the electricity market. The project will include a comprehensive diagnostic assessment, a review of existing regulations and policies, the implementation of proposals and mechanisms for monitoring and overseeing the market, and a staff training program.
- Honduras: \$455,000 grant to help improve the efficiency and sustainability of water supply and sanitation services. The specific purpose of the project is to strengthen Honduras' recently created regulator so that it has the tools it needs to effectively regulate the sector.

Supporting the Environment

In 2004, MIF approved several operations to support improved environmental management and performance, which focus on cleaner production technologies, environmental management by SMEs and eco-efficient production.

- Brazil: \$89,000 to strengthen the operations of the Cleaner Production Center of Bahia, to minimize waste generation in the productive processes of the SMEs, to restructure the current residues model, turning it into a portal of opportunities for cleaner production.
- Guatemala: \$433,000 to help make Guatemalan SMEs more competitive and environmentally sound. The project is to encourage the use of cleaner production techniques at SMEs by promoting and strengthening the supply of, and demand for, related services.
- Uruguay: \$530,000 to help companies become more competitive and diminish their impact on the environment. The project is to develop technical and promotional services in the cleaner production area in order to strengthen and expand implementation of cleaner production and environmental management among SMEs nationwide.

Supporting Regions and Countries That Are Helping Combat Terrorism

Following the September 11 terrorist attacks on the United States, the MIF created a line of activity of up to \$10 million in grants to help strengthen airport security in Latin America and the Caribbean. To date, fourteen countries have received grants to implement an airport security strengthening project, with almost \$6 million in approvals. The goal is to help enhance civil aviation policies and regulatory frameworks, improve administrative services and train personnel in charge of surveillance and enforcement of new regulations.