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financiamiento del desarrollo

Multilateral Banking and Development Financing in a Context of Financial Volatility

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Abstract

In the 1990s, the economic performance of the Latin American and Caribbean economies was highly dependent on capital inflows into the region. Access to external financing coupled with better macroeconomic management, boosted growth and brought inflation down considerably. However, the processes of expansion and contraction on international financial markets led to volatility in international capital movements, which resulted in an unstable growth path. The paper discusses the composition and volatility of financial flows into Latin American and Caribbean countries. Indicators of external vulnerability and macroeconomic performance are also analysed.

The study also points out the role of multilateral banking in financing development in Latin American and Caribbean economies. Multilateral banking has played a significant role in support of public and private investments projects in the region, and by providing contra-cyclical financing when the private capital flows were volatile. To date, such banks have concentrated mainly on financing investment projects in different sectors. Indeed, in recent years, much emphasis has been placed on financing for the support of State and social sector management reforms.

In the near future multilateral banks should assume a leading role in improving access to private and public international resources. In this regard, the Andean Development Corporation (Corporación Andina de Fomento (CAF)), the Inter-American Development Bank (IDB) and the World Bank have already achieved positive results.

In particular, the development of instruments which will enable these institutions to mobilise financial resources for investment finance subject to collateral, guarantees, cofinancing arrangements, and, in general, any mechanism that can reduce the country risk of the economies in the region.

I. Introduction

In the 1990s, the economic performance of the Latin American and Caribbean economies was highly dependent on capital inflows into the region. Access to external financing, coupled with better macroeconomic management, boosted growth and brought inflation down considerably. However, the processes of expansion and contraction on international financial markets led to volatility in international capital movements, which resulted in an unstable growth path.

Regional economic growth was determined by external financial flows, but access to financial sources varied widely from one country to the next. Thus, the benefits and challenges generated by international financial integration differ significantly depending on whether the countries concerned are among the more or less developed. Among the less developed, official financial flows, together with remittances from emigrants and foreign direct investment have been the major sources of current account financing. On the other hand, the more developed countries, have not only attracted a significant proportion of foreign direct investment, but also account for the highest levels of private debt and portfolio equity flows.

The external sources of financing available to countries in the region also influenced the characteristics of the external shocks that they had to confront during the 1990s. Thus, countries with greater access to private lending sources were faced with crises in which not only was the balance of payments current account an important factor, but in which the position of their capital account played a crucial role in the actual gestation and development of the crisis.

In particular, the fall in the supply of external financing, deterioration of the economy's balance sheet and foreign exchange crisis occurred more or less simultaneously, in the short term. By contrast, the relatively less developed countries were subject mainly to problems arising from the trade balance of the balance of payments current account, so that crises and financing difficulties were determined rather by export and foreign exchange trends.

Multilateral Developing Banking (MDB), regional and sub-regional, has played an important role in providing external financing to the region. During the nineties, three fourth of net capital inflows to the countries of the region, with an income *per capita* below $US 2 000, was provided by MDB. This resources help to partially mitigate the negative effects of external shocks. For countries with a *per capita* income of $US 2 000 to 4 000 MDB's flows represented 14% of net capital inflows. For richer countries, a *per capita* income above $US 4 000, MDB only represented 11% of total net flows. However, this financing has an important anti-cyclical component. Also, the financial conditions of MDB loans have been in better terms than private financing, with lower interest rates and longer maturities.

Multilateral banking has played a significant role in support of public and private investment projects in the region. In recent years, these resources have been channelled increasingly towards projects for reforming the social sectors and for State management. The dynamic of the international financial system, in particular with respect to the volatility of flows, suggests that multilateral banking must play a more active role by offering countries access to less expensive, more stable sources of international financing, preferably to medium and long term flows and for sectors that have traditionally been excluded, in particular small and medium-sized enterprises.

To this end, multilateral banking institutions need to devise instruments that by ways of reducing the risk ratings of the economies in the region, can help to attract funds. The mechanisms adopted by the CAF, the IDB and the World Bank through agencies and specialised programmes are examples of such instruments.

Apart from the fact that multilateral banks can act as catalysts in making funds available for investment, some claim that one of the concerns of multilateral financial institutions should be to provide emergency financing —currently centred in the International Monetary Fund— to relieve liquidity problems caused by the volatility of international financial markets. This ties in with the fact that liquidity crunches have serious repercussions on poverty levels, on the development of small and medium-sized enterprises and on unemployment levels, issues which multilateral institutions explicitly seek to address.

In what follows the composition and volatility of financial flows into the region, indicators of external vulnerability and macroeconomic performance are briefly considered. The role of the IDB, the CAF, the Latin American Reserve Fund and the World Bank is also examined in terms of their contribution to the region. Attention is also given to the role that they should play in the current international financial context.

II. Anatomy of capital flows

Financial integration of the economies in the region, as in other regions, has been accompanied by substantial changes in external financial flows. The ready availability of banking credit in the 1970s gave way to a serious financial squeeze in the 1980s. In the 1990s, access to external financing was strongly influenced by development towards the end of the 1980s, of stock markets in the emerging economies and the emergence of bond markets in the early 1990s, following the adoption of the Brady Plan, which gave a strong boost to the secondary bond market. In addition to this, Foreign Direct Investment (FDI) flows were strong, particularly in the second half of the decade.

As shown in table 1, FDI and bond issues were the main sources of financing in the 1990s. FDI expanded strongly in 1996 and 1999, accounting for three-quarters of net capital inflows and becoming one of the principal means of financing the current account deficit. In 2000, however, these flows contracted sharply (ECLAC, 2001a). In contrast to the other private financial flows, FDI proved relatively stable and even, in some cases, acted counter-cyclically at critical times (notably in Mexico, 1995 and Brazil, 1998).

Bond issues became increasingly important, interrupted only by the after-effects of the Mexican financial crisis in 1995 and the Asian crisis in 1997. Unlike FDI, these flows proved to be unsteady and financing conditions were highly sensitive to fluctuations on international markets. As a whole and contrary to claims that financial crises today are intense but short-lived, conditions on bond markets have not yet recovered, three years down the line, to their pre-Asian crisis levels. (ECLAC, 2001a). During the first half of the 1990s, the average term for new issues in the region was between three and five years. In 1997, when bond sales were at their peak, it increased significantly, but declined again in the 1998-1999 biennium. Financial costs, which had fallen to their lowest levels in 1997, rallied strongly in August 1998 after the moratorium declared by Russia and, although the trend was downward, they remained above the levels that had prevailed before the Asian crisis (see figure 1).

Table 1

LATIN AMERICA AND THE CARIBBEAN: SOURCES OF EXTERNAL FINANCING

(Net flows in millions of $US)

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
A.	**Debt**											
	Official[b]	6 823	3 435	1 220	2 674	-1 301	9 307	-8 212	-4 447	9 125	2 275	-2 701
	Bonds	101	4 133	4 738	20 922	14 306	11 793	29 764	10 562	18 306	19 067	10 965
	Commercial banks[c]	2 731	1 275	4 302	201	6 212	15 068	16 200	29 646	-7 994	-16 130	4 339
B.	**Investment**											
	Direct	6 758	11 066	12 506	10 363	23 706	24 799	39 387	55 580	61 596	77 047	57 410
	Equity	896	6 938	8 042	27 185	13 160	7 643	13 893	9 947	1 748	3 893	2 305
C.	**Grants**[d]	2 350	4 165	2 622	2 908	2 645	3 333	3 181	2 719	3 215	2 949	3 100
D.	**Equalization funds**[e]	24 228	12 781	7 825	4 868	4 389	30 113	-1136	-4 038	8 885	5 881	-13 675

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the World Bank, the International Monetary Fund and the Bank for International Settlements.

[a] Preliminary estimates.
[b] Including bilateral and multilateral financing, but not including IMF loans.
[c] As of 1998, includes short-term flows.
[d] Not including technical cooperation.
[e] Including loans and use of IMF credit and exceptional financing. At the beginning of the 1990s, exceptional financing consisted mostly of overdue interest, but, in recent years, it has included funding from multilateral organisations other than the IMF, and from Governments of developed countries.

Figure 1

LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES

(Billions of $US)

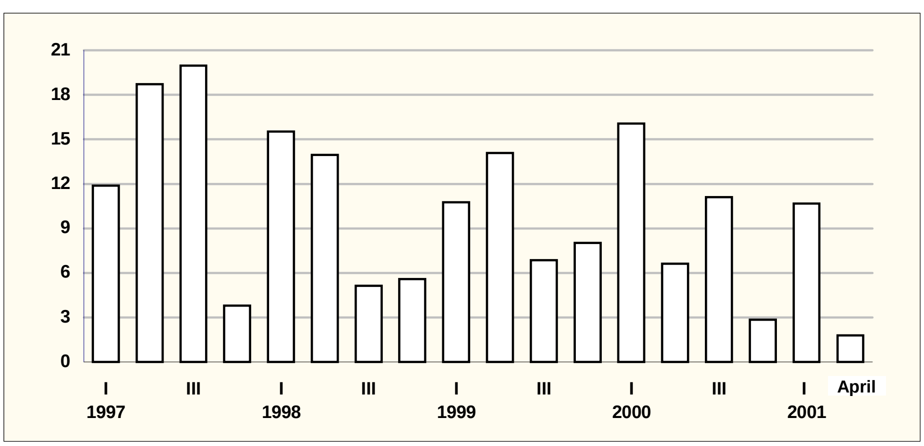
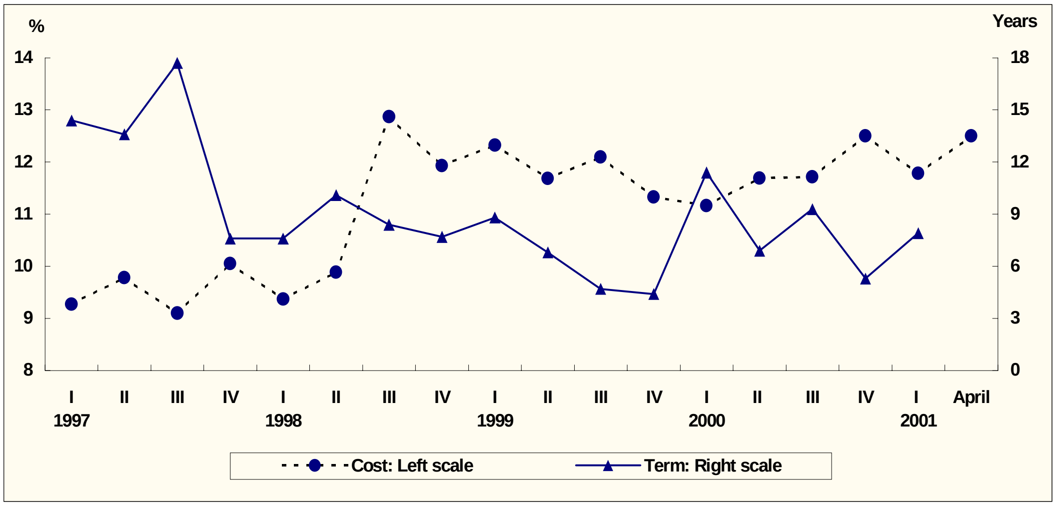


Figure 1 (continuation)

LATIN AMERICA AND THE CARIBBEAN: CONDITIONS GOVERNING INTERNATIONAL BOND ISSUES



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the International Monetary Fund, J.P. Morgan and Merrill Lynch.

Memo: Cost equals the sum of the average difference between bond issues and the return on long-term United States Treasury Bonds.

Net commercial banking flows into the region also rose to significant levels, but like bonds, proved to be highly volatile. They remained at moderate levels up to 1993, when they began to pick up, rising to a peak in 1997, only to fall again to negative values in 1998 and 1999. The financing conditions, especially the terms, have never been the same as before the debt crisis in the early 1980s. Portfolio equity flows, together with the issue of American depositary receipts (ADR) were the most unstable sources of financing.

Official and compensatory financing has, on the contrary, proven to be counter-cyclical, since it has increased at times when there have been drastic collapses in private investment, as in 1995 and 1998. This reflects the support provided by the International Monetary Fund, other multilateral organisations and some Governments of developed countries at critical times for different countries, notably, Mexico, at the end of 1994 and Brazil, in 1998 and early 1999. In recent years, bilateral inflows were negative for the region, as a result of the payment of debts incurred by Mexico with the United States in 1995. Multilateral sources were, thus, the principal official source of loan resources.

The exposure of different countries in the region to the effects of the volatility of external financing, varies significantly owing to their different degrees of access to such flows. Debt and investment flows from private sources have been concentrated essentially in the relatively more developed countries, which received around 90% of total debt flows and 85% of total investment flows (see table 2). This suggests that the perception being formed in international markets regarding economic development in the region is heavily influenced by what has occurred in a small group of countries.

Table 2

NET PRIVATE CAPITAL INFLOWS, 1990-1999

(Annual averages in $US and percentages)

	Foreign direct investment		**Portfolio equity flows**		**Total private investment**		**Memo (1999) *(%)***	
	Amount	***%***	***Amount***	***%***	***Amount***	***%***	***GDP[a]***	*%*
Latin America and the Caribbean	**32 937**	**100**	**9 214**	**100**	**42 151**	**100**	**100**	**100**
Low-income countries[b]	1 845	5.6	8	0.1	1 853	4.4	5	14.4
Middle-income countries[c]	3 844	11.7	902	9.8	4 746	11.3	10	15.4
High-income countries[d]	27 248	82.7	8 304	90.1	35 552	84.3	85	70.2
Argentina	5 442	16.5	1 132	12.3	6 575	15.6	16	7.4
Brasil	9 909	30.1	2 785	30.2	12 694	30.1	30	34.2
Chile	1 937	5.9	288	3.1	2 226	5.3	4	3.0
México	8 179	24.8	3 750	40.7	11 929	28.3	27	19.7
Venezuela	1 676	5.1	311	3.4	1 986	4.7	6	4.8
Others	105	0.3	37	0.4	142	0.3	2	1.0
	Bonds		**Commercial bank loans and others**		**Total private debt**		**Memo (1999) *(%)***	
	Amount	***%***	***Amount***	***%***	***Amount***	***%***	***GDP[a]***	***Population***
Latin America and the Caribbean	**13 647**	**100**	**10 691**	**100**	**24 337**	**100**	**100**	**100**
Low-income countries[b]	10	0.1	97	0.9	107	0.4	5.1	14.4
Middle-income countries[c]	914	6.7	1 100	10.3	2 014	8.3	9.8	15.4
High-income countries[d]	12 723	93.2	9 494	88.8	22 217	91.3	85.1	70.2
Argentina	4 871	35.7	578	5.4	5 448	22.4	16.2	7.4
Brazil	2 594	19.0	4 808	45.0	7 403	30.4	30.2	34.2
Chile	528	3.9	1 538	14.4	2 066	8.5	3.9	3.0
Mexico	4 202	30.8	2 317	21.7	6 519	26.8	27.4	19.7
Venezuela	353	2.6	-14	-0.1	340	1.4	5.9	4.8
Others	174	1.3	267	2.5	441	1.8	1.6	1.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the World Bank; Global Development Finance 2001; Latin American and Caribbean Demographic Centre-Population Division of ECLAC (Centro Latinoamericano de Demografía (CELADE)), and from national sources.

[a] Calculated on the basis of current values.

[b] The group of low-income countries includes the countries, where *per capita* Gross Domestic Product (GDP), estimated at market exchange rates, was below $US 2 000 in 1998, and includes Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua and Paraguay.

[c] The group of low-income countries is made up of those countries whose *per capita* GDP was between $US 2 000 and $US 4 000 in 1997 and which includes Colombia, Costa Rica, Jamaica, Panama and Peru.

[d] The group of high *per capita* income countries includes those countries whose *per capita* GDP was above $US 4 000 in 1997, namely Argentina, Barbados, Brazil, Chile, Mexico, Trinidad and Tobago, Uruguay and Venezuela.

This concentration of flows is due to the different capacity of countries to adapt to the new international financial conditions. Measured in terms of their percentage of Gross Domestic Product (GDP), the relative importance of total net long-term flows increased in the high and middle *per capita* income countries, while it decreased in lower-income countries. In this last group, official financing and grants were cut back to less than half and this was not fully offset by increases in FDI, whose role in financing the current account of these countries still increased significantly to stand at 6% of GDP in 1999 (table 3).

Table 3

CONTRIBUTION OF LONG-TERM EXTERNAL FINANCING BY GROUPS OF COUNTRIES

(Percentages of GDP, simple averages)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Net flow of long-term debt										
Low *per capita* income countries[a]	15.2	22.9	15.6	11.2	12.4	11.3	11.8	14.5	12.6	12.9
Middle *per capita* income countries[b]	3.2	4.6	2.3	4.6	5.2	4.2	5.7	9.0	8.4	6.5
High *per capita* income countries[c]	1.9	2.3	2.6	3.8	5.0	4.0	7.1	7.3	7.4	6.7
I. Official financing[d]										
Low *per capita* income countries	8.6	4.4	3.9	2.5	2.8	2.3	2.2	4.3	1.8	2.5
Middle *per capita* income countries	0.3	1.0	-1.3	-0.4	-1.0	-0.6	-1.2	-0.4	0.0	0.0
High *per capita* income countries	1.0	0.5	0.4	0.2	0.1	0.2	-0.3	-0.1	0.5	0.0
II. Financing on the bond market										
Low *per capita* income countries	0.0	0.0	0.0	0.4	0.1	0.0	-0.1	-0.1	-0.1	0.1
Middle *per capita* income countries	-0.1	0.0	0.0	0.2	0.5	0.3	0.8	1.7	1.9	1.3
High *per capita* income countries	-0.4	0.1	0.6	1.1	0.8	0.8	1.7	0.4	1.1	1.1
III. Financing through other private sources[e]										
Low *per capita* income countries	-0.4	-0.9	-1.4	-0.3	-0.4	-0.7	0.5	0.5	0.4	0.6
Middle *per capita* income countries	-0.6	-0.7	-0.1	0.2	0.1	0.3	0.1	1.0	0.1	1.2
High *per capita* income countries	0.0	-0.3	-0.4	-0.7	0.3	0.2	0.3	0.8	1.4	-0.2
IV. Foreign direct investment[f]										
Low *per capita* income countries	0.8	0.9	6.7	3.3	3.7	3.5	3.3	4.5	5.9	6.3
Middle *per capita* income countries	2.0	1.9	2.4	2.2	4.0	3.0	4.5	6.1	6.0	3.7
High *per capita* income countries	1.1	1.7	1.5	2.0	3.1	2.6	3.2	5.3	4.3	5.7
V. Equity investment										
Low *per capita* income countries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Middle *per capita* income countries	0.0	0.0	0.3	0.8	0.8	0.7	1.1	0.3	0.1	0.1
High *per capita* income countries	0.2	0.3	0.4	1.0	0.6	0.3	2.2	0.9	0.1	0.1
VI. Grants										
Low *per capita* income countries	6.2	18.4	6.3	5.2	6.2	6.1	5.9	5.4	4.7	3.4
Middle *per capita* income countries	1.6	2.4	1.1	1.7	0.7	0.5	0.4	0.3	0.4	0.2
High *per capita* income countries	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.0

Source: The World Bank, Global Development Finance, Washington, 2001.

[a] The group of low-income countries includes those countries where *per capita* GDP, estimated at market exchange rates, was less than $US 2 000 in 1998 and includes Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua and Paraguay.

[b] The group of middle-income countries consists of those countries whose *per capita* GDP was between $US 2 000 and $US 4 000 in 1997 and which include Colombia, Costa Rica, Jamaica, Panama and Peru.

[c] The group of high income countries includes those countries whose *per capita* GDP was above $US 4 000 in 1997, namely Argentina, Barbados, Brazil, Chile, Mexico, Trinidad and Tobago, Uruguay and Venezuela.

[d] Official financing includes loans from bilateral and multilateral sources.

[e] Includes loans from commercial banks and other private creditors.

[f] This refers to Foreign Direct Investment (FDI) inflows without deduction of the investments of the reporting economy abroad.

As can be seen in table 4, for lower income countries, migrant worker remittances have become a major source of resources. In countries such as El Salvador and the Dominican Republic, remittances were substantial throughout the decade of the 1990s. Remittances to Ecuador, Jamaica, Honduras and Nicaragua grew in the second half of the decade to account for between 6% and 13% of GDP, depending on the country.

Table 4

LATIN AMERICA AND THE CARIBBEAN: WORKERS' REMITTANCES

(Percentages of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total (*simple average*)	**1.3**	**1.6**	**1.6**	**1.9**	**2.4**	**2.4**	**2.4**	**2.6**	**2.9**	**3.7**
Argentina	…	…	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Barbados	1.2	1.2	1.6	1.6	1.7	1.6	1.7	2.0	2.1	…
Bolivia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.6	0.5
Brazil	0.1	0.3	0.4	0.2	0.3	0.4	0.2	0.1	0.1	0.2
Colombia	1.0	1.8	1.2	0.8	1.0	0.6	0.5	0.5	0.4	0.6
Costa Rica	…	…	…	…	…	0.8	0.7	0.5	0.3	0.1
Ecuador	0.5	0.5	0.5	0.5	0.6	0.9	1.5	2.1	4.0	7.9
El Salvador	6.7	8.8	11.5	11.4	11.9	11.2	10.5	10.8	11.2	11.1
Guatemala	1.3	1.3	1.7	1.7	2.0	2.4	2.3	2.2	2.2	2.4
Honduras	1.6	1.7	1.8	1.7	2.5	3.0	3.1	3.4	4.2	5.9
Jamaica	3.1	3.5	4.5	4.2	10.1	10.4	9.8	8.5	8.4	8.4
Mexico	0.9	0.8	0.8	0.8	0.8	1.3	1.3	1.2	1.3	1.2
Nicaragua	…	…	0.5	1.3	2.7	4.0	4.8	7.4	9.4	13.2
Panama	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Paraguay	…	…	…	…	…	1.5	1.4	1.5	1.7	1.9
Peru	0.3	0.4	0.7	0.8	1.1	1.1	1.1	1.1	1.1	1.4
Dominican Republic	4.5	4.3	3.9	7.5	7.2	6.7	6.9	7.2	8.4	8.7
Trinidad and Tobago	0.1	0.1	0.1	0.4	0.5	0.6	0.5	0.5	0.8	…
Venezuela	-1.4	-1.3	-1.4	-1.2	-1.0	-0.2	-0.4	-0.2	-0.2	-0.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data from the International Monetary Fund (IMF), Balance of Payment Statistics, March 2001 and from national sources.

III. Vulnerability

In the 1990s, a series of external shocks in both the real and the financial sectors simultaneously affected the rate and sustainability of economic growth in the region. As shown below, this led to a growth path closely linked to the fluctuations in the global economy in particular to the international financial dynamic. Clearly, the dissimilar effects of changes in the international context on the different economies in the region reflect the heterogeneity of the imbalances and internal problems that these had to contend with throughout the 1990s.

At the financial level, factors of vulnerability were based both on the actual state of the economies themselves and on the phenomena of contagion and "herd" behaviour among international investors. The changes in sovereign risk in the 1990s were a good example of this behaviour.

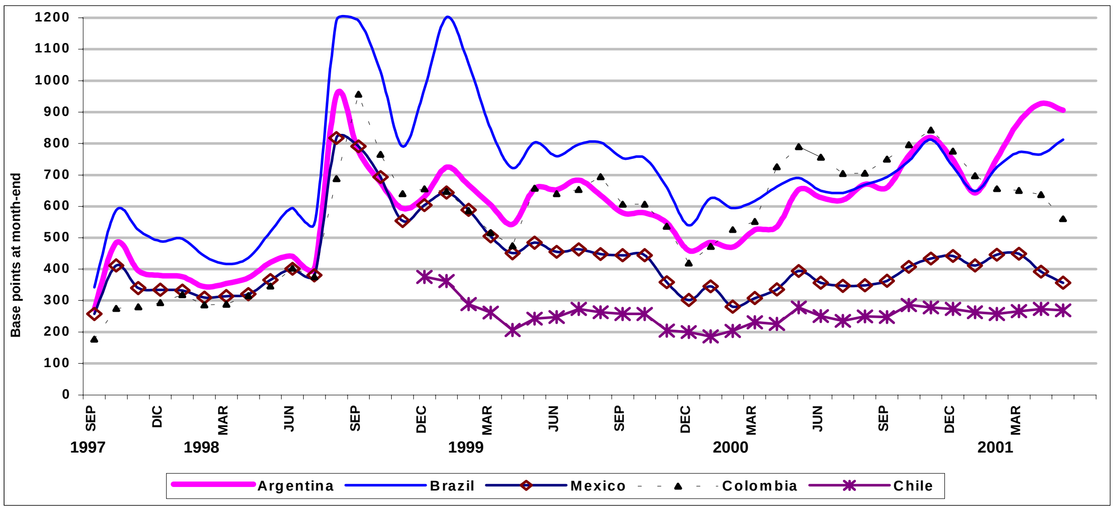
The growing importance of bond markets —as a source of financing for some countries in the region— meant that sovereign risk became an important indicator of the perceived vulnerability of an economy. Insofar as the external public debt bonds are issued in dollars, the country risk premium basically reflects the probability of non-fulfilment of these commitments. This premium is measured as the difference between the cost of: (a) issuing bonds in dollars for the Governments of emerging economies, and (b) issuing similar bonds in dollars for the Government of the United States.

Variations in the country risk premium for countries in the region show that, after the Asian crisis, this premium bore little relationship to the fiscal solvency of countries but rather that it was a reflection of the perception among international agents of those countries' access to international liquidity to enable them to honour their obligations. figure 2 shows that while the level of the premium reflects the particular state of the different economies, their dynamic proved very similar in different regions reflecting problems of contagion and "herd" behaviour. A comparison of the sovereign risk of countries in the region will reveal the same tendency. The Asian crisis in 1997 and the Russian moratorium in 1998 both resulted in an increase in country risk premium for all countries. Clearly, the amount of the increase is not the same, reflecting the special conditions prevailing in the different countries.

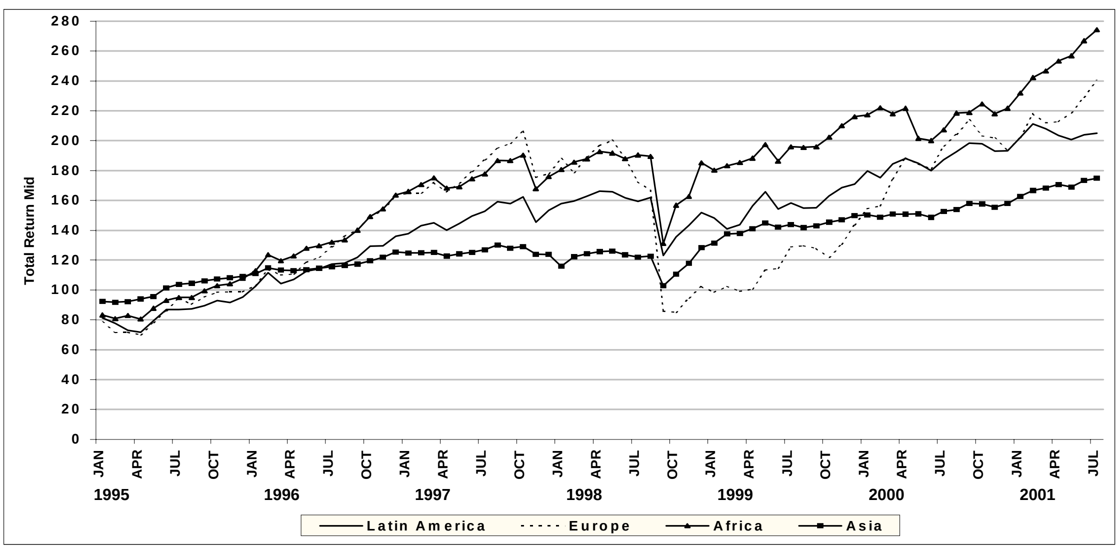
Figure 2

EUROBOND DIFFERENTIALS (1997-2000)

(Base points at month-end, over returns on United States Treasury Bonds)



EMERGING MARKETS BOND INDEX GLOBAL (EMBIG), (1995-2001)



Source: J. P. Morgan.

Memo: The Emerging Markets Bond Index Global (EMBIG), tracks total returns for US Dollar denominated debt instruments issued by emerging market sovereign and *quasi*-sovereign entities: Brady bonds, loans, Eurobonds, and local market instruments. Countries covered are Algeria, Argentina, Brazil, Bulgaria, Chile, China, Colombia, Cote d'Ivoire, Croatia, Ecuador, Greece, Hungary, Lebanon, Malaysia, Morocco, Mexico, Nigeria, Panama, Peru, the Philippines, Poland, Russia, South Africa, South Korea, Thailand, Turkey and Venezuela.

The main national factors that account for the differences in risk perception among international investors regarding a country are political risk, foreign-exchange risk, the strength of fiscal accounts, the size of the current account deficit, the soundness and capitalisation of national financial and banking systems, in particular, their capacity to withstand fluctuations in interest rates and exchange rates and their capacity to honour their acquired payment obligations, especially their debt servicing obligations.

The crises observed in the second half of the 1990s suggest that the vulnerability of economies depends, among other factors, on the maturity and currency mismatches existing in the financial structure of firms, financial institutions and the public sector, as well as on the variation in the real exchange rate and the current account. The extent and characteristics of crises is determined by the way these variables interact with each other. Practically all countries that suffer financial crises had, to a greater or lesser degree, problems of liquidity due to excessively high short-term debt and/or large current account deficits. (Mexico 1995, Indonesia, Korea and Thailand 1997, Russia 1998, Brazil 1999).

In this context, there is growing concern over the variations in indicators relating to short-term liquidity requirements (measured as the ratio of short-term debt to total debt) and to the backing that countries have for meeting these obligations (measured as the ratio of short-term debt to international reserves).

Since 1995, the ratio of short-term debt to total debt has declined significantly in countries of the region. Since that year, the short-term debt has on average been backed by international reserves to the extent that cumulative reserves have exceeded short-term debt levels. The pattern followed by these indicators in the region is similar to that observed among developing countries in other regions (see table 5). In practically all the emerging economies, there has been on average a fall in short-term debt and an improvement in the ratio of short-term external debt to reserves.

Table 5

INDICATORS OF EXTERNAL VULNERABILITY OF DEVELOPING COUNTRIES

(Percentages)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
Developing countries											
Short-term external debt/total external debt	16.8	17.2	18.4	18.5	18.3	19.8	20.7	20.1	15.9	15.8	15.9
Short-term external debt/international reserves	109.0	96.9	102.6	89.2	83.6	79.1	73.7	71.1	57.9	56.5	51.0
External debt-servicing/exports	18.1	17.2	16.3	16.2	15.9	15.7	16.4	17.1	18.2	21.4	17.0
Total interest/exports	7.8	7.7	6.7	6.4	6.3	6.6	6.3	6.2	6.9	6.7	6.0
Total external debt/gross national product	30.9	32.7	34.3	36.4	38.2	38.3	36.1	36.1	42.9	40.6	37.4
International reserves/imports (months)	2.9	3.2	3.1	3.6	3.8	3.9	4.2	4.1	4.7	4.7	4.3
Balance on current account/gross national product	-0.5	-1.6	-1.8	-2.7	-1.8	-2.0	-1.8	-1.6	-1.0	0.0	0.9
East Asia and the Pacific											
Short-term external debt/total external debt	17.9	19.2	20.9	22.0	24.7	28.6	31.5	28.1	18.2	16.8	17.0
Short-term external debt/international reserves	57.0	54.8	72.2	69.7	70.2	78.1	77.3	76.1	41.9	33.6	30.9
External debt-service/exports	15.7	13.4	13.5	14.1	12.1	11.4	12.1	11.2	12.9	15.8	10.8
Total interest/exports	6.0	5.9	5.0	4.8	4.5	4.7	4.6	4.6	5.1	4.6	4.0
Total external debt/gross national product	29.8	30.2	30.6	31.5	32.0	31.0	30.8	33.7	41.6	36.4	32.6
International reserves/imports (months)	4.0	4.3	3.5	3.7	4.1	3.9	4.4	4.3	6.4	6.4	5.2
Balance on current account/gross national product	-0.6	-1.3	-0.9	-2.2	-1.2	-2.3	-2.5	0.4	6.0	4.3	2.9
Latin America and the Caribbean											
Short-term external debt/total external debt	16.3	17.6	18.5	20.2	20.1	20.0	18.5	19.1	16.0	14.8	15.6
Short-term external debt/international reserves	131.8	116.4	97.5	93.7	103.2	93.6	75.7	77.7	76.6	79.0	82.4
External debt-service/exports	24.4	24.1	26.1	27.7	25.3	26.4	31.3	35.6	32.5	41.6	35.7
Total interest/exports	12.2	12.7	11.3	11.0	11.1	12.2	11.7	11.2	11.9	13.0	11.8
Total external debt/gross national product	44.6	43.6	40.9	40.3	37.9	39.9	38.0	36.6	41.1	41.8	38.5
International reserves/imports (months)	3.6	4.2	4.8	5.2	4.4	4.8	5.2	4.7	4.2	4.0	3.5
Balance on current account/gross national product	-0.2	-1.5	-2.7	-3.3	-3.3	-2.2	-2.1	-3.3	-4.5	-3.2	-2.4

Source: World Bank, "Global Development Finance", Washington, 2001.

[a] Preliminary data.

Another factor of vulnerability arises from the fact that external debt service and profit remittances now absorb a substantial amount of gross capital inflows in some countries of the region thus becoming a major drain on liquidity. The composition of the current account deficit shows the increasing importance of these variables, in particular, in the case of middle and high-income countries. Nevertheless, for low-income countries, the trade deficit was, and continues to be, an important factor in the composition of the deficit. For the average of the region, the current account deficit during the 1990s reached close to 2.6% of GDP while the trade deficit was 1% of GDP (tables 6 and 7). Thus, as from 1998, vulnerability increased as a result of the decline in the external debt over GDP compared with the preceding years. The same applies to the ratio of external debt to exports, which shows a significant increase as from 1995. The external deficit, in terms of the current account deficit, increased in the second half of the 1990s (table 5).

Table 6

**LATIN AMERICA AND THE CARIBBEAN:
BALANCE OF PAYMENTS BY GROUPS OF COUNTRIES (1990-2000)**

(Annual average as percentage of gross domestic product)

	1990-2000	1990-1994	1995-1997	1998-2000[a]
Balance on current account	**-2.6**	**-2.2**	**-2.6**	**-3.4**
Low-income countries [b]	-8.4	-9.6	-7.6	-7.1
Middle-income countries [c]	-4.2	-2.9	-4.9	-5.7
High-income countries [d]	-1.4	-1.1	-1.0	-2.2
Trade balance	**-0.9**	**-0.4**	**-1.0**	**-1.6**
Low-income countries	-10.3	-8.7	-10.4	-12.9
Middle-income countries	-2.0	-1.2	-3.3	-2.2
High-income countries	0.7	1.2	1.0	-0.3
Balance on financial account	**2.9**	**2.6**	**3.3**	**3.2**
Low-income countries	2.6	-1.2	4.3	7.3
Middle-income countries	2.5	-0.2	5.5	4.0
High-income countries	2.5	2.5	2.6	2.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

[a] Preliminary data.

[b] The group of low-income countries includes those countries, whose *per capita* GDP, estimated at market exchange rates, was less than $US 2 000, in 1998, namely, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua and Paraguay.

[c] The group of middle-income countries includes those countries whose *per capita* GDP was between $US 2 000 and $US 4 000 in 1997 and is made up of Colombia, Costa Rica, Jamaica, Panama and Peru.

[d] The group of high *per capita* income countries includes those countries whose *per capita* GDP was above $US 4 000 in 1997, namely Argentina, Barbados, Brazil, Chile, Mexico, Trinidad and Tobago, Uruguay and Venezuela.

IV. Performance and macroeconomic policy

The consolidation of fiscal accounts and the fall in inflation rates were two of the main macroeconomic advances observed in the 1990s. In terms of fiscal adjustment, the deficit was maintained, on average, at around 1.6% of GDP for most of the decade, although the situation worsened during the recent crisis, when serious fiscal problems surfaced in some countries and the deficit widened in 1998-2000 to 2.6% of GDP (see table 7). The maintenance of moderate levels of fiscal deficit was consistent, however, with an upturn in public expenditure, thanks to an increase in fiscal revenue. On average, public expenditure showed an increase of just over four percentage points in relation to GDP; this was reflected basically in higher social spending, which moved from 10.1% of GDP in 1990 to 12.4% in 1997 (ECLAC, 2000).

Discipline in fiscal accounts was accompanied by tight monetary control and this was reflected in a significant increase in real interest rates. The reduction in inflation in most countries, however, meant that this control was consistent with a significant increase in the money stock and an expansion in domestic credit in real terms. Interest rates started to rise in the mid-1980s and remained positive in the 1990s. (table 7, ECLAC 2001a).

Table 7

LATIN AMERICA AND THE CARIBBEAN: CHANGES IN SOME MACROECONOMIC VARIABLES 1990-2000

(Annual averages and percentages)

	1990-2000	1990-1994	1995-1997	1998-2000[a]
GDP growth[b]	3.2	3.8	4.4	2.2
Rate of inflation [c]	281.4	602.3	18.1	9.7
Net capital inflows (% of GDP)[d]	2.8	2.4	3.2	3.0
Fiscal deficit (as % of GDP)[e]	-1.6	-1.2	-1.4	-2.6
Investment rate (% of GDP)	20.7	20.3	21.3	20.6
Balance on current account (% of GDP)	-2.6	-2.2	-2.6	-3.4
Trade balance (% of GDP)	-0.9	-0.4	-1.0	-1.6
Real deposit interest rate	[f] 3.4	[g] 4.2	1.4	4.9
M2/GDP[h]	26.2	23.6	27.5	29.3
Domestic borrowing/GDP	33.1	32.5	31.8	35.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data from the International Monetary Fund (IMF), International Financial Statistics, May 2001 and national sources.

[a] Preliminary data for 2000.
[b] Figures based on values at 1995 prices.
[c] December-December variation.
[d] Corresponds to net autonomous capital inflows (including Errors and omissions).
[e] Central government coverage. Simple averages.
[f] Simple average from 1993-2000.
[g] Simple average from 1993-1994.
[h] M2 refers to money in circulation, plus deposits in current accounts of the private non-financial sector, minus transfers, plus demand deposits as distinct from current accounts, plus demand savings deposits, plus private-sector term deposits.

Investment picked up following the sharp contraction in the 1980s. As from 1990, the return on international capital to the region facilitated a recovery in the rate of capital accumulation, but this was not the case throughout the region, since in most countries, the increase in investment was achieved through greater external financing without any corresponding expansion in national saving or in access by investors, especially small and medium-sized investors, to domestic or external long-term financing. Investment levels in Latin America remained lower than the levels prior to the debt crisis. This decline in the rate of investment was more significant in the larger countries —which were more exposed to private capital flows— as revealed by the variation in the investment ratio for Latin America, which shows a less favourable recovery if based on the weighted average (by level of GDP) than when based on a simple average of countries (see figure 3, ECLAC 2001a).

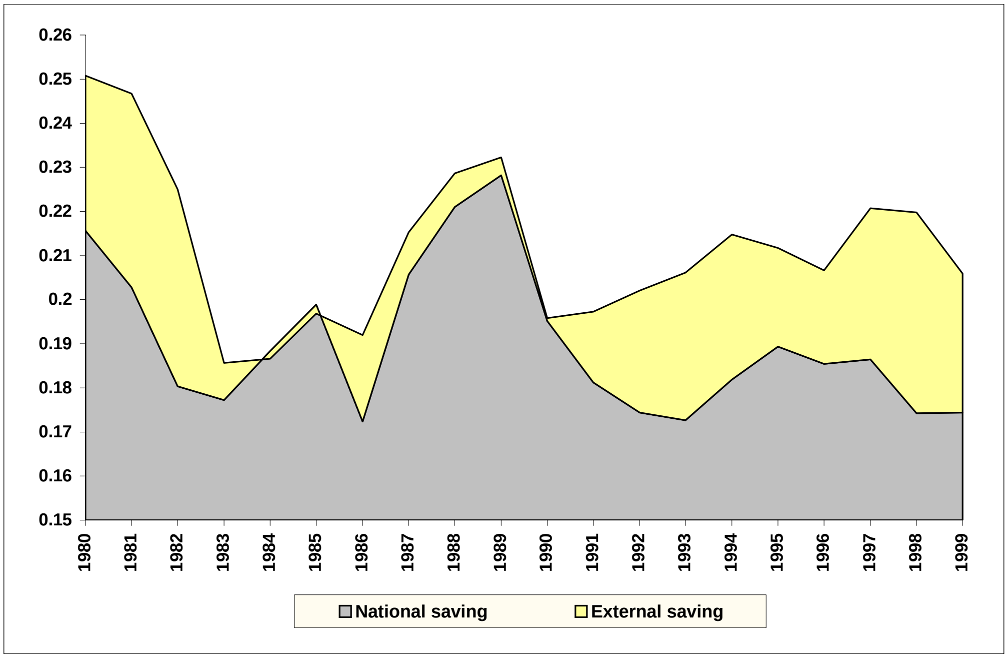
Capital inflows generated a tendency towards a real appreciation in national currencies, which lasted until 1998 (see figure 4).[1] In the long run, this proved to be the "Achilles Heel" of stabilisation strategies, when capital flows decreased. The exchange-rate lag accentuated the dependence on the availability of external financial resources and replaced inflation risk by the risk of an external liquidity crisis. Stricter control of fiscal accounts and monetary prudence were not sufficient to prevent it (ECLAC, 2001a).

[1] In the figure, a fall represents an exchange-rate appreciation.

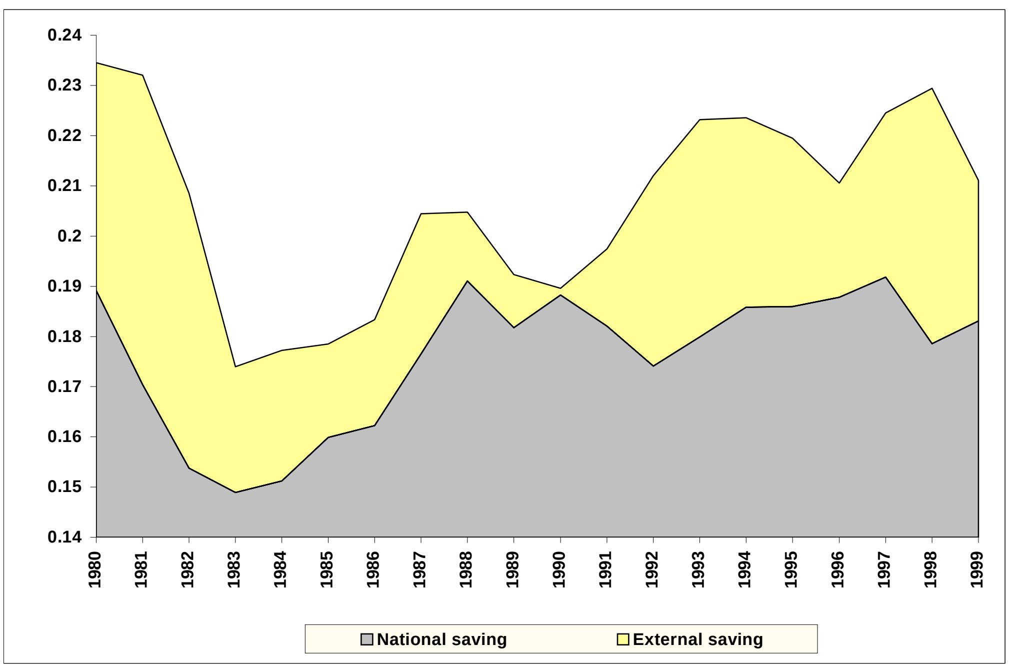
Figure 3

LATIN AMERICA: BASIC MACROECONOMIC INDICATORS (1980-1999)

(Percentage of GDP, weighted average)



(Percentage of GDP, simple average)

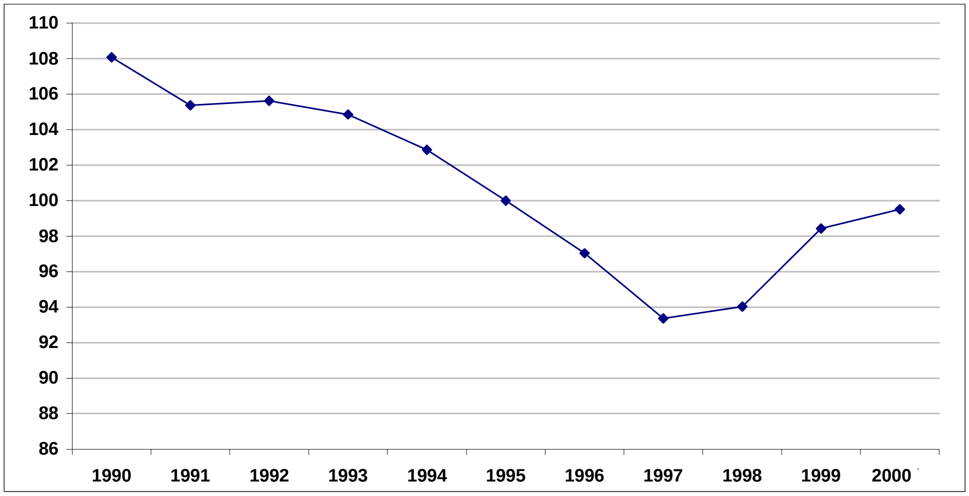


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

Figure 4

LATIN AMERICA AND THE CARIBBEAN:
INDEXES OF REAL EFFECTIVE EXCHANGE RATES FOR IMPORTS

(Index 1995=100, based on CPI)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the International Monetary Fund (IMF).

Memo: Refers to the average real (principal official) import-weighted exchange rates for the currency of each country against the currencies of its main trading partners. The weightings are the averages for the period 1994-1998.

Exchange-rate upheavals at the end of the decade accelerated the trend towards greater exchange rate flexibility, which with some exceptions prevailed in the region in the 1990s. Several countries decided to adopt flexible foreign exchange systems, generally a floating system with some degree of central bank intervention (dirty float), which in several cases replaced the controlled flexibility system (exchange-rate bands) adopted previously.[2] In this way, as shown in table 8, the floating-rate system became the most common foreign exchange system in the region.

Table 8

LATIN AMERICA AND THE CARIBBEAN: FOREIGN EXCHANGE REGIMES, 2000

Fixed, semi-fixed or dollarized	Controlled slide or floating band	Floating[a]
Argentina	Bolivia	Brazil
Ecuador	Costa Rica	Chile
El Salvador	Nicaragua	Colombia
Panama	Dominican Republic	Guatemala
Eastern Caribbean States	Uruguay	Guyana
Belize	Venezuela	Haiti
		Jamaica
		Mexico
		Paraguay
		Peru
		Trinidad and Tobago

Source: Economic Commission for Latin America and the Caribbean (ECLAC), "A Decade of Light and Shadow: Latin America and the Caribbean in the 1990s", Bogota, 2001.

[a] Floating-rate systems usually imply a certain degree of intervention by the Central Bank (dirty float).

[2] Only a minority number of countries, Mexico being one, adopted flexible exchange arrangements before the Asian crisis.

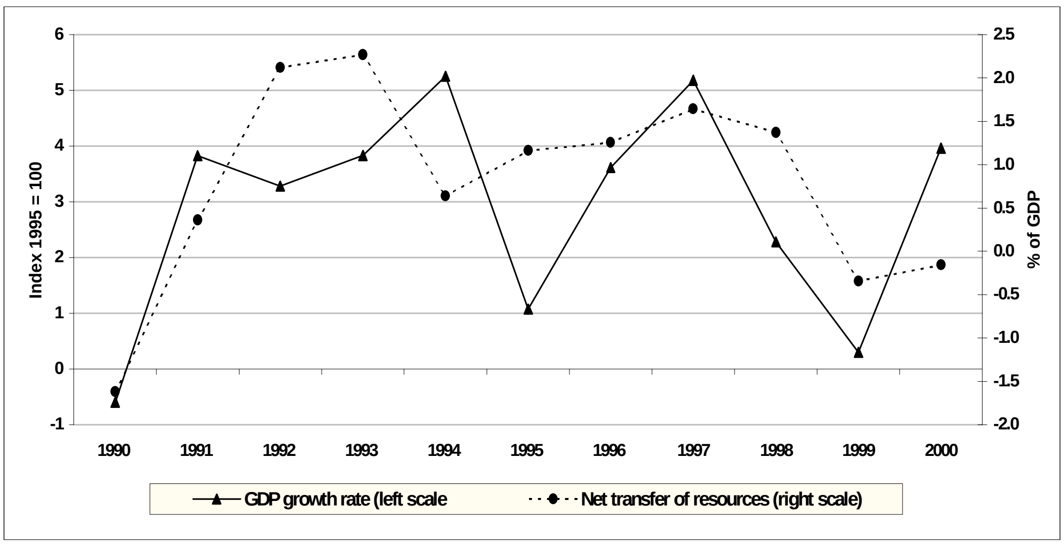
The revival of capital inflows contributed to an upturn in production. On average, the rate of economic growth in the region rose from 1.0% per year in the 1980s to 3.0% in the 1990s. This advance, although satisfactory, did not enable the region to retrieve its pre-crisis growth level: 5.5% per year in 1945-1980. This pattern of relatively lower growth compared with the three and half decades prior to the debt crisis could be seen in most of the countries in the region (ECLAC 2001a).

Growth, moreover, was unstable and highly dependent on external financing (ECLAC, 2001a). As shown in figure 5, the main determining factor of the variations in the economic growth rate throughout the 1990s was the fluctuation in capital flows. The expansion in external financing coincided with a marked acceleration in productive activity in 1991-1994 and again in 1996-1997, but these growth phases were followed by periods of adjustment in 1995 and 1998-1999.

Figure 5

GDP GROWTH AND NET TRANSFER OF RESOURCES

(Index 1995 = 100, based on CPI and % of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data provided by the International Monetary Fund (IMF) and national entities.

Memo: Net transfer of resources equals net capital inflows (including non-autonomous inflows, and errors and omissions), less the balance in the income account (profits and net interest).

Financial integration has meant that the number of instruments for managing external shocks has been restricted. In the 1990s, macroeconomic management in most countries was pro-cyclical, which in a number of cases, accentuated rather than moderated the effects of variations in international financing on the economic cycle. In particular, boom periods in such financing and the subsequent expansion in domestic credit in the countries, were reflected in higher —especially private— expenditure, which, together with exchange-rate appreciation, was reflected in cyclical deteriorations in the balance-of-payment current account. This situation made these countries extremely susceptible to any reversal of expectations. Both the current account and the price of assets had to be adjusted significantly when the international financial trend was inverted (ECLAC, 2001a).

The intensity of the adjustment in countries depended not only on the size of the imbalances accumulated in boom periods, but also on the way in which these occurred. In several cases, in a context of weak regulatory frameworks and prudential supervision, balance-of-payments adjustments coincided with a loss in solvency of domestic financial institutions generating full national financial crises.

V. The role of multilateral development agencies

As can be seen from the above, the financial integration of Latin American countries in the 1990s was marked by highly volatile capital flows, a major change in financial flows and a widely uneven pattern of access to external resources among countries in the region. Financial volatility had a major impact on the poor performance observed during the decade in terms of economic growth and poverty alleviation.

To the extent that financial volatility is based both on factors peculiar to countries and on exogenous elements, in particular problems of contagion and "herd" behaviour, the role of both the regional financial institutions and those of the Bretton Woods system must be redesigned, especially as far as multilateral development banking is concerned. These institutions, in a context of development financing must promote better access to international capital markets, support channelling of these resources towards productive and investment sectors and, where necessary, act as liquidity generators in a role of lender of last resort.

In this system, multilateral banking must be capable, on the one hand, of providing and facilitating access to financial resources that support activities that yield high social returns and which the private-sector is not prepared to finance. On the other, it must play a counter-cyclical role which allows access to financial resources at times when international private capital becomes scarce.

In countries with limited access to private markets, multilateral banking must maintain its traditional role as lender and provide institutional support. In this regard, it must continue to act as a preferential creditor over the private-sector in both concessionary and non-concessionary loans.

In countries that show greater access to private capital markets, the multilateral banking system must promote, on the one hand, broader private external financing (in terms of terms and currencies) and on the other, more stable access and at lower cost. To expand the market, it must generate initiatives and offer incentives that help to develop long term private markets in local currency and, in general, support financial innovations to facilitate the emergence of new financial instruments. In order to improve stability of access, it must be capable of supporting countries in case of liquidity problems, generate co-financing mechanisms with the private-sector, support emergency financing programmes, in particular, social safety nets and, in cases of insolvency, support and coordinate negotiations between official financing agencies, countries and the private-sector.

The role of multilateral development banks is not limited only to the financial field. These institutions must support countries through national and regional technical cooperation, promotion of dialogue, support for regional integration processes and for countries in their participation in global forums.

A. The Andean Development Corporation (Corporación Andina de Fomento (CAF))

In the Latin American context, the CAF has become one of the main multilateral banks in the Andean subregion. The Corporation is an international financial institution whose mission is to support the sustainable development of its shareholder countries and regional integration. Its principal members are the five countries of the Andean region: Bolivia, Colombia, Ecuador, Peru and Venezuela; in addition, its shareholders include the following countries: Brazil, Chile, Jamaica, Mexico, Panama, Paraguay, and Trinidad and Tobago.

Currently, the CAF grants loans and extends lines of credit to corporations, financial entities, and the public and private banking system, for financing external trade and working capital operations. In addition, it places at the disposal of the financial sector, overall loans and lines of credit for channelling resources towards various productive sectors, in particular, small and medium-sized enterprises. It offers development banking services to Governments and their agencies for financing priority projects mainly in physical infrastructure and integration sectors. It offers investment bank services, such as equity participation, procurement and guarantee for the issue of titles, project structuring and financing with limited guarantees (limited recourse lending, co-financing, syndicated loans, financial guarantees and others). It also provides financing for projects designed to promote human development and the integration of marginated groups (such as indigenous peoples).

In recent years, the Corporation has become the main source of multilateral financing for the Andean countries. Of a total of $US 27 billion approved for these countries by the IDB, World Bank, and CAF, in the five-year period 1995-2000, it provided 51% of the funds (see table 9).

The Andean countries have been the main recipients of funding from CAF, having received, on average, between 90% and 95% of approved loans. From 1995, on the one hand, the public sector of countries has been the recipient of a growing percentage of loans and, on the other, the proportion of medium and long term loans has increased sharply compared with short-term loans.

The former are geared basically towards financing the execution of investment projects and social projects, while the latter are for financing foreign trade operations and the working capital of firms (table 10).

Table 9

LOAN APPROVALS TO THE ANDEAN COUNTRIES, BY THE ANDEAN DEVELOPMENT CORPORATION (CORPORACIÓN ANDINA DE FOMENTO (CAF)), THE INTER AMERICAN DEVELOPMENT BANK (IDB), AND THE WORLD BANK (1995-2000)

(Millions of $US and percentages)

	Cummulative 1995-2000		2000	
CAF	13 447	50.6	2 276	51.4
IDB	8 014	30.1	925	20.9
World Bank	5 140	19.3	1 227	27.7
Total	**26 601**	**100**	**4 428**	**100**

Source: Annual reports of the CAF, the IDB and the World Bank.

Memo: Loan approvals do not necessarily add up to the amounts disbursed in a given year. The Andean countries are: Bolivia; Colombia; Ecuador; Peru, and Venezuela.

Table 10

ANDEAN DEVELOPMENT CORPORATION (CORPORACIÓN ANDINA DE FOMENTO (CAF)): APPROVAL OF OPERATIONS BY COUNTRY,OPERATING TERMS AND INSTITUTIONAL SECTOR

(Millions of $US)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total countries	**1 299.6**	**1 772.9**	**2 096.4**	**2 159.5**	**2 257.7**	**2 313.9**	**2 900.1**	**2 672.8**	**2 180.7**	**2 363.4**
Bolivia	66.4	121.9	183.0	285.1	296.3	223.2	353.4	227.0	247.6	382.8
Colombia	197.1	304.9	628.9	410.7	478.7	361.9	225.7	330.6	735.8	773.2
Ecuador	180.1	232.8	251.7	426.3	416.3	541.0	628.0	384.1	267.5	398.0
Peru	536.6	520.5	451.0	725.0	597.8	301.3	530.2	953.1	630.1	451.0
Venezuela	220.6	417.7	397.2	247.5	448.7	679.4	588.4	564.5	160.8	271.4
Other shareholder countries and regional operations[a]	98.8	175.1	184.6	64.9	19.9	207.1	574.4	213.5	138.9	87.0
Total operational modalities	**1 299.6**	**1 772.9**	**2 096.4**	**2 159.5**	**2 257.7**	**2 313.9**	**2 900.1**	**2 672.8**	**2 180.7**	**2 363.4**
Long-term loans	313.7	401.1	498.7	995.6	1 202.0	1 284.7	1 627.9	1 045.6	988.1	1 539.7
Medium-term loans	7.7	125.8	182.1	311.2	215.7	267.0	1 045.0	660.8	476.3	402.3
Short-term loans	976.2	1 242.1	1 369.5	793.9	816.8	718.7	204.0	910.4	656.0	405.2
Other modalities[b]	2.0	3.9	46.1	58.8	23.2	43.5	23.2	56.0	60.3	16.2
Total sectors	**1 299.6**	**1 772.9**	**2 096.4**	**2 159.5**	**2 257.7**	**2 313.9**	**2 900.1**	**2 672.8**	**2 180.7**	**2 363.4**
Institutional sector										
Public sector	71.7	803.3	822.4	863.4	885.7	864.2	1 213.3	967.6	1 268.7	1 750.3
Private and semi-public sector	1 227.9	969.6	1274.0	1 296.1	1372.0	1 449.7	1 686.8	1 705.2	912.0	613.1

Source: Annual Reports of the Andean Development Corporation (Corporación Andina de Fomento (CAF)).

Memo: The loans approved are not necessarily fully disbursed in the year when approved, so that the amounts approved and disbursed are not generally the same for any given year.

[a] These projects are generally designed to promote the physical integration of the Andean countries with neighbouring countries and also include operations with shareholder countries (Argentina, Brazil, Chile, Jamaica, Mexico, Panama, Paraguay, Trinidad and Tobago) and multinational operations (such as the approval of an equity participation for the creation of a Latin American investment guarantee corporation in 2000).

[b] Includes: Technical cooperation, equity participation and other modalities.

Since one of the main problems of the countries in the region is precisely the scarcity of medium and long-term funding for investment financing, the trend shown by CAF demonstrates how multilateral banks can play an major role in providing this type of financing, in particular to countries with limited access to private loan markets.

From a sectoral perspective, loans granted have been concentrated in the financial sector, transport and communications, manufacturing and, to a lesser extent, in agriculture (table 11).

Table 11

LOAN APPROVALS BY THE ANDEAN DEVELOPMENT CORPORATION (CORPORACIÓN ANDINA DE FOMENTO (CAF)), FOR PROJECTS AND PROGRAMMES, BY ECONOMIC SECTOR

(Millions of $US)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Agriculture, hunting and forestry	-	-	-	80.4	74.3	17.1	21.5	62.4	52.5	58.1
Mining and quarrying, oil and natural gas production	24.8	124.1	25.6	30.0	45.0	151.0	246.0	-	-	195.0
Manufacturing	37.6	77.0	89.6	11.1	42.5	-	122.1	23.6	76.7	60.1
Electricity, gas and water supply	16.8	85.0	110.0	22.0	370.3	367.3	412.8	200.0	192.5	179.9
Transport, storage and communications	29.8	95.0	139.5	415.5	316.0	275.4	472.4	940.5	402.0	340.3
Wholesale and retail trade	-	-	-	2.5	-	-	-	-	-	-
Public administration	-	-	-	-	-	25.0	-	55.0	33.0	455.0
Hotels and restaurants	6.7	-	-	35.6	21.2	2.0	3.0	2.0	19.9	22.9
Financial intermediation	198.0	20.0	134.0	319.0	220.0	405.0	261.5	130.5	345.0	331.2
Other community, social and personal services	-	-	-	72.0	-	45.0	116.4	70.5	253.0	144.8
Education	-	-	-	-	-	25.0	0.3	-	26.0	168.7
Total[a]	**313.7**	**401.1**	**498.7**	**988.1**	**1 089.3**	**1 312.8**	**1 656.0**	**1 484.5**	**1 400.6**	**1 956.0**

Source: Annual reports of the CAF.

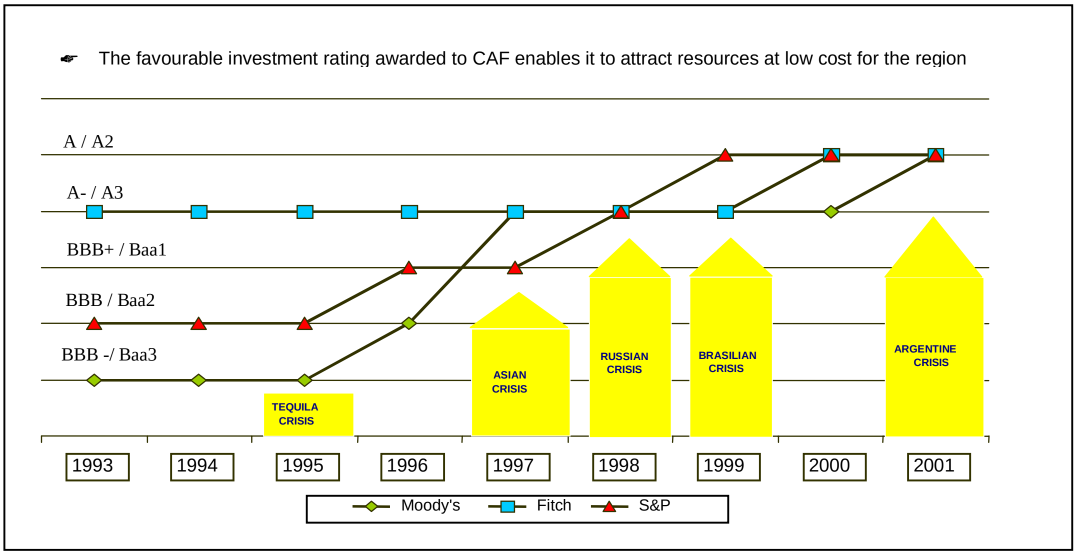
Memo: The loans approved are not necessarily fully disbursed in the year when approved, so that the amounts approved and disbursed are not generally the same for any given year.

[a] These totals relate to approved projects and programmes; total approved operations include these plus total corporate loans and international trade operations, total technical cooperation and Human Development Fund operations and total equity participation.

As pointed out, access by the different countries in the region to private global capital flows is highly uneven. This heterogeneity reflects the internal development of financial markets and the different levels of country risk assigned to their economies. In this context, multilateral banking will undoubtedly have a crucial role to play in the intermediation of financial funds from international markets towards the countries in the region.

As shown in figure 6, CAF has a much higher investment grade than its member countries. The Corporation is thus in a position to intermediate private financial funds from the international financial system towards its member countries. The chance to shelter behind this institution's investment grade is expected to facilitate access by several of the relatively less developed countries to financing, while significantly reducing the cost of these resources.

Figure 6
THE ROLE OF THE ANDEAN DEVELOPMENT CORPORATION (CORPORACIÓN ANDINA DE FOMENTO (CAF)) AS FINANCIAL INTERMEDIARY



Source: Based on a presentation by Enrique García, Executive President of Corporación Andina de Fomento (CAF), at the Seminar on Development Banking, Santiago, Chile, 2001.

B. The Caribbean Development Bank (CDB)

The Caribbean Development Bank is a regional financial institution established in Jamaica in 1969. The Bank was established for the purpose of contributing to the harmonious economic growth and development of the member countries in the Caribbean and promoting economic cooperation and integration among them, having special and urgent regard to the needs of the Less Developed Countries (LDCs) of the region. For this purpose, CDB has used the CARICOM definition of LDCs which comprises the following countries: Anguilla, Antigua y Barbuda, Belize, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines. To these are added the United Kingdom Overseas Territories of the British Virgin Islands, the Cayman Islands and the Turks and Caicos Islands. Adding The Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago, these are the Borrowing Member Countries.

During 30 years of operation, CDB's net financing approvals amounted to $US 1.9 billion, of which $US 1 billion, or 52.4%, was for the LDCs (table 12). A major objective of CDB —that having special regard to the needs of the LDCs— is therefore being met.

During 2000, from the total resources available 70.2% ($US 865.6 millions) was mobilised from sources outside the region, $US 169 millions (13.7%) was mobilised from regional member countries and $US 198.3 millions (16.6%) was generated by CDB's reserves and current net income.[3] Thus another objective —that of mobilising financial resources for the development of the region— is also being met.

3 The regional member countries, excluding the Borrower Member Countries, are: Colombia; Mexico, and Venezuela. The non-regional member countries are Canada; China; Germany; Italy, and the United Kingdom.

Table 12

CARIBBEAN DEVELOPMENT BANK (CDB): DISTRIBUTION OF LOANS, CONTINGENT LOANS, EQUITY AND GRANTS APPROVED (NET) BY COUNTRIES

(Millions of $US and percentages)

Countries	1970-2000		1997		1998		1999		2000	
	US$	*%*	*US$*	*%*	*US$*	*%*	*US$*	*%*	*US$*	*%*
Anguilla	23	1.2	-2	-4.5	2	1.5	-	-	8	4.3
Antigua and Barbuda	33	1.7	15	27.5	1	0.6	-	-	0	0.0
Bahamas, The	53	2.8	0	-0.3	-9	-7.4	10	6.6	0	0.0
Barbados	190	9.9	2	4.0	54	44.6	-1	-1.0	38	20.4
Belize	181	9.4	22	40.4	13	11.1	18	11.8	18	9.7
British Virgin Islands	53	2.8	0	0.0	-	-	21	13.9	0	0.0
Cayman Islands	44	2.3	-	-	-	-	-	-	-	-
Dominica	137	7.1	14	25.4	0	-0.3	10	6.6	17	9.2
Grenada	99	5.1	4	6.8	6	5.2	2	1.2	12	6.4
Guyana	134	6.9	0	0.0	6	4.7	1	0.3	0	0.2
Jamaica	281	14.6	-14	-25.1	18	14.8	5	3.5	41	22.1
Montserrat	15	0.8	0	0.0	-2	-1.4	0	0.1	0	0.0
St. Kitts and Nevis	99	5.1	7	13.0	4	3.3	7	4.7	4	2.0
St. Lucia	198	10.3	6	11.3	4	3.3	46	30.5	17	9.2
St. Vincent and the Grenadines	104	5.4	0	0.8	4	3.3	0	0.1	6	3.2
Trinidad and Tobago	141	7.3	-8	-14.8	18	15.2	19	12.5	13	6.8
Turks and Caicos Islands	21	1.1	6	10.4	0	0.1	0	0.1	4	2.1
Regional	118	6.1	3	5.1	2	1.5	14	9.1	8	4.2
Less developed countries[a]	**1 009**	**52.4**	**72**	**131.1**	**32**	**26.7**	**105**	**69.0**	**85**	**46.2**
Total	**1 926**	**100**	**55**	**100**	**122**	**100**	**152**	**100**	**185**	**100**

Source: Caribbean Development Bank (CDB), Annual Reports.

[a] The less developed countries are: Anguilla, Antigua and Barbuda, Belize, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines. To these are added the United Kingdom Overseas Territories of the British Virgin Islands, the Cayman Islands and the Turks and Caicos Islands.

CDB provides loan financing to the governments of its Borrowing Member Countries and to public and private-sector entities in those countries. It also lends to private-sector entities without government guarantee, and invests in equities in those enterprises. As part of its loan financing, CDB includes technical assistance to public and private-sector enterprises in its Borrowing Member Countries, in majority throw grants provided at 76.8% for the 30 years of activity to the Less Developed countries (table 13). For example, as part of the technical assistance program, the CDB approved in 2000 a grant to assist in financing the establishment of an Agricultural Trade Negotiating Unit. This unit would help in preparing CDB Borrowing Member Countries to participate effectively in international agricultural trade negotiations under World Trade Organisation (WTO), the Free Trade Area of the Americas (FTAA) and other trading agreements.

Table 13

CARIBBEAN DEVELOPMENT BANK (CDB): SUMMARY OF TOTAL FINANCING APPROVED (NET):LOANS, CONTINGENT LOANS, EQUITY AND GRANTS

(Millions of $US)

	1970-1999	2000	Total
Loans	1 588.2	179.4	1 767.6
Contingent loans	5.3	-	1 767.6
Equity	15.9	0.9	5.3
Grants	131.9	4.6	136.5
Total	**1 741.3**	**184.9**	**1 926.2**

Source: Caribbean Development Bank (CDB), Annual Report 2000.

Since the adoption of the Strategic Plan 2000-2004, CDB has focused on poverty reduction. It provides technical assistance and loan financing to assist its Borrowing Member Countries in five broad strategic areas that are linked to sustained poverty reduction: poverty and vulnerability; broad-based economic growth, good governance and public policy, economic integration and environmental protection. To meet these strategic objectives, CDB operates in the following sectors: agriculture; industry (including mining); tourism; education and health; economic and social infrastructure (electricity, water and sewerage, transportation, housing) and the environment (including solid waste management).

For the period 1970-2000, the sectors that received more financial assistance were transportation, communication sea defence; and financing and distribution (45.5% of all cumulative approvals). Social services have received only a 11.9% of the total financing for the same period, but as the strategic objectives are changing and focusing to the reduction of poverty, for the period 1997-2000, this sector has received on average a 23.6% of the total approvals (table 14).

Table 14

CARIBBEAN DEVELOPMENT BANK (CDB): SUMMARY OF TOTAL FINANCING APPROVED (NET) BY SECTOR: LOANS, CONTINGENT LOANS, EQUITY AND GRANTS

(Millions of $US and percentages)

Sector	1970-2000		1997		1998		1999		2000	
	US$	*%*	*US$*	*%*	*US$*	*%*	*US$*	*%*	*US$*	*%*
Agriculture, forestry and fishing	112	5.8	0	0.5	7	5.9	0	0.1	11	5.9
Mining and quarrying	39	2.0	-22	-40.1	0	0.3	-	-	-	-
Manufacturing	133	6.9	-1	-1.3	0	-0.1	-12	-7.9	0	0.0
Tourism	62	3.2	4	6.8	-6	-4.7	0	0.3	7	4.0
Transportation, communication and sea defence	448	23.2	16	28.5	37	30.4	57	37.2	6	3.4
Power, energy and water	157	8.1	16	28.5	0	0.1	10	6.7	4	2.0
Social services	228	11.9	21	38.9	31	25.4	16	10.2	37	20.1
Multi-sector and others	320	16.6	1	2.7	6	5.2	35	23.3	88	47.5
Financing and distribution	429	22.3	20	35.5	46	37.4	46	30.1	31	17.0
Total	**1 926**	**100**	**55**	**100**	**122**	**100**	**152**	**100**	**185**	**100**

Source: Caribbean Development Bank (CDB), Annual Report 2000.

Presently, Caribbean countries face the challenge of a liberalised international environment, characterised by the erosion of preferential trade arrangements on which they have traditionally depended; changes brought on by radical technological developments in the fields of information and communication; and those likely to result from the future establishment of the Free Trade Area of the Americas (FTAA). Compounding these is the declining availability of concessionary aid resources. For this purpose, countries in the region will need to undergo major restructuring and global repositioning. In order to assist the Caribbean countries in this process, CDB and the Inter-American Development Bank (IDB), whose activities will be presented in the next section, have formed a Task Force for which the main objective is to develop proposals and programs for addressing the challenges faced by CARICOM member countries.

C. The Inter-American Development Bank (IDB)

The Inter-American Development Bank was created in 1959 to contribute to, and foster, economic and social development in the countries of Latin America and the Caribbean. Since its inception, the Bank has become an important source of funding for the region. Between 1961 and 2000, IDB has channelled funds of approximately $US 108 billion between loans and non-refundable cooperation. Loan disbursements account for a major portion of total financing (tables 15 and 16). As table 17 shows, cumulative loan disbursements represent 77% at the end of 2000 of the cumulative loan approvals (83.3 billions dollars). So, approximately 25 billions dollars have not yet been disbursed.

Table 15

INTER-AMERICAN DEVELOPMENT BANK (IDB): LOAN APPROVALS, ANNUAL AND CUMULATIVE (1961-2000)

(Millions of $US)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	1961-2000
Argentina	13.5	892.7	1 061.0	951.0	717.2	1 626.2	977.5	1 262.6	3 847.4	460.9	832.0	15 753.6
Bahamas	-	31.8	21.0	-	21.0	-	57.5	0.8	14.0	23.5	21.8	295.2
Barbados	0.1	-	70.6	27.6	4.0	35.0	-	-	98.0	-	-	380.0
Belize	-	-	-	-	-	-	-	3.5	16.0	24.9	40.8	85.2
Bolivia	197.0	180.2	107.8	76.5	173.1	173.3	85.0	27.6	160.9	153.1	40.6	2 778.0
Brazil	392.9	780.4	940.5	896.3	1 132.0	1 582.0	1 699.8	1 477.0	1 625.5	4 789.5	658.2	22 105.5
Chile	246.0	230.0	174.5	50.0	75.0	-	-	-	-	265.0	483.7	4 691.2
Colombia	444.0	205.0	535.0	569.0	42.6	538.4	197.5	226.5	446.8	1 037.6	293.0	8 024.7
Costa-Rica	57.5	91.0	64.0	572.1	-	29.9	-	40.6	16.5	-	65.0	2 081.5
Ecuador	170.2	102.3	193.8	35.3	573.2	54.0	65.0	235.1	107.0	0.8	186.4	3 663.7
El Salvador	133.4	170.0	234.9	84.0	500.0	167.3	41.9	104.1	208.5	42.2	5.8	2 518.0
Guatemala	33.6	15.0	50.7	132.0	1.4	188.5	146.9	183.6	196.0	236.5	-	2 186.6
Guyana	27.0	67.8	23.9	27.1	-	76.1	62.0	41.0	20.3	84.4	0.9	702.1
Haiti	56.1	12.4	-	-	-	181.1	82.5	50.0	95.9	-	-	757.4
Honduras	109.5	216.3	141.6	29.9	53.9	231.2	22.5	20.5	197.4	85.2	142.1	2 090.3
Jamaica	147.0	126.0	39.0	72.5	22.9	41.5	76.4	43.7	15.0	73.6	209.8	1 547.1
Mexico	958.3	653.1	550.0	511.8	1 063.4	1 575.9	1 315.8	271.0	310.5	918.6	1 400.6	13 879.3
Nicaragua	-	152.5	120.7	85.7	194.5	118.9	68.2	90.0	202.1	93.9	113.1	1 663.3
Panama	-	-	129.4	230.4	30.0	30.2	188.1	286.2	341.7	64.7	23.6	1 918.2
Paraguay	30.0	162.0	201.1	109.9	20.9	79.8	174.3	59.4	66.2	67.3	174.7	1 713.1
Peru	-	655.9	221.8	214.5	494.7	140.0	755.5	219.2	653.1	518.9	344.8	5 443.0
Dominican Republic	2.3	29.6	36.4	151.3	30.3	107.4	3.3	95.0	172.5	259.4	74.3	1 982.2
Suriname	-	-	-	-	-	-	-	-	30.3	0.7	10.3	58.6
Trinidad and Tobago	2.0	265.4	33.5	92.5	2.0	109.0	256.0	2.1	1.8	107.0	-	1 016.8
Uruguay	35.0	222.7	208.7	73.0	32.8	54.0	384.1	337.3	233.4	77.8	44.2	2 322.2
Venezuela	746.0	156.5	596.6	640.0	70.0	164.0	68.9	50.0	911.2	100.0	60.0	4 078.1
Region	80.0	-	266.0	330.0	-	-	37.0	890.5	75.0	-	40.0	2 871.8
Total	**3 881.4**	**5 418.6**	**6 022.5**	**5 962.4**	**5 254.9**	**7 303.7**	**6 765.7**	**6 017.3**	**10 063.0**	**9 485.5**	**5 266.0**	**106 607.1**

Source: Annual reports of the IDB.

Memo: Minus payments and exchange-rate adjustments. As from 1998, loan amounts include guaranties provided by IDB. These amounts relate to approvals, which are not necessarily equivalent to disbursements for any given year, since an approved operation may be disbursed in the following year.

Table 16
INTER-AMERICAN DEVELOPMENT BANK (IDB): NON-REIMBURSABLE TECHNICAL COOPERATION
(Millions of $US)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	1961-2000
Argentina	0.23	4.67	0.35	1.17	0.37	20.32	0.25	6.93	12.26	1.07	0.26	66.15
Bahamas	0.14	2.73	1.43	1.50	0.79	-	0.76	1.11	0.03	0.21	0.03	17.72
Barbados	2.44	3.97	0.76	0.79	0.37	0.61	0.06	0.06	1.30	0.13	0.03	20.71
Belize	-	-	-	0.03	2.50	0.04	1.01	0.47	0.64	0.25	0.70	5.45
Bolivia	4.56	15.91	3.66	0.41	4.44	3.46	3.76	1.83	2.00	2.81	2.49	68.88
Brazil	0.04	0.67	3.07	10.92	19.01	3.37	12.66	12.23	12.54	13.47	3.18	141.61
Chile	0.11	0.55	0.43	0.67	0.56	1.39	0.74	0.31	1.97	0.63	0.76	9.01
Colombia	1.32	1.01	0.53	4.00	12.13	1.36	1.74	0.66	2.72	2.20	3.28	48.38
Costa-Rica	2.96	7.19	2.45	6.87	5.51	0.21	0.30	1.28	0.71	1.38	0.82	40.65
Ecuador	5.56	2.58	1.13	3.47	3.58	1.18	1.83	3.04	1.28	5.50	2.28	50.86
El Salvador	2.29	5.90	0.29	3.26	0.48	1.80	1.31	1.13	2.99	3.09	2.10	41.09
Guatemala	0.19	0.44	3.39	3.27	2.11	1.94	2.17	1.79	4.19	3.74	2.44	40.63
Guyana	0.20	10.79	1.09	0.59	1.43	3.96	2.78	1.10	3.27	1.17	1.59	44.34
Haiti	0.52	0.31	-	-	0.60	10.06	2.65	1.92	2.28	2.76	1.77	44.56
Honduras	0.68	0.34	0.49	2.06	3.93	3.43	2.43	1.41	3.74	4.03	3.02	44.75
Jamaica	0.56	1.36	1.73	0.17	0.91	2.75	1.09	1.15	0.28	0.98	0.55	29.13
Mexico	0.60	0.87	0.20	0.97	0.05	0.57	3.82	1.55	4.48	1.53	1.24	15.65
Nicaragua	4.06	7.35	3.93	8.29	13.81	2.96	1.92	0.58	1.98	3.55	2.53	61.95
Panama	-	2.61	2.49	0.28	0.65	1.27	4.19	0.15	2.92	0.85	2.35	30.74
Paraguay	3.92	0.44	4.56	2.08	2.98	1.50	1.55	4.03	4.27	1.46	3.00	53.42
Peru	0.22	10.28	2.37	10.68	7.08	5.68	9.91	1.94	2.59	2.10	2.99	75.46
Dominican Republic	0.29	1.44	1.04	0.02	4.09	1.81	1.23	1.77	3.98	2.93	2.14	43.97
Suriname	3.17	0.19	0.04	-	0.06	1.31	1.70	1.92	5.59	0.13	0.82	21.72
Trinidad and Tobago	1.82	5.61	0.18	0.46	0.63	1.03	-	0.06	1.46	0.17	0.15	19.23
Uruguay	5.52	5.15	1.64	2.88	1.35	0.22	1.42	0.24	0.15	0.70	0.58	27.06
Venezuela	0.33	1.06	0.23	2.99	0.63	0.21	0.99	0.93	2.03	0.47	-	11.17
Regional	15.13	46.57	27.92	36.41	20.96	42.75	50.00	28.21	24.23	23.62	25.63	597.40
Total	**56.85**	**139.97**	**65.39**	**104.21**	**111.01**	**115.18**	**112.27**	**77.78**	**105.86**	**80.94**	**66.72**	**1 671.68**

Source: Annual reports of the IDB.

Memo: Not including financing for small projects.

Table 17

INTER-AMERICAN DEVELOPMENT BANK (IDB): DISBURSEMENTS, ANNUAL AND CUMULATIVE (1961-2000)

(Millions of $US and percentages)

Countries	1990		1991		1992		1993		1994		1995	
	US$	*%*	*US$*	*%*	*US$*	*%*	*US$*	*%*	*US$*	*%*	*US$*	*%*
Argentina	224.0	8.9	284.4	9.0	210.3	6.6	1 043.6	28.0	266.1	8.8	1 070.6	22.2
Bahamas	23.0	0.9	52.4	1.7	27.6	0.9	10.0	0.3	3.9	0.1	8.3	0.2
Barbados	14.8	0.6	7.6	0.2	5.3	0.2	4.8	0.1	4.8	0.2	7.1	0.1
Belize	-	-	-	-	-	-	-	-	-	-	-	-
Bolivia	132.9	5.3	107.4	3.4	162.7	5.1	118.5	3.2	135.7	4.5	133.4	2.8
Brazil	244.1	9.7	241.0	7.6	328.5	10.3	324.5	8.7	396.2	13.0	491.3	10.2
Chile	319.0	12.7	228.6	7.3	279.9	8.8	144.9	3.9	140.1	4.6	65.2	1.4
Colombia	252.5	10.1	377.2	12.0	433.7	13.6	326.3	8.7	289.9	9.5	173.2	3.6
Costa-Rica	74.7	3.0	69.3	2.2	89.1	2.8	79.1	2.1	97.5	3.2	143.8	3.0
Ecuador	147.9	5.9	138.5	4.4	110.8	3.5	138.2	3.7	172.9	5.7	243.1	5.0
El Salvador	46.7	1.9	36.2	1.1	62.8	2.0	107.7	2.9	122.7	4.0	124.5	2.6
Guatemala	37.1	1.5	54.6	1.7	20.2	0.6	24.1	0.6	114.8	3.8	43.9	0.9
Guyana	18.9	0.8	12.4	0.4	29.9	0.9	22.6	0.6	17.4	0.6	21.8	0.5
Haiti	15.1	0.6	11.1	0.4	0.4	0.0	-	-	-	-	74.1	1.5
Honduras	75.3	3.0	28.5	0.9	111.1	3.5	124.9	3.3	80.9	2.7	80.8	1.7
Jamaica	70.4	2.8	67.5	2.1	70.9	2.2	77.2	2.1	42.4	1.4	53.8	1.1
Mexico	321.4	12.8	513.7	16.3	401.4	12.6	396.4	10.6	343.9	11.3	985.4	20.5
Nicaragua	-0.1	0.0	72.5	2.3	81.3	2.5	30.7	0.8	95.9	3.2	121.5	2.5
Panama	0.2	0.0	-	-	55.1	1.7	15.0	0.4	13.5	0.4	90.9	1.9
Paraguay	8.6	0.3	25.8	0.8	37.5	1.2	47.2	1.3	63.3	2.1	92.2	1.9
Peru	4.3	0.2	331.5	10.5	90.2	2.8	224.4	6.0	203.6	6.7	271.7	5.6
Dom. Rep.	44.3	1.8	37.3	1.2	26.3	0.8	43.4	1.2	49.1	1.6	113.8	2.4
Suriname	4.2	0.2	2.7	0.1	2.5	0.1	1.7	0.0	0.8	0.0	0.1	0.0
T. & Tobago	11.9	0.5	44.0	1.4	58.1	1.8	66.6	1.8	86.6	2.8	101.4	2.1
Uruguay	42.2	1.7	127.0	4.0	36.6	1.1	143.6	3.8	112.6	3.7	68.2	1.4
Venezuela	193.8	7.7	201.3	6.4	418.1	13.1	107.6	2.9	84.1	2.8	224.3	4.7
Regional	180.7	7.2	78.6	2.5	44.7	1.4	108.0	2.9	101.7	3.3	13.9	0.3
Total	**2 507.6**	**100**	**3 151.1**	**100**	**3 195.0**	**100**	**3 731.0**	**100**	**3 040.4**	**100**	**4 818.3**	**100**

Countries	1996		1997		1998		1999		2000		1961-2000	
	US$	*%*	*US$*	*%*	*US$*	*%*	*US$*	*%*	*US$*	*%*	*US$*	*%*
Argentina	577.1	13.4	974.7	17.8	1 500.0	22.6	1 441.4	17.2	961.7	13.6	11 590.0	13.9
Bahamas	12.0	0.3	25.3	0.5	34.6	0.5	13.0	0.2	20.8	0.3	236.4	0.3
Barbados	34.6	0.8	15.2	0.3	17.9	0.3	6.7	0.1	10.4	0.1	238.9	0.3
Belize	-	-	0.4	0.0	0.7	0.0	3.9	0.0	11.1	0.2	16.1	0.0
Bolivia	112.3	2.6	116.2	2.1	117.8	1.8	90.0	1.1	102.9	1.5	2 314.4	2.8
Brazil	824.2	19.1	1 368.2	25.0	1 647.0	24.8	2 878.8	34.3	2 783.4	39.4	16 981.3	20.4
Chile	49.9	1.2	22.3	0.4	22.9	0.3	93.1	1.1	88.9	1.3	4 106.2	4.9
Colombia	274.3	6.4	322.6	5.9	420.2	6.3	957.5	11.4	246.1	3.5	6 810.2	8.2
Costa-Rica	63.0	1.5	125.4	2.3	58.3	0.9	62.1	0.7	83.3	1.2	1 700.1	2.0
Ecuador	161.3	3.7	142.6	2.6	187.3	2.8	142.0	1.7	244.9	3.5	3 230.7	3.9
El Salvador	234.1	5.4	128.2	2.3	132.6	2.0	131.3	1.6	113.9	1.6	2 032.9	2.4
Guatemala	37.7	0.9	100.9	1.8	146.7	2.2	176.6	2.1	66.6	0.9	1 672.9	2.0
Guyana	56.0	1.3	32.4	0.6	20.4	0.3	33.4	0.4	54.1	0.8	503.3	0.6
Haiti	42.4	1.0	49.7	0.9	62.8	0.9	56.8	0.7	33.8	0.5	535.5	0.6
Honduras	148.7	3.4	50.0	0.9	58.1	0.9	78.7	0.9	68.3	1.0	1 690.4	2.0
Jamaica	49.6	1.1	61.4	1.1	58.1	0.9	72.8	0.9	124.8	1.8	1 271.0	1.5
Mexico	1 048.1	24.3	554.2	10.1	683.3	10.3	517.5	6.2	839.0	11.9	11 176.6	13.4
Nicaragua	69.5	1.6	73.9	1.4	108.2	1.6	84.0	1.0	81.0	1.1	1 265.9	1.5
Panama	90.0	2.1	145.2	2.7	133.2	2.0	53.6	0.6	60.7	0.9	1 331.5	1.6
Paraguay	83.4	1.9	104.1	1.9	87.4	1.3	99.3	1.2	112.1	1.6	1 230.3	1.5
Peru	156.1	3.6	587.9	10.8	316.9	4.8	485.6	5.8	350.7	5.0	4 455.2	5.3
Dom. Rep.	74.4	1.7	44.9	0.8	57.5	0.9	77.9	0.9	58.3	0.8	1 354.1	1.6
Suriname	0.5	0.0	-	-	-	-	18.6	0.2	0.6	0.0	35.9	0.0
T. & Tobago	74.1	1.7	48.1	0.9	43.6	0.7	64.3	0.8	25.5	0.4	636.2	0.8
Uruguay	92.4	2.1	178.7	3.3	150.8	2.3	358.5	4.3	162.9	2.3	1 906.2	2.3
Venezuela	-59.4	-1.4	73.8	1.3	548.0	8.3	188.7	2.2	277.4	3.9	2 957.1	3.6
Regional	10.1	0.2	121.9	2.2	21.4	0.3	201.1	2.4	85.1	1.2	2 012.6	2.4
Total	**4 316.0**	**100**	**5 468.2**	**100**	**6 635.7**	**100**	**8 387.2**	**100**	**7 068.4**	**100**	**83 292.0**	**100**

Source: Annual reports of the IDB.

Historically, resources have been allocated in similar proportions to the production sectors (in particular, agriculture and fisheries, and Industry, mining and tourism), physical infrastructure (energy, and transport and communications), social sectors (health, education, urban development, social investment, micro-enterprises, and the environment, and "other sectors" (State reforms, export finance, and pre-investment). In the 1990s, there was a marked increase in the funds allocated to social sectors and other sectors, in particular, social investment, and State reform and modernisation. This reflects the concern that Governments of the region had during the 1990s for initiating reform processes in these areas (see table 18). In appendix A, a summary of the principal projects approved by the IDB is presented.

Table 18

INTER-AMERICAN DEVELOPMENT BANK (IDB): DISTRIBUTION OF LOANS BY SECTOR

(Millions of $US)

Sector	1990	1991	1992	1993	1994	1995
Production sectors	**660**	**867**	**1 246**	**572**	**566**	**1 101**
Agriculture and fisheries	319	570	735	77	125	507
Industry, mining and tourism	280	102	250	-	441	310
Science and technology	[a] 61	[a] 195	[a] 261	[a] 495	-	284
Physical infrastructure	**1 353**	**1 374**	**1 270**	**2 470**	**777**	**1 092**
Energy	665	696	276	1 251	230	245
Transport and communications	688	678	994	1 219	547	847
Social sectors	**724**	**838**	**1 395**	**1 565**	**3 229**	**2 731**
Sanitation	-	-	-	-	-	-
Urban development	144	386	183	66	1 161	328
Education	-	-	-	-	969	107
Social investment	-	-	-	-	266	1 439
Health	[b] 468	[b] 407	[b] 1 170	[b] 1 271	[c] 748	[c] 801
Environment	-	-	-	-	85	31
Micro-enterprises	[d] 112	[d] 45	[d] 42	[d] 228	-	25
Other	**1 144**	**2 340**	**2 112**	**1 355**	**683**	**2 380**
State reform and modernisation	-	1 985	1 679	757	472	2 005
Export finance	76	88	30	31	24	25
Pre-investment and others	1 068	267	403	567	187	350
Total	**3 881**	**5 419**	**6 023**	**5 962**	**5 255**	**7 304**

Sector	1996	1997	1998	1999	2000	1961-2000
Production sectors	**580**	**158**	**1 244**	**1 562**	**610**	**24 226**
Agriculture and fisheries	580	157	122	100	165	11 973
Industry, mining and tourism	-	1	1 108	1 211	311	10 577
Science and technology	-	-	14	251	133	1 676
Physical infrastructure	**962**	**1 999**	**1 625**	**1 057**	**872**	**29 243**
Energy	305	1 040	832	367	437	16 415
Transport and communications	657	959	793	690	435	12 827
Social sectors	**2 704**	**2 605**	**3 331**	**4 266**	**1 871**	**31 581**
Sanitation	-	129	820	492	145	9 015
Urban development	580	677	672	233	685	6 655
Education	243	613	294	400	271	4 467
Social investment	650	792	1 093	2 484	618	7 427
Health	[c] 1 124	119	129	475	11	2 139
Environment	107	255	108	82	142	1 493
Micro-enterprises	-	20	215	100	-	386
Other	**2 520**	**1 255**	**3 863**	**2 602**	**1 914**	**21 557**
State reform and modernisation	2 433	798	3 841	2 344	1 885	17 710
Export finance	25	25	22	18	17	1 546
Pre-investment and others	62	432	-	240	12	2 302
Total	**6 766**	**6 017**	**10 063**	**9 486**	**5 266**	**106 607**

Source: Annual reports of the Inter-American Development Bank (IDB).

Memo: Loans reflect the amounts approved, which are not necessarily equal to disbursements for any given year, since an approved operation may not be disbursed until the following year.

[a] Includes education.
[b] Refers to public and environmental health.
[c] Includes sanitation.
[d] Includes tourism.

The total cost of projects for the period 1961-2000 amounted approximately $US 263 billions dollars. The IDB participated with its funds at a 40% of the total, providing $US 106 billions (table 19), while the remainder is Latin American countries contributions. However, this ratio is not the same for all countries, since the IDB contribution is higher in small or poor countries: in Bahamas, Bolivia, El Salvador, Guyana, Haiti, Nicaragua, Paraguay, Surinam, the IDB finances a 60-70% of the projects with its funds and the remainder correspond to the country's contribution. For Argentina, Brazil, Chile, Mexico, Venezuela, the IDB contribution in the total cost of the projects has no exceed 40%.of the total cost.

In the 1990s, IDB developed instruments to support intermediation of financial resources to the region. As already mentioned, its ability to support stable access by countries in the region to medium and long term facilities available on private international financial markets will undoubtedly be an important aspect of the role of multilateral banks in the immediate future.

Direct support from IDB in channelling resources towards private-sector investments in the region is done mainly through the Inter-American Investment Corporation, the Multilateral Investment Fund (MIF) and the IDB window for the private-sector.

Within the private-sector window, loans may be financed with IDB funds; this is referred to as the "A modality"; they may also be financed using funds of the IDB and other financial institutions under co-financing systems, referred to as the "B modality".

IDB provides two types of guarantees to private lenders: partial risk guarantees and partial loan guarantees. The former cover a loan against specific political risks, such as contractual obligations of the State and convertibility or monetary transferability. The second are applied to a part of the financing of private sources and in practice convert medium-term loans into longer-term operations.

Guarantees provided by IDB facilitate —and improve the capacity to finance— private investment projects on international financial markets. For example the Bogota river project in 1997 was the first project for the treatment of waste water which, thanks to guarantees provided by IDB, were financed with resources from the private international capital market.

Since this type of operation was started six years ago, the private-sector window has co-financed projects to the tune of $US 12.7 billion with direct financing by IDB of 2.1 billion. This represents 51 investment projects in 14 countries.

The Inter-American Investment Corporation, although part of the IDB group, is legally autonomous with independent resources and administration. Established in 1989, its objective is to support the financing of the small and medium-sized businesses in countries in the region, by providing what could be termed "seed capital".

Since its inception, the Inter-American Investment Corporation has channelled financing in excess of $US 8 billion in loans and capital investments to more than 2 400 companies in the production and services sectors in Latin America and the Caribbean.

The Multilateral Investment Fund was established in 1993 in order to boost private-sector growth in Latin America and the Caribbean with a capital of some $US 1.3 billion provided by 27 contributing countries, this Fund works directly with partners in the public and private-sector. Since its inception the Fund has approved 386 projects with a total cost of $US 1.2 billion. The fund only disbursed, from its own capital half of this amount. From 1997 to 2000, there has been a rise in credit approval reaching an annual level of $US 115-135 million compared with $US 60 million to $US 75 million in the period 1994-1997. The general distribution of financing was channelled toward private-sector development financing, human resource development, the development of small and micro-businesses and investments and loans financed by the Small Enterprise Investment Fund (SEIF).

Table 19

TOTAL COST OF PROJECTS AND INTER-AMERICAN DEVELOPMENT BANK (IDB) CONTRIBUTION

(Millions of $US and percentages)

Countries	1995			1996			1997			1998			1999			2000			1961-2000		
	1	2	2/1	1	2	2/1	1	2	2/1	1	2	2/1	1	2	2/1	1	2	2/1	1	2	2/1
	Total cost of projects	IDB contribution[a]	%	Total cost of projects	IDB contributiona	%	Total cost of projects	IDB contribution[a]	%	Total cost of projects	IDB contribution[a]	%	Total cost of projects	IDB contribution[a]	%	Total cost of projects	IDB contribution[a]	%	Total cost of projects	IDB contribution[a]	%
Argentina	2 768.9	1 626.2	58.7	2 176.0	977.5	44.9	2 277.5	1 262.6	55.4	9 363.8	3 847.4	41.1	1 336.0	460.9	34.5	1 257.7	832.0	66.2	38 962.6	15 753.6	40.4
Bahamas	-	-	-	97.5	57.5	59.0	0.8	0.8	100.0	20.0	14.0	70.0	33.5	23.5	70.1	30.6	21.8	71.2	489.7	295.2	60.3
Barbados	35.0	35.0	100.0	-	-	-	-	-	-	234.1	98.0	41.9	-	-	-	-	-	-	680.9	380.0	55.8
Belize	-	-	-	-	-	-	4.5	3.5	77.8	32.4	16.0	49.4	37.0	24.9	67.3	57.1	40.8	71.5	131.1	85.2	65.0
Bolivia	242.5	173.3	71.5	106.2	85.0	80.0	43.3	27.6	63.7	233.8	160.9	68.8	199.7	153.1	76.7	51.9	40.6	78.2	4 569.7	2 778.0	60.8
Brazil	3 392.5	1 582.0	46.6	3 301.0	1 699.8	51.5	3 161.0	1 477.0	46.7	3 687.6	1 625.5	44.1	7 027.0	4789.5	68.2	1 548.7	658.2	42.5	67 000.8	22 105.5	33.0
Chile	-	-	-	-	-	-	-	-	-	-	-	-	508.9	265.0	52.1	1 141.5	483.7	42.4	11 696.6	4 691.2	40.1
Colombia	1 787.1	538.4	30.1	482.2	197.5	41.0	543.4	226.5	41.7	561.3	446.8	79.6	1 179.1	1037.6	88.0	428.0	293.0	68.5	19 585.3	8 024.7	41.0
Costa-Rica	44.5	29.9	67.2	-	-	-	58.9	40.6	68.9	65.8	16.5	25.1	-	-	-	92.0	65.0	70.7	3 614.3	2 081.5	57.6
Ecuador	96.5	54.0	56.0	125.0	65.0	52.0	342.4	235.1	68.7	121.7	106.9	87.8	455.1	259.4	57.0	197.2	186.4	94.5	6 802.2	3 663.7	53.9
El Salvador	239.1	167.3	70.0	50.2	41.9	83.5	107.9	104.1	96.5	241.2	208.5	86.4	0.8	0.8	100.0	7.4	5.8	78.4	3 899.8	2 518.0	64.6
Guatemala	410.5	188.5	45.9	168.2	146.9	87.3	236.5	183.6	77.6	227.5	196.0	86.2	53.0	42.2	79.6	-	-	-	3 746.6	2 186.6	58.4
Guyana	76.8	76.1	99.1	63.9	62.0	97.0	45.6	41.0	89.9	25.3	20.3	80.2	287.3	236.5	82.3	1.0	0.9	90.0	881.3	702.1	79.7
Haiti	267.1	181.1	67.8	85.7	82.5	96.3	55.0	50.0	90.9	137.9	95.9	69.5	88.9	84.4	94.9	-	-	-	1 055.7	757.4	71.7
Honduras	387.4	231.2	59.7	25.3	22.5	88.9	23.6	20.5	86.9	219.5	197.4	89.9	-	-	-	171.0	142.1	83.1	3 836.0	2 090.3	54.5
Jamaica	68.2	41.5	60.9	109.0	76.4	70.1	102.3	43.7	42.7	20.0	15.0	75.0	92.3	85.2	92.3	221.2	209.7	94.8	2 343.6	1 547.1	66.0
Mexico	4 894.7	1 575.9	32.2	2 552.8	1 315.8	51.5	349.6	271.0	77.5	560.8	310.6	55.4	110.0	79.1	71.9	3 132.8	1 400.6	44.7	39 389.8	13 879.3	35.2
Nicaragua	267.2	118.9	44.5	149.0	68.2	45.8	104.2	90.0	86.4	251.3	202.2	80.5	1 766.8	918.6	52.0	127.0	113.1	89.1	2 767.1	1 663.3	60.1
Panama	216.2	30.2	14.0	228.0	188.1	82.5	450.5	286.2	63.5	481.2	341.7	71.0	137.2	93.9	68.4	97.3	23.6	24.3	3 587.5	1 918.2	53.5
Paraguay	140.2	79.8	56.9	233.3	174.3	74.7	115.6	59.4	51.4	75.0	66.2	88.3	89.0	64.7	72.7	278.5	174.7	62.7	2 528.1	1 713.1	67.8
Peru	327.5	140.0	42.7	1 152.3	755.5	65.6	326.0	219.2	67.2	1 386.5	653.1	47.1	89.8	67.2	74.8	482.6	344.8	71.4	9 763.4	5 443.0	55.7
Dom. Rep.	169.8	107.4	63.3	4.9	3.3	67.3	118.1	95.0	80.4	198.5	172.5	86.9	613.6	518.9	84.6	86.0	74.3	86.4	2 929.2	1 982.2	67.7
Suriname	-	-	-	-	-	-	-	-	-	30.4	30.3	99.7	0.8	0.8	100.0	12.8	10.3	80.5	73.6	58.6	79.6
T. & Tobago	126.1	109.0	86.4	495.0	256.0	51.7	3.6	2.1	58.3	2.4	1.8	75.0	153.6	107.7	70.1	0.4	0.3	75.0	1 551.8	1 016.8	65.5
Uruguay	89.0	54.0	60.7	486.7	384.1	78.9	485.3	337.3	69.5	336.6	233.4	69.3	110.8	77.8	70.2	70.1	44.2	63.1	3 902.3	2 322.2	59.5
Venezuela	320.0	164.0	51.3	116.5	68.9	59.1	96.0	50.0	52.1	1 060.4	911.2	85.9	200.0	100.0	50.0	110.0	60.0	54.5	13 158.4	4 078.1	31.0
Regional	-	-	-	142.0	37.0	26.1	3 150.5	890.5	28.3	500.0	75.0	15.0	-	-	-	160.0	40.0	25.0	14 435.6	2 871.8	19.9
Total	**16 366.8**	**7 303.7**	**44.6**	**12 350.7**	**6 765.7**	**54.8**	**12 202.1**	**6 017.3**	**49.3**	**20 075.0**	**10 063.1**	**50.1**	**14 570.2**	**9 491.7**	**65.1**	**9 762.8**	**5 265.9**	**53.9**	**263 383.0**	**106 606.7**	**40.5**

Source: Annual reports of the IDB.

[a] Includes guarantees, and excludes private-sector participation.

An interesting feature of the Multilateral Investment Fund (MIF), (Fondo Multilateral de Inversiones (FOMIN)), is its leverage capacity with respect to resources. This was reflected in 2000, when average co-financing of the Fund's projects represented 54%.

D. The Latin American Reserve Fund

The Latin American Reserve Fund, although not a multilateral bank, is included in this study because of its importance in supporting finance in various countries in the region. This Fund was created in 1978 as the Andean Reserve Fund by the Andean Community to support the financial requirements of its members (Bolivia, Colombia, Ecuador, Peru and Venezuela). In 1991, it was extended to other Latin American countries, and thus became *a de jure* regional organisation.

The objectives of the Fund are to support member countries when they face balance of payments problems; to contribute to the harmonisation of macroeconomic and foreign exchange policies and to improve investment conditions for the international reserves of member countries. To this end, the Fund provides some financing for exports and the following financing mechanisms to the central banks of member countries: (i) Back-up line of credits to the balance of payments: these are granted for up to four years, including one year's grace and subject to macroeconomic performance commitments; (ii) Credits for restructuring the external public debt: these are granted on the basis of co-financing arrangements with other multilateral organisations, for a term of up to four years, including one year of grace; (iii) Liquidity credit: this seeks to assist countries in covering short-term liquidity requirements with credits for up to one year, and (iv) Contingency financing service: created in 1998, this service provides back-up for short-term balance of payments problems that are of external origin and not due to any fundamental inconsistency in the basic balance of payments position. The term for financing is six months, non renewable.

Between 1978 and 2000, the Latin American Reserve Fund disbursed a total of $US 9 382.9 million, of which the main recipients were Ecuador and Peru. The disbursements were distributed proportionately between export financing and support for the central banks of these countries, mainly through balance of payment credits and liquidity credits (see table 20).

E. The World Bank

While the World Bank is not an institution designed exclusively to cater for the countries of Latin America, it has an important impact as a source of financing. Indeed, in the 1990s, Latin America received on average 25% of total loans granted by the World Bank (see table 21).

At the sectoral level, in the 1990s, the activities which received the most loans were the financial sector, transport, agriculture, education, public sector management and the social sector. However, as shown in table 22, loans have generally been earmarked for a wide range of sectors.

Table 20

FINANCING PROVIDED TO THE ANDEAN COUNTRIES BY THE LATIN AMERICAN RESERVE FUND

(Disbursements in millions of $US)

	1978-1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]	Total
Total Disbursements by Country												
Total	**3 382.5**	**451.3**	**262.5**	**584.9**	**1 085.2**	**1 217.2**	**445.1**	**359.5**	**1 076.6**	**417.6**	**100.6**	**9 382.9**
Bolivia	827.3	48.3	48.6	53.8	59.9	30.7	16.0	43.4	49.1	68.9	26.8	1 272.8
Colombia	664.0	-	42.8	121.6	228.5	69.5	7.3	11.3	7.7	1.5	-	1 154.2
Ecuador	846.6	-	30.2	151.8	247.4	460.5	143.5	107.5	599.3	79.1	22.5	2 688.3
Peru	751.0	403.0	125.2	233.1	520	645.4	278.3	197.3	361.1	207.3	38.2	3 759.9
Venezuela	293.6	-	15.7	24.6	29.4	11.1	-	-	59.4	60.8	13.1	507.7
Financing of Foreign Trade												
Subtotal	**-**	**-**	**242.7**	**584.9**	**1 085.2**	**983.6**	**411.5**	**359.5**	**582.8**	**417.6**	**100.6**	**4 768.3**
Bolivia	-	-	28.8	53.8	59.9	30.7	16.0	43.4	49.1	68.9	26.8	377.4
Colombia	-	-	42.8	121.6	228.5	69.5	7.3	11.3	7.7	1.5	-	490.2
Ecuador	-	-	30.2	151.8	247.4	226.9	109.9	107.5	105.5	79.1	22.5	1 080.7
Peru	-	-	125.2	233.1	520	645.4	278.3	197.3	361.1	207.3	38.2	2 605.9
Venezuela	-	-	15.7	24.6	29.4	11.1	-	-	59.4	60.8	13.1	214.1
Loans to Central Banks												
Subtotal	**3 382.5**	**451.3**	**19.8**	**-**	**-**	**233.6**	**33.6**	**-**	**493.8**	**-**	**-**	**4 614.6**
Bolivia	827.3	48.3	19.8	-	-	-	-	-	-	-	-	895.4
Colombia	664.0	-	-	-	-	-	-	-	-	-	-	664.0
Ecuador	846.6	-	-	-	-	233.6	33.6	-	493.8	-	-	1 607.6
Peru	751.0	403.0	-	-	-	-	-	-	-	-	-	1 154.0
Venezuela	293.6	-	-	-	-	-	-	-	-	-	-	293.6
Balance of Payment Credits												
Subtotal	**1 326.1**	**403.0**	**0**	**0**	**0**	**0**	**0**	**0**	**411.3**	**0**	**0**	**2 140.4**
Bolivia	296.9	-	-	-	-	-	-	-	-	-	-	296.9
Colombia	229.0	-	-	-	-	-	-	-	-	-	-	229.0
Ecuador	296.7	-	-	-	-	-	-	-	411.3	-	-	708.0
Peru	232.5	403.0	-	-	-	-	-	-	-	-	-	635.5
Venezuela	271.0	-	-	-	-	-	-	-	-	-	-	271.0
Loans for Restructuring External Public Debt												
Ecuador	-	-	-	-	-	200	-	-	-	-	-	200
Contingent Financing[b]												
Colombia	-	-	-	-	-	-	-	-	-	375.0	-	375.0
Liquidity Loans												
Subtotal	**2 056.4**	**48.3**	**19.8**	**0**	**0**	**33.6**	**33.6**	**0**	**82.5**	**0**	**0**	**2 274.2**
Bolivia	530.4	48.3	19.8	-	-	-	-	-	-	-	-	598.5
Colombia	435.0	-	-	-	-	-	-	-	-	-	-	435.0
Ecuador	549.9	-	-	-	-	33.6	33.6	-	82.5	-	-	699.6
Peru	518.5	-	-	-	-	-	-	-	-	-	-	518.5
Venezuela	22.6	-	-	-	-	-	-	-	-	-	-	22.6

Source: Annual reports of the Latin American Reserve Fund; www.flar.net.

[a] Up to April.

[b] Only one contingent financing operation was approved by the Latin American Reserve Fund since its establishment. This was granted to Colombia in the 1999-2000 financial year. But as a result of the favourable change in the original conditions for which this facility was requested, it was not disbursed, so that the amount of $US 375 million is not included in the total disbursements.

Table 21

WORLD BANK: REGIONAL DISTRIBUTION OF LOANS

(Percentages)

Regions	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Africa	19	15	18	12	13	10	13	9	10	7	14
Latin America and the Caribbean	29	23	26	26	23	27	21	24	21	27	27
Southern Asia	17	16	14	14	11	13	14	11	14	9	14
East Asia and the Pacific	18	20	25	24	29	25	25	25	34	34	20
Europe and Central Asia	11	17	10	16	18	20	20	26	18	18	20
Middle East and North Africa	7	9	7	8	6	4	7	5	3	5	6
Total	100	100	100	100	100	100	100	100	100	100	100

Source: Annual Reports of the World Bank.

Memo: These amounts relate to loan commitments, which do not necessarily correspond to the amounts disbursed in the year of approval.

Table 22

WORLD BANK: DISTRIBUTION OF LOANS BY SECTOR IN LATIN AMERICA AND THE CARIBBEAN

(Millions of $US and percentages)

	1990-2000		1995		1996		1997		1998		1999		2000	
	$US	*%*	*$US*	*%*	*$US*	*%*	*$US*	*%*	*$US*	*%*	*$US*	*%*	*$US*	*%*
Agriculture	6 404.4	11	460.7	8	412.8	9	730.6	16	342.0	6	520.4	7	224.2	6
Private sector development	329.4	1	-	-	-	-	-	-	248.4	4	76.2	1	4.8	0
Urban development	2 725.3	4	575.0	9	20.0	0	100.0	2	117.0	2	102.8	1	10.8	0
Water distribution and sanitation	2 688.3	4	221.5	4	204.0	5	200.0	4	190.0	3	30.0	0	147.3	4
Education	5 842.1	10	747.1	12	493.1	11	61.5	1	1 199.9	20	398.6	5	77.5	2
Electric power and other	1 946.8	3	161.5	3	465.4	10	-	-	-	-	30.0	0	4.8	0
Finance	7 653.6	13	1 909.5	32	11.9	0	630.2	14	91.5	2	826.9	11	1 311.5	32
Public sector management	5 693.6	9	596.4	10	666.4	15	584.0	13	728.3	12	81.0	1	1 114.2	27
Industry	85.5	0	-	-	8.0	0	-	-	-	-	-	-	-	-
Environment	1 689.2	3	83.5	1	115.0	3	86.5	2	323.0	5	54.3	1	52.6	1
Mining	544.5	1	-	-	41.0	1	-	-	39.5	1	-	-	-	-
Multi-sectors	5 216.4	9	328.6	5	110.9	2	132.1	3	5.0	0	391.4	5	225.0	6
Oil and gas	545.4	1	11.0	0	10.6	0	-	-	130.0	2	-	-	43.4	1
Population, health and nutrition	4 032.6	7	94.6	2	1 086.4	24	136.8	3	824.0	14	309.4	4	157.6	4
Economic policy	3 153.2	5	-	-	-	-	-	-	41.0	1	3 091.3	40	20.9	1
Social sector[a]	4 056.7	7	500.0	8	262.0	6	405.0	9	784.0	13	1 279.9	17	640.6	16
Telecommunications	56.2	0	-	-	-	-	-	-	6.0	0	-	-	28.2	1
Transport	8 015.3	13	371.0	6	530.0	12	1 496.0	33	970.1	16	544.5	7	-	-
Total	60 678.5	100	6 060.4	100	4 437.5	100	4 562.7	100	6 039.7	100	7 736.7	100	4 063.4	100
Of which IBRD[b]	57 247.6	94	5 715.3	94	4 047.2	91	4 437.5	97	5 679.5	94	7 133.3	92	3 898.1	96
IDA[c]	3431.2	6	345.2	6	390.3	9	125.2	3	360.2	6	603.6	8	165.3	4

Source: Annual Reports of the World Bank.

Memo: Owing to changes in the method of distribution by sector of World Bank loans in the 1990s, data have been standardised: data for 1990 to 1992 are based on the Annual Report of the World Bank, 1994; data for 1992-1996 are based on the Annual Report for 1996; data for 1997 are based on the Annual Report, 1997, data for 1998-2000 are based on the Annual Report, 2000. Loans refer to loan approvals and not to effective disbursements in the year in question.

[a] Since 1998, the social sector is referred to as the social protection sector.

[b] International Bank for Reconstruction and Development (IBRD).

[c] International Development Association (IDA).

VI. Summary and conclusions

In the 1990s, the countries of Latin America and the Caribbean regained access to international financial markets. This was in contrast with the situation in the 1980s, when, owing to the debt crisis, capital flows were very scant.

Two features define the region's renewed access to international financial markets. Firstly, a significant change in the sources of financing with foreign direct investment, the bond market and institutional investors assuming a more important role. Secondly, high volatility in flows, in particular, equity investment.

From a macroeconomic perspective, the economies in the region have made major advances in terms of price stability and fiscal *equilibria*. However, growth was far below expectations. GDP growth was closely linked to the pattern of capital inflows, as evidenced by the sharp fluctuations in growth rates. As a result, annual *average per capita* GDP growth for the region in 1991-1999 was as little as 1.5%.

The exposure of the different economies to the effects of the volatility of external financing varies significantly, owing to their different levels of access to these flows. Debt and investment flows from private sources have been concentrated fundamentally in the relatively advanced developing countries, which have received approximately 90% of total debt flows and 85% of total investment flows.

Multilateral banks have played, and are expected to continue to play, an important role as sources of financing for these countries.

During the nineties they had an important role providing external financing, in particular, to the poorest countries of the region. To date, such banks have concentrated mainly on financing investment projects in different sectors. Indeed, in recent years, much emphasis has been placed on financing for the support of State and social sector management reforms.

An emerging area which is going to be crucial in the near future and in which multilateral banks can, in our view, assume a leading role is that of supporting access by countries to more stable, lower cost international financing, preferably, to medium to long-term flows. In this regard, CAF, IDB and the World Bank have already achieved positive results. In particular, the development of instruments which will enable these institutions to mobilise financial resources for investment finance subject to collateral, guarantees, co-financing arrangements, and, in general, any mechanism that can reduce the country risk of the economies in the region.

Also, Multilateral Development Banking should have a relevant part in the new "International Financial Architecture". They can be a very important link between countries and the private international capital markets by: complementing the work of national developing banks in financing development, helping to design and implement policies and instruments directed to reduce systemic risk in the international financial markets, contributing (in a complementary basis with the IMF and regional funds) in the provision of emergency financing to face balance of payment problems, and support the processes of macroeconomic coordination between countries of the region.

Lastly, the Latin American Reserve Fund can contribute significantly to efforts to improve the access by countries in the region to the international financing system. At the same time, it has an important role to play in providing to assist economies experiencing short-term balance-of-payment difficulties.

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Annex

Annex 1

SUMMARY OF THE PRINCIPAL PROJECTS APPROVALS BY THE INTER-AMERICAN DEVELOPMENT BANK (IDB), BETWEEN 1990 AND 2000

(Millions of $US)

Loan Approval	Project	Country / Year	
	Productive sectors support		
1 200	Global credit program to the small and medium-sized enterprises	Brazil	1999
425	Support a commercial sector reform	Peru	1991
400	Agricultural and food sector reorganisation program	Mexico	1996
400	Support the tourism development in the Northeast region	Brazil	1994
350	Sector investment program	Argentina	1992
300	Improve the agricultural efficiency	Venezuela	1992
300	Credit program to the small and medium-sized enterprises	Brazil	1995
	Public sector support and reform		
800	Municipal strengthening program	Mexico	1999
500	Municipal development program	Mexico	1994
500	Fiscal administration program	Brazil	1996
400	Fiscal balance and social management support program	Argentina	2000
400	Public reform program	Venezuela	1998
325	Strengthen and modernise the administration and the public services	Argentina	1991
300	Improve the efficiency and the management of the regional investments	Chile	2000
300	Support political reforms directed to improve the efficiency of the public sector and develop the private sector	Colombia	1990
300	Support the reorganisation of public enterprises	Venezuela	1990
	Education		
393	Improve access to basic education for children with social difficulties	Mexico	1994
370	Labour support program to young people	Argentina	1997
300	Financing investments and educational reforms	Argentina	1994
	Social infrastructure and sanitation		
2 200	Social protection program and social sector reform	Brazil	1999
505	Housing financing program to small and medium income families	Mexico	2000
500	Basic social services program	Mexico	1995
450	Social sector reform program	Argentina	1995
400	Decontamination of the Tietê river	Brazil	1992
350	Reform of the social security system	Venezuela	1998
350	Sanitation program of the Guanabara Bay	Brazil	1993
325	Supporting the execution of a project that will extend the water supply and will improve the sewage system in Monterrey	Mexico	1990
300	Finance projects of sanitation in 30 of the principal urban centres	Brazil	1991
	Multisector		
1 100	Global multisector financing program, which will support the productive sectors, wealth private suppliers and higher education private establishments	Brazil	1998
300	Global multisector credit program	Mexico	2000
	Financial sector reform		
2 500	Program of structural adjustment and fortification of the banking system	Argentina	1998
750	Support the privatisation of provincial banks	Argentina	1995
750	Reorganisation program of the financial system	Mexico	1995
550	Reform of the financial public sector	Colombia	1999
400	Participate in the reprogramming of the debt made with other important donors	Argentina	1992
311	Support the reform of the financial sector	Peru	1999
300	Reform of the financial sector	Colombia	1999
300	Increase the efficiency of the financial sector	Venezuela	1990
	Energy		
500	Hydroelectric project of Caruachi	Venezuela	1993
330	Finance a program of investments in the electrical sector	Mexico	1990
328	Hydroelectric power station Porce II	Colombia	1993
320	Program of development of the electrical energy	Costa Rica	1993
300	Reform of the national companies of electricity, with the scope to facilitate privatisations	Argentina	1992
	Transports and communications		
450	Support the extension and modernisation of the highway São Paulo-Florianópolis	Brazil	1995
420	Railway transport in the metropolitan area of Sao Paulo	Brazil	1994
340	Program of road runners	Argentina	1993
300	Support a program of transport runners	Colombia	1992
300	Improve the efficiency of transport and telecommunications sectors	Mexico	1990
246	Contribute to finance the extension, rehabilitation and maintenance of the road network	Chile	1990

Source: D. Titelman, on the basis of official figures from the IDB.

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