Inter-American Development Bank Group

Fund for Special Operations (FSO)

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

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

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

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

Key Facts

- The FSO was constituted in 1959 under the agreement establishing the IDB.
- The U.S. is the largest contributor, providing over 50% of the total of funds pledged over the history of the fund.
- Over the years, the U.S. contribution to the FSO has fallen dramatically from a high of $450 million annually in 1972 and 1973 to zero currently.
- In 2004, the FSO approved $549.3 million in twenty-three loans. Its lending is expected to total up to $800 million in 2005-2006.
- Since its inception, FSO has made lending commitments totaling $17.4 billion.
- In addition to highly concessional loans, FSO resources subsidize a portion of the interest payments on loans made from the hard loan window to certain borrowing members such as Ecuador, El Salvador, Guatemala, Paraguay, and Suriname.

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

Supporting U.S. Objectives

- The FSO advances key U.S. policy objectives by encouraging growth and stability in the poorest countries in the region, as well as by promoting counter-narcotics efforts, environmental protection, and humanitarian assistance. By improving economic opportunities and addressing basic social needs of these countries' populations, the FSO is helping to reduce emigration pressures.

Performance-Based Allocations

- In 2004, the Board continued allocation of FSO resources according to the performance-based system agreed to in 2002, which factors in country policy and loan portfolio performance in addition to needs and economic strength.

- The new system takes account of the country's economic management, public sector management, structural policies, and policies for social inclusion and equity, and performance of the Bank's portfolio in the country. The system measures needs and economic strength by population size and per capita GNP.

- In 2004, the Board agreed to strengthen the reallocation of unspent funds in the FSO through a performance-based reallocation system to be implemented going forward.

Investments in Human Capital and Health Care

In 2004, the FSO continued to work closely with the Pan–American Health Organization (PAHO) and the World Bank on a Shared Agenda for Health in the Americas that seeks to coordinate efforts to help Latin American and Caribbean countries improve health conditions and public health services. In addition, the following programs were financed:

- Guyana: $23 million for a health sector reform program to improve effectiveness, quality and equity in access to health services in Guyana. Program objectives include improving the organizational and institutional capacity of the health sector, and of the health services delivery system.

- Nicaragua: $30 million for improving maternal and child health for the country's poorest people, by helping to reduce the profile of maternal and infant morbidity and mortality from avoidable causes that especially affect people living in poor rural areas with a heavy concentration of indigenous people, reducing disparities between these indicators and the national averages.

In addition, in 2004 the FSO approved the following operations to support investments in human capital:

- Honduras: $30.6 million for a secondary education and job training programs to increase enrollment in grades 7 through 12 by offering more flexible educational programs and upgrading school facilities. Use of distance education programs will be expanded to reach students in isolated areas. Vocational training will also be expanded for students and unemployed young adults.

- Nicaragua: $10 million for youth and adult basic education to provide training programs that will increase the income-generating capacity of young adults by improving job skills and helping them complete their basic schooling. Classes will target people aged 15-30 years who dropped out of primary school. To help reduce future demand for adult education, another component of the program will try to boost graduation rates of primary school by providing supplies and equipment to expand coverage of the final two years.

Good Governance and Anti-Corruption Measures

In 2004, the FSO approved projects aimed at strengthening governance and accountability and building technical capacity in public institutions, including:

- Guyana: $28 million for fiscal and financial management and $5 million for a public management modernization program in a combined policy and investment loan to promote more transparent and efficient fiscal management. Reforms will focus on modernizing the legislative framework, revenue authority and public expenditure management system, as well as strengthen fiscal and fiduciary oversight systems. Tax reforms are also expected to increase revenues while at the same time making the system more equitable.

- Honduras: $15 million for strengthening fiscal management with cofinancing from the Swedish International Cooperation Agency to improve efficiency and transparency of revenue and expenditure management, to improve services, and to promote a stable macroeconomic environment. The revenue office will be trained in fiscal planning and analysis, program-based budgeting, and more efficient accounting procedures. The Central Bank will also benefit from information technology upgrades to perform better economic data compilation and analysis to support monetary policy management based on international standards. An Integrated Poverty Reduction Tracking System will also be implemented to promote efficient social spending.

- Nicaragua: $7.0 million for institutional support for Nicaragua's Coordination and Strategy Secretariat, the government agency responsible for planning, formulating and supervising the implementation of the national development plan, a key element in the country's Heavily Indebted Poor Countries (HIPC) poverty reduction plan. The loan will help improve coordination of public investment with local and external resources, and help the Secretariat better determine resource priorities.

Supporting the Environment

In 2004, the FSO continued its work to promote environmentally sustainable economic growth. The IDB executed its first project on behalf of the Global Environment Facility (GEF), with a $2.5 million grant to consolidate the environmental management program and develop environmentally sustainable tourism in the Bay Islands of Honduras.

- Guyana: $22.5 million for agricultural support services to finance irrigation and drainage works to reduce flooding in the coastal plains and technical assistance to farmers to increase productivity. The measurable results for the program are to build or repair 1,200 kms of channels, 400kms of service roads, 1,200 sluice gates, and several small dams.

- Honduras: $800,000 technical assistance grant for promoting a national sustainable tourism program through a consultative process which consolidates policies, standards, institutional arrangements, and investment priorities for the tourism sector; and for designing a program for investment in sustainable tourism.