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INTER-AMERICAN DEVELOPMENT BANK

MEMORANDUM

DATE: October 2, 1997

TO : Amb. Peter Romero, Principal DAS for Inter-American Affairs (State)
David Lipton, Under Secretary for International Affairs (Treasury)
Mack McLarty, Special Advisor to the President
Mark Schneider, Assistant Administrator for Latin America (AID)
John Podesta, Deputy Chief of Staff to the President

FROM : L. Ronald Scheman
U.S. Executive Director

SUBJECT : IDB Deliverables for Presidential Trip

In reference to the a.m. meeting today on deliverables for the President's trip, I would like to call your attention to the existing and/or anticipated IDB projects in the following sectors within each country:

Venezuela:

Science & Technology:

- *Existing programs*: $47 million program to activate, mobilize and modernize national scientific sector (approved 1990), and $65 million loan to strengthen the capacity and enhance the quality of the agricultural research and dissemination of technology (approved 1992)

Customs:

- *Existing programs*: $10.5 million IDB program to modernize tax and customs administration (approved in 1996

Brazil:

Education:

- *Existing programs*: $100 million IDB Program to Support Education Improvement in the State of Parana (approved 1996)
- *Current pipeline*: $250 million loan for Professional Education Sector Reform (anticipated Board consideration in Q4-1997), and a $600,000 technical cooperation to support Organizational Alternatives for Middle School (anticipated Board consideration in 1998).

Modernization of State

- *Existing programs*: $90 million loan for modernization of state (approved this month 9/97) to improve performance within Brazil's federal civil service seeking increased efficiency and cost-effectiveness. $500 million loan to approval fiscal management and tax collection in the states (1996).
- *Current pipeline*: $70 million project for Board consideration later this year for municipal development of Porto Allegre area.

Energy

- *Current Pipeline*: The most significant operation in this sector is the bank's anticipated participation in the Brazil-Bolivia gas pipeline project. The IDB financing is proposed at $218 million and is expected to the Board in December 1997.

Argentina:

Science & Technology

- *Existing programs*: $95 million loan for Modernization of Technology (approved end-1993), designed to improve applied technology for companies in order to efficiency and competitiveness.
- *Current pipeline*: A $1 million technical cooperation grant (anticipated in 1998) to support the development of clean technologies for small producers in the area of Vaya Blanca.

Rural Electrification

- *Existing programs*: $1 million regional grant to support Sustainable Markets for Energy Efficiency and Clean Energy Sources, to be incorporated within the governments' strategies on energy (approved 1996).

Intellectual Property Rights

- *Existing programs*: Fourth and final stage of a 1992 Investment Sector Loan ($35 million) was released 12/96 after management determined the Government of Argentina was in "substantial compliance" with the condition for disbursement calling for adequate protection of IPR. This determination was based on the WTO allowance for a phase-in period until the year 2000, and was made despite the objections of the USG.

cc:

DAS Daniel Zelikow (Treasury)
DAS Bill Scheurch, (Treasury)

DRAFT 4/13/98

MEMORANDUM FOR THE PRESIDENT

FROM: Robert E. Rubin

SUBJECT: Finance Ministers Agenda to Support the Summit of the Americas

As you travel to Santiago to meet with other leaders of the Hemisphere, I wanted to tell you briefly what Finance Ministers are doing to advance our SOA goals of economic and social integration -- in particular through strengthening financial systems and supporting education.

Strengthening Financial Systems

Finance Ministers have worked steadily since the Miami Summit to build the kind of financial infrastructure that we need to support increased trade and investment in the region. Throughout our discussions, I have been impressed by the growing spirit of collegiality and cooperation and the deepening ties between our Finance Ministries, which is itself an achievement. The Asian financial crisis gave new urgency to our joint efforts, as Ministers realized that relatively healthy financial systems in Latin countries were a key factor in distinguishing the region from Asia and shielding it from contagion. Ministers also realized that they needed to do more to create truly sound and transparent financial systems.

Against the background of global financial turmoil, Ministers agreed last December in Santiago to an ambitious program to strengthen and modernize financial systems in the hemisphere. At the core of that program was an agreement that the Western Hemisphere would be the first region in the world to implement the Basle Committee's *Core Principles for Effective Banking Supervision* -- which are a model of modern and high quality standards for banking supervision. We are now working hard to make implementation of the Basle *Core Principles* a reality, with Chile and Mexico joining us in leading that effort.

At one level sound banking supervision is a technical matter, relating to capital adequacy, risk management, and auditing practices. At another, it can make the difference between economic growth and financial crisis. Ultimately, it is about rule of law, transparency, accountability, and good governance. In that sense it is a prime example of the second generation of reforms that Latin American nations must tackle to achieve higher growth and better living standards for their people.

Education

Finance Ministers have also thrown their weight behind the SOA education goals. They have called on the Inter-American Development Bank to double its spending on primary and secondary education over the next three years to one billion dollars a year. In addition, they are working to create a regional education fund to finance cross-border projects. Finally, Finance Ministers will be working closely with their Education Ministry colleagues to ensure that there is adequate financing in national budgets for the education goals of the SOA.

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Sandy
Treasury does not like this idea. Is it genuine trouble? Jim

February 2, 1998

MEMORANDUM FOR AMBASSADOR JAMES F. DOBBINS

FROM: William E. Schuerch
Deputy Assistant Secretary
(International Development, Debt and Environment Policy)

SUBJECT: Summit of the Americas Initiatives and the IDB

FEB - 3 1998

Dan Zelikow forwarded to me your note asking about the IDB taking on an emergency role, and whether this might be a Summit of the Americas initiative. The proposal is one of many contained in an IDB report entitled, "Enriching an Historic Partnership," a working document prepared by an internal IDB task force on the future of the Bank. A substantially revised version of this "vision paper", as well as resolution of the issue of the Bank's concessional resources, are likely to be the focus of discussions at the IDB annual meeting in Cartagena in mid-March.

At this point in time, we have serious concerns with several elements of the "vision paper," including the recommendation for sanctioning a formal emergency response role for the Bank. The IDB has already shown an ability to be responsive when situations dictate. In fact, given the criticism concerning the extent to which it bent the rules in the Mexico situation--including by independent financial auditors--there is a concern that it is too responsive.

However, you should be aware of the likelihood that exists for a "deliverable" in the context of ongoing discussions concerning IDB concessional resources. Last year, the U.S. proposed, among other things, that $250 million in local currency concessional resources in the Fund for Special Operations be set aside for environmental initiatives. We understand that President Iglesias has taken our initiative one step further, and is lobbying for a $500 million program involving education, labor and environmental initiatives. We would certainly support such an expanded program as long as it is part of a deal that frees up current restrictions on the use of the Bank's local currency resources and does not come at the expense of the poorest borrowing members of the Bank. The timing of our concessional resources discussions is entirely consistent with the use of the $500 million program as a "deliverable" for the April SOA given that our objective is to conclude a deal by the Cartagena meeting in mid-March. It would truly be an impressive initiative which all parties to the Summit should be proud to support.

I would be happy to discuss these issues with you at your convenience.

cc: DZelikow

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20504

January 26, 1998

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF TREASURY ZELIKOW

Dan:

Does the IDB proposal cited in the attached paragraph make sense and, if so, could it be a Santiago Summit deliverable?

Jim

James F. Dobbins

Attachment
IDB proposal

Lael
As we discussed last week at the Mack/Stanley meeting:
What do you think this idea?
D

FEB - 1 1998

4.30 **Quantitative benchmarks** - While such benchmarks facilitate the monitoring of compliance, experience shows that they do not fully reflect the Bank's performance in carrying out its mission.

- The **limit on policy-based lending should be raised to 20 percent** to give the Bank the operational space to support countries willing to face the transitional fiscal costs of sectoral and institutional reforms (see para. 4.6). The limit should be reviewed from time to time in the light of demand and taking account of the portfolio risk implications of such lending. √

- The mandate to apportion **35 percent of annual lending to C and D Group countries** would become increasingly difficult to achieve in the face of rising annual commitments, absorptive capacity of the target countries and the need to manage the Bank's exposure to individual debtors. Since the underlying objective is to ensure adequate attention to the development needs of the smaller and/or poorer countries in the region, the Bank's performance would be better monitored by periodic review of its commitment of administrative resources, qualified staff, non-lending services, portfolio management services, etc. to these countries. √

- The Bank has gradually developed a capacity for **private sector project finance** and will soon reach the annual limit of about $375 million implied by the IDB-8 target of up to 5 percent of annual commitments (see para. 3.10). Experience also shows that the Bank may need to have a larger presence than 25 percent of total cost in order to attract additional private financing for infrastructure projects in C and D Group countries. The Board of Governors should consider **raising the overall ceiling to an annual average around 10 percent of the sustainable lending capacity and the limit for individual operations in C and D group countries** (see para. 4.15).

4.31 **Response to Crises** - A key aspect of the Bank's emerging role in the region is to assist countries in managing crises, which usually disproportionately affect the weakest and most vulnerable segments of society and, if left unchecked, have the potential of quickly undermining years of painfully achieved social and economic gains. To allow the Bank to respond rapidly and effectively to crises the Governors should: (I) give Management the authority to put in place a **new counter-cyclical financial instrument** to cover the local counterpart of Bank-financed projects; and (ii) explicitly authorize the Bank to participate in joint international action to contain crises, providing financing over and beyond any limits that may be set for policy-based lending (see para 4.7), and on terms and conditions which may be more stringent than for normal lending operations. Δ

4.32 **Civil society** - The Bank, designed as a vehicle for lending to governments, often finds that it does not have a full range of appropriate instruments for poverty reduction programs targeted to benefit critical groups (for example, micro-enterprises, street children) and, generally, for the strengthening of civil society organizations which are increasingly important agents of social and economic change (see para. 4.12). The **Board of Governors should endorse a Bank contribution to an endowment for the proposed Foundation of the Americas.** Δ

Issues for the Board of Executive Directors Δ

4.33 **New products** - The changing circumstances of the LAC countries impose an obligation on the Bank to develop instruments suited to the expressed needs of borrowers which may be

other projects

Faxed to Ama

COUNCIL ON FOREIGN RELATIONS

58 EAST 68TH STREET • NEW YORK • NEW YORK 10021
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Albert Fishlow
Paul A. Volcker Senior Fellow for International Economics

March 12, 1998

Mr. Thomas "Mack" McLarty
The White House
fax: 202-456-2464

Re: Santiago Summit

Dear Mack,

Pedro Malan was in my office yesterday when you called. We had been discussing the state of the Brazilian economy and the challenges facing it over the next months. In that context, we also discussed the Santiago Summit and its financial message given the comparative responses of Latin America and Asia.

May I outline a potential deliverable for the Santiago Summit that would attain a useful public profile? The US could show important leadership by generalizing the Stabilization Fund used so successfully in the case of Mexico in 1995 -and fully repaid- to the case of Latin America as a whole.

This deliverable would get the discussion launched by President Clinton at the Halifax meeting off the table and into action. The study agreed to at Halifax came to naught, but it is clear amidst all the discussion now calling for reevaluation of the global financial system that this deliverable now would reassure all of our seriousness. It is one thing to call for reports, another to lead in a concrete and consistent way. At Santiago, the Presidents could direct their Finance Ministers to establish the terms of reference for the Stabilization Fund by the end of 1998.

The virtues of this effort seem many to me. In the first instance, it responds directly to President Cardoso's statements at Davos where he indicated the importance of available support to countries following intelligent policies for defending their currencies. Secondly, they are resources whose potential use gives the United States a larger voice in macroeconomic policy decisions of the Latin American countries, something that necessarily is desirable in connection with any serious FTAA. And third, it seems a direct way to reward the Latin American countries for their much greater openness in financial matters in recent years. Finance ministries have made their accounts public on the internet and have fully responded to the issue of availability of full information -in ways that the Asian economies did not.

As it turns out, I will be down in Cartagena during the IDB's meetings in connection with the American Assembly project. If you'd like to follow up, we can do so there or the next time I am in Washington.

Best regards,

Albert Fishlow

Inter-American Development Bank

MEMORANDUM

DATE: February 19, 1998

TO: David Lipton, Under-Secretary (IA)
William Schuerch, DAS
Dan Zelikow, DAS

CC: Ambassador Dobbins, Ambassador Brown, Mack McLarty

FROM: L. Ronald Scheman, USED

SUBJECT: **Themes for the Santiago Summit Relating to IADB**

We understand that the Department of Treasury has been requested to provide the NSC with a summary of deliverables from the IADB that could be discussed as possible initiatives at the Santiago Summit in April. This is being addressed in many areas of the Bank. As far as we can determine, the following proposed initiatives show the most promise for major progress.

- *Trade.* A major program to upgrade the technical capacity of trade ministries to comply with WTO and FTAA discipline. These are set forth in my memo of November 24, 1997, and is set forth in more detail in Annex A of this memo.

- *Labor.* A program to assist countries in a wide range of measures to strengthen labor ministries, protect workers rights and improve transparency and efficiency of labor markets. See my memos of January 22, 1998 and of April 15, 1997.

- *Education*, including distance education This has been amply discussed with the NSC. Pat de Souza at the NSC has been fully briefed on the Bank's work in this area.

- *Informatics* and use of appropriate technology. A demonstration of new technologies in this field will be featured in Santiago, with active participation by US private sector companies.

- *Administration of Justice*, including a new center in the region to provide training. NSC staff has been fully briefed.

- *Youth Program.* The Bank is considering support for a mini-Summit of youth to occur at the same time as the Summit of heads of state. The participants will link to their home countries through the Internet.

- *Civil Society Foundation*. Preliminary work has been done on the initiative of EVP Birdasll in response to the Miami Summit mandate to develop a new foundation to manage a civil society program. An endorsement by the Summit is appropriate.

INTER-AMERICAN DEVELOPMENT BANK

MEMORANDUM

FILE CLASSIFICATION: lip.lab

DATE: January 22, 1998

TO : David Lipton, Under Secretary

Mack McLarty, Special Counselor to the President
Alexis Herman, Secretary, Department of Labor
Amb. Charlene Barshefsky, USTR
Ambassador Jeff Davidow, Assistant Secretary, State
Mark Schneider, Assistant Administrator, USAID

CC : William Schuerch, DAS
Amb. James Dobbins, Special Assistant to the President, NSC
Amb. Richard Brown, Coordinator, Summit
Amb. Victor Marrero, U.S. Representative, OAS

FROM : L. Ronald Scheman, US EXD

SUBJECT : Labor Program for the Inter-American System

Following up on my memo of July 29, 1997, regarding a pro-active approach to labor issues in the Americas, President Iglesias invited Secretary of Labor, Alexis Herman, to meet at the Bank on January 8, 1998. The meeting addressed several matters relating to a more comprehensive effort to address labor issues including strengthening labor ministries, research on the economic impact of labor reforms and standards, assisting labor ministries to enforce labor codes, and, in general, promoting a more constructive dialogue regarding a forward-looking labor policy.

In particular, we discussed ways to:

1. Make greater use of the Multilateral Investment Fund (MIF) which, according to the basic agreement establishing the Fund, can apply its special window for human resources development to labor issues. The Bank can design a program that will assist the labor ministries to upgrade their management, enforce labor codes, and to engage labor unions and employers in improving negotiating capabilities.

2. Considering that the Latin American countries have already committed themselves to comply with many ILO standards and rules, it is appropriate to help them design a program to upgrade their domestic laws, administrative practices and enforcement procedures to comply more effectively with these labor codes. The MIF currently has several hundreds of millions of dollars available for programs under this rubric.

3. Organize a tripartite committee among the Bank, OAS and ILO to undertake research and analysis of labor issues, similar to the the tripartite committee formed by the IDB, OAS and CEPAL for trade issues. Since the labor ministries already have an existing mechanism under the OAS, the IDB would seek to collaborate with the OAS to upgrade this function.

President Iglesias also indicated his positive view that a ministers of labor meeting should be held immediately before or after the forthcoming Summit of the Americas in Santiago.

INTER-AMERICAN DEVELOPMENT BANK

MEMORANDUM

FILE CLASSIFICATION: EVI10.27B

DATE: November 24, 1997

TO : **Enrique Iglesias, President**

CC : Nancy Birdsall, EVP
All Executive Directors
Don Terry, MIF
Robert Devlin, Chief, INT
Bill Schuerch, DAS
Peter Allgeier, USTR

FROM : L. Ronald Scheman, US EXD

SUBJECT : MIF and Major Technical Assistance Program Upgrading the Capacities of Countries to Implement Trade Agreements

The member countries of the Bank have all began extensive work programs to implement the accords of the World Trade Organization and to prepare for broader agreements in subregional and regional trade integration. As we discussed several weeks ago, we would like to suggest that the Bank explore the possibility of a major program, sponsored the MIF, to upgrade the capacity of the member countries to address trade issues. These are fully in accord with the purposes of MIF as expressed in the Agreement.

The nature of the disciplines and institutional requirements to address new trade regulations and enforcement require expertise in a wide variety of areas. The smaller countries of the hemisphere especially will have difficulty in meeting these requirements and in negotiating new accords because of the diversity and complexity of the issues.

This Chair considers it appropriate for the Bank to prepare a special program under the MIF to provide technical cooperation to the countries to upgrade the trade institutions, train staff, and to prepare their customs and trade-related agencies to deal with the expanded requirements of a free trading system and to help them adhere to the WTO disciplines. We believe that this is exactly the kind of institutional strengthening in the member governments that the MIF was designed to facilitate.

We have already broached the idea to Don Terry and Robert Devlin of the Regional Development Office. They were positive. We would like to request that the Bank undertake steps to explore the design of such a program for the member countries.