DM/73/45

INTERNATIONAL MONETARY FUND

Western Hemisphere Department

Subregional Development Lending Institutions in the Western Hemisphere

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June 12, 1973

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I. Introduction

The financial institutions that have been formed under each of the subregional integration movements of the Western Hemisphere could be grouped into two distinct categories: (1) the development lending institutions--the Central American Bank for Economic Integration, the Caribbean Development Bank, and the Andean Development Corporation; and (2) entities formed to facilitate the payments mechanism--the Central American Clearing House, the Central American Monetary Stabilization Fund, and the LAFTA Multilateral Compensation and Reciprocal Credit Mechanism.1/ Certain information on the organizations in both categories is presented in Table 1. The rest of this paper, which is part of a series on the subregional integration movements in the Western Hemisphere (the first paper was published on December 13, 1972, DM/72/103), deals only with the three subregional development lending institutions. The main characteristics of these three institutions are presented on a comparative basis, using mainly information provided by their respective articles of agreement and annual reports. Much of the terminology employed in those documents is reflected in this paper.

II. Purposes and Objectives

1. Central American Bank for Economic Integration (CABEI)

The CABEI was the first of these institutions to be formed. Although its Articles of Agreement were modeled following approximately the same general guidelines of the International Bank for Reconstruction and Development and the Inter-American Development Bank, the institution nevertheless may be considered a pioneer among the subregional integration movements.

The objectives of the CABEI, as set out in its Articles of Agreement, are to foster the economic integration and the balanced economic development of the member countries with a view toward promoting and facilitating Central American trade. In pursuit of these objectives, the areas to which the Bank is to devote itself primarily are the following:

a. Infrastructure projects that complement the existing regional facilities or offset for disparities in basic sectors which are obstacles to the balanced economic development of Central America. Therefore, in this context, the Bank should not finance infrastructure projects of a strictly local or national nature.

1/ Adequate attention has been given in the Fund to the institutions in group (2): see DM/66/43 (7/29/66), "The LAFTA Multilateral Compensation and Reciprocal Credit Mechanism", prepared by Bahram Nowzad, and DM/71/62 (8/10/71), "Regional Payments Arrangements Among Developing Countries", prepared by Bahram Nowzad and Jean Messinesi.

Table 1. Financial Institutions of the Subregional Integration Movements

	Date and Place of Signature of Agreement	Original Signing Members	Subsequent Membership	Present Headquarters
CACM				
1. Central American Bank for Economic Integration (CABEI)	Dec. 13, 1960 Managua, Nicaragua	El Salvador, Guatemala, Honduras, and Nicaragua	Costa Rica (Sept. 23, 1963)	Tegucigalpa, Honduras
2. Central American Clearing House (CACH)	July 28, 1961 Tegucigalpa, Honduras	Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua		Tegucigalpa, Honduras
3. Central American Monetary Stabilization Fund	Oct. 1, 1969 Wash. D.C. U.S.A.	Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua		San José, Costa Rica
LAFTA				
1. Multilateral Compensation and Reciprocal Credit Mechanism	Sept. 1965 Mexico City, Mexico	Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela		Lima, Peru
CARIFTA				
1. Caribbean Development Bank (CDB)	Oct. 18, 1969 Kingston, Jamaica	Category A Antigua, Bahamas, Barbados, British Honduras, British Virgin Islands, Cayman Islands, Dominica, Granada, Guyana, Jamaica, Monteserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, Trinidad and Tobago, and Turks and Caicos Islands Category B Canada and United Kingdom	Venezuela (1973)	Bridgetown, Barbados
ANDEAN GROUP				
Andean Development Corporation (ADC)	Feb. 7, 1968 Bogotá, Colombia	Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela		Caracas, Venezuela

Sources: See Reference page at end of this paper.

b. Long-term investment projects in industries of a regional nature, or industries that are of interest for the Central American market, which contribute to increase the supply of goods for intra-Central American trade and for other export markets. Investment in industry of a strictly local nature is excluded.

c. Coordinated projects of agricultural specialization which may involve improving, expanding, or substituting an activity, but with the main goal being adequate supply for the Central American market.

d. The financing of enterprises in need of enlarging, modernizing, or changing their production structure in order to improve their efficiency and competitiveness within the common market with the aim of promoting Central American free trade.

e. The financing of those services required to maintain a satisfactory functioning of the common market.

f. Other projects considered useful in promoting and facilitating Central American trade.

2. Caribbean Development Bank (CDB)

The purposes of the Bank, as set out in its Articles of Agreement, are to contribute to the harmonious economic growth and development of the member countries of the Caribbean region and to promote economic cooperation and integration among them, paying special and urgent regard to the less-developed members of the region.

It is further stipulated in the Articles that, in order to carry out its purposes, the Bank shall (a) Assist regional members in the coordination of their development programs with a view to achieving a better utilization of resources, to making their economies more complementary, and to promoting the orderly expansion of their international trade, particularly their intra-regional trade. (b) Mobilize within and outside the region additional financial resources for development of the region. (c) Finance projects and programs contributing to the development of the region or any of its regional members. (d) Provide appropriate technical assistance to its regional members, particularly by undertaking or commissioning pre-investment surveys and by assisting in the identification and preparation of project proposals. (e) Promote public and private investment in development projects by aiding financial institutions in the region and supporting the establishment of consortia. (f) Cooperate and assist in other efforts designed to promote regionally and locally controlled financial institutions and a regional market for credit and savings. (g) Stimulate and encourage the development of capital markets within the region. (h) Undertake and promote such other activities as may advance the Bank's purposes.

3. Andean Development Corporation (ADC)

As indicated in its Articles of Agreement, the purpose of the Corporation is to accelerate the process of subregional integration within the framework of national specialization and an equitable distribution of investment within the area, bearing in mind especially the countries of lesser economic development, specifically, Bolivia and Ecuador. To meet its objectives, the functions of the Corporation are (a) To carry out studies aimed at identifying investment opportunities. (b) To make known to member countries the findings of research undertaken by the Corporation as a guide for an efficient allocation of available investment resources. (c) To furnish directly or indirectly the technical and financial assistance necessary for the preparation and execution of multinational complementation projects. (d) To obtain internal and external credits. (e) To issue bonds or debentures which may be sold within or outside the subregion. (f) To promote the channeling and use of resources. (g) To promote contributions of equity capital and technology under the most favorable conditions. (h) To make loans and to provide guarantees. (i) To underwrite share issues. (j) To promote the organization of enterprises and the expansion, modernization, and conversion of existing enterprises, for which purposes the Bank is authorized to subscribe capital. (k) To carry out, on specific conditions to be determined, functions related to its purposes and which may be entrusted to the Corporation by shareholders or third parties. (l) To coordinate its actions with those of other national or international institutions where considered appropriate for the development of the region. (m) To recommend coordinating procedures for entities or institutions of the area furnishing investment resources. (n) To buy and sell real estate and other property and in general carry out all the operations and negotiate all contracts and agreements necessary for accomplishing its purposes.

III. Capital and Other Resources

1. CABEI

The Bank was officially inaugurated on May 31, 1961 and began operations on September 1, 1961 with an authorized capital of $16 million. The authorized capital was increased to $20 million on September 23, 1963 to $40 million on April 10, 1965, and to the present $60 million on January 3, 1969. The original authorized capital of $16 million was subscribed in equal shares by the four signing states, each paying the equivalent of $1 million within 60 days and a further $1 million one year later. When Costa Rica joined in 1963, it paid the equivalent of $2 million. As of June 30, 1972, each member country had subscribed capital in the amount of $8 million, for a total of $40 million, of which each had paid $6.4 million, for a total paid-up capital of $32 million.

Participation in the Bank's capital is represented by capital stock certificates issued in favor of the respective member countries. These certificates guarantee equal rights to the members and do not earn interest or dividends. The net earnings of the Bank are to be set aside as capital reserves. The financial responsibility of the Bank's members is limited to the amount of their capital subscription. Each subscription is paid in the member's national currency, which enjoys the guarantee of free convertibility at the most favorable rate of exchange set by its central bank. Each member state has agreed to maintain the U.S. dollar value of its paid-in capital. Therefore, with any modification of a member's exchange rate vis-á-vis the U.S. dollar, the capital contribution of that member must be adjusted in the exact proportion required to maintain its U.S. dollar value.

In addition to its capital and surplus, the CABEI may obtain resources from donations, borrowings, and the issuing of bonds. The total resources available to the Bank as of June 30, 1972, broken down by operating funds, are shown in Table 2.

Table 2. CABEI Resources as of June 30, 1972

(In millions of U.S. dollars)

	Funds			
	Ordinary	Economic Integration	Housing	Total
Paid-up capital	11.9	20.1		32.0
Donations	2.2			2.2
Earned surplus	4.1	5.0	2.4	11.5
Own resources	18.2	25.1	2.4	45.7
Contracted foreign resources 1/	149.2	119.1	20.0	288.3
Total	167.4	144.2	22.4	334.0

Source: CABEI, Eleventh Annual Report 1971/72.

1/ The main sources of financing for the Bank have been the U.S. AID, the IBRD, the IDB, and numerous foreign commercial banks.

In accordance with the CABEI's 1970/71 annual report (the 1971/72 report does not give this breakdown of the information), of the contracted foreign resources ($279.3 million as of June 30, 1971), 80.5 per cent was in long-term borrowings, 15.7 per cent in medium-term borrowings, and the remainder carried maturities of less than five years. In regard to use of the Bank's total resources ($317 million as of June 30, 1971), 76.4 per cent ($242.3 million) had been committed, about half of which ($120.4 million) was still available for disbursements.

2. CDB

The Bank originally had an authorized capital of $50 million made up of 10,000 shares with a nominal value of $5,000 each. Table 3 shows the distribution of this authorized capital among the members. The value of shares subscribed was $25 million and payment of the subscriptions was to be in six yearly installments. The first installment, equal to 20 per cent, was to be paid not later than 90 days, with the second installment, equal to 16 per cent, not later than one year after entry into force of the Agreement, which was January 26, 1970, and the remaining four installments, equal to 16 per cent each, were to be met not later than one year each from the date of payment of the preceding installment.

In April 1972 the originally authorized capital stock of the Bank was increased to $100 million in terms of U.S. dollars of the weight and fineness in effect on September 1, 1969. This was roughly equivalent to US$108.6 million at the parity rate ruling on December 31, 1972.

A stipulation in the Articles of Agreement of the CDB is that the authorized capital stock of the Bank shall at all times be held or be available for subscription in the following manner: (a) not less than 60 per cent by regional members and (b) not more than 40 per cent by other members. Fifty per cent of each subscription to the capital stock must be made in the currency of the member--with the other 50 per cent to be paid in gold or in a convertible currency--at the par value agreed with the International Monetary Fund. Where no par value has been established with the IMF, the initial value of the member's currency in terms of the U.S. dollar shall be determined by the CDB. The Articles of Agreement further provide that, whenever the par value in the IMF of a currency of a member is reduced or the foreign exchange value of such currency has, in the opinion of the Bank, depreciated to a significant extent within its territories, the member shall pay to the Bank an additional amount of its currency sufficient to maintain the value, as of the time of subscription, of the amount of such currency received by the Bank. Conversely, whenever the par value of a currency is increased, the Bank shall pay to that member such currency equal to the increase in the value of the member's subscription received by the Bank.

Table 3. Distribution of CDB's Originally Authorized Capital

	Number of Shares	Nominal Value (thousand US$)
Regional States and Territories		
Jamaica	2,240	11,200
Trinidad and Tobago	1,540	7,700
Bahamas	660	3,300
Guyana	480	2,400
Barbados	280	1,400
Antigua	100	500
British Honduras	100	500
Dominica	100	500
Granada	100	500
St. Kitts-Nevis-Anguilla	100	500
St. Lucia	100	500
St. Vincent	100	500
Monteserrat	25	125
British Virgin Islands	25	125
Cayman Islands	25	125
Turks and Caicos Islands	25	125
Subtotal	6,000	30,000
Nonregional States		
Canada	2,000	10,000
United Kingdom	2,000	10,000
Total	10,000	50,000

Source: CDB, Articles of Agreement (Kingston, Jamaica), October 18, 1969.

Provision was made in the Articles of Agreement for the creation within the Bank of a Special Development Fund (SDF). The SDF may receive contributions or loans which may be used to make or guarantee loans for high priority development projects, with longer maturities, longer grace periods, and lower interest rates than those determined by the Bank for its ordinary operations. The Bank is also empowered to establish or to be entrusted with the administration of other special funds designed to serve its purposes and which may fall within its functions. The 1972 Annual Report of the Bank lists the following contributions as confirmed up to the end of that year: (a) a Canadian contribution to the Special Development Fund (available over a period of five years) of a little more than Can$5 million; (b) a Canadian contribution of Can$2.5 million to the Canadian Agricultural Fund; (c) a U.K. contribution to the Special Development Fund (available over a period of five years) for about £2 million; and (d) a U.S. contribution to the Special Development Fund for $10 million and to the Housing Programme for $10 million. However, only about two thirds of these contributions had been actually received by the Bank as of December 31, 1972 (Table 4).

Table 4. Resources Obtained by the Subregional Development Lending Institutions

(In millions of U.S. dollars)

	CABEI	CDB1/	ADC
Capital:			
Authorized	60.0	108.6	100.0
Subscribed	40.0	54.3	25.0
Paid-up	32.0	27.1	10.0
Earned surplus and other reserves	11.5	...	--
Loans received	140.2	10.0	--
Donations received	2.2	12.6	--
Other loanabale funds	--	...	0.1
Total liabilities and equity	185.9	49.7	10.1

Sources: CABEI, Eleventh Annual Report 1971/72 (data as of June 30, 1972); CDB, Annual Report 1972 (as of December 31, 1972); and ADC, Annual Report 1971 (as of December 31, 1971).

1/ The figures for the CDB are expressed in U.S. dollars of the parity ruling on December 31, 1972.

3. ADC

Of an authorized capital of $100 million, $25 million had been subscribed, of which $10 million was paid up as of December 31, 1971. The subscribed capital to the two types of shares of the Corporation is as follows: (a) 6 Serial A shares of $1 million each, to be subscribed by the government or an official entity or a semiprivate nonprofit organization in each member country; and (b) 3,800 Serial B shares of $5,000 each--900 each for Chile, Colombia, Peru, and Venezuela, and 100 each for Bolivia and Ecuador--to be subscribed to the extent of 60 per cent by the government, or official or semipublic entities, and 40 per cent to be made available for subscription by private enterprise.

All shares are issued to the name of the respective country and are transferable only within that country. Payment of capital was arranged in five equal annual installments, starting 90 days after the entry into force of the Articles of Agreement, which was June 8, 1970. The first installment was to be paid in U.S. dollars and the remaining ones in national currency. Shareholders who are not up to date in their payments may not exercise their voting rights.

According to the 1971 Annual Report, the Corporation's management has initiated contacts with the U.S. AID, the IDB, and several foreign banks with a view toward obtaining additional resources, which would enable the Corporation to expand its operations.

As with the Caribbean Development Bank, the Andean Development Corporation is a rather young institution with nearly all of its actual resources, as shown by its December 31, 1971 balance sheet, consisting of its own capital (see Table 4).

IV. Operations

1. CABEI

As determined in its Articles of Agreement, the CABEI's capital and other resources must be employed exclusively in the fulfillment of its objectives as outlined therein. Toward that end, and in studying the opportunities created by economic integration and in promoting those opportunities, the Bank is empowered (a) To schedule its programing and to establish the necessary priorities for the financing thereof. (b) To grant or participate in medium- and long-term loans. (c) To issue its own obligations with or without mortgage or other guarantee. (d) To participate in the issuance and flotation of all kinds of paper and credit instruments related to the fulfillment of its objectives. (e) To obtain loans, credits, and guarantees from Central American, international, and foreign financial institutions. (f) To act as an intermediary in the negotiations of loans and credits for member governments and their official and decentralized institutions. (To this end the Bank may participate in the drafting of the loan request documents.) (g) To guarantee loans received by public and private borrowers up to the amounts and with the maturities determined by the Board of Governors. (h) To obtain the guarantee of member governments for the contracting of loans from other financial institutions. (i) To make available management, administrative, and technical assistance to loan applicants, using its own resources or any it may obtain for such purposes. (j) To carry out all those other activities benefitting the general objectives of the Bank.

The Bank operates through three main funds--the Ordinary Fund, the Central American Economic Integration Fund, and the Financial Housing Fund.

The accumulated total of loans approved through June 30, 1972 by the CABEI was as follows:

	Industrial	Infrastructure (millions of U.S. dollars)	Housing	Total
Costa Rica	12.4	39.8	10.8	63.0
El Salvador	18.5	29.5	2.6	50.6
Guatemala	20.2	42.2	2.0	64.4
Honduras	26.0	44.6	6.0	76.6
Nicaragua	25.7	39.3	8.2	73.2
	102.8	195.4	29.6	327.8

Of these loans, the total value of those actually signed was $274.8 million, of which $193.5 million had been disbursed. The Bank's outstanding loan portfolio stood at $155 million as of June 30, 1972 (Table 5). Over the five years 1968-72 this balance had grown at an average annual rate of 30 per cent.

Table 5. CABEI Outstanding Loan Portfolio by Funds

(In millions of U.S. dollars)

	Balance as of June 30					
	1967	1968	1969	1970	1971	1972
Ordinary Fund	31.0	35.1	39.4	43.7	55.2	63.9
Economic Integration Fund	1.0	6.4	15.5	30.5	58.1	78.1
Financial Housing Fund	7.5	8.3	8.4	7.5	8.6	12.7
Total	39.5	49.8	63.3	81.7	121.9	154.7
Percentage change over previous year	(59.1)	(26.1)	(27.0)	(29.0)	(49.2)	(26.9)

Source: CABEI, Eleventh Annual Report 1971/72.

a. Ordinary Fund

The operations of the Ordinary Fund fit the general provisions described at the beginning of this Section IV.

b. Central American Economic Integration Fund

This Fund consists of resources--regional, foreign, international--made available to the Bank to supply investment needs in the public sector. Through this Fund loans may be granted to governments of the member countries; to Central American organizations; to local and municipal governments; to autonomous official institutions; and to semipublicly owned public-interest institutions, provided that their by-laws and statutes allow them to enter into this kind of operation and that adequate authorization to the Bank is granted on behalf of the institutions by the respective government. The types of program or project which may be financed through this Fund are as follows: transportation, telecommunications, electrical power, and other infrastructure; education, including technical training, and related facilities; research and evaluation of natural resources; grain and other food storage; irrigation, drainage, and soil conservation, including reforestation; prevention of plagues in agriculture; agricultural development including colonization; development of tourism; and other areas of development, as agreed among the member countries, which will contribute to the fulfillment of the particular objectives of this Fund.

c. Financial Housing Fund

This Fund was established by a resolution of the Board of Directors in April 1964, following an agreement with the U.S. AID providing for an initial loan of $10 million for the financing of residential construction in Central America. The creation of this Fund was deemed necessary in view of the specific limitations of the Articles of Agreement of the CABEI, which precluded the financing of any sector of a purely local or national nature or of those sectors not directly related to the integration movement. The objective when establishing this Fund was the financing of housing for middle-income groups, and a longer term objective was the establishment of a secondary mortgage market. The Fund's purposes and objectives are to be attained through the purchase of mortgages from private and public institutions within the region engaged in financing residential construction. The mortgages subsequently would be resold, with a U.S. AID guarantee, to savings and loan associations in the United States. Specific guidelines have been established covering minimum and maximum standards of construction, cost of unit to be financed, financial charges, and other conditions for eligibility for these mortgage transactions.

2. CDB

The Bank's operations are classified into two main groups, the ordinary and the special. The former are financed by the ordinary capital resources of the Bank and the latter by the special fund resources. It is stipulated in the Articles of Agreement that the ordinary capital resources shall not be charged with, or used to discharge, losses or liabilities arising out of the operations or other activities of any special fund. Conversely, no special fund may be similarly charged with operations of the ordinary fund.

a. Ordinary operations

The ordinary capital resources are used in the Bank's ordinary operations, and include the authorized capital stock of the Bank, funds borrowed by the Bank, and funds received in payment of loans or guarantees made by the Bank from the previously mentioned resources and the income derived from such loans.

In its ordinary operations, the Bank may provide or facilitate financing for any regional member, or any political subdivision or agency, entity, or enterprise in the public or private sector of the territory of a member, as well as for international or regional agencies or other entities concerned with the economic development of the region. The Bank may carry out these operations by (a) making or participating in direct loans from its unimpaired paid-up capital or from its reserves and undistributed surplus; (b) making or participating in direct loans with funds it has raised in capital markets or borrowed or otherwise acquired for inclusion in its ordinary resources; (c) investing the funds referred to in (a) and (b) above in the equity capital of an entity or enterprise; or (d) guaranteeing loans.

Various specific limitations on the Bank's operations are set out in its Articles of Agreement, but mainly that (a) The total amount of outstanding loans, equity investment, and guarantees made by the Bank in its ordinary operations must not at any time exceed the total of its unimpaired subscribed capital, reserves, surplus, and any other funds included in its ordinary capital resources. (b) Funds invested in equity capital of an entity or enterprise out of the ordinary resources of the Bank shall not exceed 10 per cent of capital plus reserves and surplus included in the ordinary capital resources. (c) Equity investments in general will not be made to secure a controlling interest except when necessary to safeguard the Bank's investment.

b. Special operations

The Articles of Agreement define the special fund resources as those that include any of the following: (a) resources initially contributed to any special fund; (b) funds accepted by the Bank for inclusion in any special fund; (c) funds repaid in respect of loans or guarantees financed from the resources of any special fund; (d) income derived from operations of the Bank in which any of the income accrues to a special fund; and (e) any other resources placed at the disposal of any special fund. The total amount outstanding with respect to the operations of any special fund must not at any time exceed the total amount of the unimpaired resources of that fund.

Although the charter of the CDB was signed in October 1969, the first lending operations did not take place until the second half of 1971. As of December 31, 1971 the CDB had operated through the ordinary fund and two special funds--the Special Development Fund and the Canadian Agricultural Fund--and its total commitments, including guarantees, amounted to $6.8 million. The Bank had received over 50 firm applications for loans and expected to commit at least $15 million in the course of 1972. Actually, by the end of 1972, accumulated commitments in loans and guarantees had exceeded $25 million (Table 6). However, actual disbursements through 1972 amounted to only $450,000.

Table 6. CDB Commitments in Loans and Guarantees at December 31, 1972

	Number of Projects	Value (million US$)
Ordinary resources	23	13.0 1/
Special Development Fund	24	10.4
Canadian Agricultural Fund	9	2.0
Total	56	25.4 2/

Source: CDB, Annual Report 1972 (as of December 31, 1972).

1/ Covers loans ($9.7 million), secondary mortgages ($3 million), and guarantees.

2/ Distributed by type of project, as follows: ports $5.1 million, agricultural credit $3.1 million, water supplies $3 million, residential mortgages $3 million, industrial estates $2.3 million, roads $2 million, agriculture and processing $1.7 million, electricity $1.5 million, small industry $1.3 million, hotels $1.2 million, and telephones, student loans, and airport $1.1 million.

3. ADC

The Articles of Agreement of the ADC do not specifically provide for the establishment of separate funds. Therefore, the operations of the Corporation have been carried out in a unified manner. The value of operations approved through December 31, 1971[1/] exceeded $7 million. In addition, about $1.3 million had been approved for pre-investment studies and $689,000 was being provided for technical assistance for project preparation. However, as of December 31, 1971, the actual amount of loan disbursements was only $315,095, and disbursements for project and other development studies amounted to $115,225. Since the Corporation began its activities rather recently (its Articles of Agreement entered into force in June 1970), comparisons with the operations of other lending institutions in the area are not too meaningful at this point.

V. Organization and Administration

1. CABEI

In accordance with its Articles of Agreement, the Bank has a Board of Governors, a Board of Directors, a President, and such other staff as may be necessary.

a. Board of Governors

All the Bank's powers reside with the Board of Governors, which is its maximum authority. The Board is composed of two governors from each country who carry out their functions independently of each other and who cast separate votes. One governor must be the Minister of Economy of the member country and the other the chief executive officer of the central bank, e.g., either the General Manager or the President.

At each annual meeting, the Board elects one chairman, whose term extends until the next ordinary annual meeting. In addition to the annual meeting, the Board may meet in extraordinary session, whenever called by the Board of Directors or at the initiative of one of the member countries. A quorum is established at meetings with the presence of a majority of the total of governors. Most decisions require the favorable vote of at least a majority of the total of governors, except for an increase in capital, which requires the unanimous decision of all members of the Board.

The Board of Governors may delegate all or any of its powers to the Board of Directors except for the following: (a) calling for capital subscriptions; (b) increasing the authorized capital; (c) approving the capital reserves as proposed by the Board of Directors; (d) electing the President and determining his salary; (e) determining the salaries of the directors; (f) hearing and deciding any appeals on interpretation of the

1/ At the writing of this paper the 1972 Annual Report of the ADC was not available.

Articles of Agreement made by the Board of Directors; (g) authorizing the conclusion of general agreements for cooperation with other organizations; (h) appointing external auditors to certify the financial statements of the Bank; (i) approving and publishing, after reviewing the auditors' report, the general balance sheet and the profit and loss statement; and (j) deciding upon the termination of the Bank's operations and distribution of its net assets.

b. Board of Directors

The Board of Directors is responsible for the Bank's operations. To this end it exercises all the powers delegated to it by the Board of Governors. The Board is composed of one director from each member country, and the person must be a citizen of the country represented. Each director is elected by the Board of Governors for a five-year period and may be re-elected for successive periods. Directors must actively continue in office until a successor is elected. In the case of a vacancy, the Board of Governors must appoint a substitute for the remainder of the director's term. In the case of temporary, justified absence, the Board of Directors may appoint a substitute as a temporary replacement.

The Board of Directors functions at the Bank's headquarters, with the directors working on a full-time basis. Under the By-Laws of the CABEI, the authority of the Board of Directors is outlined as follows: (a) determining the Bank's basic organization; (b) formulating, approving, and modifying all the necessary operational regulations; (c) formulating policy guidelines and adopting measures conducive to the proper functioning of the Bank's activities; (d) negotiating and subscribing agreements and contracts for financial and technical assistance to the Bank; (e) calling extraordinary meetings of the Board of Governors; (f) approving the Bank's budget and presenting it for the consideration of the Board of Governors, together with all the financial statements as well as with a proposal for the constitution of reserves; (g) approving the Bank's annual report and presenting it to the Board of Governors (the annual report must contain a description of the credit and operating policies followed by the Board of Directors); (h) at the request of interested parties, interpreting the contents of the Articles of Agreement and presenting their findings to the Board of Governors; and (i) carrying out all functions delegated by the Board of Governors.

In addition to their duties as members of the Board of Directors, the President of the Bank may request of the directors their cooperation in the following activities: (a) the active promotion in their respective countries of the Bank's operations, particularly insofar as they refer to economic and social development projects which may be financed by the Bank; (b) the maintaining of an exchange of information and the coordination of contacts with central banks, national planning entities, commercial banks, other development institutes, and other entities in charge of formulating and executing economic policy; (c) the maintaining of close contacts with private economic associations, private financial institutions, and private entrepreneurs so as to make known the objectives and policies of the Bank and opportunities for Bank financing; and (d) representing the Bank in meetings of a national, regional, or international nature. In order to carry out the activities expected of them, the directors must periodically visit their respective countries.

c. President

The President of the CABEI is also Chairman of the Board of Directors, and is chosen from among the directors and elected by the Board of Governors. The President has a deputy who carries the title of Vice President, also chosen from among the directors and elected by the Board of Governors, who takes charge of the office of the President and acts in the President's absence. The President's vote carries the same weight as that of the other directors except in the case of a tie, when his vote will be counted as double. The President, as the highest executive officer of the Bank, in addition to chairing the directors' meetings also directs the Bank's general administrative procedures, with the following being some of his main functions: (a) to adhere and require adherence to the Bank's Articles of Agreement and rules and regulations in all resolutions and orders originating in the Board of Directors; (b) to present to the Board of Directors the proposed administrative budget and the year-end financial statements of the Bank, as well as the annual report; (c) to propose to the Board of Directors the appointment or removal of the Executive Vice President, any department head, or other senior staff; (d) to submit to the Board of Directors all credit applications; (e) to announce the calling of the Board of Governors meetings; and (f) to organize whatever committees he may deem necessary for the proper functioning of the Bank and to preside over them ex officio.

d. The remaining administrative structure

The Bank has two Vice Presidents. One (as already mentioned) is elected from among the directors by the Board of Governors to act exclusively as deputy chairman of the Board of Directors. The other, the Executive Vice President, is appointed by the Board of Directors, and is charged with the following main functions: (a) the immediate administration of all the operations and activities of the various Departments and General Offices of the Bank. (b) The correct application of the Bank's rules and regulations and all other norms related to personnel administration. (c) The study and formulation of all the measures of an administrative nature designed to ensure the efficiency of the Bank's operations. The Executive Vice President must submit such measures for the President's approval. The Executive Vice President may attend the Board of Directors meetings but carries no vote.

Outside of management, administratively the Bank is broken down into two main sections--the Departments and the General Offices. There are five Departments: Industrial, Infra-Structure, Operations, Economic Research and Promotion, and Housing Financing; and there are four General Offices--Secretariat, Treasury and Accounts, Internal Auditing, and Legal.

2. <u>CDB</u>

As authorized by its Articles of Agreement, the Bank has a Board of Governors, a Board of Directors, a President, a Vice President, and such other officers and staff as necessary for its proper management.

a. <u>Board of Governors</u>

Each member country appoints a governor and an alternate to represent it at the Board of Governors. The alternate may not vote except in the absence of his principal. All the powers of the Bank are vested in the Board of Governors and these may be delegated to the Board of Directors except for the power to (a) admit new members and determine the conditions of their admission; (b) increase or decrease the Bank's authorized capital stock; (c) suspend a member; (d) reach a decision on appeals from decisions made by the Board of Directors regarding the interpretation or application of the Articles of Agreement; (e) authorize the conclusions of general agreements of cooperation with governments and other international organizations; (f) elect the directors and appoint the President of the Bank; (g) determine the remuneration of the directors and their alternates; (h) determine the distribution of the Bank's net profits; (i) amend the Articles of Agreement; (j) decide on termination of the Bank's operations and distribution of its assets; (k) select external auditors to certify the Bank's balance sheet and its profit and loss statement; and (l) approve, after reviewing the report of the external auditors, the Bank's financial statements.

The Board of Governors must hold an annual meeting and such other extraordinary meetings as it deems necessary or as called by the Board of Directors. A quorum for any meeting of the Board of Governors is a majority of the governors exercising not less than two thirds of the total voting power. Provision has also been made in the Articles of Agreement for obtaining a vote of the governors on a specific question without calling a meeting of the Board of Governors.

b. <u>Board of Directors</u>

There are seven directors, of whom five are elected by the governors representing the regional members and two are selected by the governors representing the nonregional members. The Articles of Agreement also provide for the advent of an enlarged membership. Should other states or territories become members of the CDB, the Board of Governors may, by the vote of not less than two thirds of the total governors representing not less than three fourths of the total voting power of the members, increase the number of directors.

The directors must be persons of high competence in economic and financial matters and must be selected with due regard to the principle of equitable geographic distribution. The term of office is two years, and a director may be re-elected for one additional term. Each director appoints an alternate, with full power to act for him in his absence. If the office of a director becomes vacant before the expiration of his term, another director must be elected for the remainder of the term by the member who selected his predecessor.

The Board of Directors is responsible for the direction of the Bank's general operations. For this purpose it shall exercise all the powers delegated to it by the Board of Governors, and in particular it shall (a) prepare the work of the Board of Governors; (b) take decisions concerning loans, guarantees, investments in equity capital, borrowing by the Bank, furnishing of technical assistance, and other operations of the Bank; (c) submit the statements of accounts for each financial year to the Board of Governors; and (d) approve the Bank's budget. The Board of Directors functions at the Bank's main office and meets as often as necessary. A majority of the directors constitutes a quorum, provided such majority represents not less than two thirds of the total voting power of the members. The Board of Governors may send a representative to attend any meeting of the Board of Directors.

c. President

The President is appointed by the Board of Governors by a vote of at least two thirds of the total number of governors representing not less than three fourths of the total voting power. The Board of Governors determines the President's term of office, up to a maximum of five years. However, he may be re-elected. The President shall cease to hold office when the Board of Governors so decides, under the same voting provisions as required for his appointment.

The President is the Chairman of the Board of Directors, but he has no right to vote except in the case of a tie. He may participate in meetings of the Board of Governors, but has no vote. During his term of office the President may not be a governor or a director nor an alternate for either.

The President is the Bank's chief executive officer and conducts, under the direction of the Board of Directors, the Bank's ordinary business. He may recommend to the Board of Directors the appointment of a Vice President. He is responsible for the appointment and dismissal of the officers and staff, subject to the general control of the Board of Directors.

d. The remaining administrative structure

The term of office of the Vice President, his authority, and function in the administration of the CDB, are determined by the Board of Directors. He acts as President during any absences of the President and may participate in the Board of Directors meetings but with no vote, except that he can cast the deciding vote in the case of a tie when acting in place of the President.

All other officers and staff of the Bank are appointed by the President. A stipulation in the Articles of Agreement is that, in acquiring staff, the President should assign paramount importance to securing the highest standards of efficiency and technical competence, while paying due regard to the recruitment of personnel as much as possible on an equitable geographic basis.

3. ADC

In the case of the Corporation, the executive, management, and administrative structure are basically the same as for the two regional banks. There is the Stockholders Assembly, in lieu of a board of governors, the Board of Directors, the Executive President, and the remaining administrative structure.

a. Stockholders Assembly

There are two types of meeting for this body--the Ordinary and the Extraordinary--both of which are chaired by a member of the Board of Directors. The Ordinary Assembly of Stockholders must be called by the Executive President to meet once a year not later than 90 days after the conclusion of the fiscal year (which coincides with the calendar year). An Extraordinary Assembly is called by the Executive President at his own initiative, or at that of the Board of Directors, or at that of two Serial A stockholders representing not less than 25 per cent of the paid-up capital. A quorum for the ordinary and extraordinary meetings exists when at least four Serial A shares and 50 per cent of the Serial B shares are represented. When a quorum is not met, another Assembly may be called, with not less than 30 days' notice, but in this Assembly any number of shares represented will constitute a quorum.

It is a function of the Ordinary Assembly (a) to consider and study the annual report of the Board of Directors, the Corporation's balance sheet, and the profit and loss statement, which must be accompanied by a report of the external auditors, and to determine the distribution of profits and the creation of reserves; (b) to elect the members of the Board of Directors; (c) to appoint the external auditors; (d) to establish the salaries of the Directors and the external auditors; and (e) to decide on such other matters as deemed proper and appropriate for the consideration of the Assembly.

The Extraordinary Assembly must be called with at least 30 days' prior notice, and only those matters referred to in the notice may become part of the agenda. The Extraordinary Assembly has the following powers: (a) to increase or reduce the capital; (b) to dissolve the Corporation; (c) to approve the change of location of the Corporation's headquarters at the proposal of the Board of Directors; and (d) to change the salaries of the Directors and of the external auditors. The Extraordinary Assembly is also empowered, with the favorable vote of the six Serial A stockholders plus the absolute majority of the Serial B shares represented at the meeting, to change the structure of the Board of Directors and to make such other provisions it may deem necessary, but always maintaining the basic criteria of the Articles of Agreement. With respect to all other regulations affecting the actual structure of the Corporation, the Extraordinary Assembly may recommend those changes it believes should be submitted to the approval of the contracting parties of the ADC.

During the 15 calendar days prior to the meeting of the Ordinary Assembly, any shareholder has the right to examine at the Corporation's headquarters the Corporation's inventories, the list of shareholders, and may also request a copy of the balance sheet and of the auditor's report. However, not less than 15 days prior to the meeting of each Assembly, a copy of all reports and balance sheets must be sent to the Corporation's stockholders.

b. Board of Directors

The Board is composed of 11 directors, who are elected for a three-year period and who may be re-elected. Each director has an alternate, who is elected for the same period and in the same manner as his principal. Six of the directors and their alternates are elected by the Serial A stockholders. The other five directors, elected by the Serial B stockholders, must be of different nationalities; however, at election times, the nationality previously excluded must be included in the new Board. This procedure will cease to apply if one of the two countries with the lower subscriptions increases its holdings to 16.6 per cent of the total initially subscribed capital. However, if and when the holdings of all countries reach that percentage, the number of directors will be increased to 12.

If, for any reason, the office of a director representing a Serial A stockholder has been vacated, a replacement must be appointed directly by the country the director represented. In the case of filling a vacancy of a director of the Serial B stockholders, the Board of Directors will appoint the alternate or, in his absence, a suitable replacement, to take the place of the principal. The director so appointed will act until the next Ordinary Assembly of stockholders, when his election to the position must be confirmed for the remaining period of the executive director being replaced.

The Board of Directors has the following powers: (a) to establish and direct the financial, credit, and economic policies of the Corporation; (b) to elect any one of the directors to chair the Board and the stockholders Assembly meetings; (c) to appoint and remove the Executive President; (d) to appoint and remove the Corporation's Vice President(s) at the request of the Executive President; (e) to establish the salaries of the Executive President and of the Vice President(s); (f) to approve the annual expenditure budget, on the proposal of the Executive President; (g) to approve credit operations, investments, or any other operations befitting the functions of the Corporation and as proposed by the Executive President; (h) to determine the characteristics of and agree on the issue of bonds, debentures, or other financial obligations, to approve underwriting operations, and to authorize investment in certificates of participation and the Corporation's participation in other fiduciary operations; (i) to delegate to the executive committees or other groups, which the directors themselves might deem appropriate to create, or to the Executive President or other officers he may recommend, the authority to carry out the functions described in (g) and (h) above, so long as the amount involved in those operations does not exceed the limits set by the Board of Directors itself; (j) to take action on any matters as raised by the Executive President and not foreseen in the Articles of Agreement, as well as on the correct interpretation of the Articles, and to so inform the stockholders in their next Assembly meetings; (k) to present to the Ordinary Assembly the balance sheet and the annual report of the ADC; (l) to propose to the Ordinary Assembly the distribution of profits; (m) to propose to the Ordinary Assembly the creation of reserves; (n) to issue and change as necessary internal regulations of the ADC; (o) to agree on the calling of the Ordinary Assembly, as prescribed by the Articles of Agreement, and of an Extraordinary Assembly whenever required; and (p) to propose to the Extraordinary Assembly a change in the location of the headquarters whenever deemed necessary.

The Board of Directors will meet at the Corporation's headquarters, unless a decision is made to meet elsewhere, whenever called by the Executive President or at the request of three directors.

c. Executive President

The Executive President will be the Corporation's legal representative, with the following powers: (a) to carry on the immediate direction and administration of the Corporation; (b) to decide upon and take care of all matters not expressly reserved to the stockholders Assembly, the Board of Directors, the executive committees, or other similar groups which may have been established by the Board of Directors; (c) to participate in the Board of Directors sessions but with no vote; and (d) to call the Ordinary Assembly of Stockholders together in meeting once each year and the Extraordinary Assembly whenever deemed necessary.

The Executive President will carry out his functions for five years; he may be re-elected, but in any case he should remain in office until his replacement assumes the responsibilities. The Executive President will represent the Corporation in all judicial and contractual acts, although he may delegate his representation.

d. The remaining administrative structure

The Board of Directors, following the recommendation of the Executive President, may appoint a Vice President or Vice Presidents as may be necessary for the proper functioning of the Corporation. The appointment of the rest of the staff is the prerogative of the Executive President, who will inform the Board of Directors of personnel appointments and of all details pertaining thereto. It is stipulated in the Articles of Agreement that efficiency and competence must be the first consideration in the appointment of staff for the Corporation. However, the executive and the staff must be chosen preferably from the subregion, following an appropriate country distribution.

VI. Voting

1. CABEI

The five member countries have equal voting rights. The Board of Governors is composed of two representatives from each country, who vote independently of each other. At the Board of Directors, every member country is represented by one director, with each carrying one vote; this includes the Chairman of the Board, who not only is one of the directors but is also the President of the CABEI. In case of a tie, the President's vote will be counted as double. Except where otherwise specifically provided for by the Articles of Agreement, all decisions at the Board of Governors and at the Board of Directors are determined by a majority vote of all members.

2. CDB

At the Board of Governors, each member has 150 votes plus one additional vote for each share of capital stock held by it. In voting at the Board of Governors, each governor is entitled to cast the votes of the member he represents. Except as otherwise especially provided for by the Articles of Agreement, all matters before the Board of Governors are determined by a majority of the voting power of the members represented at the meeting (see also c. President, p. 18). Alternate governors do not vote, except in the absence of their respective governors.

In voting at the Board of Directors, each director is entitled to cast the number of votes of the member or members whose votes were cast toward his election. The director's votes must be cast as a unit. Also, all matters before the Board of Directors are determined by a majority of the voting power of the members represented at the meeting, except as otherwise expressly provided for by the Articles of Agreement.

The President of the CDB is Chairman of the Board of Directors, but he has no vote except in the case of a tie.

3. ADC

At the Ordinary Assembly, in electing the members of the Board of Directors representing the Serial B shares, each stockholder will have a number of votes equal to the number of shares he actually represents, multiplied by the number of directors to be elected. Each stockholder may cast all votes held for a single candidate or distribute them among several candidates. In voting in the Ordinary Assembly, the majority required is that representing not less than three Serial A shares plus the absolute majority of the other shares represented at the meeting. In the Extraordinary Assembly, the majority required is four Serial A shares plus the absolute majority of the other shares represented at the meeting.

Except where otherwise specified by the Articles of Agreement, decisions at the Board of Directors, where each director has one vote, will be taken by majority. The Executive President has no vote at the Board of Directors.

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