



**ANNUAL MEETING OF THE BOARDS OF GOVERNORS**

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*Statement by*  
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*Chairman of the Board of Executive Directors of the*  
*Inter-American Investment Corporation,*  
*at the inaugural session of the*  
*Annual Meeting of the Boards of Governors*



It is a pleasure to welcome you all to Cancún, a corner of paradise, in this year when Mexico is commemorating two signal events: the bicentennial of its independence and the centennial of its revolution.

I would like to acknowledge our host for this year's annual meeting, President Felipe Calderón, a courageous and visionary leader who has made hard but necessary decisions for the well-being of the Mexican people.

Much can be said about his team's sound macroeconomic management in these turbulent times. I stand in support and admiration of President Calderón's efforts and those of the people of Mexico to combat the violence perpetrated by criminal groups which, however vast the resources at their disposal, will never succeed in upending the rule of law. History shows that institutions invariably win out over criminals. We were able to observe this first-hand last year when we gathered in Medellín and witnessed the magnitude of the change in that growing city that may still be grappling with challenges, but drug cartels are no longer one of them.

Though such efforts require perseverance and sacrifice, no amount of ill-gotten money can break the will of a nation, much less a determined nation like our host country this year.

I thank the Governor of the State of Quintana Roo, Félix González Canto, who has worked tirelessly to shape the destinies of this land of promise, for being with us today. A few days ago the Governor and I visited the Leona Vicario community, where we talked with young people who are full of hope and optimism. They are the guarantee of a better future for everyone.

It is especially meaningful for the Bank that the vibrant city of Cancún, which has welcomed us with its famed hospitality, should be the venue of this year's meeting. This place where we gather is a testament to Mexican government entrepreneurship, and the IDB is very proud to have been able to play a part in its early development. Back in 1971 the Bank approved a 21 million dollar loan to plant the seeds for this tourist destination at a time when a few dozen fishermen comprised the area's population. A further source of pride is that the project was the first to take a comprehensive approach to infrastructure development; two of its important components were recognition of the importance of archaeological sites and local wildlife protection.

It is only fitting, in this setting, that we pay tribute to Antonio Ortiz Mena, a leader, a man of vision, and one of the chief architects of modern Mexico and of our Bank. He

played a central role in two distinct but related phases in Cancún's development—first as Mexico's finance minister, when the Bank extended its loan, and later on as the Bank's visionary president for more than 17 years.

I said in my opening remarks that modern Mexico, like many republics across the region, is marking its two hundredth anniversary this year, but this region can rightfully boast of many centuries of historical and cultural grandeur. The Mayan world has left a rich legacy here as it did in other countries like Guatemala, Honduras, El Salvador, and Belize.

There is much to admire about the Mayans, from their intellectual development to their long-range vision and their quest to conquer uncertainty. The astronomical legacy they left and their system of time management reveal their sophisticated knowledge and concern for accuracy. Centuries were to pass before other civilizations would reach that point. But the history of the Mayan empire reminds us also that, to survive, a society has to adapt. We must recognize the winds of change, as the Mayans had to when confronted with environmental challenges.

This gathering takes place a few short weeks after nature unleashed her fury on Haiti and on Chile, two integral members of the Bank family, with which we have been working since the time of the tragedies. Here we say again to the representatives of these two countries, and through them to their people, that they are not alone now and they will not be alone going forward. We will not rest until the wounds of these catastrophes have fully healed. The exemplary record of Cancún, which five years ago felt the wrath of Hurricane Wilma, gives us reason to be optimistic and inspired to keep moving forward.

We are optimistic also about how Latin America and the Caribbean is faring, despite the distress the whole region suffered in 2009. As we know, the regional economy posted negative growth of roughly 2 percent that year, following average annual growth of close to 5 percent from 2003 to 2008. But we know, too, that this downturn was the result of a global crisis felt across the planet, which drove down commodity prices and trade activity as well as remittances and tourism revenues.

Even so, Latin America and the Caribbean experienced none of the banking crises, and certainly none of the currency crises, that had beset it during past episodes and were occurring elsewhere in the world. Sound financial regulation and prudent public debt management with adequate foreign currency reserves averted undesirable contagion. Moreover, many of the economies represented here today—Mexico among them—adopted countercyclical policies that helped cushion the impact of the downturn and protect the most vulnerable populations.

This heightened resilience is a sign that we have learned from experience and have emerged the stronger for it. The challenge now is to ply the winds to our advantage once again and navigate them pragmatically. Precisely at this juncture, when growth numbers are moving back to positive and regional GDP is set to expand around 4.5 percent this year, we must be careful not to become complacent, and must redouble efforts to complete unfinished tasks.

No unfinished challenge is more pressing than combating poverty. Close to one third of the Latin American and Caribbean population is poor. The region lost ground last year: in the five years before, some 50 million people had risen out of poverty; in 2009 close to 8 million were added to the poverty roll. To remedy this, the region needs to return to over-5 percent annual growth rates, at a minimum; this is entirely feasible given what we have seen accomplished during much of the present century.

My grounds for optimism are world trends that point to the emerging economies, particularly the Asian economies, as global growth drivers in decades to come.

The certainty that hundreds of millions of people will see their incomes rise and gain access to goods previously beyond their reach affords a tremendous opportunity for Latin America and the Caribbean, given their energy, mineral, and agricultural wealth and their manufacturing capacity.

This is not to say that the traditional markets for our goods are no longer important; it means that our horizons are broadening. Nor will it mean neglecting our home markets, sound domestic market development being crucial to counteract commodity price volatility and overreliance on exports.

Consequently, the challenge for the countries assembled here today is to understand that there will be different development hubs within and beyond our respective national borders, and that to connect into each of them the region needs to be more deeply integrated and tackle multiple works and ventures.

To cite just two examples, such undertakings could include vast improvements in current infrastructure endowments and more spending on education to teach and properly train the millions of young people who will end up in the corporate world and have to compete in the new international arena.

Latin America and the Caribbean has in its favor an abundance of natural resources, but its true wealth lies in its human capital.

On the other hand, ours is still the region of greatest inequality in the world. This is at once a source of chagrin and a roadblock to progress, since development will never happen so long as many have little and a few have a lot. Nor can we advance quickly if gender inequality—which is holding back the advancement of girls and women—or racial discrimination persist in a region that will flourish all the more as it embraces its diversity.

Certain as I am that better times are coming, it is equally clear to me that we have ahead of us an intense work agenda that will require the ongoing commitment of governments and peoples. Earlier I spoke of our social and equity challenge, to free from the poverty trap the 200 million people in Latin America and the Caribbean who are without decent housing, formal sector jobs, or adequate nutrition.

If the commodity price spike a few years ago left us with one lesson, it is that we cannot allow booms in some sectors to swell the ranks of the poor and marginalized, so there need to be relief programs in place in case high prices come back. We also need to work on bringing more acreage under cultivation to enhance food security across the region, strengthen our foothold in the global marketplace, and improve the lives of farm workers.

In order to have headroom and become more responsive, it is imperative that we work harder on improving productivity. Contrary to what one might think, this would not necessarily require additional investments, but rather better use of our existing physical and human capital.

As one Bank study clearly shows, it is more a question of having sensible policies and improving their quality than the amount of money pumped into ideas that fail. In practical terms, the challenge is to improve access to credit, have better organized transport, simplify tax systems, and try to bring more informal-sector workers into the mainstream economy, to catch up with other regions of the world in sectors like manufacturing and, especially, the service industries.

Good performance in that area would create more fertile ground for development of the private sector, with which we have worked increasingly over the 25 years of the Inter-American Investment Corporation, given that this sector generates around 90 percent of the region's economic activity and employs 9 out of every 10 people. This means continuing to work at all levels, including support for companies that have decided to expand beyond their borders, and for small and medium-sized enterprises that have benefitted from the activities of our institutions such as the Corporation and the Multilateral Investment Fund in the area of microfinance. Lastly, we have to look at the

base of the population pyramid and recognize that the use of inclusive models that expand opportunities for the majority benefit everyone.

Increasing our productivity also means continued efforts to invest more in the capital yielding the greatest returns of all: human capital. Latin America and the Caribbean have made a notable effort to better educate their populations, but we continue to lag behind other parts of the world. Today, 46 million children still lack access to early education, and 57 million young people are unemployed, underemployed, or not in school.

Addressing this challenge will mean working more closely with the 6 million teachers who need to be in tune with new methods, technology, and knowledge. Rather than inducing teachers to change, teachers are the ones who should be leading the change processes.

Such changes should take place in a primarily urban context because 8 in 10 Latin Americans live in cities and towns, not in the countryside. That spatial reality requires us to focus on the local level since the biggest challenges of our time, such as social inequities, crime, the informal sector, and environmental degradation, are exacerbated in a concrete and asphalt landscape.

The issue of citizen security is particularly sensitive, as crime rates worsen in many of our countries. A recent poll revealed that 40 percent of residents in major cities have been victims of a crime in the last 12 months.

Nonetheless, there are also cases of successes achieved through police reforms and measures to strengthen the justice system, but above all through continuity and decisiveness in taking on criminals. In this case, cooperation between countries and among the municipalities themselves is essential, not only because of the transnational nature of some crimes but due to the similarities among specific phenomena.

The relative vulnerability of our urban areas also takes on significance in light of climate change, which is of particular concern for coastal communities as a result of the anticipated rise in the sea level. That prospect should sound an alarm for cities like Cancún and other Caribbean cities, as well as for all our countries, since half the major cities in Latin America with populations of 5 million or more are in this group. Rather than panicking, we must act with cool heads and work diligently to mitigate risks that are not only possible, but certainties.

Let this be an opportunity to express our wishes for the success of the meeting to be held here in Mexico in late 2010, at which the world should reach concrete agreements on the environment and sustainable development. May President Calderón's admirable commitment and interest in this issue be rewarded.

Our region's proneness to natural disasters was revealed again just weeks ago when devastating earthquakes hit Haiti and Chile. In both cases, the solidarity of Latin Americans and Caribbeans has been admirable at all levels, as clearly demonstrated at the recent summit of Heads of State and Government in this city, from which an emphatic message of unity and support emerged.

Both tragedies will require long-term efforts. However, the reconstruction should be an incentive not to leave things as they were, but rather to draw lessons, painful as they might be, and thus improve procedures and, so far as possible, prevent the death and destruction from recurring.

I am certain that I speak for everyone here today when I say it is our firm intention to collaborate with President René Préval and his administration using all the resources at our disposal, so that Haiti can quickly leave these days behind. In order to surmount the challenge created by the earthquake, we must also overcome the unacceptable reality that 80 percent of Haitians subsist on less than two dollars a day and the average life expectancy is just 52 years, 22 years less than the average Latin American.

Change for the better is possible. I say this because I am witness to the determination of those present here to make it happen. I am reaffirming it because I know the Haitian people and can attest to their hardworking nature, their strength in the face of adversity, and their will to seek a better future. In the eyes of children in Port-au-Prince I have seen the trust they place in us, assured that this time we will not leave them on their own. Beyond the devastation is a dignified and strong people who were the first bastion of liberty in the region and continue to be the Pearl of the West Indies.

The issues I have touched on here demonstrate that if we want to make a decisive contribution, we need a stronger Bank. The IDB has responded capaciously to recent challenges but I know it can do more, much more, if given the opportunity.

Proof of that assertion is the fact that in 2009 we fulfilled the mandate we received to respond nimbly to the financing requirements of Latin America and the Caribbean. Thanks to the efforts made, the Bank's lending program rose to 15.628 billion dollars, 39 percent more than in 2008. Likewise, we achieved record disbursements of 11.9 billion dollars, a 56 percent increase over the previous year. For the poorest



countries, concessional resources were increased to offer a total program of 1.2 billion dollars coming from various sources.

There is no doubt that, had we been unable to collaborate effectively to address the challenges posed by the global crisis, the alarm in Latin America and the Caribbean would have been more extreme, particularly in the most anxious months.

Calm has gradually returned to our countries, but the Bank continues to work assiduously. Circumstances show that there is growing demand for Bank resources beyond the crisis.

In that regard, I am pleased to acknowledge the Bank's capital increase initiative in the amount of 70 billion dollars. Not only is it the largest increase in the institution's history, it will allow us to solidify our position as the leading source of multilateral resources in the region, enabling us to double our lending capacity to some 12 billion dollars per year, on average.

Once it is implemented, we can expand our work in four priority areas: lending to small and vulnerable economies, poverty reduction plans, climate change initiatives, and regional cooperation and integration programs.

The positive impact will be felt by millions of people who will have greater health or potable water coverage, by children who will receive a better education, or by citizens who will see the consolidation of projects that are environmentally friendly or seek to mitigate the potential impacts of climate change.

But that is not all. In an extraordinary show of solidarity, our partners have agreed to forgive Haiti's debt of 479 million dollars with the Bank, and to offer our sister nation 2 billion dollars in aid over the next 10 years. This commitment is good news for all Haitians, because it gives them hope that the wounds of the earthquake will heal and that the wait will give way to progress.

The aforementioned capital amount was the result of long days of negotiation in which positions were refined and consensus built around what had been expressed by the Heads of State—such as the President of Mexico—in various international forums. Accordingly, I would like to express my gratitude for the valuable support and dedication of the members of the Board of Executive Directors and the Governors of the Bank in fulfilling those mandates, as well as for the key role played in the process by Colombia's Finance Minister as Chairman of the Board of Governors.

Motivated by the trust placed in the Bank, we have undertaken multiple reforms over the past few years to improve risk management, efficiency, transparency, and governance of our institution, as well as the internal management model. Those elements form part of a realignment and a new strategic vision, with the sole objective of responding to changing times and our peoples' expectations for our engagement in the region.

In *The Labyrinth of Solitude* the great Mexican novelist and poet Octavio Paz describes the Mesoamerican pyramid as the axis of the universe where the four cardinal points intersect. According to this Nobel Prize laureate, the pyramid assures the continuity of time through sacrifice; it is a generator of life.

I believe it is no coincidence that this message of continuity is being endorsed today in Cancún. Nor is it a coincidence that the capital increase should be taking place in the same country where “white smoke” emerged 16 years ago during the Guadalajara meeting.

The obstacles we strive to remove today may be different, but the noble goals remain the same: to work tirelessly to reduce poverty and inequality, while promoting sustainable development. In order to bring about that promising future our people want today, we have a more solid institution with more tools and resources.

It is like a strengthened pyramid where all the inhabitants of this great region come together, which will remain dedicated to ensuring that every person in our Latin America and the Caribbean now shares in the prosperity that once eluded so many.