



ANNUAL MEETING OF THE BOARDS OF GOVERNORS

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Statement by the Governor for Costa Rica, on behalf of the Governments of Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua

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1. On behalf of the Governments of Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, I want to extend our most sincere thanks to the people and Government of Panama for the warm welcome and the generous hospitality they have shown us as hosts of the 2013 Annual Meeting of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation.
2. We are meeting here at a time when the world economy continues to feel the fallout from the 2008 financial crisis, and when the recovery of the world's major economies remains uncertain. In this international context, the countries of Central America and Belize today face the challenge of placing themselves on a path toward inclusive, sustainable economic development. We are certain that the Inter-American Development Bank Group is destined to deepen its commitment to the region and to provide nimble, timely responses to the challenges inherent in this task.
3. The first of those challenges is to strengthen the Bank's capacity to respond to the needs of its borrowing member countries and to play its countercyclical role through innovative instruments that will channel resources more effectively to the region. To date, the initiatives presented in terms of new instruments for addressing economic emergencies and natural disasters have been laudable, but they represent isolated efforts with clear limitations in their scope and their financial capacity. For this reason we believe a strategic discussion of this issue is needed. On this point, we note that the operating mechanism for implementing the Emergency Lending Facility of the Fund for Special Operations (FSO), intended to address these needs in the region's most vulnerable countries, is pending approval. It is also necessary to guarantee the availability of funds for FSO countries until 2020, as was agreed in the commitments under the Ninth Capital Increase, recognizing the significant progress that those countries have made in terms of portfolio performance.

4. A second challenge is to develop new financing instruments and different, innovative approaches that will allow our countries to make more effective use of the Bank's limited financial resources. Therefore, we believe now is the time to focus special attention on different mechanisms that will streamline disbursements, thus enhancing efficiency in project execution and improving performance of the loan portfolios with the IDB.

5. Another area where the IDB has an essential role to play is in strengthening the private sector so that it can promote more equitable and inclusive growth. Fostering small and medium-sized enterprises in the region is key for job creation and economic growth. It is also important to promote public-private partnerships if the region is to address our countries' infrastructure needs, and the IDB is the key institution to support us in designing such partnerships and in negotiating with the private participants.

6. We agree, therefore, that now is the right time to begin an in-depth discussion to strengthen the way the IDB promotes the development of our countries through the private sector. Over the years, the Central American countries and Belize have consistently supported the IDB's efforts to expand its operations with the private sector. If the strategy with the private sector is to be more effective and have greater impact, it must consider a broader, more innovative range of technical and financial instruments for meeting that sector's needs, and it will also have to streamline the processes for preparing operations and reduce the cost of doing business with the IDB. We urge the Board of Executive Directors and Management to develop an in-depth reform proposal and report on it in the third quarter of this year.

7. We place particular emphasis on the efforts of the Multilateral Investment Fund (MIF) to support microenterprises, by promoting experiments that can be scaled up by other units of the IDB Group. We therefore consider it important that this be preserved and strengthened. The evaluation of the MIF II reveals a track record of success that should be sustainable over time. For this reason, we call for discussions to begin on the MIF's strategy for the coming years and its replenishment with fresh funds to ensure the continuity of the initiative and its work.

8. Turning to a fundamental topic on this meeting's agenda, we have read with great interest the findings of the evaluation by the Office of Evaluation and Oversight (OVE) of each of the reforms agreed during negotiation and approval of the Ninth General Capital Increase. We acknowledge the work of the Bank's Management, whose teams made it possible to implement that ambitious reform agenda. We also thank OVE for its work, which was not limited to mere verification of compliance but in fact produced an in-depth analysis of the effectiveness of the reforms in each area, thereby generating a series of issues that will have to be reviewed and will define the Bank's working agenda moving forward.

9. One of the major areas of work should be to review the way the country dialogue process is reflected in the strategy and programming documents, so that they can be more relevant and more useful to the Bank and, especially, to the borrowing member countries. Accordingly, the programming exercises should be more comprehensive in their inclusion of technical cooperation activities, and should better reflect the efforts that the Bank is making in its work with the private sector in our countries, as well as the agendas

of each country. This task of reviewing the role of the country strategies and programming exercises should be geared to restoring the country focus in the Bank's activities.

10. A second issue is that of the Independent Consultation and Investigation Mechanism (ICIM). We reiterate our commitment to an independent mechanism that is transparent, efficient, and effective in ensuring compliance with the Bank's operational policies in the projects it finances in the region. Yet it is very clear, both from the OVE evaluation and from the internal auditor's report that the ICIM, in its current form, faces serious challenges that are impeding fulfillment of its objectives. Consequently, we must heed the recommendation of the Office of Evaluation and Oversight to review the policy, structure, and functions of the mechanism in order to address the identified gaps and governance problems. We support the temporary measures taken by the Board of Executive Directors and call for a timely proposal for an alternative to the current system.

11. Lastly, and no less importantly, we refer to the Macroeconomic Sustainability Assessment (MSA) exercise as an area that demands greater attention from the Board of Executive Directors, from Senior Management and, ultimately, from us as Governors. The IDB is an essential partner for the development of small countries like ours, and we are committed to the institution's solvency and financial strengthening. Nevertheless, we must recognize that the MSA is not the appropriate mechanism for this purpose, and that there is already the requirement for Independent Macroeconomic Assessments for the approval of fast-disbursing operations. The borrowing member countries also have a 60-year payment history with the Bank, which must surely help the Bank in evaluating the risk of default by the country in question. In looking at the questions raised by OVE as to the viability, usefulness, and validity of the MSA exercise, we consider it appropriate to follow the path proposed by the Board of Executive Directors for addressing the OVE report and reviewing the mandate on this issue, and await a proposal to eliminate the MSA exercises.

12. In short, the issues discussed at this meeting pose some significant challenges for consolidating an Inter-American Development Bank that is stronger and closer to the borrowing member countries. We Governors, as well as our representatives on the Board of Executive Directors, will be following this process very closely.