



**ANNUAL MEETING OF THE BOARDS OF GOVERNORS**

**PANAMA CITY, PANAMA**

AB-2922  
CII/AB-1342  
16 March 2013  
Original: Spanish

*Statement by the Temporary Alternate Governor for Spain*

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1. I would like to thank the Panamanian authorities, particularly Minister De Lima, for the warm welcome they have shown us and congratulate them on the magnificent organization of this meeting. I consider the new format a success in that it allows more time for frank and open discussions among the Governors on the main issues facing the Bank at this time. I also thank Panama City and its authorities for their hospitality.
2. Although growth averaged 3.2%, more than a point lower than the preceding year, I think we can say that last year was a good year for the region. In the international economic context that growth rate is certainly a good one.
3. For Spain's economy, the year that has elapsed since Montevideo has been much more difficult, given that it has embarked on sharp spending cuts needed to make headway in fiscal consolidation. However, even in these difficult circumstances, Spain remains committed to supporting Latin America and to doing so by channeling a substantial part of its efforts through the Bank. We continue to be a very important partner in technical cooperation and transfers of knowledge through the Spanish General Cooperation Fund, and we continue to work with the Water Fund and the Spain-Haiti SME Development Fund.
4. Moreover, when the opportunity has arisen, such as the shares that became available in the Inter-American Investment Corporation and the additional shares arising under the Ninth General Capital Increase, Spain has firmly committed to increasing its weight as a shareholder in the institution.
5. The prospects for growth in Spain this year appear to be not much better than last, but they are somewhat better for Latin America, which is expected to grow at an estimated rate of between 3.5% and 4%.
6. In the present situation, we can say that just as Spain is adapting its productive model, in the region the medium-term challenge is to increase the GDP growth potential

to make it less dependent on external factors and, in particular, on the demand for commodities. The objective is, therefore, to promote a broad increase in productivity and, precisely in this field, as a knowledge bank, the IDB can play a very important role by supporting modernization of the economies of Latin America and the Caribbean and contributing to their convergence with the higher-income countries.

7. The Bank has always stood out for its ability to adapt to the region's needs, and in this and other fields, the member countries have a powerful ally. Recent examples include the improvements that the Bank has made since our last meeting in its instruments to respond to exogenous economic crises and natural disasters. As I have pointed out on previous occasions, in Spain we believe that although it may not be the most significant component, development policy includes a countercyclical component that we should support, while being mindful of the implications of this objective for the Bank. Therefore, it is satisfying to see how the Bank is capitalizing on its capacity to finance development in the region by using these new instruments.

8. This leads me to consideration of the evaluation of the commitments established under the Ninth General Capital Increase, which is the main point of reference for discussions at this meeting. It was a pleasant surprise to find that despite its ambitious scope, the evaluation found just three areas that require reformulation, particularly considering that no other international institution has undertaken so many reforms in such a short time, as mentioned in the Office of Evaluation and Oversight (OVE) report.

9. Allow me to refer briefly to the three areas highlighted by OVE: the reform of financial instruments to support private sector development, the Independent Consultation and Investigation Mechanism, and the macroeconomic sustainability assessments.

10. First, the reform of instruments to support the private sector. Spain is aware of how important the private sector is for development in Latin America and the Caribbean and of the catalyzing role that the multilateral lending institutions should play, and therefore we consider it important for the IDB, which is the development bank of reference for the region, to take the lead in its work to support the private sector. Therefore, we fully support the establishment of the ad hoc committee proposed by Management. Spain is also in favor of a thorough study of all possible alternatives, with no a priori limitations, because although improvements have been made in instruments and coordination in recent years, the status quo is not working as well as it could, and it looks as if an in-depth reform is necessary. We believe that the study should be conducted without haste but without pause and, above all, without constraints. Ultimately, the constraints limited the scope of the reform agreed to in 2005, leaving us now, eight years later, virtually in the same place.

11. Second, the Independent Consultation and Investigation Mechanism. Spain considers it essential for the Bank to have a consultation and investigation mechanism, such as the one we approved in Cancún, that is solid and independent from Management. An instrument that reports on the impact that the operational policies could have on third parties and is accessible to them. I have looked with concern at reports by OVE and the auditors that have uncovered many shortcomings, and therefore I support the lines of

reform and the action plan that have already arisen from discussions of the Board of Executive Directors.

12. On the third area for proposed reformulation, the macroeconomic sustainability assessments, I am going to be very clear. We think they are useful, but we must consider the incredibly high cost of preparing them and the ways in which the assessments are complemented with institutional analysis. I will put it in even fewer words: We cannot do without the assessments, but we should support an action plan for their sweeping redesign to make them work.

13. While on the subject of issues important for the Bank's future operations, I would also like to mention the new methodology used by rating agencies for multilateral finance institutions, which gives greater weight to portfolio concentration and less to other factors such as the amount of callable capital. This change is relevant because it could have a greater impact on the IDB than on other institutions, since its nature as a regional bank makes diversification of its portfolio more difficult, and since maintaining a AAA rating is the cornerstone of the financial additionality that the Bank can provide for the region, the new approach may impact some of the policy decisions we make in the future.

14. Before closing, I would like to welcome the new General Manager of the Corporation, Mr. Muñana, and wish him every success in his work, and lastly, I encourage President Moreno to continue working with his habitual enthusiasm to bring the tremendous challenge posed by all the reforms currently under way to a successful conclusion.