



**ANNUAL MEETING OF THE BOARDS OF GOVERNORS**

**PANAMA CITY, PANAMA**

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*Statement by the Temporary Alternate Governor for the United States of America*

*Marisa Lago*

1. On behalf of President Obama and Secretary Lew, I would like to thank President Martinelli, his administration, and the people of Panama for their warm hospitality.
2. I would like to thank President Moreno, Executive Vice President Katzman, Bank Management and staff, the Board of Executive Directors, as well as my fellow Governors, for their efforts in support of the ambitious reform agenda that we agreed to three years ago. These reforms are enhancing the effectiveness and reach of the Inter-American Development Bank (IDB), ensuring its continued stature as the region's most vital institutional partner in promoting balanced growth and combatting poverty.
3. At the outset, I want to reaffirm the United States' commitment to meeting our responsibilities under the IDB's 9th General Capital Increase agreement. These additional resources enable the IDB to effectively meet its mandate in the region, both today and going forward.

*Regional Economic Developments*

4. We meet at a time of continued robust growth in Latin America, a trend that is contributing to a stronger and more balanced global economy. Stable and steady regional growth is particularly commendable in light of the difficult external environment, as strains from Europe persist and the global economic recovery has progressed more slowly than many had expected.
5. The United States recognizes our joint stake in promoting sustainable and inclusive growth in the region, and we stand ready to champion economic and financial policies that contribute to that objective. And the United States will continue to act with a sense of shared responsibility and an equal partnership with the region.
6. Since our meeting last year, many countries have continued to pursue a prudent mix of policies, including fiscal discipline and transparency, credible monetary anchors and exchange rate policies, and well regulated and capitalized financial systems. These

policies are home-grown and enjoy widespread support. They yield benefits in the form of strong, sustainable, and inclusive growth, which is lifting historic numbers of people out of poverty. But while growth has remained relatively strong in Latin America as a whole, we remain a diverse region, with a variety of economic challenges. We see that several economies, especially in Central America and the Caribbean, face important obstacles to growth and significant vulnerabilities to external shocks.

7. The region's economic prospects are reinforced by the critical work of the IDB in supporting investment in education, infrastructure and research; reforming regulations to improve competitiveness; expanding intra-regional trade; mitigating persistent inequality; and continuing successful efforts to reduce poverty and expand the middle class.

#### *Private Sector*

8. The United States shares Management's view that, increasingly, the IDB's value added will be in its ability to leverage and intermediate private capital to support the region's development objectives. To meet these demands, we as Governors are directing Management and the Board to develop a renewed vision for private sector activities. This vision must focus on strengthening development effectiveness and impact, while maximizing the efficient use of its current resources.

9. The region's prosperity is drawing in healthy levels of private external capital as global investors are attracted by the relatively high returns available in Latin America and the Caribbean. Private external capital can offer a much-needed boost to investment levels in the region and help compensate for saving rates that, in some cases, remain relatively low. Achieving the maximum benefits from these private inflows will require continued development of deep and healthy financial systems, sensible levels of external borrowing, and well articulated country-level investment strategies, particularly in the area of infrastructure. These are all areas where advice and assistance from the IDB can play a valuable role.

10. Beyond providing assistance to develop enabling environments for investment, the IDB is ideally positioned to use its private sector tools to catalyze private capital flows for the greatest development impact. We welcome Management's initiative to examine closely how the IDB can most effectively engage in this area. We look forward to the outcome of these efforts, which will provide an opportunity for the IDB to be an innovator and a leader among its peers. We recognize that this is a significant undertaking, and so urge the Board and Management to take the time to get it right.

11. Alongside the private sector discussions, we are pleased that the next round of replenishment discussions for the MIF is advancing. We support convening a Special Governors Committee meeting to launch replenishment discussions in the next six months. The MIF is uniquely placed within the IDB to support private sector-led growth for poor and low-income households in Latin America and the Caribbean, and we commend the organization for its culture of learning and innovation. We believe that no matter how the Bank's private sector activities are structured going forward, it is essential that the MIF preserve its innovative and nimble character. Replenishment discussions will allow the MIF to continue its vital mission while considering new and creative ways to keep the MIF financially sustainable going forward. We must be ready to consider

non-traditional funding options that could allow the MIF to contribute to the IDB Group and the development community more broadly.

*GCI-9 Mid-term Evaluation*

12. We welcome the mid-term evaluation of the IDB-9 reforms undertaken by OVE, and especially want to thank Cheryl Gray and her team for this impressive and comprehensive work.

13. We commend OVE for focusing not only on reform implementation but also on effectiveness, and welcome the report's finding that the IDB has made sustained and rapid progress on its agenda. We are especially pleased by the finding that the IDB is setting a new standard among the MDBs for responsible income management, as illustrated by the adoption of budgets and long-term financial plans.

14. We appreciate Management's constructive response to OVE's findings, and are encouraged that Management and the Board of Directors are working together to articulate a clear way forward to address the identified shortcomings in implementation and effectiveness. Important work remains to be done in enhancing access to information, measuring results at the project level, and improving country strategies. And, there are two other areas identified by OVE where we believe that prompt and comprehensive progress is especially urgent: the Independent Consultation and Investigation Mechanism (ICIM), and Macroeconomic Sustainability Assessments (MSAs).

15. First, we are troubled by the shortcomings outlined in the report on the ICIM. The creation of an improved mechanism that would bring the IDB in line with best practices of other MDBs is a critical outcome of the GCI-9 agreement. More importantly, having a robust investigation mechanism is absolutely essential for the IDB's credibility as a responsible development partner. We urge the Board of Directors to consult thoroughly, then act decisively to ensure that the necessary adjustments are made to ensure that the IDB has in place a strong, transparent and efficient investigation mechanism.

16. Second, we note the concerns raised by OVE about the current MSA process. We remain of the view that it is essential for the IDB to have in place a strong, credible mechanism to curtail lending into unsustainable macroeconomic environments. This is necessary both to safeguard the IDB's resources and to support borrowing countries in implementation of sound policies. As such, we welcome the Board of Directors' creation of a Task Force to consider improvements to the MSA process that are in line with this critical mandate. We look forward to the Task Force's recommendations, while understanding that the current process will remain in place while revisions are considered.

*Haiti*

17. We appreciate the significant work that the IDB is doing in Haiti, where it is a key development partner. We want to reaffirm that the annual transfer of \$200 million to the Haiti Grant Facility is critical to ensure that Haiti has the assistance it needs to recover from the 2010 earthquake, and put in place the economic foundations for sustainable growth and job creation. The primary driver of programming to Haiti must be maximizing development impact, rather than counting the quantities committed and disbursed. Haiti presents an enormous set of challenges, some of which will take a long

time to overcome, potentially extending beyond the scheduled period of annual transfers. With this combination of needs and constraints in mind, we urge Management to develop a pipeline for Haiti consistent with the country's absorptive capacity. Future projects must be geared towards meeting critical institutional and governance reforms that require the long-term planning horizon, something that the stability of the Haiti Grant Facility makes possible.

18. This is an exciting time for the IDB Group, which is operating in an increasingly dynamic and diverse region. We look forward to working with Bank Management and shareholders on ways to maximize the IDB Group's scope and impact. We welcome the coming year, which we expect to be a year of positive change and continued reform.