INTER-AMERICAN DEVELOPMENT BANK INTER-AMERICAN INVESTMENT CORPORATION

ANNUAL MEETING OF THE BOARDS OF GOVERNORS

BUSAN, KOREA

AB-3012
CII/AB-1404
28 March 2015
Original: Spanish

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

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1. On behalf of the Governors for the Central American countries and Belize, I would like to begin by thanking the government and people of South Korea for the splendid hospitality extended to us at this, our Fifty-sixth Annual Meeting of the Board of Governors of the Inter-American Development Bank and Thirtieth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation.

2. We want to take this opportunity to acknowledge the impressive economic and social accomplishments of the South Korean people over the last two generations, building a development model admired the world over.

3. We also wish to express our appreciation to the South Korean government for its generous willingness to forge bonds of friendship and cooperation with the countries of Latin America and the Caribbean, utilizing the Inter-American Development Bank as vehicle to channel significant financial and technical resources for the development of our countries.

4. With respect to the agenda of our Boards of Governors, we would like to share some thoughts on matters of key interest to the governments of Central America and Belize:

- Considering the new global financial realities; the new liquidity, risk management, and capital adequacy policies; and the strategic adjustments being proposed as a result of the merging of private-sector windows, the time is right for us to reevaluate the IDB Group's strategic objectives in the context of the new realities of Latin America and the Caribbean, moving toward giving greater priority to the less developed countries of the region.
- The time is right for these Boards of Governors to reaffirm their commitment and ensure that the proportion of financing provided by all IDB Group

windows to governments and the private sector of the region's less developed countries—namely, the Group C and D countries—increases gradually in line with the development needs of our countries.

- Importantly, the Ninth General Capital Increase (GCI-9) called for 35% of the Bank's lending to be allocated to the Group C and D countries by no later than 2015. These countries have demonstrated that their financing requirements and execution capacity exceed the GCI-9 target of 35%.

5. The Central American counties and Belize feel that the time is right to review this mandate, and to increase the proportion of resources loaned to the Group C and D countries gradually over the period 2016-2020 to at least 40%. There are several reasons for our request. First, as a cooperative enterprise, the IDB Group has an essential requirement to promote more balanced regional development, giving priority to the region's less developed countries to gradually reduce the historical asymmetries that still remain. Second, we are convinced that allocating more resources to small and vulnerable countries will help mitigate the risks inherent in a portfolio concentrated in a handful of countries. And third, by financing projects in the Group C and D countries that involve companies or capital from the region's more developed countries, the IDB would be promoting regional integration through capital mobility and facilitating two-way synergies, beneficial to all.

- By the same reasoning, and acknowledging the IDB's limited capacity to conduct countercyclical operations on a sufficient scale for the largest borrowing member countries, the time is right for the Governors to instruct the Board of Executive Directors and Management to ensure that, for the sake of efficiency and equity, the Bank's countercyclical facilities are targeted on a priority basis to support the Group C and D countries.
- Likewise, we call upon this meeting of the Board of Governors to issue a mandate for the special-purpose funds administered by the IDB Group to be allocated on a priority basis to the region's smaller and more vulnerable countries.
- In terms of lending, we believe it is necessary for the Governors to instruct the Board of Executive Directors and Management to ensure that the Income Management Model does not increase the lending charges on sovereign guaranteed loans.

6. Regarding the items on the agenda as well as other matters under consideration at this time, we submit the following points for consideration by the Board of Governors:

*I. Proposal for Reform of the IDB Group Private Sector*

7. We are pleased with the considerable progress IDB Management has made on its proposal to consolidate the IDB Group's private-sector windows (IIC, SCF, and OMJ) into the organization being called the New Corporation.

8. We value the benefits that this consolidation could mean for all member countries, not just those of Latin America and the Caribbean, by mobilizing more resources to support private investment, with the involvement of companies from all the member countries.

9. The Central American countries and Belize reaffirm their readiness to participate with the fresh capital contributions necessary to implement the consolidation of the private-sector windows. Bearing in mind the capital account results for 2014, we wish to restate our firm position that any capital transfers from the IDB to the New Corporation should not be so large as to:

a. Weaken the IDB's financial or liquidity position, jeopardizing the AAA issuer rating that enables us to access market resources on optimal terms. Based on our financial estimates, we are inclined to propose that such transfers be limited to US$500 million, made gradually over a horizon of at least seven years;

b. Ultimately lead to a contraction in the amounts of sovereign guaranteed approvals and disbursements included in the 2015 Long-term Financial Plan, as this would notably hurt the governments of small and vulnerable counties that are unable to directly access the financial markets on sustainable terms; or

c. Result in an increase in the Bank's lending spread on sovereign guaranteed loans for the sole purpose of satisfying the New Corporation's capital requirements.

10. Regarding the New Corporation's organizational structure, we suggest placing its administrative and financial functions under two specialized vice presidencies.

11. Similarly, for the sake of the financial health of both institutions, we feel compelled to emphasize that the crossbooking period should last no longer than seven years.

*II. MIF*

12. We in Central America and Belize have derived considerable benefits from participating in the Multilateral Investment Fund (MIF), which has had a visible impact on promoting innovation among small enterprises throughout the region.

13. We are concerned that the window consolidation could result in a reduction in the funding allocated through the MIF or, even worse, lead us to abandon the special vocation of promoting innovative initiatives, as the MIF has been doing for the last several decades.

14. We call upon this meeting of the Board of Governors to instruct the Board of Executive Directors and Management to ensure that the merging of windows provides mechanisms for the MIF's integration into the New Corporation, establishing a process to replenish its resources with the earnings of the New Corporation, thereby ensuring an extension of the MIF Agreement in order to sustain the Fund's activities in the long term.

15. We believe that Management should propose such mechanisms and a timetable for their implementation to the Committee of the Board of Governors, and that the Board of Governors should approve them this year.

*III. IDB Capital Adequacy*

16. The IDB's capacity to marshal resources for the region is being limited by the unwillingness of some nonborrowing members to provide the IDB with an injection of fresh capital.

17. Faced with this situation, we believe that this meeting of the Board of Governors should reaffirm the capital adequacy mandate already approved, to preserve the AAA issuer rating and build a capital buffer that would safeguard the institution's lending capacity in times of market stress.

18. Moreover, we believe that the Board of Governors should endorse the position of targeting countercyclical support resources to the Group C and D countries on a priority basis, and should also ensure that the amount of approvals and disbursements allocated to them is not restricted under any financial scenario, but rather sustained or increased gradually, in line with our development needs.

19. We welcome the fact that both the Bank and the New Corporation would promote and ensure equity accumulation though adjustments to their Income Management Model.

20. From this perspective, we feel it is imperative for this meeting of the Board of Governors to issue a mandate based on the following principles:

   a. Funding for technical cooperation activities should not be reduced, especially for small and vulnerable countries;

   b. The administrative expenditure policy should be governed by a culture of austerity and high productivity, so as to reinforce efficiency and financial sustainability.

   c. Likewise, for the sake of efficiency and equity, the lending charges on the Bank's sovereign guaranteed loans should not be increased, insofar as possible.

*IV. Country Exposure Limits*

21. We recognize the need to avoid overly concentrating the portfolio in a few countries so as to mitigate the risks this could entail for the Bank's AAA issuer rating.

22. We also appreciate that country exposure limits are a means of ensuring that Bank resources are better distributed among the borrowing member countries.

23. Accordingly, we support the recommendations made by the Board of Executive Directors and Management in this regard.

*V. Status of the Fund for Special Operations (FSO)*

24. Management's most recent projections have confirmed that the FSO is entering a phase in which its resources are gradually being depleted. In the absence of fresh capital contributions for this purpose, we firmly oppose limiting the allocation of FSO resources to eligible countries as a means to extend its sustainability, despite our growing requirements.

25. The Central American countries and Belize support the suggestion put forward by two FSO countries in our constituency, Honduras and Nicaragua, which request the following from this meeting of the Board of Governors:

- That Management be instructed to immediately find mechanisms to maintain FSO approvals and disbursements at levels consistent with the actual needs of the eligible countries, avoiding limits or restrictions that would slow the pace of their development.
- That, in compliance with the GCI-9 mandate, an analysis be presented in 2016 in The Bahamas, on the need for FSO capital replenishment to meet the demand of the eligible countries from 2020 onward.
- That Management present proposed regulations for use of the FSO's emergency reserve to the Committee of the Board of Governors, in the second half of 2015.
- That, in addition to the FSO's sustainability, Management make a special effort to solve the FSO's problem regarding the availability of foreign exchange, such that 100% of disbursements are made in dollars, and the region's most vulnerable countries are not burdened with exchange risk.
- Additionally, we ask IDB Management to find concessional resources within its various funds under administration (other than those of the FSO) for allocation to the FSO countries, and, in the course of 2015, to formulate an expansion of the Grant Leverage Mechanism, to coincide with consideration of the renewal of Resolution AG-9/13, approved by the Board of Governors in 2013.

26. We wish to thank the Governors in advance for considering our positions.