



ANNUAL MEETING OF THE BOARDS OF GOVERNORS

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Statement by the Governor for Uruguay

Danilo Astori

1. First, we would like to thank the people and Government of the Republic of Korea for the splendid organization of this annual meeting.
2. We are gathered today to make a key decision regarding the merge-out of the IDB Group's private sector activities. As you will recall, this process began two years ago at the meeting in Panama, when the Board of Executive Directors and Management were tasked with formulating a renewed vision for the IDB Group's activities with the private sector, in order to maximize the efficient use of resources and the synergies between public and private sector activities. Subsequently, at the annual meeting in Bahia, a proposal was made for the operational and financial consolidation of all the IDB Group's private sector activities in the Inter-American Investment Corporation. It was then requested that a capitalization proposal for the proposed consolidated entity be presented in Korea. Such a capitalization proposal needed to be consistent with a series of provisions mentioned in paragraph 5 of the Bahia resolution.
3. Throughout the discussions in 2013 and 2014, our country always maintained that the merge-out made it possible to resolve a series of important issues facing the IDB's private sector windows today. Some of these problems include high fragmentation, lack of coordination, duplication of efforts, and loss of synergies and economies of scale. We also recognized that the IDB's private sector today operates with financing left over after meeting the public sector's needs. But we also mentioned that making both windows independent would require adequately capitalizing the consolidated entity that would serve the private sector without affecting the financial soundness of the public window. This reform will be successful provided capitalization levels are reached that are sufficient to strengthen the private sector, without damaging the public sector.
4. As the negotiations progressed, we noticed that the initial capitalization figures were decreasing and alternative measures began to appear that called for lower contributions of fresh capital. Thus, we began to discuss cross-booking, transfers of

potentially releasable capital from the public window, and a decrease in approved amounts of equity. Today, the proposal on the table represents a suboptimal decision with respect to the previous proposals. Indeed, we are negotiating a capitalization that will not generate any additional lending volume with respect to the levels established in the Ninth Capital Increase and that even decreases the volume of equity with respect to the already limited amounts that the Inter-American Investment Corporation currently approves.

5. We can only support a solution that ensures the sustainability and independence of the private sector window without damaging the public sector window. In this regard, we are convinced that the simulations performed by Management, by merely considering a 10-year horizon of analysis, underestimate the cost to the public window resulting from the loss of returns from the private activity that will be transferred to the new non-sovereign window. This separation is permanent and any analysis should take into account longer term effects (which we have calculated to be at least twice as costly as the effects calculated for just the next 10 years). In our opinion, any solution that involves transfers of more than US\$500 million severely harms the IDB's public window.

6. The new corporation will need to carry out the entire range of operations that are currently carried out by the different non-sovereign windows of the IDB Group. We cannot even consider discussing even a partial reduction in the areas of action in which those windows currently operate. Preserving operations with enterprises wholly owned by the State is of particular importance. Precautions will also need to be taken for effective coordination between the future private window and the IDB, in order to exploit synergies between public and private sector activities of the IDB Group so there are no deviations with respect to the common development objectives we see in other multilateral institutions.

7. By exclusively strengthening the private window, this reform mostly favors the large and more developed countries. We must therefore create compensatory mechanisms that mitigate the impact on small and vulnerable countries. In particular, we request that the multiyear business plan contain clear directives regarding minimum approval levels for Group C and D countries. Moreover, as the New Corporation acquires a sound financial footing, we should think about implementing transfers from the private window to the public one. Such transfers should be channeled to the less developed countries and to nonreimbursable technical-cooperation funding for the entire region.

8. Lastly, I ask you to look at the agreement we are trying to conclude today from some distance and from a long-range perspective. I don't believe I am exaggerating when I say that we have before us a decision of historic consequences for the IDB and the region. By looking at the evolution of our region over the last 10 years, we are able to see that it has made significant-heretofore unforeseen-progress on its road to development. These 10 years have made it possible to dramatically reduce poverty and extreme poverty thanks to changes in employment and growth, and social policies that are active and generally well-targeted.

9. It is just as true, however, that the region now needs to consolidate these gains and must do so in a global context that is increasingly hostile. Today, more than ever, the region needs support to maintain its momentum. We therefore invite the 48 member countries to generate those opportunities, as we have done in the past, by contributing

capital and ideas. We understand perfectly well that some members may decide not to contribute fresh capital to this initiative in view of their own internal circumstances. It is more difficult for us to accept that those who do not wish to or cannot contribute fresh resources would prevent others from doing so. Out of respect for the visionaries who 60 years ago conceived this magnificent inter-American initiative that is the IDB, we must ensure that this capitalization prospers in such a way as to generate a dynamic private sector, and we must do so without damaging the IDB's sovereign window.

10. With the progress achieved on the internal front, the region is moving gradually towards higher levels of independence from international economic assistance from nonborrowing countries. Moving towards self-sufficiency has been an ongoing demand on the part of the developed countries in this and other multilateral agencies. We ask, then, that we be consistent with that demand, facilitating this capitalization by those who are willing, thereby allowing the IDB to achieve growth similar to that of other regional institutions today.

11. If we under-capitalize the private sector, or we make it dependent on high levels of transfers from the public sector, this exercise loses its meaning. In light of the capitalization processes in other multilaterals, our wish is that we achieve a capitalization that maintains the relevance of the IDB Group as an essential agent of development in Latin America and the Caribbean.