INTER-AMERICAN DEVELOPMENT BANK INTER-AMERICAN INVESTMENT CORPORATION

ANNUAL MEETING OF THE BOARDS OF GOVERNORS

NASSAU, BAHAMAS

AB-3090
CII/AB-1460
10 April 2016
Original: Spanish

Statement by the Governor for Uruguay

Danilo Astori

1. I would like to begin by thanking the people and the Government of The Bahamas for their hospitality and excellent organization of this annual meeting. Please accept our most sincere congratulations on a job well done.

2. We met last year to make a key decision on the IDB Group's private sector merger, a process that took three years of talks and is now at an advanced stage of implementation. We would like to take this opportunity to congratulate Management and the Board of Executive Directors on the progress made in implementing the new IIC. This year, we are discussing a series of decisions that will have important long-term consequences. Particularly important is the proposal to merge the Fund for Special Operations (FSO) with the Ordinary Capital of the IDB. This is a historic decision inasmuch as it means breaking with a model of concessionality that has been in place for over 50 years and was an essential pillar in the founding of the IDB.

3. This change will yield undeniable benefits in the short and medium terms for all the member countries of this cooperative. It will make it possible to extend the flow of concessional resources to the beneficiaries of the FSO, an FSO that was otherwise destined to come to an end, as a result of the decapitalization it suffered following the 2007 debt relief initiative. That initiative was carried out without so much as an offset of fresh capital, which damaged the viability of the FSO. It is fair to note that the measure under consideration would also benefit all of the borrowing member countries by capitalizing the Ordinary Capital of the Bank and helping to preserve its AAA rating.

4. We are aware that this measure is necessary given the circumstances that the Bank and the region are navigating. Having an adequately capitalized Bank that is able to provide countercyclical financing in an adverse macroeconomic environment is important for all the countries, especially the small and vulnerable countries in the region, where the Bank tends to be a critical actor. For this reason, we support this proposal and congratulate Management for bringing it to the Board.

5. While our support is a matter of pragmatism, it is also qualified. This solution will have a negative impact on the Bank's capital in the long run, which would affect the borrowing member countries, especially those that are not eligible for the FSO. As illustrated by the projections presented at this meeting, the cumulative flow of contributions that a merged Ordinary Capital would make over time to FSO-eligible countries would erode the initial positive impact on the capital and eventually turn negative. We urge that thought be given to the possibility of a new capitalization of the FSO before that moment arrives. The FSO as such will not disappear and could, in the future, be recapitalized with contributions from all, to continue providing support for the poorest countries, unanticipated events that take place in the region, and the possible entry of new members.

6. The multilateral development banks were created to channel financing flows from developed countries with relatively abundant capital to developing countries. In addition, in their early days, these institutions designed a concessional mechanism that was separate from ordinary capital resources. This mechanism was funded by contributions from all members (borrowing and nonborrowing countries alike) to benefit the poorest countries and to finance projects with high social returns. The measure before us, to merge the FSO and the Ordinary Capital, breaks with this dualistic model and introduces a new arrangement whereby in the absence of fresh replenishments, concessional flows will be financed exclusively from ordinary capital income, that is, exclusively by the borrowing member countries, many of which are still lower-middle-income countries facing major pending development challenges. In other words, this measure consolidates a gradual process whereby the nonborrowing member countries will no longer make capital contributions to address the region's development needs, as part of an arrangement devised by the G-20 and recommended by it to the multilaterals. We wish to state emphatically that this represents a fundamental shift in the paradigm of financing by multilateral institutions.

7. In relation to the MIF: We broadly support the proposed road map and wish to state our opinion on each of the three main phases proposed in the document. Before elaborating, we believe that the discussion that will unfold this year and culminate in the five documents mentioned in the executive summary should be carried out in a higher-level setting, possibly in a working committee with balanced representation of each of the groups of countries. This would enable a more efficient and effective discussion of the important issues to be addressed.

8. With respect to the first, short-term phase: it is our conviction that the new vision, the business plan, and the identification of new areas of interest are decisions with great strategic value in which we, the donors, should be involved. Accordingly, it is our understanding that the respective proposals should be considered, discussed, and as necessary, validated and approved by the Donors Committee (again, perhaps by a working committee that submits the document to all donors for final approval). Moreover, we believe that it is essential for the MIF, from the start, to align its activities and thematic areas with the IDB and the IIC. We entrust the Corporation's Management to create a task force that can, under the strategic guidance of that institution's Board of Executive Directors, generate proposals and mechanisms for coordination with the MIF both in this first, short-time phase and in each of the subsequent phases proposed in the

road map. How the MIF is aligned, especially in the medium and long run, within the IDB Group should be the work of the IDB Group as a whole.

9. The medium-term phase includes a proposal for a five-year bridge replenishment. We support this replenishment provided it is made with fresh capital and leads to the creation of a MIF III. This new MIF should have a governance structure that recognizes the new structure of contributions. It will be up to the MIF IIII to make this transition towards its insertion in the new structure of the IDB Group, in permanent coordination with this group.

10. Lastly, concerning the longer-term phase, we see the MIF as the ideas laboratory of the IDB Group. As such, scalability should be a strategic pillar of the MIF III, particularly scalability within the group. We believe that the place for the MIF is with the group's private sector window, helping to realize the single-window vision that we approved last year.

11. We would like to conclude by saying that all these proposals—the FSO merger with the Ordinary Capital, the optimization of transfers to the Grant Facility, and bridge financing for the MIF—are piecemeal attempts at capitalization that do not resolve the Bank's deeper problem. I will close by saying the same thing I said at the end of the last annual meeting, which points to the ongoing relevance of this discussion and the need to initiate a dialogue on a real capitalization process, sooner rather than later: "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."