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PROCEEDINGS

Twenty-Seventh Annual Meeting of the Board of Governors

San José, Costa Rica, March 1986

Inter-American Development Bank

PROCEEDINGS

Twenty-Seventh Annual Meeting
of the Board of Governors

San José, Costa Rica
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FOREWORD

This publication contains the official record of the Twenty-Seventh Annual Meeting of the Board of Governors of the Inter-American Development Bank, the resolutions approved by the Board between the Twenty-Sixth and Twenty-Seventh Annual Meetings, and those adopted during the course of the latter. It also contains the addresses delivered at the meeting and the list of participants, which includes members of official delegations, members of the Board of Executive Directors and senior management of the Bank, and observers from nonmember countries and international organizations.

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OFFICIAL RECORD OF THE MEETING

Official Record of the Meeting

The Twenty-seventh Annual Meeting of the Board of Governors of the Inter-American Development Bank was held in San José, Costa Rica, from March 24 to March 26, 1986.[1] The Inaugural Session was held at the Eddy Cortés National Gymnasium. The plenary working sessions and the meeting of the Committee of the Board of Governors were held at the National Theater.

The Inaugural Session was attended by His Excellency Luis Alberto Monge Alvarez, President of the Republic of Costa Rica, who officially opened the Meeting. The agenda of the Meeting (see page 5) was approved at that session; and Mr. Porfirio Morera Batres, Minister of Finance and Governor for Costa Rica, was elected Chairman of the Board of Governors and took the chair.

During the Meeting the Board of Governors considered the following matters:

Annual Report of the Bank for 1985

At the Inaugural Session, the President of the Bank reported to the Board of Governors on the work of the Bank in 1985 and the outlook for the future.

At the Third Plenary Session, the Governors approved the financial statements of the ordinary capital resources, the interregional capital resources, the Fund for Special Operations, and the Intermediate Financing Facility Account for the fiscal year ended December 31, 1985, in the terms set forth in Resolutions AG-3/86, AG-4/86, AG-5/86, and AG-6/86, respectively.

Pursuant to Section 2(b) of Resolution AG-12/83, the Board of Governors allocated to the Intermediate Financing Facility Account an aggregate amount equivalent to US$15,500,000 in convertible currencies of the General Reserve of the Fund for Special Operations, in the terms set forth in Resolution AG-5/86.

Report of the Chairman of the Committee of the Board of Governors

At the Second Plenary Session, the Board of Governors approved the report of the Chairman of the Committee of the Board of Governors on the work of the Committee since the Twenty-sixth Annual Meeting.

[1]Document GN-1569 contains a detailed summary of the Meeting.

The report dealt with the action taken in connection with measures relating to the merging of the interregional and ordinary capital resources of the Bank and to the consideration of expanded criteria for the use of the resources of the Fund for Special Operations for Group D countries, pursuant to the criteria of the Fifth Replenishment; with the role of the Bank in the training of member country personnel in the project cycle; and with the status of the Bank's resources.

The report of the Chairman of the Committee of the Board of Governors appears on page 195.

Status of Bank resources

At the Preliminary Session, the Board of Governors asked the Committee of the Board of Governors to continue meeting to discuss the status of the Bank's resources, in order to present a report on the Seventh General Increase in the Resources of the Bank at or before the Twenty-eighth Annual Meeting of the Board of Governors, to be held in March 1987.

Jorge C. Elena
Secretary

AGENDA

1. Election of the Chairman of the Board of Governors

2. Annual Report of the Bank. Financial statements for 1985:

   - Ordinary capital resources
   - Interregional capital resources
   - Fund for Special Operations
   - Intermediate Financing Facility Account

3. Report of the Committee of the Board of Governors on its activities since the last Annual Meeting

4. Status of Bank resources

RESOLUTIONS APPROVED BETWEEN THE TWENTY-SIXTH AND TWENTY-SEVENTH ANNUAL MEETINGS

RESOLUTION AG-6/85

PLACE AND DATE OF THE TWENTY-SEVENTH AND TWENTY-EIGHTH ANNUAL MEETINGS OF THE BOARD OF GOVERNORS

The Board of Governors

RESOLVES:

That the Twenty-seventh Annual Meeting of the Board of Governors shall be held in San José, Costa Rica, from March 24 to March 26, 1986; and that the Twenty-eighth Annual Meeting of the Board of Governors shall be held in Miami, Florida, USA, from March 23 to March 25, 1987.

(Approved July 3, 1985)

RESOLUTION AG-7/85

APPROVAL OF THE REPORT ON THE USE OF THE RESOURCES IN FOREIGN EXCHANGE OF THE FUND FOR SPECIAL OPERATIONS UNDER THE SIXTH REPLENISHMENT

WHEREAS:

The report issued by the Committee of the Board of Governors on the use of the resources in foreign exchange of the Fund for Special Operations under the Sixth Replenishment, has been examined by the Board of Governors in the Special Meeting held on this date.

The Board of Governors

RESOLVES:

To approve the report contained in document AB-1109, on the use of the resources in foreign exchange of the Fund for Special Operations under the Sixth Replenishment.

(Approved September 25, 1985)

RESOLUTION AG-8/85

ELECTION OF THE PRESIDENT OF THE BANK

WHEREAS:

The term of office of the President of the Inter-American Development Bank, Mr. Antonio Ortiz Mena, ends on February 28, 1986;

Accordingly, pursuant to the Regulations for the Election of the President of the Bank, the period for presentation of nominations was opened on October 1, 1985;

Within the period established 39 Governors have submitted or supported the nomination of Mr. Antonio Ortiz Mena, and

Mr. Ortiz Mena, as President of the Bank, has offered evidence of possessing all the ability and experience required for the performance of the duties and responsibilities entrusted to him, contributing with his talent and dedication to the attainment of the basic purposes of the Bank and consequently, to the economic and social progress of Latin America.

The Board of Governors,

RESOLVES:

1. To re-elect Mr. Antonio Ortiz Mena, as President of the Inter-American Development Bank for a term of five years beginning March 1, 1986, pursuant to Article VIII, Section 2(b)(iii), and Section 5(a) of the Agreement Establishing the Bank.

2. To authorize the Chairman of the Board of Governors on behalf of the Bank, to sign with Mr. Ortiz Mena a contract of employment pursuant to the terms approved by the Board of Governors.

(Approved November 29, 1985)

RESOLUTION AG-9/85

DESIGNATION OF OUTSIDE AUDITORS

The Board of Governors

RESOLVES:

That, pursuant to Article VIII, Section 2(b)(x), of the Agreement Establishing the Bank, the firm of Price Waterhouse is selected, with respect to the fiscal year 1986 to serve as outside auditors to certify to the general balance sheets and the statements of profit and loss of the Institution, in accordance with Section 10 of the By-laws.

(Approved December 12, 1985)

RESOLUTION AG-1/86

ADMISSION OF NORWAY TO MEMBERSHIP IN THE BANK

WHEREAS:

Section 5 of the General Rules Governing Admission of Nonregional Countries to Membership in the Bank provides that:

> "Additional nonregional countries not listed in Section 1 hereof may become members of the Bank in accordance with such terms as the Board of Governors shall establish. The subscription of such additional nonregional countries and their respective contributions to the Fund for Special Operations shall be such number of shares of paid-in and callable inter-regional capital stock and such contributions to the Fund for Special Operations as shall be determined by the Board of Governors with due regard to the conditions of the subscriptions and contributions of the nonregional countries listed in Section 1, hereof;"

Norway has applied for admission to membership in the Bank; and

In accordance with Section 11 of the By-Laws of the Bank, the Board of Executive Directors, pursuant to consultations with representatives of the Government of Norway, has made recommendations to the Board of Governors with regard to the application of Norway for admission to membership in the Bank;

The Board of Governors

RESOLVES:

1. That Norway shall become a member of the Bank when the President shall have declared that Norway has fulfilled all the following requirements:

(a) It shall have subscribed to 2,411 shares of the inter-regional capital stock of the Bank, each having a par value as provided in the Agreement Establishing the Inter-American Development Bank (hereinafter referred to as the "Agreement"), divided into 186 paid-in shares and 2,225 callable shares, on the following basis:

(i) The amount subscribed to the inter-regional paid-in capital stock of the Bank shall be subject to the following conditions:

(1) The subscription price per share shall be the par value of each share as provided in the Agreement.

(2) Payment shall be made in three equal, or nearly equal, annual installments. The first installment shall be paid within thirty days after the date on which the instrument of acceptance or ratification is deposited in accordance with Section 1(d) of this resolution. The remaining two installments shall be paid one and two years, respectively, after such date of deposit.

(3) Each installment shall be paid entirely in the currency of Norway, which shall make arrangements satisfactory to the Bank to assure that such currency shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations.

(4) 50% of each installment shall be subject to the provisions of Article V, Section 1(b)(i), of the Agreement and shall be paid in cash. With respect to the remaining 50% of each installment, Norway shall give assurances satisfactory to the Bank substantially in accordance with Article III of the Declaration of Madrid of December 17, 1974. Unless Norway elects to make payment of all such remaining 50% in cash, the Board of Executive Directors shall establish a schedule pursuant to which any non-negotiable, non-interest-bearing promissory notes or similar securities accepted pursuant to Article V, Section 4, of the Agreement, shall be paid to the Bank.

(ii) The subscription to the callable inter-regional capital stock shall be in three annual installments, effective, respectively, on the dates for payment of the installments of the paid-in inter-regional capital stock. The first installment shall be of 741 shares and the second and third each of 742 shares. The callable portion of the subscription shall be subject to the call provisions specified in the Agreement.

(b) It shall have undertaken to contribute to the Fund for Special Operations of the Bank with a total quota of the equivalent of US$13,818,354, payment of which shall be made on the following conditions:

(i) The equivalent of US$11,692,354 of its contribution shall be paid as follows:

(1) The contribution shall be entirely in the currency of Norway which shall make arrangements satisfactory to the Bank to assure that such currency shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations.

(2) Each payment of Norway shall be in such an amount as, in the opinion of the Bank, is equivalent to the full value, in terms of the current United States dollar on the date when the payment is due.

(3) Currency of Norway held by the Bank which is derived from these contributions shall be subject to the maintenance of value provisions of Article V, Section 3, of the Agreement, but the standard of value set for this purpose shall be the current United States dollar at any given time.

(ii) The equivalent of US$2,126,000 of its contribution shall be paid as follows:

(1) The contribution shall be made by Norway in one of the freely convertible currencies designated by the Bank in paragraph 16 of the Financial Addendum of Document AB-910.

(2) The payments by Norway shall total the equivalent of US$2,126,000, in terms of the unit of obligation selected by Norway, at the rate of exchange in effect on the date that this resolution is approved.

(3) Currencies of members held by the Bank which are derived from these additional contributions shall not be subject to the maintenance of value provisions of Article V, Section 3, of the Agreement.

(iii) The contributions shall be made in three equal, or nearly equal, annual installments, which shall be paid on the same dates as for payment of the installments of the paid-in inter-regional capital stock, pursuant to Section 1(a)(i)(2) hereof.

(iv) Except to the extent that Norway may elect to make payment of its entire contributions or any part thereof in cash, the Bank, pursuant to Article V, Section 4, of the Agreement, shall accept for each installment non-negotiable, non-interest-bearing promissory notes or similar securities, for which the Board of Executive Directors shall establish a schedule of encashment. With respect to its contributions Norway shall give assurances satisfactory to the Bank substantially in accordance with Article III of the Declaration of Madrid.

(c) Its duly authorized representative shall have signed the original of the Agreement deposited with the General Secretariat of the Organization of American States.

(d) It shall have deposited with the General Secretariat of the Organization of American States an instrument setting forth that it has accepted or ratified, in accordance with its law, the Agreement and all the terms and conditions prescribed in the General Rules Governing Admission of Nonregional Countries to Membership in the Bank and in this resolution, and that it has taken the steps necessary to enable it to fulfill all of its obligations under the Agreement, the General Rules and this resolution.

(e) It shall have represented to the Bank that it has taken all action necessary to sign the Agreement and deposit the instrument of acceptance or ratification as contemplated by Section 1(c) and (d) of this resolution and it shall have furnished to the Bank such information in respect of such action as the Bank may have requested.

2. Norway may accept the conditions and fulfill the requirements established for membership until June 30, 1986, provided, however, that if extraordinary circumstances are deemed by the Board of Executive Directors so to warrant, the Board may postpone such date.

3. The provisions of Section 7(b) of the General Rules Governing Admission of Nonregional Countries to Membership in the Bank shall apply to this resolution, with the same force and effect as if fully set forth herein.

(Approved January 9, 1986)

RESOLUTION AG-2/86

REMUNERATION OF EXECUTIVE DIRECTORS

WHEREAS:

The Committee of Governors designated pursuant to Resolution AG-2/72 has examined the situation with respect to the remuneration of the Executive Directors and their Alternates and made recommendations in that regard,

The Board of Governors

RESOLVES:

To accept the recommendations of the Committee and to stipulate, pursuant to Article VIII, Section 2(b)(v), of the Agreement Establishing the Bank, that, effective July 1, 1985, the Executive Directors and their Alternates shall receive, net of national taxes:

(a) a remuneration at the rate of US$75,600 per annum for an Executive Director and at the rate of US$63,400 per annum for an Alternate Executive Director, and
(b) an allotment, not computable for pension purposes, at the rate of US$9,000 for an Executive Director and at the rate of US$7,200 for an Alternate Executive Director.

(Approved January 21, 1986)

RESOLUTIONS APPROVED AT THE TWENTY-SEVENTH ANNUAL MEETING OF THE BOARD OF GOVERNORS

RESOLUTION AG-3/86

FINANCIAL STATEMENT OF THE ORDINARY CAPITAL RESOURCES

WHEREAS:

The outside auditors of the Bank, selected in accordance with Article VIII, Section 2(b)(x), of the Agreement Establishing the Bank, have certified the general balance sheet and the statement of profit and loss of the Bank,

The Board of Governors

RESOLVES:

That the financial statement of the Bank with respect to the ordinary capital resources for the fiscal year ended December 31, 1985, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved March 25, 1986)

RESOLUTION AG-4/86

FINANCIAL STATEMENT OF THE INTERREGIONAL CAPITAL RESOURCES

WHEREAS:

The outside auditors of the Bank, selected in accordance with Article VIII, Section 2(b)(x), of the Agreement Establishing the Bank, have certified the general balance sheet and the statement of profit and loss of the Bank,

The Board of Governors

RESOLVES:

That the financial statement of the Bank with respect to the interregional capital resources for the fiscal year ended December 31, 1985, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved March 25, 1986)

RESOLUTION AG-5/86

FINANCIAL STATEMENT OF THE FUND FOR SPECIAL OPERATIONS

WHEREAS:

The outside auditors of the Bank, selected in accordance with Article VIII, Section 2(b)(x), of the Agreement Establishing the Bank, have certified the general balance sheet and the statement of profit and loss of the Bank,

Section 2(b) of Resolution AG-12/83 prescribes that the Board of Governors shall allocate annually to the Intermediate Financing Facility Account an aggregate amount in convertible currencies of the General Reserve of the Fund for Special Operations,

The Board of Governors

RESOLVES:

That the financial statement of the Fund for Special Operations for the fiscal year ended December 31, 1985, containing the general balance sheet and the statement of profit and loss, is approved.

To allocate to the Intermediate Financing Facility Account an aggregate amount of the equivalent of US$15,500,000 in convertible currencies of the General Reserve of the Fund for Special Operations.

(Approved March 25, 1986)

RESOLUTION AG-6/86

FINANCIAL STATEMENT OF THE INTERMEDIATE FINANCING FACILITY ACCOUNT

WHEREAS:

The outside auditors of the Bank, selected in accordance with Article VIII, Section 2(b)(x), of the Agreement Establishing the Bank, have certified the general balance sheet and the statement of profit and loss of the Bank,

The Board of Governors

RESOLVES:

That the financial statement of the Intermediate Financing Facility Account for the fiscal year ended December 31, 1985, containing the general balance sheet and the statement of changes in fund balance, is approved.

(Approved March 25, 1986)

RESOLUTION AG-7/86

PLACE AND DATE OF THE ANNUAL MEETINGS OF THE BOARD OF GOVERNORS IN 1987, 1988 AND 1989

WHEREAS:

By Resolution AG-6/85 the Board of Governors accepted the invitation from the Governor for the United States of America to hold the Twenty-eighth Annual Meeting in Miami;

The Governor for Ecuador has invited the Board of Governors to hold the Twenty-ninth Annual Meeting in Quito en 1988;

The Governors for Germany, the Netherlands and Yugoslavia have offered their respective countries as the site of the Annual Meeting of the Board of Governors to be held in 1989;

The Governor for Israel has proposed that, when the time comes to hold an Annual Meeting in a nonregional country after 1989, Israel be the site of an Annual Meeting of the Board of Governors;

In the light of these invitations, it is considered advisable to initiate the process of selecting the sites for the 1988 and 1989 Annual Meetings;

The Board of Governors

RESOLVES:

1. To express its appreciation for the invitations extended by the Governors for Ecuador, Germany, the Netherlands, Yugoslavia and Israel.

2. To instruct the Board of Executive Directors, following the procedure for selecting the site of the Annual Meetings approved by Resolution AG-1/76, to present its recommendations to the Board of Governors in due course with respect to the 1988 and 1989 Annual Meetings, in accordance with the terms of reference set forth in document AB-476-2.

(Approved March 26, 1986)

SCHEDULE OF SESSIONS

Friday, March 21

9:30 a.m. Forty-second Meeting of the Committee of the Board of Governors (First Session)

Saturday, March 22

5:00 p.m. Meeting of the Committee of the Board of Governors (Second Session)

Sunday, March 23

4:00 p.m. Preliminary Session of the Heads of Delegation

Monday, March 24

9:30 a.m. Inaugural Session (First Plenary Session)

1. Opening of the Twenty-seventh Annual Meeting
2. Consideration of the preliminary agenda
3. Election of the Chairman of the Board of Governors
4. Remarks by the Chairman of the Board of Governors
5. Statement by the President of the Inter-American Development Bank
6. Recess
7. Address by His Excellency the President of the Republic of Costa Rica, formally inaugurating the Twenty-seventh Annual Meeting of the Board of Governors
8. Words of appreciation from the President of the Inter-American Development Bank

3:00 p.m. Second Plenary Session

1. Report of the Chairman of the Committee of the Board of Governors
2. Address by the Governor for Switzerland
3. Address by the Governor for Japan
4. Address by the Governor for Canada
5. Address by the Governor for Spain
6. Address by the Governor for Guatemala, representing the Central American countries
7. Address by the Governor for France

8. Address by the Governor for Nicaragua
9. Address by the Governor for Israel
10. Address by the Governor for The Netherlands
11. Address by the Governor for Uruguay
12. Address by the Governor for Panama
13. Address by the Governor for Paraguay
14. Address by the Governor for Colombia

Tuesday, March 25

9:30 a.m. Third Plenary Session

1. Annual report of the Bank. Financial statements for 1985:
   (a) Ordinary capital resources
   (b) Interregional capital resources
   (c) Fund for Special Operations
   (d) Intermediate Financing Facility Account
2. Address by the Governor for the United Kingdom
3. Address by the Governor for Argentina
4. Address by the Governor for Austria
5. Address by the Governor for Mexico
6. Address by the Governor for Venezuela
7. Address by the Governor for Ecuador
8. Address by the Governor for the Bahamas, representing the Caribbean Group
9. Address by the Governor for Brazil
10. Address by the Governor for the United States of America
11. Address by the Governor for the Federal Republic of Germany
12. Address by the Governor for Peru
13. Address by the Governor for Chile
14. Address by the Governor for Denmark
15. Address by the Governor for Sweden

Wednesday, March 26

9:30 a.m. Fourth Plenary Session

1. Address by the Governor for Belgium
2. Address by the Governor for Bolivia
3. Address by the Governor for Finland
4. Address by the Governor for Italy
5. Address by the Governor for Yugoslavia
6. Address by the Governor for Haiti
7. Address by the Governor for the Dominican Republic
8. Address by the Governor for Suriname
9. Address by the Governor for Portugal
10. Place and date of the 1987, 1988, and 1989 Annual Meetings of the Board of Governors

11:40 a.m. Closing Session (Fifth Plenary Session)

1. Remarks by the President of the Inter-American Development Bank
2. Address by the Chairman of the Board of Governors
3. Closing of the Meeting

ADDRESSES

FIRST PLENARY SESSION

March 24, 1986

Address by Mr. Porfirio Morera Batres, Chairman of the Board of Governors, Governor for Costa Rica and Minister of Finance

On this occasion, the Inter-American Development Bank is holding its Twenty-Seventh Annual Meeting of the Board of Governors in a Central American country. We are honored greatly by your presence here. On behalf of the people and the Government of Costa Rica, please accept our most cordial greetings. At the same time, I wish to express my appreciation for the distinction of having been designated Chairman of this important meeting.

The western world finds itself in the midst of profound transformation of its production and trade structures. A new technological revolution, whose scope is barely perceptible, is under way. The transnationalization of trade imprints new forms on the international division of labor. The integration of national markets makes it essential to coordinate national policies to deal with the loss of economic autonomy that integration imposes on each country. Old institutions and systems that have regulated international relations are becoming obsolete, as the commercial, monetary and financial disarray that prevails today shows.

In the end, all these changes will be positive because they are opening new routes for progress by all countries. However, during the transition period needed to make them strong, they will require painful adjustments which will be felt primarily by the weaker economies outside the mainstream.

Latin America is immersed in this transformation crisis and will remain so for a long time. Between 1980 and 1985, its per capita output fell by 9 per cent. Wages have retreated to what they were eight years ago, while the stabilization goals of the so-called "adjustment policies" have—with precious few exceptions—not been reached.

In effect, the Latin American economy stagnated in 1985 and, if Brazil is left out, per capita income contracted by 1.5 per cent. Inflation, for its part, continued rising (330 per cent), despite advances made by some countries which successfully applied mainly unorthodox methods of combating price rises.

Once again, the underlying causes of Latin America's stagnation are in the external sector. Export prices have fallen, as have export volumes, leading to a significant contraction in the amount of foreign exchange generated in the region (6 per cent).

Far from offsetting these losses, the performance of the capital account of the balance of payments has worsened them. Incoming credits and investment capital were substantially lower than payments for interest and returns. Latin America thus transferred more than $30 billion which it critically needs to shore up its weakened development process.

As carried out in the last five years, the approach taken to adjust external accounting has been fundamentally recessive. From an already low level, imports contracted again (by 2 per cent) and now stand at only 60 per cent of what they were at the start of the 1980s.

It has been shown once again how difficult it is to transform traditional exporting sectors, introduce new products into external markets and become efficient enough to be truly competitive. And the reason is not that Latin America

has stopped trying to move away from its long-standing form of involvement in international trade; circumstances have been highly unfavorable.

First, balance-of-payments disequilibriums have reached crisis proportions. Shifting the composition of our sales to world markets will take much time to consolidate. Persistent efforts will be needed to achieve productive excellence in selling finished goods and to erect the exporting infrastructure we lack, especially at a time when the action and investment capacity of the countries and their governments stands at an all-time low.

Second, opportunities to enter large international markets are now more restricted than ever. All countries, both industrialized and developing, are trying to sell more products from installations and supply sources which far outstrip the markets' abilities to absorb them. Markets are becoming so competitive that they are provoking defensive reactions, even by countries that have long been the standard bearers of economic liberalism.

As a result, wherever third world exports gain ground, they end up facing an increasing array of "voluntary restrictions," "market organization agreements," "quota systems" and many other types of nontariff barriers to trade in clear violation of GATT principles. Freer trade of tropical products has not materialized. Sales of textiles remain in a straitjacket. Products such as meat, footwear, sugar, steel and electric appliances have fallen victim to tighter limits on trade. The generalized system of preferences, designed in UNCTAD to stimulate trade, is undercut in practice by the unilateral application of "graduation," "selectivity" and "competitive capacity" criteria which create great uncertainty for consolidating stable trade flows.

In short, the multilateral liberalism that guided the economic policies of the industrialized centers until the end of the 1960s has yielded now to bilateral reciprocity which ignores bargaining power differences between the rich nations and the developing countries.

We realize that the industrialized countries have difficulties and that their assistance capacity is smaller than it used to be. Without question, the United States is facing a sharp balance-of-payments deficit which is quickly making it the most indebted economy of the globe. Europe, for its part, has to satisfy demands of reconversion and modernization of a large segment of its industrial base. Also, the problem of structural unemployment besetting the entire industrialized world creates political obstacles against channeling larger amounts of resources into external development and, at the same time, undercuts internal efforts to hold off the advance of protectionism.

But even so, it would be useful to recognize that the Latin American crisis will not be settled once and for all until its foreign sales begin to grow steadily. It is not enough for a freeze in one country to push up coffee prices, or for lower oil prices to give relief to the payments situation of other countries. Final settlement of this matter will take an uncommon concentration of efforts in the region and also a willingness by world centers to give not only traditional products, but principally a new range of finished goods, guaranteed access to the mainstream of world trade.

A point worth noting in this connection is that once imports fall to practically irreducible limits, the possiblility of servicing external debt then depends on whether the rate of export expansion exceeds the interest rate. If this does not occur, the ability to meet foreign obligations will be out of the hands of the debtor countries—as is the case today—no matter how willing they might be to meet them.

For these reasons, initiatives such as the Caribbean Basin Initiative and the Baker Plan are welcome. They represent genuine advances toward opening the United States market to Latin America's exports or accepting the need for growth as a political imperative and as a means of generating surpluses to pay interest and principal on international loans.

All in all, the present circumstances do not leave much room for optimism. Latin America, with its own strengths, will have to find its way through the most serious crisis of the last 50 years. Some assistance will come from abroad but neither this help nor trade will regain the leading role they played during the first three decades of the post-war period.

It is most important, then, to strengthen internal commitments, regional cooperation and Latin American economic institutions such as the Inter-American Development Bank.

For us the Bank is much more than an international lending agency. While it is true that in its 27 years the Bank has mobilized more than $100 billion in support of solid development projects, it is no less true that it has made a greater qualitative contribution to refining ideas, resolving and foreseeing problems, joining in initiatives most suited to regional modernization and contributing know-how, ideas and information.

With an understanding that comes from reflecting on and examining every day the circumstances that prevail in each country and Latin America as a whole, the Inter-American Development Bank has been wise in charting the new directions for progress in the region. A cursory review of what has been accomplished in little more than a quarter century shows impressive results.

When industrialization and imports substitution had nowhere else to go within the borders of many countries, the IDB added its support to regional and subregional integration plans. Even today, between one-third and two-fifths of Latin America's exports of finished goods move in intraregional trade. And, in the case of Central America, they explain the high degree of industrial progress made by such small individual market economies. Integration fosters competition between the Latin American nations and, in this way, it has been and continues being a necessary step toward later entry into the markets of other countries.

With similar foresight, the IDB has sponsored a series of tasks aimed at reshaping thought on Latin American development. This effort has encompassed new regional and individual country strategies for external economic orientation and trade policy, efforts to identify exportable goods, support for tourism projects and studies, backing for the establishment of the Latin America Exports Bank and lines of credit for sales abroad.

For some time it has been a major concern of the IDB to attract sufficient resources for the development of Ibero-America and to make up, in this decade, for the interruption in the normal flow of capital and credits from abroad. To this end, the Bank adapted its administrative structure so it could manage the special funds entrusted to it by the United States, Venezuela, Canada and Switzerland. It has invited and successfully added new members from outside the region to strengthen appreciably its working capital. It has supported subregional banks and the development of national financing systems, as in Central America. It has sponsored studies of foreign investment laws. And it has promoted recently the establishment of the Inter-American Investment Corporation whose purpose is to attract external financing for medium and small Latin American companies.

When the energy crisis arose, in a short time the Bank doubled the amount of resources for projects involving alternative fuels. Today these projects take just less than 30 per cent of its total financing. In these ways the Bank has supplemented and given new dimensions to the work of improving and making better use of basic infrastructure components, an area where its standards have always been the highest.

The Bank has also broken new ground in such diverse fields as transport, agriculture, technology; business administration, technical cooperation and personnel training.

Besides these, many Bank programs, based on the well-founded idea that development does not mean only material progress in the broad sense, have addressed issues with the potential to cause social or political instability. In this connection, the Bank has given preference to the relatively less developed countries of the region and of individual integration groups. It has shifted its emphasis to projects for small producers and others aimed at low-income segments of the population. Finally, it has also provided support to programs such as agrarian reform, land settlement, water systems, rural roads and basic education, all of which respond to the felt needs of the weakest sectors of the society.

This noteworthy pioneering and support work for the economic modernization of Latin America has been possible thanks to the climate of freedom that has prevailed in the activities of the Inter-American Development Bank. To this time, the major concern of the Bank staff has been to serve the best interests of the region, as revealed by the ongoing efforts and dialogue between the governments and this lending agency.

This history, then, constitutes grounds for some degree of concern over the desire to move away from these accepted functions and make the Bank into an instrument more capable of regulating the economic adjustment process of Latin America. No doubt rules of conduct are needed to govern international economic relations. No question the Latin American countries will have to make even more painful sacrifices to adjust to an unfavorable external climate and a smaller supply of foreign exchange. As a practical matter, the burden of the debt crisis has been accepted almost unilaterally, even at the cost of constraining economic development.

But there are limits in every sphere which should not be transgressed. Today, the heart of the adjustment problem is not lack of discipline but the excess of discipline required mainly from third world countries. The demands set for these countries entail such conditions that they constitute overwhelming constraints on the manuevering ability and innovative capacity of national economic strategies and make abstractions of major social and political considerations in each country.

Latin America clearly needs the assistance of the industrialized world. In exchange for it, however, it would not be legitimate, but in fact be risky, to ask us to forego the ability to design our own economic policies or to look impassively on the impoverishment of our peoples, many of whom are on the other side of the critical poverty line. Sooner or later this road will lead to disruptions that make our societies ungovernable.

This occasion, however, is not one for succumbing to pessimism, but a time for building the future together, and to pay deserved tribute to men such as Antonio Ortiz Mena who have had the intelligence to shape an institution that serves the highest ideals of Latin America.

Welcome to Costa Rica; we hope you feel at home here.

Address by Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank

I. INTRODUCTION

As we begin this Twenty-Seventh Annual Meeting of the Board of Governors of the Inter-American Development Bank, I want to express our deep appreciation to the authorities and the people of the Republic of Costa Rica for their warm hospitality.

It gives all of us particular pleasure to see the Bank's Board of Governors meeting again, for the fourth time in its history, on Central American soil. Our meeting here underlines the close ties between our Bank and Central America where the first meeting of our Board of Governors was held some 26 years ago.

I think it is also fitting to recall that this year marks the tenth anniversary of an event of particular importance for our Bank. This was the admission of the industrialized countries from outside the Americas to full membership in the Bank. The entry of the European countries, Israel, and Japan increased Latin America's access to technologies suited to our countries' needs, and strengthened our links to world capital markets.

The experience of these past ten years has been very advantageous. The Bank has benefited not only from the technological, financial, and human contributions of the nonregional countries but also—and this is fundamental—from their participation in the deliberations of the Bank's various councils which has enriched and broadened our Institution's outlook and strengthened its multilateral character. It is our hope that this fruitful association between Latin America and countries outside the Americas, conducted through the medium of our Bank, will continue to grow in the years to come.

Our meeting takes place at a trying time for many of our members. It would almost appear that destiny has decided to challenge our commitment to the economic and social development of our region. Surely it could not have escaped anyone's notice that the countries of our region have been experiencing severe problems for several years. Given our Bank's special responsibility for the individual and collective development of our member countries, and bearing in mind the Bank's multinational character, the task to which we address ourselves today is of enormous importance. We have every confidence that our Governors will rise to this historic challenge and that their deliberations will provide us with the guidance and direction necessary to reaffirm the Bank's role of service to the cause of our peoples' well-being.

II. THE BANK'S ACTIVITIES IN 1985

As our Regulations require, I would like to present for your consideration a brief review of the highlights of our Bank's work during the past year. Our 1985 activities are reported upon in greater detail in the Annual Report which has been distributed to the Governors.

1. *Loans*

The total value of new loans authorized by the Bank in 1985 was $3,061 million, slightly below the 1984 total and the target of $3.8 billion projected at the start of the year by the Management of the Bank. This low level of lending was due primarily to the seriousness of the economic crisis which has confronted Latin America for the past four years. Our Bank's specialized work in financing specific development-oriented investment projects has been affected by the continuing decline in the capital formation process in our region.

In accordance with the directions given by the Governors with respect to the period of the Bank's Sixth General Increase in Resources, loans approved last year were aimed primarily at financing production activities, particularly by supporting the establishment of new industrial and agricultural enterprises and reinvigorating existing ones and providing further support for the traditional work of developing economic infrastructure, especially electrical power generation.

Notwithstanding this emphasis, and despite the severe limitations on the borrowing countries' ability to increase their public expenditures, the Bank also managed to lend continued support for a variety of social programs, particularly in the areas of public and environmental health and urban development. But it is important to point out that the volume of new loans extended from the Bank's concessional resources—including both loans from the Fund for Special Operations and those from the ordinary capital on terms made more favorable through the Intermediate Financing Facility—did not reach projected levels. In this connection, it should be noted that new operations of this kind approved in 1985 totaled $239 million, against a target for the year of $615 million. This situation aroused concern on the part of the Governors and led to the adoption by the Committee of the Board of Governors, on September 25, 1985, of decisions to permit fuller utilization of these resources. It is expected that these policy changes will enable us to expand the use of this kind of financing through the coming months, and thus help to improve the economic prospects of those countries in the region that are relatively less developed or have limited markets.

2. *Technical Cooperation and Small Projects*

In 1985, the Bank committed just over $40 million for non-reimbursable and contingent recovery technical cooperation. This figure is similar to the average for the last five years, and brought the cumulative total for such operations to $540 million. It is worth noting that in the last five years alone, the Bank has approved approximately 700 nonreimbursable technical cooperation undertakings, for a total equivalent to $235 million.

Of the technical cooperation funds committed in 1985, a third went to research, a fourth to the identification, preparation, and execution of investment projects, and a fourth to strengthening the member countries' institutions in the public sector. As for the program of intra-regional technical cooperation, it totaled approximately $500,000, with 49 operations. This program made possible mutual assistance among the Latin American countries to be provided at a fraction of the cost of conventional technical cooperation. Through this program, the fullest use will be made of the region's technical and organizational capabilities, so that this knowledge can be transferred and disseminated to countries that request it.

In the general context of Bank activities supporting our member countries'

development, technical cooperation plays an important part. The impact of such operations on the improvement of national economic and administrative management capabilities is especially noteworthy. This includes assistance which the Bank has continued to provide for the institutional improvement of public sector agencies and for modernization of tax systems. We are contributing, as well, to the preparation of investment programs, agricultural research, and the development of forestry, fisheries, mining, and other natural resources as well as for the development and execution of social projects, chiefly in education and health.

In 1985, 18 operations were approved under the Small Projects Financing Program, bringing the Bank's commitments in this area to nearly $7 million. These activities have continued to be financed largely with resources from the Fund for Special Operations, as well as with contributions from the Social Progress Trust Fund. The very important contribution to this program from the Government of Switzerland deserves special recognition. In view of the success of the program, the Bank has continued to explore the possibility of extending global lines of credit for small projects in order to support the establishment in our member countries of technical, operational, and financial machinery which would assume responsibility for the program, for identifying projects and for financing, monitoring, and evaluating them. We would also like to take this opportunity to acknowledge the active role played in this undertaking by various private organizations and foundations in the borrowing countries. Thanks to their participation, Bank resources are reaching large numbers of small business people in our region, bringing them effective help.

3. *Mobilization of Resources*

During the year just ended, the Bank has raised the equivalent of $2.3 billion in the international capital markets, a figure 32 per cent higher than in the previous year. It is worth noting that, in keeping with recent trends, the Bank raised 75 per cent of these funds in the capital markets of its nonregional member countries, including Switzerland, Japan, the Federal Republic of Germany, the Netherlands, and the United Kingdom. Nineteen eighty-five was the first year in which the Bank placed issues denominated in the European unit of account (the ECU). This has provided us with valuable experience in the context of our Bank's resource mobilization activities.

The Bank's total debt as of December 31, 1985, was equivalent to $9,365 million, consisting of $3,188 million charged against the ordinary capital and $6,177 million against the inter-regional capital. Seventy per cent of these financial obligations consisted of borrowings in the currencies of the nonregional member countries and in European units of account.

As the Governors are aware, resolutions placing the Bank's Sixth General Increase in Resources in effect, formally approved at the end of 1983, provided that the member countries' contributions and subscriptions were to be made in annual installments falling due on October 31 of each year. In 1985, the deadline for that year's installment had to be extended, as certain countries were not in a position to deliver the necessary funds to the Bank. Although this situation was substantially resolved at the beginning of this year insofar as the resources of the Bank's inter-regional capital are concerned, some arrearages continue to exist in contributions to the Fund for Special Operations.

I wish once again to underline to the Governors the Bank's pressing need to

receive, in a timely fashion, the full amount of contributions pledged by our member countries. This is especially important now when the last installment of the Bank's Sixth General Increase in Resources must be paid in full.

4. *Administrative and Financial Results*

The financial results of the Bank's operations and the execution of its administrative budget were very satisfactory in 1985. The income generated by the Bank's operations, taking together the income from the capital resources and the income from the Fund for Special Operations, totaled $1.15 billion, nearly 20 per cent more than during the previous fiscal year. After deduction for interest on the Bank's debt and administrative expenses, the Bank's net income for 1985 was $300 million, 7 per cent higher than in 1984.

Part of last year's current operating surplus was channeled, in accordance with the guidelines laid down by the Governors, to the special Intermediate Financing Facility, to enable the Bank to offer concessional terms on certain credits extended to member countries that are relatively less developed or have limited markets. The rest of the surplus was added to the Bank's reserves, which at the end of 1985 stood at $2,678 million, 12 per cent above the level at the end of 1984. It was thus possible to improve the Bank's financial solvency, needed to assure privileged access to international capital markets, and to give a concrete expression of economic solidarity by providing special support to the Bank's lower-income member countries.

As the Governors are aware, in late June of last year the Committee of the Board of Governors reviewed certain changes proposed in the Agreement Establishing the Bank, under which the Ordinary Capital and the Inter-regional Capital would be merged. These proposals have now been submitted to the Governors for their consideration. The aim of this move is to consolidate and simplify the Bank's financial structure so that better use can be made of contributions to the Bank's callable capital. During the year, the Bank has been making preparations for this merger and these will continue through 1986 so that the Bank will be able to start operating with a single merged capital beginning January 1, 1987.

The Bank's administrative expenses in 1985 totaled $155 million, slightly above the 1984 level in nominal terms but lower in real terms for the third year in a row. In 1985, greater resources had to be devoted to the expansion and upgrading of management information systems, including modernization of electronic data and word processing systems which have appreciably increased our staff's operating capacity and efficiency. This has made possible the handling of a growing volume of operations by a permanent staff which has remained virtually unchanged for five years in terms of the number of positions, with additional temporary staff hired only to meet specific, non-recurring needs and to provide specialized services requested by the member countries.

As I informed the Governors a year ago, we have secured a new building on a long-term lease, with option to purchase, for a new headquarters in which to consolidate the Bank's staff, presently scattered among three different buildings in downtown Washington. I am pleased to report that nearly 50 per cent of the work of fitting out the new building to make it ready for occupancy was completed in 1985. According to the technical reports, we can expect the remainder of this work and the Bank's physical move, a process that has already begun with the transfer of a few units, to be completed during the first half of this year.

The administrative budget for the current year, approved by the Bank's Board of Executive Directors, totals $165 million. This budget includes nearly $5 million for continuing the upgrading of the Bank's data and information processing systems. If one separates those expenditures, the Bank's administrative budget for 1986, would be scarcely 1 per cent higher, in constant terms, than the budget approved in 1985. In keeping with the Bank's administrative practice, our current budget includes the operating expenses of the Bank's field offices in the borrowing member countries. The Bank will cover 70 per cent of those expenses by using the local currencies of the borrowing countries in which the offices are situated. This means that some 17 per cent of the Bank's total administrative costs can be paid with local currencies of the borrowing countries. It is worth noting that our Bank is the only institution of its kind that includes the expense of inspecting and supervising the projects it finances in its administrative budget.

In concluding this brief summary of the Bank's administrative and financial operations, I should like to pay tribute once again to the dedication and spirit of international public service shown by our staff, whose commitment to the cause of our countries' economic and social development made it possible for the Bank to continue to carry out its mandate in an efficient and effective manner.

5. *Improvements in the Bank's Operating Procedures*

Through 1985, we have continued to make progress in improving our procedures for evaluating *a posteriori* the results of projects financed by the Bank. The system of *ex post* evaluations, instituted five years ago, has been extended to a significant universe of projects in all of the Bank's sectors and in all of its member countries. This has enabled us to learn from experience, both good and bad, and to apply this experience in the process of identifying, preparing, and analyzing new operations.

We view *a posteriori* evaluation as a key component of the quality-control system which applies to all of the Bank's operations. We intend to continue to strengthen that system in order to provide all levels of the Bank with technical information and guidance on which to base future operating decisions.

I would also like to inform the Governors that, toward the end of last year, we hired a high-level external consultant to consider what further improvements could be made in the Bank's programming and evaluation processes. Studies prepared by the consultant are now being reviewed by the Bank's Management. In due course we shall report to the Board of Executive Directors about the steps that may be taken in order to assure continued improvement in the Bank's operating procedures.

6. *Protection of the Environment*

Through project financing and technical cooperation assistance, our Bank has continued to contribute to the member countries' efforts to protect the environment, to conserve natural resources, and to use them rationally.

As the Governors are aware, in 1979 the Bank adopted a special policy aimed at ensuring that its operations would have no adverse environmental impact. In 1983, a high-level committee made up of the managers of several departments was established to coordinate and oversee the activities of the Bank's various units in this sphere. The Environmental Management Committee is responsible for examining new lending operations being considered by the Bank, as well as projects in execution, to make certain that proper conditions are incorporated in loan contracts

and carefully observed in order to safeguard the environment and promote better understanding of the relationship between the development process and the environment.

I believe that we have gained considerable experience in identifying the best ways to approach these tasks. Growing interest is also apparent on the part of the Bank's borrowing member countries in projects and other activities aimed at improving the quality of the environment in urban areas, and in sound development and conservation of natural resources. For its part, the Bank stands ready to provide continued support for such activities.

7. *The Inter-American Investment Corporation*

By the end of last year, of the 34 member countries of the Bank which had indicated their willingness to create the Inter-American Investment Corporation, 11 had already accepted or ratified the Agreement establishing the Corporation. I am pleased to report that as of the present date, sufficient acceptances or ratifications have been received from the member countries so that said Agreement has entered into force.

We are convinced that the activities of the new Corporation, whose financing operations will complement those of the Bank, are important and will have far-reaching impact at the time when we urgently need to revitalize our countries' production activities and strengthen the role that small- and medium-sized businesses must play in that process. That is why I am hopeful that in a very short time we shall be able to convene the First Meeting of the new Corporation's Board of Governors, approve the agency's rules and regulations, and make it possible for it to start operations. I can assure you that the Bank will continue to give the new Corporation whatever institutional support and cooperation it may require.

8. *Special Program of Cooperation with the Countries of the Central American Isthmus*

Through 1985, the Bank continued to support the efforts of the Central American countries to increase their exports and to strengthen the process of subregional integration. In particular, we have supported efforts aimed at reactivating the process of investment in production and imbuing it with fresh momentum. With respect to the latter, it is worth noting that three meetings were held, in collaboration with the Central American Bank for Economic Integration, for the purpose of establishing contacts between investors from outside the region and Central American enterprises and institutions. This effort has benefited from the cooperation of the Canadian, Japanese, and European authorities.

As the Governors are aware, the Central American Bank for Economic Integration—whose twenty-fifth anniversary we shall presently celebrate—will within the next few days be holding meetings here in San José to consolidate the effort that has been carried on in recent years with our Bank's support, with a view to establishing a special fund that would enable the Central American Bank for Economic Integration to channel contributions from countries outside Central America in support of the process of the individual and collective development of the sub-region.

Our Bank will continue to back the efforts of the Central American Bank for Economic Integration and cooperate with the countries of the region in giving speedy attention to any special requests for assistance that they may present to us.

III. THE BANK'S LOAN PROGRAM FOR 1986

As I had occasion to inform the Governors at last year's Annual Meeting, it has not been possible to achieve certain very important objectives that you have established to guide the direction of Bank lending during the period of the Sixth General Increase in Resources.

This situation, which is of concern to all of us, became more acute during the year just ended. As the last year of the Sixth Replenishment period began, we found that we had on hand a considerable volume of concessional resources available for countries that are relatively less developed or have limited markets—resources which it has not been possible to devote to the financing of social projects. Moreover, the percentage of our lending which directly benefits low-income groups has remained below the minimum 50 per cent level set as a target by the Governors. The total volume of lending approved in 1985 also fell below the target that Management had set for that year, as well as below the 1984 level.

The principal reasons for this situation are to be found in the special difficulties faced by the relatively less developed countries in generating local counterpart resources. Those difficulties prevent them from undertaking investment programs in the social sector, programs for which the Bank could offer them loans. Also, the establishment of ceilings for certain countries and groups of borrower countries holds down the total volume of lending that can be approved in a given year. The investment process which fuels the region's development—a subject which I shall discuss in detail later—has in recent years become paralyzed. Consequently, it should come as no surprise to any of us that the Bank's operating results fall short of our targets. In our view, however, it would be wrong to infer from these results that there is no need for external financing for development programs.

The Governors, aware of the needs I have described and of the particular circumstances in which our region finds itself, at the end of 1985 took steps to streamline the criteria for the use of the resources of the Fund for Special Operations—and consequently for the use of the Intermediate Financing Facility—with a view to increasing the share of the total cost of a project that may be financed by the Bank. Those measures permit us to cover certain recurring project costs and to extend the benefits of concessional financing to projects which are concerned with production and directly benefit low-income segments of the population.

We are confident that these measures will give fresh impetus to the financing of these types of projects. Nevertheless, we cannot help but express our concern over the growing difficulties that the current international economic and financial situation continues to impose on our countries and which may require changes in the eligibility criteria applied in recent years to the use of the Bank's concessional resources.

For these reasons, there is a justification for extraordinary steps which, without diminishing the importance of the targets of the Sixth Replenishment, would permit us to meet the increasingly pressing needs of our countries. To this end, at the beginning of 1986 the Management submitted to the Board of Executive Directors for its consideration a proposal which—if approved by them and, if appropriate, by the Governors—would make it possible for the Bank's financial contribution to be tailored to Latin America's current internal and

external economic conditions.

The present situation dictates that we act quickly, making sure first that work continues on those development projects that are already under way. Effective assistance in seeing those projects through to completion would ensure that their intended benefits begin to materialize quickly. It is clear that this would have a favorable impact on general economic conditions and improve our countries' capacity to service their external financial obligations.

The financing of investment projects whose execution is well advanced also presents an attractive opportunity for participation by international commercial banks. The Bank's involvement could help to mobilize additional resources from the commercial banks, through suitable complementary cofinancing mechanisms. This type of financing would, in a relatively direct fashion, help to strengthen our countries' capacity to service their external debt. Of particular importance in this connection is the fact that in these instances, credit from the commercial banks would be allocated to high-productivity, high-priority projects, setting up institutional relations conducive to the channeling of future investment flows to the mutual benefit of the banks and of our Latin American countries.

I hope that these thoughts regarding possible additional new directions for the Bank's lending operations will be considered by the Governors in the course of their deliberations through the coming days, as well as during the meetings that we shall soon be holding in connection with the Bank's Seventh Increase in Resources. The Management is ready to comply with any request from the Governors to study these questions in greater depth and to develop specific proposals.

IV. THE LATIN AMERICAN ECONOMY, AND THE INTERNATIONAL ENVIRONMENT

1. *The Economic Adjustment from 1982 to 1985, and Long-Term Trends: Past Experience and Future Prospects*

As we enter the second half of the 1980s, the production, investment, and employment processes of the vast majority of the Latin American countries have remained semi-stagnant for four years in a row. In many cases, this has resulted in a significant decline in their peoples' general living conditions. Two facts will suffice to illustrate this situation: first, the decline in the real *per capita* product which, for the region as a whole, has dropped to an average level comparable to that of 1976 and 1977; and, second, the increase in open unemployment in urban areas, where the number of jobless compares to that of the late 1960s.

We can thus see how the recession has eaten away a considerable portion of the progress achieved by the development efforts of the Latin American countries over the span of a generation. What is even more serious is the fact that the continuation of the recession has been narrowing the prospects for the region's future progress.

In the area of production, the region's economic potential has taken a downturn owing chiefly to the effects of the persistent decline, continuing now for five years, in capital investment and losses resulting from the drop in demand, both internal and external, and in effective utilization of productive capacity. Based on a conservative estimate, the cumulative drop in capital investment in Latin America has totaled nearly $160 billion over the past three years alone, taking the average amount of investment in 1980-81 as a base. This drop is nearly equivalent

to total annual investment at the beginning of the decade. To be sure, it is even greater if one compares actual investment against the level of investment necessary to sustain the economic growth rates that prevailed in Latin America until 1980. Either way, this drying up of investment is of crucial significance, and is no doubt the principal factor contributing to the economic stagnation in which Latin America is now mired.

Exports constitute another significant element in the decline of overall demand. The brief resurgence of Latin America's export activity which took place in 1983 and 1984, driven mainly by the recovery of the United States economy, has weakened considerably since late 1984. The explanation for this development can be found in the fact that in addition to the depressed prices of most of the region's principal exports, the volume of Latin America's exports declined as imports into the United States fell off in relative terms. Indeed, after an 11 per cent increase in the value of Latin America's exports in 1984, they declined approximately 6 per cent in 1985, as their volume and prices dropped.

Taking into account these two features of the economic recession which has deepened in recent months as a consequence of collapsing oil prices, it is clear that a policy aimed at reinvigorating the region's economy must include a major expansion of overall demand, both internal and external. In the internal sphere, economic recovery in the medium and long term will require both the reactivation of idle productive capacity and an extraordinary increase in capital investment. An effort directed at these goals must be consistent with the principles of economic efficiency and equity that are in harmony with the cultural and institutional framework of each Latin American country. It must also take into account the critical parameters of scope and time necessary to reverse the bleak expectations which prevail among private-sector entrepreneurs, both at home and abroad.

The often traumatic experiences of recent years furnish us with valuable lessons which can be turned to everyone's advantage if there exist both the desire and the will to overcome our current problems. Perhaps the most important lesson is that expenditures on consumption and investment have to be confined to the resources generated by domestic production, supplemented only marginally by external savings which, however, must be devoted to the expansion of productive investment and acceleration of economic growth. It is essential also that, in the future, external capital be tendered on terms which are compatible with each country's balance-of-payments conditions, thereby avoiding the recurrence of external financial liquidity crises of the type experienced by several Latin American countries since 1982.

In order to minimize the internal and external imbalances characteristic of different levels of development, it will be necessary for Latin America to persevere in applying measures to maintain fiscal austerity, to place our currency and financial systems on sound footings, and to correct distortions in domestic price systems. The economic imbalances of the late nineteen-seventies and the concurrent flood of financing were without precedent in Latin America's history. Indeed, from the mid-1950s to the early 1970s, the inflow into Latin America of external resources accounted for a relatively small and stable percentage of the region's gross domestic product and of financing devoted to capital formation.

The recent mushrooming of the external deficit is due essentially to certain disruptive elements, internal as well as external, rather than being the result of long-term development efforts. In several Latin American countries, overall

domestic demand, particularly that portion consisting of expenditures for public and private consumption, increased from 1978 to 1982 at a significantly faster pace than the gross domestic product. As a reflection of the public and private deficits and of the resulting inflationary pressures, the current balance-of-payments deficit grew wildly. To this was added capital flight, attributable to the maintenance of overvalued exchange rates and heightened expectations of instability stimulated by the attraction of high interest rates abroad. The resulting gap could be financed only by the unrestricted entry of loan funds from commercial banks.

Looking ahead to the next few years, a shortfall in external resources looms once again even under relatively conservative economic growth assumptions. Although this shortfall will be small compared with that of past years, this nonetheless presents a major challenge both for our national economic authorities and for the international financial community.

Considering the size and the nature of the recent imbalances, the economic belt-tightening measures implemented by the Latin American countries were inevitable. However, in order for these measures to achieve their stabilization targets, they will have to be defined within the framework of economic and social development programs that have been well thought out and debated at political levels. The challenge faced by the national authorities, far from involving a clash between stabilization policies and development programs, or the failure of the two to mesh, is centered on devising suitable combinations of short-term measures that are compatible with the promotion of vigorous, long-term economic growth which is, at the same time, socially equitable. As the history of our countries demonstrates, such an undertaking is not impossible; in fact, there have been a number of such successful endeavors to which the Bank has made an effective contribution.

Looking at the many economic adjustment programs adopted in Latin America during the past few years, it is clear that their most serious defects included the sacrifice of public investment and haphazard dismantling of social programs which hit the most vulnerable segment of the population—the poor—the hardest. It is conceivable that in some cases, where the reduction of the fiscal deficit and compliance with certain financial restrictions were the target, this choice represented the path of least political resistance. But it must be noted that the curtailment of capital expenditures on physical infrastructure and on human capital has had damaging effects on the global economy and on private sector investment activity, limiting future economic growth and, in the long run, negating its short-term political advantages.

2. *The International Economic Environment*

As the experience of the past 15 years has shown, changes in the international environment, particularly in the areas of trade and finance, have had increasingly important repercussions on the developing countries' economies. This has been especially the case in Latin America where the national economies are more vulnerable to external pressures. Worth noting among these changes are the oil price shocks of 1973-74 and 1979-80, the recessions in the industrial countries in 1974-75 and from 1980 to 1982, the extraordinary financial activity and imbalances in the exchange rates between the major currencies. In some cases, several factors have combined to produce negative effects that have had a cumulative impact over time. The rapid growth in our region's external debt, for instance, generally reflects the combined effect of external factors and of misguided domes-

tic economic policies. While this diversity of experiences is rather broad because of the differing internal circumstances of our countries and the uneven impact of external factors, one common denominator emerges: it is that national economic prospects and the success of adjustment programs hinge to a greater or lesser degree on external factors.

Since 1982, most of the countries of Latin America have adjusted to the sharp drop in foreign capital inflows by extraordinary belt-tightening aimed at reducing their balance-of-payments deficits and by increasing their trade surpluses. If at their present stage of development these were desirable and sustainable economic policy objectives, the results achieved during a period which saw our region become a net exporter of savings to the industrialized world could be called nothing less than successful. The region's trade surplus calculated on an FOB basis increased from $7.4 billion in 1982 to $38 billion in 1984, and then slipped to $34 billion in 1985. Meanwhile, the current balance-of-payments deficit plummeted from $39 billion in 1982 to approximately $1 billion in 1984, although it then rebounded to over $4 billion in 1985. And the cumulative net transfer of internal savings from the region to the world economy during the past four years exceeded $100 billion. As mentioned earlier, this was equivalent to 66 per cent of reduction in capital expenditures in Latin America during the same period.

It may be worth asking how the region managed to achieve such a sharp increase in its trade surplus and the other positive results in so short a time. While the export performances of Brazil and Colombia were very strong, marked by increases of over 40 per cent between 1982 and 1984, most of our countries, despite widespread application of exchange-rate corrections and, in several cases, of fiscal or other incentives, achieved somewhat smaller gains. In some cases, export activity declined. For the region as a whole, excluding Brazil and Colombia, the value of merchandise exports rose from $64.3 billion in 1982 to $69.2 billion in 1984, representing a cumulative increase of 7.6 per cent over the two years. These gains vanished as exports declined in 1985.

Another important feature of Latin America's export performance that we should mention involves some highly unfavorable developments in intra-regional trade. In sharp contrast with the trend from 1960 to 1981, when the regional market absorbed a rising share of Latin American exports (advancing from 8.8 per cent in 1960 to 16.5 per cent in 1981) intra-regional trade collapsed during the past four years. It accounted for only 11.7 per cent of Latin American trade in 1984, a level comparable to that during the mid-1970s. This downturn has dealt a serious setback to the promotion of integration and mutual complementarity in Latin America's economies; and, paradoxically, this happened at a time when the development and diversification of the regional market have been particularly important. Without a doubt, this situation must be rectified as swiftly as possible by our economic authorities. This task has to be approached with a high sense of realism and commitment to cooperation on the part of every country.

On the import side, the belt-tightening produced a substantial across-the-board contraction. The value of the region's imports fell from $101 billion in 1982, the year in which most of our countries posted record values for their imports, to $61.4 billion in 1983. There was little change in the latter figure in 1984 or 1985: in other words, the value of imports dropped 40 per cent and this reduced level has been maintained for three consecutive years.

As the total value of Latin America's imports fell, the structure of most countries' imports changed in a way that does not bode well for future recovery of these economies. The share of machinery, tools, and other capital goods in total imports fell from 28 per cent in 1981 to 24 per cent in 1984. This figure highlights another of the asymmetric effects of the recent internal economic adjustment.

As Latin America's imports fell off, United States exports to the region shrank significantly, from $40 billion in 1981 to $24 billion in 1983. They recovered partly over the next two years, nearly reaching $29 billion. Nevertheless, Latin America's standing as an export market for the United States, which in 1981 was similar to that of Canada, or Asia excluding Japan, declined: whereas in 1981 Latin America bought approximately 17 per cent of all U.S. exports, that share declined to 13 per cent in 1985. This drop in U.S. trade with Latin America was even more significant when related to the increase in the United States' external deficit. Indeed, as the U.S. trade balance with Latin America went from a traditional surplus position of almost $6.9 billion in 1981 to a deficit approaching $16 billion in 1984 and again in 1985, this turn-about accounted for approximately 21 per cent of the increase which the U.S. deficit registered in 1981 and 1985.

One of the principal conclusions that can be drawn from this experience is that the most effective way to improve Latin America's trade balance—considering the unsatisfactory price performance of most Latin American exports—is to halt imports. This asymmetrical impact of the belt-tightening policies reflects the interaction between several factors, some of internal origin and others external to Latin America. In the internal sphere, it is clear that there is an urgent need to expand and improve domestic capacity for the production of export goods and for goods which efficiently substitute for imports. To this end, in addition to the necessary changes in pricing, taxation, finance policies, and other appropriate measures, it is essential that key technological inputs and investment resources be mobilized to enhance effective utilization of Latin America's inherent comparative advantage potential.

In order for an undertaking of this magnitude and complexity to be successful, however, internal efforts—no matter how extensive and efficient—will not suffice. Success in this instance requires unrestricted access to growing markets in the industrialized economies where nearly two thirds of Latin America's exports are sold. As everyone knows, Latin America's recent experience in this regard has been quite discouraging. External demand for most of the region's exports, including both manufactures and raw materials, has been held back not only by the most severe and prolonged recession since the 1930s, which brought extraordinary unemployment and protectionism in its wake, but also by restrictive monetary policies and large fiscal deficits which have raised interest rates to abnormal levels and distorted the exchange rates between the major currencies.

For the countries of Latin America, the repercussions were doubly unfavorable. First, in the case of many products quoted in dollars, the extraordinary rise in the value of that currency eroded Latin America's competitiveness in international markets: in other words, Latin American exports suffered a fate similar to that of the United States' own exports. To this was added the impact of the rise in interest rates on the financial cost of maintaining or increasing inventories of raw materials which greatly softened the demand for those products. In short, cyclical fluctuations, a weak performance of world trade, and widespread declines in the relative prices of raw materials put a halt to the export momentum which Latin America

developed in the latter half of the 1970s.

Second, the rise in interest rates significantly raised the cost of servicing Latin America's external debt. It is estimated that the higher cost of money increased the interest cost on the external debt by 30 per cent during the past eight years, or by more than $78 billion. Thus, although this was not actually the purpose for which new loans were granted, about a third of the increase in Latin America's external debt between 1977 to 1985 was due to the skyrocketing of international interest rates. The impact of interest rates on the balance-of-payments current account provides another perspective on this problem. As the outflows to cover interest on the external debt mounted from $8.5 billion in 1977 to approximately $37 billion in 1985, this item became the principal factor responsible for Latin America's external imbalance.

Looking at the region as a whole, the amount of interest owed is still greater than the trade surplus generated by internal belt-tightening, leaving a gap that has to be covered either by using foreign currency reserves or by securing additional credits, or, as happened in 1985, by a combination of the two. Either option—a reduction in assets or an increase in international financial liabilities—will worsen the problem of servicing Latin America's external debt if it is not accompanied by the creation of new productive capacity. The resolution of this dilemma is of serious concern to economic authorities. Essentially, the solution depends on a confluence of the economic policies of the debtor and the creditor countries. The unilateral implementation of internal belt-tightening policies by the Latin American countries has failed to produce the desired results mainly because, insofar as the region is concerned, international trade and finance conditions have deteriorated.

Towards the end of 1985 and during the early part of this year, important changes appeared on the international economic and financial scene, some of them very favorable to the countries of Latin America. The proposal presented last October by Mr. James Baker, the U.S. Secretary of the Treasury, entitled "A Program for Sustained Growth" and aimed at identifying the solutions for the most heavily indebted countries, as well as the initiation of concerted efforts to strengthen and improve the international monetary system, augur well for the renewal of effective international cooperation. Recognition that the solution of the debt crisis hinges on the adoption of policies enabling the revival of economic growth in the debtor countries, that additional financing has to be mobilized for investment in production and for debt service, and that overall economic efficiency needs to be improved, offer a formula that could strengthen the bonds of international cooperation and draw on our full capabilities towards its successful implementation.

In addition, the return of the dollar to its proper value, a process that began last September with the meeting of the Group of Five and continued with the coordinated lowering of the German, Japanese, and United States central bank discount rates, evidences a practical approach which could effectively contribute to the improvement of international economic prospects. Since mid-1985, nominal interest rates have declined significantly, reaching levels similar to those prevailing in 1978; and it is likely that even lower rates are yet to come, reflecting the reduction of central bank discount rates. For the countries of Latin America, this could represent an important reduction in the cost of debt interest service and an enhancement of their ability to export products to world markets.

V. THE ROLE OF THE BANK AND EXTERNAL COOPERATION

The Agreement Establishing the Bank charges this institution with the fundamental responsibility of contributing to the economic and social development of the countries of Latin America, both individually and collectively. In striving to meet this responsibility during the past quarter of a century, the Bank has built up a wealth of valuable experience through its close and mutually advantageous cooperation with each of the countries in the region. This has been a time of extraordinary growth and transformation in Latin America's economy, as well as one of substantial change in the world economy, characterized first and foremost by growing interdependence among the nations.

Those of us who have been privileged to live through this period and to hold positions of public responsibility, whether within our own countries or abroad, must pay tribute to the crucial role that international cooperation has played in making possible the progress achieved since World War II. And it is precisely on the foundation of this philosophy of closer ties, sharing of challenges and benefits of technological advances, and improving living conditions of our peoples, that a century-old vision of the Latin American countries, envisioning a system through which financial cooperation could be provided for development, became a reality.

When the Inter-American Development Bank came into being, it added to the spirit and aims of the organizations that emerged from the Bretton Woods agreements a new concept reflected in its regional character and in the sharing of responsibility by the borrowing and the lending member countries for the design and implementation of its operating policies. With extraordinary vision, faith, and determination, the Bank's founders succeeded in making these ideals prevail. Our experience demonstrates the wisdom and the effectiveness of this concept. Embracing nothing as a cure-all, excluding nothing as unthinkable, we have followed the individual paths of development of each country in the region in all their complexities and richness. In doing so we have learned many lessons, and we can legitimately claim to understand better many of the problems that afflict our countries and which we have sought to help solve swiftly, practically, and as effectively as our resources would allow. It is this accumulated experience and the dedication of our technically well qualified staff who share our views and aims, that together constitute the real resources with which we can pursue our mission in the future.

The Bank now faces the formidable task of continuing to expand and improve its contribution to the financing of investment projects that have high economic and social priority for Latin American development, at the same time that it must attend to the urgent needs arising from the current external financial crisis. As I said earlier, not only is Latin America's present situation causing economic growth to stagnate but in several countries it has inflicted even greater damage, setting long-term economic and social progress back 10 to 20 years.

In order to resume economic growth under these circumstances, an extraordinary international cooperation effort will be needed which, building on the foundation of these countries' own commitment, will assure the contribution of the technical, financial, and capital resources and of the trade conditions required from the industrialized countries. The Bank's role in this undertaking, alongside the other multilateral financial institutions, will be as an active intermediary giving specific support to its Latin American member countries.

The Bank's past experience has centered on capital formation in Latin America. The Bank has furthered this process by financing investment projects having high economic and social rates of return, by supporting sectoral development programs, and by providing technical assistance for the creation and improvement of policies, systems and institutions dedicated to the analysis and execution of investment programs and projects.

Because of our closeness to the economic and social reality of each of our Latin American member countries, derived from our experience, the working ties we have established with public and private institutions and the operations of our field offices, we believe that the Bank has the necessary capacity to expand its development financing operations. The channeling of such additional investment resources in support of Latin American development would also serve the interests of the industrialized countries.

As we are all well aware, most of the capital goods and technology used as inputs in investment projects financed by the Bank are produced in the Bank's industrialized member countries. As a consequence of the economic recession, however, exports of capital goods from those countries to Latin America fell by more than one half between 1981 and 1984. This factor contributes significantly to the problem of idle productive capacity which continues to plague the industrialized member countries. Thus, if the capital formation process in Latin America can be reactivated, this will contribute to the recovery of the capital-goods sector in the industrialized countries.

The present situation of the Latin American economies dictates that special attention be given to solving immediate problems stemming from present circumstances. One of the severest constraints affecting our countries today is the acute shortage of foreign exchange, a situation due both to external debt service commitments and to the need for increased imports of production inputs. Added to this is the inherent weakness of national financial institutions in both the public and private sectors: these are now in a truly precarious position chiefly because of the sharp decline in savings and the strict limitations that have been imposed on the growth of the money supply and domestic credit. All of this leads to an acute shortage of funds available for lending which depresses domestic business and industry prospects and limits financing for investment projects under way.

In the face of these conditions, which must be examined in the specific economic context of each country, the Bank is being called upon to contribute, over and above its on-going commitment to investment in economic and social infrastructure, to a special mobilization of external financial resources aimed at increasing the region's external payment capacity. This is an urgent and complex task whose scope is very broad, and in which no international financial organization can fail to pull its load. The Bank's wealth of experience and the necessary institutional capacity are placed at the disposal of its member countries and international commercial banks for advancing a special program of external cooperation in support of the Latin American economies. In this regard, we subscribe fully to the assessment of the OECD's Development Assistance Committee, expressed in its recent report *Twenty-Five Years of Development Co-operation*:

"The adoption by Latin American governments of sound strategies for economic recovery, endorsed and supported by the IMF, the World Bank and other

official institutions, should encourage foreign commercial banks to resume moderate amounts of net lending, especially for projects capable of generating their own debt-service. Latin American recovery is particularly dependent on the sustained growth of markets in the industrial countries and on a further reduction of interest rates in world capital markets. Here is the clear case of interdependence—of international and domestic policies, of trade, finance and adjustment, and of public and private leadership."[1]

VI. CONCLUSIONS

Recent events on the international economic and financial scene have once again emphasized how tightly drawn together all nations have become. Indeed, international developments in trade and finance have come to have an important impact on domestic economic events in the industrialized countries and to an even greater degree in the developing countries.

Although this situation is not new, economic policy measures continue to be conceived in the context of each nation and to be geared primarily to serving that nation's particular interests. The conflicts arising from this state of affairs have not been satisfactorily resolved; this may go a long way toward explaining the instability of the world's economic and monetary system through the past 15 years.

Interaction between these factors and, at times, their cumulative effects, have led to crisis situations such as the case of Latin America's external debt. Overcoming the apparent contradictions between national and international interests, has become the most important challenge facing our present generation of political leaders.

If such dilemmas are to be resolved, broader and more effective forms of international economic cooperation must be found. There can be no doubt that this is a difficult task, but the alternative of international economic disintegration offers such bleak prospects that a special effort on an extraordinary scale is more than justified.

One of the factors having the greatest impact on the present situation of the world economy and its prospects for the future is the weakening of the industrialized economies' long-term growth momentum which becomes self-reinforcing and has a wide variety of domestic and international consequences.

This has negative repercussions for the Latin American economies, and has magnified their external structural imbalances out of all proportion. Its effects have been visible in the low price of Latin American exports and shrinking export volumes aggravated by limited access to industrialized countries' markets due to increasing protectionism.

But Latin America's internal belt-tightening and drastic cutting of imports, also had negative repercussions for the industrial economies and for the recovery of their production. This illustrates the need for a concerted pursuit economic recovery by the industrial countries, together with the developing ones. To this undertaking Latin America can contribute the growing potential of its markets,

[1]OECD, *1985 Report, Twenty-Five Years of Development Co-operation. A Review. Efforts and Policies of the Members of the Development Assistance Committee*, Paris, November 1985, page 31.

particularly for capital goods and technology, and its ability to supply a wide variety of raw materials, food products, and semi-manufactured goods.

In short, if Latin America is to emerge from recession and economic adjustment and enter a period of recovery and long-term economic growth, certain basic conditions will need to be met. First, there must be an extraordinary internal economic policy effort that seeks to make the balance-of-payments equilibrium compatible with economic growth. Second, the protectionist measures established by the industrialized countries over the last 10 years need to be scrapped and demand for Latin American products increased. Third, a suitable flow of public and private financing to the countries of Latin America must be assured and real interest rates in international financial markets must return to normal levels.

For our part, we anticipate that the Inter-American Development Bank will be called upon to play an increasingly important role in financing the economic and social development of the Latin American countries. To this end, we shall first endeavor to use our own expertise, which has been proven through more than 25 years of operations, in financing investments in production and in economic and social infrastructure in support of the development of our Latin American member countries; second, on the basis of this experience and the relations established in international financial markets and with our borrowing countries, the Bank can function as an active intermediary in mobilizing new contributions of public and private financial resources to contribute to the region's general economic recovery and its external payment capacity.

Bearing these background concerns in mind, and considering the vast scope of the challenge we must face, I hope that the deliberations of this Annual Meeting of the Board of Governors which begins today will go forward in a spirit of constructiveness, generosity, and solidarity, as demanded by the present circumstances and the future of economic and political relations between our peoples.

Before closing, I wish to express to you, and through you to the Governors of all our member countries, my profound appreciation for the honor that you have bestowed upon me in electing me to serve as the President of the Inter-American Development Bank for the term that began on March 1st. I wish to reaffirm my fullest personal commitment to this office. For me, this mandate has a very special meaning: that the work of expanding, improving, and consolidating the Bank's activities, for the benefit of the economic and social development of Latin America and its integration into the world economy, must go forward along the same path of progress that we have followed up to now. Although the crisis we face harbours dangers, so too does it present great opportunities. It sets a challenge before us all—a challenge I am absolutely certain we shall meet by doing our part, with commitment and generosity, through effective multilateral cooperation.

Address by His Excellency Luis Alberto Monge Alvarez, President of the Republic of Costa Rica

I extend my warmest greetings to the Governors of the Inter-American Development Bank. As President of the Republic of Costa Rica, I am pleased to offer you the hospitality of the Costa Rican people.

You are in a country that in 1989 will complete a century of democratic traditions. A country staunch in its adherence to peace, open to all currents of thought, and neutral in armed conflict, Costa Rica warmly welcomes you in the certainty that you will find here a friendly and peaceful atmosphere conducive to the deliberations of this important meeting.

It has been my responsibility to lead my country in the midst of the deepest crisis that Costa Rica has ever experienced. Four years ago, we found ourselves faced with the highest levels of inflation and unemployment since World War II, rapidly spreading poverty, and a ten-month-old unilateral moratorium on international payments. The broad support of the people, as expressed in the elections, gave us the necessary mandate to undertake a necessary and powerful adjustment program. The Costa Rican people must be praised for their response to this challenge. The programs of austerity and increased restraint made it possible to reduce the inflation rate from three digits to 10 per cent, stabilize the foreign-exchange market, and bring the international payments situation back to normal. Abroad, our adjustment program has enjoyed the support of multilateral institutions and friendly governments. In 1984, we embarked on a recovery that enabled us to return to manageable levels of unemployment and to recover wage and salary levels.

The other countries in the region have also been battered by an international environment in which financial markets have hardened and the terms of trade have deteriorated. The economic and social advances achieved by our peoples have been threatened.

Despite its heavy cost, the economic crisis has yielded an invaluable benefit: it has strengthened democracy in the Americas. Within Central America, Costa Rican democracy has felt very much alone. Today, we are pleased that the fresh air of renewal is blowing. In many countries our peoples have been allowed to express their will to live in democracy, peace, and freedom. Never before during the hundred years of Costa Rican democracy have we seen the simultaneous advance of democracy in three countries in Central America and in as many elsewhere in the Americas.

In the face of this forceful expression of the people's will, I wish to say once again what I have often said in the past: that while it is important to manage the economic crisis, the main thing is to make the crisis an agent of democratic change. Our peoples would never forgive us if we did otherwise. For stabilization without economic recovery is ephemeral, and both, in the absence of social justice, are a tragic deception of the masses and a historic contradiction in this moment of truth.

We face a challenge. We have to show the world that democracy is a plant which can also grow vigorously in the tropics. Not only does democracy harness

together justice and liberty, but it is also the political system that has the greatest success in dealing with the problems of underdevelopment. Destiny demands this of us; the challenge of democracy in our countries is to deal with the problems of poverty and underdevelopment. Otherwise, democracy will wither and, with it, peace and justice.

The social dimension of the economic crisis is of the utmost concern, because at the core of our difficulties, where economic and social questions merge into a single reality, the recession shows its true political nature.

The external debt problem is complex and has many ramifications, and demands a coherent response on the part of multilateral organizations, creditor commercial institutions, and creditor and debtor governments alike. This problem is the greatest challenge facing the international community; and in it, there is a shared responsibility from which shared solutions must emerge.

Several factors have contributed to the excessive burden of foreign payments. Part of the imbalances afflicting our economies are attributable to internal causes, a lack of sound policies, an absence of measures to encourage savings, expansion to an extent greater than demand would warrant, and errors in monetary and exchange-rate decisions. But it must be recognized that external factors have been playing a decisive role since the early 1970s.

The deterioration in the terms of trade, the worldwide recession, the increase in protectionism in the developed countries, changes in oil prices, the extraordinary rise in interest rates, and finally the general decline in world trade are some of the factors that have brought on our economic crisis.

The countries of Latin America—particularly the democratic countries—have shown their willingness and determination to make adjustments so as to correct large imbalances which, for the most part, have been inherited from previous administrations. The social and political cost of making these adjustments is enormous, but they have been made nevertheless, and with great courage. These countries have also sought not to provoke a crisis in the international financial system, and have renegotiated their foreign payments. Unfortunately, external debt renegotiations have been carried out with a short-term outlook which, although it has thus far succeeded in averting a major crisis in the international financial system, has nonetheless failed to resolve the problem of our countries' growth and development.

Latin America has become a net exporter of domestic savings to the developed countries. The size of these outflows is thwarting the potential for growth. With its rapidly increasing population, the region is therefore finding that its just hopes for a better standard of living for its peoples are frustrated. The survival of democratic freedoms, in many cases only recently won, is threatened as prospects vanish for further growth and greater equity.

Latin America has demonstrated maturity and determination in confronting the problem of the debt and its internal economic dislocations. But this responsible position and openness to constructive dialogue has not been adequately matched by our creditors.

Emergency solutions that focus only on the short-term flow of exchange from the debtor countries, and that leave intact the underlying foreign structure of the debt mean that as the years pass we find, after making extraordinary sacrifices—not only economic, but also social and political—and after paying out enormous sums of money, we continue having an external debt that is larger than the debt with which we began.

Our countries require a deeper solution to their external debt problem, one consisting of a repayment plan with reasonable rates of interest, that will make it possible to export more and more goods and services and to continue to pursue economic social development. Only in this way will justice and democratic values be able to take root and to flourish.

The choice of Costa Rica as the site of the Annual Meeting of the Board of Governors of the Inter-American Development Bank is especially important. Costa Rica is a small large debtor which has made huge efforts to adjust its economy and fulfill its international commitments. This has meant, as it has for other countries of similar size, that the renegotiation terms for its debts are more severe than the terms obtained by other, larger countries in the region. This apparent historic contradiction stems from the fact that we do not represent a threat to the international financial system. Imposing stricter conditions on weaker economies is the best way to make it difficult for us to fulfill our obligations.

The great sin of the small debtor countries that do not threaten the international financial system can be turned into their great virtue. It is possible for the financial community to accept debt renegotiation terms that are more in line with the relative weakness of our economies.

We have to explore alternative solutions to the debt problem. We have drawn up a set of regulations that allows our creditors to convert foreign currency debt into securities in local currency for investment in new industries.

By its actions, Costa Rica has shown that it respects international financial commitments, and that it is willing to implement economic policy measures that mean austerity and sacrifice. This gives it a moral right to emphasize the urgency of sharing costs with creditors in dealing with the debt problem, and the need to eliminate injustices in renegotiations with small countries.

The Inter-American Development Bank has played a role of fundamental and historic importance in Costa Rica's economic and social development.

During the years since it was established the Bank has furnished substantial support for agriculture, energy, housing, roads and social infrastructure, among other sectors, through its lending and technical cooperation programs.

This afternoon we shall be signing new loan contracts to finance the execution of geothermal energy and agricultural development projects through which we are strengthening the country's productive capacity.

We are also very pleased with the progress made during the last few days by the IDB missions that have come directly to Costa Rica to complete the studies for the Tempisque irrigation and higher education projects. I look forward to early approval by the Bank's Management of these two loans, which are vitally important to Costa Rica's economic development and social tranquillity.

All our actions, inspired by the high aim of remedying injustices that have endured for centuries, must converge toward the unity, coordination and solidarity of our peoples. We face a challenge that transcends the frontiers of our region and of our time: to consolidate democracy, peace and freedom at a time of acute financial crisis.

Remarks by the President of the Bank, Mr. Antonio Ortiz Mena, in Appreciation of the Address by the President of the Republic of Costa Rica, His Excellency Luis Alberto Monge Alvarez

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Mr. President, I would like to express to you, on behalf of the Governors of the Inter-American Development Bank, how honored we have been by your presence and participation in the proceedings of this meeting. I would also like to express the deepest appreciation of all those gathered here to both you and the people of Costa Rica for the warm and most generous hospitality you have shown us.

It is truly reassuring to be in a land where democracy and high civic virtue prevail. It is a pleasure to see how this society—whose people know they are well served and represented by its government leaders—undertakes the Herculean task of making painful economic changes, imposed by adverse international financial and economic conditions and at the same time, keeps the flame of hope burning for renewed progress and restoration of vigorous economic growth combined with social justice.

You, Mr. President, deserve the recognition of all those here for having led your country so skillfully and effectively through difficult days.

Our institution is proud to have been a part, since the start of its activities, of the progress Costa Rica has made. It is particularly proud of the invaluable experiences it has gained in such areas as agricultural development and support for the cooperative movement. These have served us well in guiding our activities in the rest of the region.

I would like to reassure you, Mr. President, that now as in the past, the Bank stands ready and able to support your country's development efforts with its credits and technical cooperation.

Mr. President: Your thoughtful reflections on our people's need for vigorous economic progress—which unfortunately appears at a standstill today—and for stronger democratic institutions will, I am sure, be unerring guides for the work we start today.

It is my fervent hope that we will all remember this meeting as a most important event in the life of the Bank, one in which the warm and peaceful spirit of this exemplary democracy has served to reaffirm the commitment of all our countries to join together in renewing our desires for international cooperation to attain a better future, in peace and freedom, for all our people.

ADDRESSES

SECOND PLENARY SESSION

March 24, 1986

Address by Mr. Franz Blankart, Governor for Switzerland and Ambassador, Federal Office for Foreign Economic Affairs

I wish to express my thanks to the Government and people of Costa Rica, the hosts of this Twenty-Seventh Annual Meeting of the IDB, for their warm welcome and generous hospitality. It is a special pleasure for our delegation to visit a country which is often called the Switzerland of Central America. This comparison is due not only to the beautiful landscape of Costa Rica but also to its democracy, neutrality and policy of peace as well as to its market-oriented economy.

On behalf of my Government, I would like to congratulate you, Mr. Antonio Ortiz Mena, on your unanimous re-election. I am convinced that you will have another successful period in office, despite the enormous challenges the Bank is confronted with. Rest assured that the Swiss government highly appreciates your personal engagement and the work of the IDB management and staff in favor of social and economic development in Latin America and the Caribbean and that we will offer continued support to your institution.

Allow me to introduce the subject of my address with a comparison. The current economic situation of the region is in many respects similar to that of Western Europe after World War II. Among other things, Western Europe then suffered from a depletion of foreign currencies, from a sharp decline in international and intra-European trade, from financial and monetary imbalances, from a great scarcity of consumer goods, from insufficient production capacity and infrastructure, as well as from an excessive debt to non-European countries. In order to remedy this difficult situation, most European governments resorted to protectionist measures, bilateralism in foreign trade, foreign exchange control and central planning. As we all know, this policy proved to be inefficient to solve the then prevailing social and economic disequilibria.

It was the European Recovery Program which laid the foundation for the fast recovery of Western Europe's damaged economies. The essential objectives of this initiative, launched and financed by the United States of America, were:

- The promotion of foreign trade and economic cooperation.
- The fostering of the European integration.
- The maintenance and strengthening of individual liberty and of the independence of the European nations.

I am far from believing that a foreign assistance program, as it was implemented in post-war Europe, could offer a solution to the problems the region and the industrial countries are confronted with today. The conditions in the developing and industrial nations of our time are too different from those in Western Europe and the United States after World War II.

However, I am convinced that the industrial countries should support the endeavors of Latin American and Caribbean governments to improve the economic situation and thereby the living conditions of the poor sectors of the population with the same intensity the United States did in the case of post-war Western Europe. Simultaneously the region should strengthen its efforts to imple-

ment coherent and efficient macroeconomic policies. Allow me to remind you that the main goal of the European Recovery Program was to prevent a further aggravation of the economic situation which could have led to social and political tensions, the establishment of totalitarian regimes and the outbreak of new bloodsheds. Today, similar consideration should be given to cope with the Latin American and the Caribbean economic crisis.

The Swiss Government welcomes the fact that the multilateral development banks and the commercial banks have in general approved the Baker initiative. We agree with what has been widely recognized, namely, that the debt crisis is a long-term problem which cannot be resolved by short-term intervention and market forces alone and that the promotion of sustained economic growth should be the main pillar of the debt strategy.

Mr. Baker's proposal has an immense importance for the borrowing countries of the IDB. We appreciate that the Bank has expressed its willingness to assume an essential role in its implementation.

We feel, however, that the proposal has to be made operational on the basis of some practical cases. A lot of open questions still need to be answered, for example, the elaboration of credible macroeconomic policy changes by the debtors, their ability to create confidence among the lenders and the impact of the greater risk exposure of the World Bank and the IDB on their triple-A rating.

The restoration of sustained economic growth is undoubtedly a prerequisite for Latin America and the Caribbean to meet their external financial commitments. However, a satisfactory economic growth cannot be achieved if the region remains a net exporter of capital with poor rates of productive investment and if its exports continue to be hampered by importing countries through various trade restrictions.

A permanent solution to the debt crisis requires various measures and policy changes, as well as the provision of additional financial resources to the borrowing countries. The flight of capital as well as the decline in foreign investment and in voluntary lending will continue if the governments of the debtor nations do not succeed in ensuring political stability, in restoring confidence in their economic policy and in overcoming mismanagement. On the other hand, the industrialized countries should refrain from protectionism and open their markets to products from the Third World to a much larger extent. Moreover, some of the industrialized nations should take effective steps to reduce their budget deficits which keep interest rates at historically high levels; others should implement reforms to overcome structural rigidities of their economies.

Adjustment programs should be supplemented by special measures in favor of the lowest income groups. In many borrowing countries the social costs of adjustment have reached the margin of tolerance. Further declines of real incomes and erosion of living standards might increase political tensions and endanger the on-going democratization process in the region.

We believe that the complementary financing scheme of the IDB provides an adequate mechanism to channel commercial banks', as well as export credit agencies' resources into productive investment projects. Mr. Baker's concept offers the opportunity to further develop this mechanism and to utilize it to a much larger extent.

The success of the Baker program will depend largely on the capacity of the World Bank and the IDB to extend their lending. The IDB will only be able to assume its expanded role if there is a substantial capital increase with a satisfactory

paid-in share to protect its creditworthiness. Switzerland intends to participate in the seventh reconstitution of the capital and in the replenishment of the FSO and hopes that some increase in real terms can be achieved.

The IDB is basically a project lending institution and this field of activity should remain its main focus. There are, however, clear needs which make some non-project lending necessary.

Non-project loans, mainly in the form of quick disbursing sectoral adjustment loans, should be a temporary measure and be increased gradually as the capacity of the IDB to extend such loans increases. A stronger commitment to non-project lending does not require in our view a change in the Bank's charter.

It must be taken into account that a too fast increase in non-project lending, especially up to a range of 20 to 25 per cent of overall lending, might have a negative impact on the IDB's creditworthiness and endanger the Bank's Triple-A rating. Therefore an appropriate link should be established between the foreseen amount of non-project loans and the paid-in share.

Irrespective of the introduction of non-project lending we deem it necessary that the IDB elaborate country programs which provide among other things detailed information about development priorities, project pipelines and the activities of bilateral and multilateral donors. These programs should be established in close cooperation with the recipient countries and other multilateral agencies such as the World Bank.

We feel that the IDB should apply, in its overall lending policy, a comprehensive conditionality and include to a larger extent sectoral as well as macroeconomic considerations. The latter is a prerequisite to non-project lending. For this purpose the collaboration and the coordination between the IDB, the World Bank and the IMF should be strengthened. However, we consider it important that the IDB's independence and its typical character as a project lending regional bank be maintained.

We believe that the extension of the role of the private sector and of the market forces is of crucial importance for the social and economic development of the region. The preconditions for creating an environment which better supports private sector activities are different in each borrowing country. Therefore, the respective IDB policy should be based on careful analysis and dialogue with the concerned actors.

The IDB should enhance its role in favor of the private sector, especially by supporting borrowing countries in implementing appropriate macroeconomic policies and in creating financial and institutional policy conditions that are necessary for private sector development. The IDB might also play an effective role in assisting governments to divest themselves of state-owned enterprises and to implement policies towards better market-orientation and competition. A successful development of the private sector would result in a more efficient utilization of scarce resources as well as in a reduction of budget deficits and public bureaucracy.

The role the IDB is supposed to assume with regard to a solution of the debt crisis must be accompanied by a strengthening of the Bank's social targets and poverty-oriented lending. The management should continue to make every effort to ensure that 50 per cent of the lending program directly benefit the lower-income groups. We regret that for the 1983-1985 period this objective has not been reached.

Country programs should take due account of poverty-focused strategies and other measures in order to identify and successfully implement projects with a high direct impact on low-income groups. The more comprehensive project and program conditionality we referred to should include the possibility of poverty-oriented conditionality measures.

Slow execution of projects as well as limited absorptive capacity for loans is often due to a lack of management in the borrowing countries. We would therefore welcome a substantial extension of the technical cooperation program to improve preinvestment studies and the training of technical and administrative staff as well as to support the institution-building process.

The seventh replenishment exercise offers an opportunity to review the future role of the non-regional members. This should include discussions of how the staff representation of the non-regionals can be better adapted to their capital shares and the question of a third seat in the Board of Executive Directors. As for the latter, allow me to refer to the importance of the non-regional capital markets for the IDB. In 1985, IDB-borrowing in Switzerland for example amounted to $540.8 million which represented 23 per cent of the Bank's total borrowing. The average cost to the IDB for these borrowings was 6.07 per cent, as against 8.25 per cent for its overall medium- and long-term borrowings.

Through its activities the IDB contributes in an efficient manner towards the economic integration in the region. As the case of post-war Western Europe shows, economic integration and cooperation favor peaceful relations between nations. Therefore, Switzerland appreciates in particular that the IDB continued throughout 1985 to support the subregional integration process in Central America. In this context we would also welcome an extension of IDB lending to all Central American countries. A *de facto* isolation of one or more of these members within the Bank could only do harm to the peace efforts in this area.

Address by Mr. Kiichi Watanabe, Temporary Alternate Governor for Japan and Special Adviser to the Minister of Finance

On behalf of Japan and the Japanese Delegation, let me first express our sincere gratitude for the warm welcome extended to us by the Government and the people of the Republic of Costa Rica.

I am more than confident that this year's Annual Meeting, held in San José, the capital of a country aptly named for its wealth of scenic beauty, will be a successful one due to the conscientious arrangements by the Bank and the chairmanship of His Excellency Mr. Porfirio Morera Batres.

Although growth slackened somewhat in 1985, good news for the world economy has also been forthcoming, including the recent downward trend in interest rates in the major industrial nations. However, pressure for protectionism remains strong as a result of high unemployment, particularly in the European countries, and prolonged current account imbalances. Due to the slowdown of the industrial economies and a drop in export earnings because of the fall in primary product prices, the Latin American region as a whole only managed to register growth of approximately 3 per cent in 1985. Moreover, the growth rates of individual countries are widely disparate. Thus, economic growth rates of many countries did not even keep pace with their rate of population increase. In addition, inflation still continues to be a serious problem.

Although some progress has been made on the debt problem in the past two to three years, causes for concern such as a standstill in the flow of private funds and economic adjustment fatigue in the debtor nations have been growing recently. Furthermore, while the decline in oil prices will contribute to price stability and an expansion of business activity in consumer countries, serious repercussions are feared for those oil-producing developing countries with accumulated debt. Therefore, a close eye must be kept on the further development of oil prices. Any deterioration of the debt problem would adversely affect the stable development of the world economy, not to mention the developing economies, and the international credit order. A solution to the problem will not come overnight nor can it be expected to be instantly successful. It is necessary for all the parties concerned to continue the concerted action to deal with the problem on a case by case basis in accordance with the circumstances of each debtor nation.

It is in this context that the Baker proposal was presented at the annual meetings of the World Bank and International Monetary Fund held last October. It called for self-help efforts by the debtor nations to work towards sustainable growth and support by the international institutions and commercial banks in order to resolve the debt problem. We appreciate this initiative as a positive approach and believe it is important to maintain and enhance its momentum. To this end, in addition to strengthening the respective roles of the debtor nations, international institutions and commercial banks, we must recognize the critical role of the industrial nations as the fourth leg. I would like to emphasize the following seven points:

Firstly, the industrial nations must do their best to achieve sustainable economic growth without inflation.

Secondly, in order to contribute to alleviating the debt service burden of debtor nations, the industrial nations must intensify their efforts for lowering interest rates.

Thirdly, in order to secure export opportunities of developing countries, the industrial nations must strive towards maintaining and strengthening the free trade system and stemming the tide of protectionism.

Fourthly, in order to enhance developing countries' opportunities to raise funds, the industrial nations must promote deregulation of their money and capital markets.

Fifthly, the industrial nations must work towards expanding the flow of official funds to developing countries.

Sixthly, the industrial nations must make every effort to strengthen the financial base of the Multilateral Development Banks.

Seventhly, the industrial nations must seek greater efficiency in the organization and function of Multilateral Development Banks.

I would now like to turn to Japanese assistance to Latin American and Caribbean Countries.

From the viewpoint of the role to be played by the industrial nations mentioned above, Japan has set its third medium-term target for official development assistance for the seven years from 1986 through 1992 at not less than $40 billion, despite the continuing stringent budgetary constraints. Thus, Japan intends to continue a steady increase in official development assistance. As a part of this target, the ODA budget in the fiscal 1986 general account increased by 7 per cent, the largest increase of all policy expenditures. At the same time, Japanese ODA in 1984 was the second largest in the world, totaling $4.3 billion. Our aid to Latin American and Caribbean countries, which has shown a steady increase, accounted for 9.4 per cent of Japanese ODA in 1984.

Japan believes that the Inter-American Development Bank is an indispensable nucleus for assistance to Latin American and Caribbean countries. We have supported the Bank significantly not only in the form of subscriptions, but also in the form of financial cooperation through capital markets in order to strengthen the Bank's financial base.

First of all, we are the largest subscriber of the non-regional members.

In addition, of the $7.6 billion raised by the Bank in the capital market between 1981 and 1985, 23 per cent was raised in Japanese yen. At present, Japan is promoting deregulation of its money and capital markets as well as internationalization of the yen, and we expect to make further contributions to the Bank's raising of yen funds. To this end, we hope that the Bank will continue to make efforts to secure sound financial management and to have greater dialogue with market participants.

Furthermore, the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund are also working towards expanding their co-financing with the Bank.

The "Third Symposium on Financial and Business Cooperation between Japan and Latin America" was held in Tokyo last autumn under the joint sponsorship of the Bank and the Export-Import Bank of Japan. I believe that it played a significant role in promoting mutual understanding and economic cooperation

between Japan and these countries.

In these ways, Japan has actively provided assistance to Latin American and Caribbean countries not only through bilateral cooperation but also through the Bank, and it is our intention to pursue this course in the future as well.

I would now like to focus on the activities of the Inter-American Development Bank and some related issues.

Since its inception, the Inter-American Development Bank has played an important role in the development of its developing member countries. It is necessary, however, to give due consideration to the changing environment in which the Bank operates. There is a growing need for the swift and smooth provision of additional funds to the developing member countries in order to cope with their serious debt situation. Strengthening of the Bank's financial base is sought to this end. At the same time, donor countries are suffering from large-scale fiscal deficits, and commercial banks are taking a more prudent attitude in their lending practices in light of current economic conditions in the debtor nations. Moreover, judging from the lending operations during the Bank's Sixth Capital Increase (1983-86), I have a concern that the Bank resources may not have been used as appropriately as they could have been. There is a need for the Bank to expand and strengthen its functions in order to deal with this situation. Bearing in mind the Baker proposal, I would like to stress that the Bank will need to enhance the following functions.

Firstly, the Bank should strengthen the policy advising function. In order to solve the debt problem of Latin American and Caribbean countries, it is necessary for the Bank to support the self-help efforts of the debtor nations to achieve sustainable growth by giving growth-oriented and market-oriented policy advice. To this end, it is important for the Bank, in cooperation with the World Bank, to actively assist in formulating and implementing development programs for each country from the medium- to long-term viewpoint.

Secondly, the Bank should expand its lending activities. In order for the Inter-American Development Bank to meet developing members' additional demand for funds, it will be effective to introduce fast disbursing non-project loans such as sectoral loans. When these non-project loans are introduced, however, it is critical that the principle of sound banking should be maintained, and that the loan quality should be improved through securing proper conditionalities that encourage the efforts of the debtor nations.

Thirdly, it is important to promote co-financing so that the Bank's catalytic role to mobilize bilateral and private funds will be strengthened in order to utilize the Bank's limited resources in the most effective way.

Fourthly, the Bank should improve its efficiency through its organizational reforms. The promotion of these policies mentioned above should not require any expansion of the organization or its budget in view of the necessity for rationalization and simplification.

Finally, in light of the worldwide implications of the Latin American debt problem, I hope that the Bank will be open to financial and human resources and opinion from outside the region on as broad a spectrum as possible. I believe that such efforts on the Bank's part will form a continued basis for the extensive and strong support the Bank currently receives from the international community.

Given the importance of the Seventh Capital Increase, Japan intends to positively support it on the assumption that the Bank will not only expand and

strengthen its role and promote its policy reforms, but also give due consideration to the contribution of non-regional members in order to review non-regional members' share of subscribed capital.

As a last word, it is my pleasure to refer to the coming into force of the charter of the Inter-American Investment Corporation as of yesterday, March 23, 1986. Japan welcomes this long awaited event and is confident that IIC will play an important role in the economic development of the Latin American countries.

In addition, I hope that the Inter-American Development Bank, as the most important development financial institution in the region, will continue its active and multifaceted assistance to the development of the region on the basis of its founding spirit. Japan is prepared to make every effort for achieving this objective.

Before closing, I would also like to congratulate Mr. Antonio Ortiz Mena on his re-election as President of the IDB. Japan welcomes the continuation of his mandate and wishes him every success in the years ahead.

Let me conclude my statement by expressing and assuring my sincere wish for the continued development of the Bank and its member countries.

Address by Mr. Gerry Weiner, Temporary Alternate Governor for Canada and Parliamentary Secretary, Department of External Affairs

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Let me begin by joining with others who have already expressed their admiration for the excellent arrangements which the Government of Costa Rica and the Inter-American Development Bank have undertaken to ensure the success of our gathering. I would also like to congratulate President Ortiz Mena on his re-election as head of the Bank. Canada and the membership of the Bank deeply appreciate the leadership and service you have provided over the years. We look forward to cooperating with you in facing the challenges of the region in the years to come.

I am delighted to have the opportunity provided by this meeting to highlight the great importance Canada attaches to its relations with the countries of Latin America and the Caribbean. Over the years, such occasions to meet with each other have multiplied, thus attesting to the broad network of official and private links that have been forged between us. As a regional country, we share the same challenges. Once again, we voice our willingness to take part in the development of the region. We pledge our full cooperation with you in formulating solutions to the problems confronting us. These common interests and values assuredly constitute a solid basis for facing the future together.

I am pleased and honored to be here as the representative of the Canadian Governor, the right Honorable Joe Clark, and of the Canadian Government elected some 18 months ago. Since its election, my Government has developed policies and programs around four central themes: national reconciliation, economic renewal, social justice and constructive internationalism. All of these, I believe, are themes of interest to the peoples of Latin America and the Caribbean.

On *National Reconciliation*, in a country with a diversity as rich as ours, we have been concerned to ensure the full active participation of all our regions and population in national decision-making.

In the area of *Economic Renewal*, we have had to come to grips with a number of difficult problems in our economy that have required painful choices. We therefore have some direct experience of what this region is facing in economic terms. We have had some success, particularly in job creation and in attracting new investments, and we believe that this region can move forward as well. Confidence is, of course, a key factor in such a process of renewal.

Social Justice for all is, for Canadians, a theme with important international as well as national implications. For Canada, it is reflected on the international scene in our concern for the issues of human rights and refugees. It forms the basis for our desire that the future of this region in all its aspects should be a positive one.

On the political level, this interest in social justice entails our support for those initiatives which will help to ensure stability and the growth of democratic institutions. Central America is one area where Canada has particular concerns in this regard. I welcomed the words this morning of President Monge, words similar to those he has spoken before on this issue. I would mention that the Canadian Governor reiterated only last Thursday our view that the basic problems in Central

America are social and economic in origin and the solutions should be social and economic, not military. Accordingly, we continue to support strongly the Contadora initiative and the need to end outside interference in Central America. In our view the recent Caraballeda Declaration and its approval by the five Central American governments have provided an important stimulus to regional peace discussions. There is much hard work yet to be done.

Canada sees economic growth and development as very much intertwined with political and social health. Canada shares many of the values, especially the focus on the importance of the individual, which have shaped the history of this region. Internationally, this aspect of our focus on social justice, is expressed through our active participation in the economic renewal of developing countries.

With respect to official development assistance, our commitment and record is well known, but perhaps I should say a few words about the future, following on the Canadian Government's budget presented on February 26. The central theme of that budget is the necessity and determination to attack the Canadian Federal Government deficit. As part of the battle, while Canada remains committed to internationally recognized targets for contributions of official development assistance, we have had to slow the rate at which we will meet those objectives. Even with these adjustments, I would emphasize that we will spend an additional $324 million on official development assistance next year. This is an increase of over 15 per cent. Canada will continue to have one of the fastest growing aid programs in the international scene, and that program will remain the fastest growing component of the Government's discretionary expenditures.

There will also be several notable changes in our approach to international development. One is an increased emphasis on support to nongovernmental organizations. Another very important one is the decision to move to an all-grant bilateral program. In previous years, a portion of our ODA was set aside for loans—some $200 million in 1985-86, although that $200 million was welcomed by recipients, it also increased their indebtedness. This will now change and we believe this move is a tangible step towards offering more effective aid to the third world. Even before this step, Canada's assistance program was recognized as having amongst the most concessional terms.

As part of my Government's fourth theme, *Constructive Internationalism*, we are committed to a strong, open international trading system. We have reflected this bilaterally, in discussions on enhanced trade with the United States. At the same time, we have emphasized the importance of launching a new round of multilateral trade negotiations. The ability to export is key to the capacity of developing countries to deal with their current difficulties.

Indebtedness is a subject of profound concern to this gathering. Canada shares this concern. We all know the dimensions of the problem and the difficult choices many governments in this region face as a result. The Baker initiative provides hope for a way out of this situation with its emphasis on the need to re-establish growth as a basis for prosperity and a return to creditworthiness. Canada has indicated on many occasions its strong support for this plan and our desire that the momentum started in Seoul be maintained. The very magnitude of the debt problem requires sustained coordinated action by all involved parties, be they debtor countries, creditor governments, commercial banks or the international financial institutions. The common goal must be the encouragement, elaboration and support of policies directed towards development with adjustment. We

also recognize that the economic policies of industrialized countries are central to this process.

Recent developments in oil prices have had an important impact on the world economy. For developed countries, they have and will have a positive impact on growth, trade and interest rates. For a number of developing countries, lower oil prices, along with improved conditions in developed countries, provide an opportunity to move forward. For others, the situation presents a new set of problems calling for urgent action.

This Bank has a significant role to play at a very difficult time. Based on past performance, I am confident that it can rise to the challenge before it and continue to be a central part of the solution to the growth and development needs of Latin America and the Caribbean. Part of the challenge is the requirement for this Institution's activities to have a demonstrable developmental impact. This is all the more necessary when there is competition for scarce development funds. The discussions last week on the Seventh General Resource Increase provided a timely opportunity to stand back and think broadly about what the Bank should be doing to deal with the region's economic and financial difficulties. We must be imaginative and creative. At the same time we need to protect the Bank's traditional expertise in long-term development. We also have to equip the institution for the new roles it is expected to play.

As Canada sees it, there are a number of key areas that need exploring. These are the Bank's country programming process, its coordination with the Fund and the World Bank, the proper mix of project and non-project lending in each borrowing country and the nature of the policy dialogue it should pursue with borrowers. Canada expects there to be serious, frank negotiations, involving the Bank and all its members. While these discussions are at an early stage we believe that to play its proper role, the Bank will need to change in some important ways.

Let me say one thing further about the Bank's effectiveness. Last year in Vienna, I referred to the essential characteristic of all multilateral institutions as being one of shared decision-making. I also indicated that to achieve a wide variety of benefits, we, as sovereign states, have agreed to yield some of our sovereignty in order to participate in a process that brings to each of us benefits which we would not otherwise enjoy. I would again ask that we keep this objective before us. We must continue to resist the excessive pursuit of those rigid bilateral interests which impede institutions such as this one in the carrying out of their responsibilities.

As you have heard, Canada has a deep and sincere interest in the prosperity of this region and in the continued good health of this Bank. To have both, we all need to redouble our commitments and efforts.

Address by Mr. Luis de Velasco Rami, Alternate Governor for Spain and Secretary of State for Commerce

My first words shall be ones of sincere appreciation to the authorities of Costa Rica for the efforts they have made in preparing and organizing this meeting. I also wish to commend the local officials who have provided us this magnificent theater for our meetings.

The economic position of the Latin American countries at the end of 1985 was not unlike that of the preceding year. Once again the growth of the gross domestic product in most of the region's countries—about 2 per cent—fell short of ending the circumstances of crisis and uncertainty in the area. Gross transfers of resources abroad, estimated at $30 billion in 1985, and the low level of gross domestic investment reflect a stagnation of several years' duration which must be terminated promptly in order to spur adequate growth in the future to avert the unpredictable consequences of socio-political crises.

Given this situation, the need for the adoption of appropriate economic policies, based in some cases on sweeping changes aimed at achieving sustained medium and long-term growth, is becoming increasingly clear. Measures adopted recently by several countries of the region to reduce inflation and exchange rate imbalances appear headed in the right direction and are worthy of support from all of us.

And in this context, we are convinced that this Inter-American Development Bank has an important role to play.

In reviewing the Bank's activities for fiscal 1985, we find a series of data which rivets our attention.

Loan approvals, as well as disbursements, were lower than the previous year's figures. The low degree of utilization of the Bank's capital resources reached truly alarming proportions in the case of concessional resources. Such a paradox, given the present needs of Group D countries which receive this type of financing, is a major source of concern for my country.

Another striking fact is the virtual absence of Bank activity in channeling other resources into the zone through complementary lines of credit and other forms of co-financing.

Another matter of concern is that a growing number of borrower countries did not receive a single Bank operation in the last year. This is especially unusual when one considers that several of these countries are in the relatively less developed group and are very directly affected by the economic crisis. We believe that in both this field and the one I mentioned before the Bank has failed to take sufficient initiative to seek and find solutions for these problems.

Furthermore, the recent announcement by the Bank's Management that several objectives that the Governors set for the Sixth General Increase in resources will be difficult if not impossible to attain makes us think that the Bank is in a particularly hard struggle and that the time has come to revise thoroughly its role and operating methods.

The management tells us that the principal reason for this insufficient utiliza-

tion of the Bank's resources is the excessively rigid rules on this matter. The existence of sectoral objectives, inflexible rules on items and expenses eligible for Bank financing, maximum percentages of financing with foreign exchange, criteria for utilization of concessional funds and ceilings imposed for groups of countries, and others as well, have added to the effects of the crisis during the years of the present general increase, thus becoming the origin and cause of the situation before us now.

We agree these arguments are valid, and believe the Bank's operating procedures must be made more flexible by revising a substantial part of those objectives. We believe as well, however, that the Bank should take a stronger stand, especially with respect to defining adequate economic policy measures and identifying projects that can help the countries revive their stagnant economies.

The conviction I expressed earlier about the important role the Bank can and should play in fostering the economic development of Latin America is particularly relevant at this time when the parameters for the Seventh General Increase are being defined.

Several recent studies, some done by the Bank itself, show that, barring unforeseen changes, the region will continue for the next several years being a net exporter of resources to the rest of the world. Even in the most optimistic scenario, the minimum financial needs to have enough economic growth to keep unemployment from getting worse are estimated at approximately $140 billion. In this scenario, the IDB would be expected to provide somewhat more than 10 per cent of that sum if it hopes to regain the position it held in earlier decades. The assumption here, then, is an increase in disbursements on the order of 100 per cent, and a lending level for the four years of the Seventh General Increase close to $25 billion.

The foregoing statements should lead to two types of considerations: the first, quantitative in nature, points to the need to continue endowing the Bank with enough resources to channel the volumes of funds mentioned before, and maintain its solid financial position at the same time. The second, operational in nature, is closely related to the forms and criteria for utilization of resources. For this, Mr. Chairman, the Inter-American Development Bank has several assets it must draw on heavily. The most important are: more than 25 years of experience as the development financing bank of the region; a solid operating structure in the region, with a permanent office in every borrower country; close personal contacts and a thorough understanding of the idiosyncracies of each country; and the good will built up from its technical cooperation and small project activities.

It is, nevertheless, essential to review and modify a number of the Bank's current policies to make its operations more flexible.

Several of the measures that ought to be adopted are revision of the maximum amount of resources that may be extended to the Group A countries during the years of this general increase, rethinking of the items and percentages eligible for Bank financing, and fullest possible use of concessional lending, following the lead of the criteria set for the Fifth General Increase.

These measures should also be coupled with the following:

- Refinement of the programming system so the Bank can conduct fuller analyses of optional courses of action to secure more efficient utilization of resources. This means establishing annual country programs—developed through regular consultations between the Bank and the country authorities—

that take into account economic policy measures consistent with balanced development.

- An increase in sectoral loans to make a given sector more efficient and, wherever necessary, to help that sector adopt the adjustment measures deemed necessary for adequate development.
- An intensification in the technical cooperation and small projects programs to identify investment needs and to strengthen the structures of agencies and organizations responsible for administering Bank resources.
- Much tighter coordination with other international agencies, the World Bank in particular, so that the actions of the two agencies do not contradict each other. Some form of institutionalization of these contacts might be appropriate. The main thing, however, is to retain the unique character of the IDB as the regional development financing agency.

We also believe the IDB should retain its important position as the leading lender to the relatively less developed countries of Latin America and the Caribbean. Its role in these countries, currently gripped by an acute crisis, should be stepped up. This means that concessional lending should be rebuilt significantly and its utilization made more flexible.

I do not want to let this opportunity go by without emphasizing how important we think the multilateral nature of the Bank is. Also, the application of exclusively technical criteria should become a basic principle of the Bank.

We also wish to state our interest in having the Bank step up its actions to foster and support Latin American integration. The Bank's financing of regional projects is falling short of the mark. In particular, the IDB should play a stronger role in Central America and the Caribbean where fuller integration of the national economies appears critical to achieving economic recovery.

Continuing this line of thought, we are in favor of strengthening other agencies that pursue these same objectives. One case in particular is the Central American Bank for Economic Integration which is making praiseworthy financial improvement efforts and making plans to admit countries from outside the region. The Spanish authorities are following with interest this agency's efforts to refurbish itself.

Without question, it would be wrong not to recognize that the Bank is facing a fundamental challenge as it undertakes its Seventh General Increase of resources. The initial contacts made within the Committee of the Board of Governors have not been as fruitful as could have been hoped. Between now and the next meeting in Buenos Aires, all we member countries should strive hard to resolve our differences since the credibility of the Bank itself is at stake. My country, it goes without saying, stands ready to collaborate in this task.

Address by Mr. Rodolfo Paiz Andrade, Governor for Guatemala and Minister of Finance, on Behalf of the Central American Countries

On behalf of the five Central American governments (Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica), I wish to express our pleasure in welcoming the honorable Governors of the Inter-American Development Bank and other distinguished participants in this Twenty-Seventh Annual Meeting, in warm and friendly Costa Rica, our sister country which will soon be celebrating its first century of democratic life.

Before summarizing our achievements of 1985 and the commitments proposed for the immediate future, we wish to take this opportunity to state our firm conviction that, despite the crisis, the conditions do exist for solving our problems. In 1986 we want Central America to take a positive look forward toward the realization of the aspirations of its peoples.

The need for a positive attitude, at this most opportune time, is the central message of our joint statement.

In resolving to consider 1986 as a year of historic opportunity for our peoples to embark on a new stage in their economic, social and political life, the Central American governments wish to share this resolve with the international community. We wish to express, at this meeting, our confidence that we shall have the support of the Inter-American Development Bank in the commitment that this decision implies.

We recognize objectively the dimensions of the recent crisis and the damage it has done, especially among the lower-income groups. It is precisely because of this that we wish to generate new employment opportunities for our peoples. And it is because of this that we seek development financing on terms that will indeed make it possible to achieve higher levels of well-being for all.

What grounds do we have for our assertion that, despite the crisis we are going through, we can take a positive new approach and can assume new commitments which we Central Americans see as an opportunity?

I should like to summarize five key factors in our reply to this question.

First of all, we recognize the importance of the political factor in the solution of our problems.

Over the last 30 years, the approach that predominated in the vision of our governments and in relations among our countries was essentially economic. Today we are willing to address problems we have never dared to face in the past, especially that of assuming responsibility for a new political future.

In recent months, three electoral processes have consolidated this opportunity. We are today a community that agrees on criteria of social justice, participation and organization to the benefit of the social sectors that are left out of national decision-making, and we are striving as never before to integrate rural and urban life in order to achieve the balance that makes a democratic system viable.

We know that in this approach we have the support of international opinion, and we have recently also received the support of the 12 member countries of the European Community. On the strength of the commitments set forth in the joint

communiqué, we envisage a new relationship based on a "new structure of political and economic dialogue between Europe and Central America."

Our countries have had to suffer the poundings of a world economic crisis—a crisis that cost us some $5 billion in five years—in order to realize that we cannot continue to honor the commitment to adopt a political response to our problems of security, co-existence and participation by all sections of society in the progress of our peoples.

Secondly, we are convinced that each of our republics, and the region as a whole, must seek a new strategy of economic and social development.

Discussion concerning our common problems continued and deepened during 1985 in various fora and at various levels, culminating in positive proposals such as those embodied in the document "Central American Economic Integration in the Next Stage: Problems and Opportunities," a study sponsored by the Inter-American Development Bank and the Institute for Latin American Integration.

Although they have not been systematically analyzed, the preliminary results of this discussion include the following points: a global political settlement in Central America should not be regarded as a necessary precondition for implementing measures designed to overcome the economic crisis, at both the national and the regional level; the economic model historically shaped in our countries, and its insertion into the international economy, are again proving to be inadequate, making it necessary to seek another model and a new international economic order; the need is more pressing today to diversify our foreign trade in terms both of export products and of export markets; greater value added should be incorporated in the goods we sell; we should utilize the instrument of industrial redeployment, and we should promote fruitful relations with other integration systems and other Latin American countries.

The sharp conflicts by which we are afflicted have compelled our countries to devote greater attention to national, as opposed to regional, affairs and to seek greater economic development in outward-oriented growth. A consensus nevertheless exists that the free trade area and the common external tariff must be retained as essential instruments for shoring up national economies during this time of crisis and for restructuring the integration effort. No one disputes the need to take full advantage of the installed productive apparatus by reorienting it toward broader economic areas without, however, thereby neglecting to utilize the common market.

Maintenance and reanimation of intra-Central American trade is a key element in reversing the trend of recession—not just while the productive apparatus is being adapted to compete on wider markets, but permanently. In that connection, the problem of payments within the common market needs to be overcome in the short term through stability of the exchange rates of our currencies and the formulation of a functional payments system for the current anomalous circumstances.

Thirdly, after three decades our position with respect to the integration process has been renewed and integration instruments have been strengthened.

During 1985 Central America endured the same situation of general crisis that has held the attention over the last years of Latin American and universal public opinion, adversely affected by the impact of the world economy. Nevertheless, a number of significant facts appear to indicate that we have embarked on fresh paths for reversing the recessive trends of our economies and have succeeded in

preserving the historic bases of integration and the common market.

The new Central American tariff and customs system that entered into effect recently is essential for the protection and development of industry and trade in the Central American nations and the exchange of goods with the rest of the world. The new system is important in that it improves on the old system by unifying all the instruments that affect the tariff, directly or indirectly, during the integration process into a single instrument. Moreover, its ratification is politically significant in that it reaffirms the vitality of a process that has withstood contingencies of every kind, even the most adverse circumstances. That ratification restores institutionality within the common market, with the Central American countries manifesting a pragmatic political resolve that reflects and recognizes the reality of an interdependence forged over more than three decades.

In addition, measures have been taken to revitalize the various organs of Central American integration and to pursue the great regionwide infrastructure projects.

Fourthly, we are today more than ever aware of our strategic position in world geography and we aspire to perform the function of linking together the Americas and the continents.

The framework cooperation agreement between the European Economic Community and the countries of the Central American isthmus signed in Luxembourg last November marks the culmination of negotiations initiated two years earlier by the Government of Costa Rica. A milestone of this process was the Ministerial Meeting held in San Jose at the end of September 1984. The joint communiqué signed at that meeting stated that "a new structure of political and economic dialogue between Europe and Central America" had been initiated with the object of promoting social justice, economic development, respect for human rights and democratic liberty in the region.

To that end the European Economic Community stated its resolve to support the region by granting preferential treatment in the economic and financial spheres and through financial assistance, furnished both directly and through the Central American financial institutions.

The basic purpose of these mechanisms is to help resolve our problems by supporting our efforts to foster economic recovery, integration and the negotiated resolution of conflicts in the Central American countries. We appreciate this expression of European solidarity.

Important initiatives in support of our recovery efforts are also going forward within our continent, and for all of these we are grateful. We wish, for example, to acknowledge the support that Central America has received from Mexico and Venezuela, particularly since they have at the same time had to contend with problems of their own.

Fifthly, in entering upon a new stage in the history of Central America we can today interpret this movement in terms of an integral policy in which the international financing sources are combined with a new internal order of social justice.

According to the economic indicators, the region's economy is developing satisfactorily. Nevertheless, circumstances persist that hinder actions to resolve our countries' economic problems, including such essential actions as the generation of greater domestic savings and timely and adequate financing.

The external factors that have hampered us include the external debt problem. For example, we do not understand the attitude of creditors that restrict capital

flows and impose conditions that slow down development and fail to pay due attention to the debts of the small countries because none is individually large enough to threaten the international financial community. They forget that the combined weight of all our debts is indeed substantial. In the case of Central America, the less understanding and equitable treatment that we have received compared to that accorded to the continent's large debtors is adversely affecting our economic and social situations.

We wish to take this opportunity to pay formal tribute, on its Twenty-Fifth anniversary, to the Bank for Central American Economic Integration (CABEI), which throughout that time has provided substantial support for Central America's development and integration.

A number of circumstances, both international and local, have led us to seek to strengthen CABEI through the participation of countries from outside the subregion in the financial effort of capitalizing the Bank. We accordingly reiterate our full support for the process of opening the Bank to partners from outside Central America. We therefore urge our sister countries of Latin America and other countries represented at this meeting to share in the effort of strengthening Central America's financial institution.

As they have consistently stated at the various meetings of the Board of Governors of the IDB, the Central American countries wish to reaffirm, once again, the principles of multilaterality and independence that the Agreement Establishing the Bank requires it to follow.

The Central American people are today participating in a bold process of change in which they are confident that they will receive all the collaboration and support from the international financial community that they need to achieve appropriate solutions to the painful problems of misery, illiteracy and ill health. We cannot postpone attention to these urgent needs any longer. We have to meet them now, and to be able to do that we must have maximum support from the international community.

On that subject, the Central American countries join together in asking that special support be furnished to our sister nation of Haiti in the special situation in which it now finds itself. In that way the international community can contribute to Haiti's economic and social improvement and help to strengthen its process of democratization. Our countries, which have received invaluable financial and technical cooperation from the IDB, have no doubt that it will respond to this call.

In reporting to the Twenty-Seventh Annual Meeting of the Board of Governors of the Inter-American Development Bank on our regional economic activities in 1985, on our position with respect to the Seventh General Increase in Resources and on our aspirations for the future, the Central American countries continue to speak with a single voice, in line with the historic dictates of our common destiny, in spite of the difficulties that we have had to face.

Sustaining the scheme for integration of five countries that geographically, historically, culturally and economically form a network of such interdependent interests has become a cornerstone of our future development.

In our view, the fact that the discussions on the Seventh Replenishment are opening in Costa Rica, part of Central America, is a symbol of ratification of the sense of opportunity that we perceive for 1986. We are confident that the negotiations will reinforce the principle of adequate support for the social and economic development to which our region is today committed. In that sense we consider,

for example, that $2 billion for the Group D countries would constitute an appropriate injection of new concessional resources through the Fund for Special Operations.

With regard to the Seventh General Increase in IDB Resources for the period 1987-90, the position of the Central American countries is based on three principles: (a) we advocate that the philosophy that inspired the creation of the IDB should be maintained and, therefore, that the Agreement Establishing the Bank should be kept unchanged; (b) we support the efforts to resolve the debt problem, provided that undiminished attention continues to be given to the problem of development and to alleviating poverty, and (c) we specifically ask that the Fund for Special Operations (FSO) and the Intermediate Financing Facility be strengthened and that the spheres of utilization of both types of resources be enlarged.

We wish to record our appreciation to the countries, both within and outside the region, that have in one form or another expressed their support for the position of the countries of groups C and D in their rightful request for an increase in the volume of concessional funds and enlarged access to them.

To sum up, in spite of the crisis, we perceive factors that indicate that 1986 brings a time of opportunity for Central America. For example, we have today briefly outlined five characteristics:

(1) The political priority.
(2) The search for a new economic and social development model.
(3) The renaissance of the integration scheme.
(4) Our strategic geographical position.
(5) A global policy that links together internal development and international financing.

These reasons are summarized in the message and the call for support that we are addressing today to this Twenty-Seventh Annual Meeting, in which we invite you to join with us in recognizing that this, and no other, is the true opportunity for our peoples to forge a democratic way of live.

To conclude, we must be fully alive to the historic moment when the decision must be taken to embark on a new path, one that the Central American countries are ready to set out on. . . Now!

Address by Mr. Henri Pezant, Temporary Alternate Governor for France and Financial Counsellor for Latin America

The year 1985 appears to have been a time of testing for Latin America: the earthquake in Mexico, the volcano eruption at Armero, and persistent economic and financial difficulties have all weighed heavily on the Americas. Once again, however, the countries of Latin America and the Caribbean have astonished the world with their ability to bounce back and the willpower of their people. These qualities are the best guarantee of their future. The determination of many governments in implementing austere recovery programs is likewise a very good sign, even more so because in most cases it has confirmed their respect for democratic values to which our host country, Costa Rica, has always shown such strong attachment.

The first quarter of 1986 appears to have brought with it certain signs of improvement in the economic environment of the area. World growth appears to be stronger than expected, the downward trend in interest rates has solidified and exchange rates for the principal currencies are in closer correspondence with reality. The countries of the region ought to find in these changes some support for a return to a more lasting development process. Lower oil prices have had widely varying effects. For most of the countries of the region, they have lowered the total cost of their imports. On the other side of the coin, they have hurt the balance of payments of the oil-exporting countries and drastically raised their needs for external financing. It would be helpful to organize with these countries a common response from the international community to make full use of all existing facilities. In this connection, the contribution from the international lending agencies is essential.

The experience of the last few months has confirmed once again the wisdom of the approach taken by the international community in dealing with the debt problem, a concerted and pragmatic approach combining economic adjustment and financial facilities. This line of action came from their common acknowledgement that the debt was not an exclusively financial phenomenon which had to be dealt with as such, but was a symbol of deeper imbalances stemming from the responsibilities for and the direction of the development process. The relief afforded by the reschedulings and new financial contributions will be meaningless unless the latter are used by the debtor countries to implement reforms that allow a lasting restoration of balance in their foreign accounts and a return of growth.

This effort, now widely started, should be more encompassing. Lower deficits, measures to combat inflation and capital flight, diversification of foreign exchange earnings and greater development of production sectors are priority objectives from this point of view. International Monetary Fund support remains a central component in this restructuring phase to which it lends the necessary force and coordination. The influence exerted by the industrialized countries on the macroeconomic environment should assist this effort in the form of adequate growth without protectionism and a continuing decline of interest rates. Commercial banks should also take an active part in this joint undertaking by increasing

their assistance. In addition, more room should be left for direct investment, for which the conditions of access should be improved. Finally, the World Bank and the Inter-American Development Bank ought to take a more active role in orienting and financing the development of Latin America. France has taken its position very early in favor of a general increase in the capital of the World Bank and diversification of its intervention instruments so they are better adapted to the situation of the debtor countries. The next meeting of the Development Committee should allow some progress in that direction. The time has also come, however, for the IDB to come to the forefront.

During the last few days France has laid out concrete ideas along these lines to the Committee of the Board of Governors, as part of the negotiations on the Seventh General Increase in Resources. I would like simply to review the major points here.

In our opinion, three complementary guidelines should exert a strong influence on future Bank action within a framework of strict respect for the principles of multilateralism.

a) *Seek maximum efficiency for investments financed by the IDB*: Capital is a scarce good, and IDB intervention should constantly encourage a better use of the domestic and external resources of its borrower countries. Accordingly, a wide-ranging dialogue on macroeconomic policies and sectoral strategies between the IDB and the borrower countries is essential. The Bank's concentration on financing projects has not allowed such a dialogue to take anything but a low place in its decision-making process. The IDB has the responsibility to monitor the Latin American countries as they make the necessary institutional and structural changes to overcome development obstacles and ensure the best economic environment for their programs and projects. Only the political and administrative authorities of the countries can direct these changes and adapt them to social and cultural circumstances. It is up to them to determine the nature, sequence and pace of these changes. The Bank, for its part, has competence over linking the conditions for carrying out a project to global and sectoral economic trends. Such an approach should naturally lead it to coordinate its action more closely with that of other international lending agencies, in particular, the World Bank and the IMF. Confrontation or competition between these institutions would not make sense. To the contrary, they can enrich each other by sharing their experiences and their analyses. The point of this cooperation is to expand the dialogue with the borrower countries and draw from it a concerted framework of action for the medium term which can be a useful point of reference. This is not a matter of adding conditions. Each institution retains its own identity in the process and its freedom to assess the usefulness of the financing mechanisms it manages. The borrower countries should find this advantageous because it offers a clearer view of the future, more coherent programs and greater stability in their relations with each institution.

b) *Make Bank operations more flexible*: The changing economic and financial picture in Latin America and the very complexity of development make it necessary for the IDB to show a great ability to adapt to new situations. The growing body of regulations governing the use of its financing has reduced the IDB's range of possible action entirely too much. The original statutes of the Bank are not at issue here. They have defined in broad fashion the purpose, the missions and the means of action of the Bank. Their interpretation, on the other hand, has always been narrow. The argument of safeguarding financial soundness is not

enough. Essentially, the Bank has a very good rating in the market as a result of its rule limiting the amount of its loans to the sum of capital held by its nonborrowing member countries. The World Bank has been able, over the last few years, to develop its nonproject financing very substantially without upsetting financial markets. The professional skills of the Bank's staff and the strengthening of its internal monitoring and evaluation systems afford it the opportunity to expand its field of action. The time has come to give Bank management much wider latitude for appraisal and action. Diversifying its financing mechanisms (development of sectoral lending) and abandoning its more rigid rules (matrix) are two important conditions for giving the Bank fresh momentum.

c) *Preserve the specific modes of action and presence of the IDB in Latin America*. The IDB would lose its identity and its *raison d'être* if it were to become merely a reflection of another institution. It must make its own contribution toward thinking concerning the conditions under which Latin America's development should take place. It is in a position to make a very specific contribution through its technical cooperation programs and its financing of small projects. Its presence in Latin America, especially in the poorer countries is such that it often serves as the governments' primary partner in discussion. It should not only strive to maintain this standing; it should also strengthen it by giving its field offices greater independence. It gives it a direct grasp of changing economic and social circumstances in the Latin American countries. It provides the main foundation on which the IDB's activities can be expanded and its sectoral approach enhanced.

Implementing these approaches and objectives calls for certain changes in Bank policy, as follows:

a) *Elimination of the ceilings on lending to Group A countries should be accompanied by a substantial increase in the resources of the Fund for Special Operations*. It has become apparent that the ceiling of $4 billion for loans to Group A countries over the Sixth Replenishment period is too rigid. This ceiling has prevented the IDB from playing the role it should have in the larger countries of region during a time of acute financial difficulties. This ceiling has become, in practice, an acquired right and has thereby detracted from the meaningfulness of the dialogue that should exist between the IDB and the Group A countries. In this regard, it is important that IDB Management and the Board of Governors must have greater discretionary powers. Yet recent experience has also shown that the IDB is able to play a leading role in the poorer countries of the region, where it is quite often, and by a wide margin, the major participating institution.

The IDB is irreplaceable in those countries. The technical assistance it provides, complementing its financing, the opportunities it affords them for opening up to the outside, and the way in which it helps mobilize cofinancing give it a decisive role in the development process of those countries. This very specific mission should be further enhanced and developed during the Seventh Replenishment of Resources. IDB financing for all types of technical assistance should be increased, and it could make greater use, in those countries, of sectoral lending. At the same time, it is important that expansion of the Bank's capability for lending to the large countries should not take place at the expense of the poor countries of the region. It is therefore of the utmost importance that the Fund's resources should be increased significantly.

b) *The matrix system should be abolished in order to give the Bank greater margin of discretion in adapting the amount of its financing to particular situa-*

tions. The matrix system served a purpose during a time when economic and financial constraints were less severe and the IDB was solely devoted to project financing. The IDB cannot afford to be the only international institution that is still confined to a system of *a priori* distribution of financing by sector and by category of country. The Board of Executive Directors should simply establish guidelines for the distribution of funding between foreign currency and local currency financing. These guidelines would help orient decisions without rigidly dictating them in advance.

c) *The sectoral loan technique should be further developed.* The IDB should not commit itself to structural adjustment lending. This global approach is neither part of its purpose nor within its competence. To follow such a line would clearly involve overlapping with the work of the World Bank. Sectoral loans, on the other hand, constitute a very direct response to the needs of most of the countries of the region, particularly the poor ones. They would provide the foundation for a more meaningful dialogue between the Bank and the borrowing countries concerning the structural conditions of development. They can go more directly than a project loan to the heart of the strengthening of a country's production and export apparatus. They are usually disbursed more rapidly and they permit better adjustment of the local financing component to the country's capacity. Finally, this approach can help create a better environment for projects by placing emphasis on the management of the enterprises of a sector, the price system, training, technical assistance or maintenance. The IDB has begun to develop sectoral analyses but there is still not enough of a link between the analyses and the loan department. The same is true of the country studies done by the Bank. Management should give priority attention to improving this key aspect of the Bank's internal organization. The IDB will only be able to develop the sectoral lending technique provided a strong liaison is established between its loan programming and its sectoral analyses and country studies. This is a novel approach for the Bank which calls for cohesion within the structure as a whole, including the Bank's field offices, whose relations with the governments and Management will in some cases have to be changed. This internal reorganization of the Bank should enable it to come close to an indicative target of 25 per cent for nonproject financing during the course of the Seventh Replenishment.

d) *The sectoral criteria governing the intervention of the Fund for Special Operations and the Intermediate Financing Facility should be widened.* Although they were made more flexible in 1985, these criteria have seriously restricted the IDB's capacity to act in the poorest countries and have thereby needlessly deprived them of sorely needed concessional resources. The Fund is supposed to finance the overall needs of the poor countries of the region and in particular to strengthen their productive sectors. Although it is useful to maintain indicative targets, particularly for rural development financing, the Bank should be given greater discretion in that area. There is nothing to prevent the Fund for Special Operations from operating in a manner similar to the International Development Association (IDA), for example.

e) *Cooperation with the IMF and the World Bank should be more systematic.* Widening of the IDB's potential for action makes it increasingly necessary to ensure cohesion between its work and that of the other international financial institutions in Latin America. The IDB cannot and should not allow itself to be placed in a subordinate position. But it should make itself readily available for

discussion in the interests of closer coordination of program design. The IDB can enrich the thinking of the other institutions and should also become more open to their approaches. This closer coordination in no way diminishes the individual institutions' independence in managing their own financing facilities; on the contrary, it should promote more in-depth agreement with the borrowing countries concerning the conditions of their development and the implementation of programs better suited to their medium- and long-term needs. This coordination among the institutions is still very inadequate; it usually consists of informal contacts. It should be more closely structured by setting up a liaison committee (or some other appropriate mechanism) as the channel for regular exchange of information and assessments as a means of clarifying each institution's choices.

If it is to put our recommendations into effect, the Bank will have to have the necessary resources. There is widespread agreement that multilateral resources should play a greater role in development financing. The measures taken to streamline the IDB's procedures or diversify its lines of action should make it one of the principal channels for such financing in Latin America. Moreover, the influence that the Bank exerts on the orientation of macroeconomic policies and sectoral strategies depends to a large extent on the amount of financing it is able to commit. This influence should enable it to ensure maximum efficiency of the investments it supports. The first studies presented by the Management of the Bank show that it should contribute $25 billion toward development financing in Latin America over the 1987-90 period. This figure can be compared to the Bank's estimated commitments for the period 1983-86, i.e. $13 billion. Doubling the Bank's commitment capacity is not an unrealistic target. The danger lies in fixing attention on a goal independent of the quality of the financing involved. Another approach would be to provide the Bank with the necessary financial basis to enable it to commit $25 billion over the period under consideration without this figure representing a goal in itself. It is up to the Management of the Bank, under the supervision of the Board of Executive Directors, to program its lending while maintaining a constant balance between the desirable increase in the Bank's commitments and the preservation of its quality criteria. It is possible that general economic and financial conditions will not allow such a rapid increase in the Bank's commitments. No acquired rights exist in this domain. The approval of a loan is the end result of a process of concentration which should allow the Bank to assemble all necessary guarantees concerning the terms for the execution of a loan or a program and its environment. However, Latin America's overall financial situation justifies the Bank's member countries giving it the capacity to double its commitments over the period. It is for the Bank to assess, year by year, each country's actual absorption capacity. A slight reduction in the share of called capital would reduce the cost to the members of the Bank of the capital increase required to sustain a lending program of this scale.

With regard to the plan of operations, I should like this year again to stress the proposals made by France, as well as by other nonregional members, concerning technical cooperation with the Bank. This cooperation could take various forms, such as secondment of technical assistance experts to the Bank, the provision of experts for short-term missions, higher-level training fellowships, and so on. Such cooperation would enrich the Bank's experience and allow the countries concerned to become better acquainted with the Bank and would thereby furnish significant support for the development of the countries of the region at no additional cost. We

look forward to an early response from the Bank. This will serve as a test of its receptivity.

The point of the negotiations now beginning is to enable the IDB to take an active part in the return to a system of lasting and stable growth in Latin America. Implementation of these proposals will furnish it with the means to do so. They are based on the Bank's unique assets. They are aimed mainly at enhancing its flexibility of action. If agreement is reached on these measures, they could take effect retroactively on January 1, 1986. The international community would thereby make an immediate contribution to Latin America's financial recovery.

Address by Mr. Joaquin Cuadra Chamorro, Governor for Nicaragua and Minister-President of the Central Bank

On behalf of Nicaragua, I wish to thank the people and Government of Costa Rica for the traditional hospitality they have shown us at this Twenty-Seventh Annual Meeting of the Board of Governors of the Inter-American Development Bank.

At the meeting of the Board of Governors which was held in Vienna in March 1985, I drew attention to the growing danger and the threats which were working against the preservation of the traditional multilateral and apolitical character which had characterized the IDB, and which is mandated in its Establishing Agreement. I regret to have to refer to this issue again now, but unfortunately the events of the past year have confirmed our fears and now oblige us to speak up even more emphatically about the need to reaffirm and defend the multilateral and apolitical character of this institution, a principle to which all member countries have committed ourselves. The violation of this principle jeopardizes the viability of the Bank as the principal multilateral financing and development support institution of Latin America and the Caribbean. The negation of this principle would mark the beginning of the end—slowly but surely—of our regional bank as originally conceived and its transformation into a financial agency of a certain country and a political tool for exerting bilateral pressure. On this occasion, we must remember the words of Dr. Felipe Herrera, who pointed out that with the creation of the Bank, the Latin American countries' long-cherished dream of having a regional financial mechanism in whose management they could effectively participate had come true. It is our obligation as Governors to make every effort to ensure that these concepts are maintained.

In recent years, the Bank has been losing importance as a financer of regional development, both in absolute terms and, especially, in terms of the magnitude of the economic crisis which Latin America has been suffering since 1979. The amount of loans approved by the Bank fell sharply in 1985 and disbursements, which it had managed to increase mainly by exercising greater flexibility, also fell in 1985 and will fall even more in 1986, unless new measures are adopted. This deterioration has been largely due to administrative and regulatory rigidities, and points to the need for streamlining the study, processing and approval of applications, and for greater flexibility with regard to the possible uses to be made of resources. In order for this to be possible, the Bank's capital base must be strengthened so that it will have the resources necessary to support the economic development of the region. The introduction of macroeconomic conditionality would actually aggravate the problem of approvals and disbursements and would further undermine the Bank's role as a mechanism for providing financial support to regional economic development. The introduction of political factors into that conditionality could only result in an even sharper deterioration of the Bank's position.

Like the other Central American countries, Nicaragua is deeply concerned about the proposals that have been made, in the context of negotiations for the Seventh Increase in Resources, with a view to radically and erroneously changing

the Bank's financing policies. As we have already said, the Bank was established on the basis of the principle that it should be multilateral and apolitical in nature, in order that it might tackle the problem of underdevelopment and poverty in Latin America by establishing appropriate financial mechanisms for mobilizing world savings toward the region. The introduction of conditionality as regards the macroeconomic sphere would place a new burden on the countries using IDB resources and would introduce into the Bank a further degree of rigidity which would make it increasingly difficult to use those resources. In the last few years, the countries of the region have noted with great concern that there has been a trend towards increasingly harsher conditionality in the use of the resources of multilateral agencies. This has generated a system of cross-conditionality, and has made our countries dependent on the economic policies dictated by those agencies, with the resulting loss of sovereignty with respect to the establishment of those policies. So far, however, and despite the efforts made by most of the Latin American countries, the adoption of the policies imposed under conditional financing arrangements has not brought about a clear recovery of the region. What has happened is that cross-conditionality has deprived our countries of a certain degree of freedom, and greater power to exert pressure has been transferred to the private international banks; this has undermined the possibilities for achieving an effective, sustained and lasting solution to the problem of Latin America's external debt.

The idea of introducing conditionality into the Inter-American Development Bank is actually based on the proposal made by the United States Secretary of the Treasury, Mr. James Baker. We share the general view that the Baker Plan is insufficient in magnitude and that it is inadequate as a mechanism for dealing with the serious external debt problems of the developing countries. In quantitative terms, the Plan calls for a net increase in financing of 2.5 per cent per year; in real terms, this is equivalent to a decrease. Moreover, the Plan, which was proposed almost as a bilateral support mechanism, relies heavily on the resources of multilateral agencies, forcing them to make fundamental changes in their financing policies, as is the case now with our Bank. The Baker Plan also has an explicit ideological element, which would be put into effect through the conditionality of financing; this represents a clear threat to the sovereignty of our countries and will surely result in the strengthening of a new concept, that of political conditionality. This is perfectly evident in the proposal for amending the Agreement Establishing the Bank so as to change the majorities required for the approval of certain types of financing, thus making them conditional. If these proposals are accepted, the Bank will in effect lose its regional character and become a financial tool of the United States, to be used for both economic and political ends.

Nicaragua has not been immune to this type of political discrimination, which according to the Agreement Establishing the Bank, has no place in the analysis of applications for financing in the IDB. Because our country is a direct victim of the violation of these principles, we feel obliged to raise our voice once again to defend the principle of the multilateral and apolitical character of the Bank, which we must safeguard at all costs if we wish it to continue doing the work for which it was created. As we denounced in our intervention in Vienna last year, and as the Governors know, in mid-1982—almost four years ago—Nicaragua submitted to the IDB an application for a global agricultural credit program designed to benefit some 4,500 small- and medium-sized private farmers, thus reaffirming the concept

of a mixed economy which our Government has adopted as its development model. From the beginning, our country's request has met with a series of delaying tactics, irregular practices and political interferences which have not yet ended. Despite the fact that our application in that opportunity met all the Bank's technical requirements, its processing has been hampered by the Government of the United States; this was clearly shown when the letter sent by Mr. George Shultz, the U.S. Secretary of State, to the President of the Bank opposing, for clearly political reasons, the circulation of the Nicaraguan request to the Board of Executive Directors, was made public. As we pointed out in Vienna, Nicaragua believes that any member country has the right, through the Executive Director representing it, to oppose applications which for technical reasons do not, in its opinion, meet the financial criteria established by the Bank. What is absolutely unacceptable and in violation of the Agreement Establishing the Bank is that such opposition should be based on political reasons. In the case of our application, the political approach has been extreme.

Even though the great majority of Governors spoke up in Vienna in defense of those principles, the political discrimination against my country has continued and has in fact become even more patent. In December 1985, the Secretariat of the Bank finally distributed to the Board of Executive Directors a special report on our application, for consideration by the Committee of the Whole. The report stated that, in light of the economic adjustment policies adopted by the Government of Nicaragua, the parameters of the application had been substantially changed and that the Bank therefore did not have sufficient elements of judgment to make an accurate appraisal of the credit program. This was not surprising, considering the delay in processing our application, and Nicaragua has therefore asked that a new mission be sent to gather the information necessary for a proper appraisal to be made, especially in the light of the new economic adjustment measures which my Government has adopted for 1986.

I do not wish to take up more of your time by referring further to our application. We are circulating separately an extensive letter explaining this matter. The reason we have had to mention this question again at a meeting of the Board of Governors is that our case provides a clear example of the dangers involved in converting the Bank from the multilateral and apolitical agency it is supposed to be into a bilateral pressure tool serving the political purposes of the United States. This would clearly mean the destruction of the Bank as a multilateral institution supporting the development of Latin America and the Caribbean. It would destroy that which Dr. Felipe Herrera himself had hoped would be achieved with the creation of the Bank. The proposal to amend the Agreement Establishing the Bank in order to change the majorities required for the approval of financing clearly entails no less than the effective institutionalization of the political interference which the Government of the United States exercises in the Bank in respect of applications which, also for political reasons, do not entirely please them. In Vienna, in referring to our application, we concluded our statement by asking: Today it is happening to us; to whom will it happen tomorrow? Tomorrow is here, and now an attempt is being made to discriminate, either in favor of or against, all the other members who use Bank resources, according to the political and economic convenience of one country.

The proposed conditionality is none other than a tool for subtly exercising this discrimination; economic conditionality will very quickly become political condi-

tionality, thus destroying the fundamental character of the Bank.

The topics under discussion are of the utmost importance. The future of the Bank is at stake. To accept political conditionality, either in general terms or in the specific case of my country's loan application, would be to cause irreparable damage to the Bank. As Governors we must be clear on both questions. We must not allow political discrimination against my country and we must safeguard the multilateral and apolitical character of the Inter-American Development Bank.

Address by Mr. Moshe Y. Mandelbaum, Governor for Israel and Governor of the Bank of Israel

We stand on the threshold of a critical period in Latin American development. The economic problems confronting the region are grave, as is their potential effect upon the very fabric of society. It is therefore most fortunate that in these trying times Mr. Antonio Ortiz Mena will continue to lead the Inter-American Development Bank. We wish to congratulate him on his re-election and to wish him well as he embarks on a new term in office. The tasks before him are not easy ones, but we trust in his oft-proven skill and leadership.

Together with my fellow Governors, I wish to express my sincere gratitude to the Government and to the people of Costa Rica who have so graciously welcomed us all to this beautiful city of San Jose. I am particularly pleased that this Annual Meeting of the Board of Governors affords us the opportunity of coming to know Costa Rica.

Costa Rica stands as a proud example of a democratic developing country. In evolving its strategy for development, it has devoted attention to both the social and the economic needs of its people.

Today, like many other developing countries, Costa Rica is confronted with severe economic problems. Many of these problems—here, as elsewhere in the region—have their roots in external factors over which the countries themselves have little direct control.

For almost all the nations of Latin America and the Caribbean, 1985 has meant economic stagnation and a decline in living standards. For the majority of countries in the region, GDP per capita continued to fall. No less negative in terms of their long-range effect upon economic development, are the ongoing net transfers of the region's financial resources and the accompanying decline in investments.

The Annual Report before us clearly indicates that despite the region's need for increased capital flows, the Bank—given current lending parameters—has encountered difficulties in expanding lending from capital resources. No less troubling is the fact that under current economic conditions, and given the restraints imposed upon them by other international financial institutions, borrowing member countries have not been able to exploit fully the resources of the Fund for Special Operations. Thus, despite the recognized need for an increased flow of financial resources into the region, the loans approved by the Bank in 1985 totaled only a little more than $3 billion—some 16 per cent less than in the preceding year.

We are now about to embark upon negotiations which will culminate in the Seventh Replenishment of the Bank's capital stock and the Fund for Special Operations. Given the gravity and the scope of the economic problems confronting Latin America and the Caribbean, a concerted effort is called for to renew economic growth for which distinctive roles are envisioned for the multilateral development institutions and the commercial banking community as well as for the borrower countries.

The Inter-American Development Bank has provided and should continue to provide member countries in Latin America and the Caribbean both with much

needed funds and with guidance for their economic development. To be successful, a development institution must be sufficiently flexible to meet the needs of its borrowers, while still conforming to accepted economic criteria in its lending program. This is no easy task. Yet the Bank has, in large measure, fulfilled its obligations both as a lender and as a borrower.

In the coming days we shall be hearing the initial positions being taken by member countries as the negotiations begin for the Seventh Replenishment Exercise. It may well be that these negotiations will prove to be both difficult and protracted. If this is indeed the case, we shall be in need of the leadership of President Ortiz Mena to see us through. Given the tremendous needs of the region for the inflow of capital necessary for renewed economic growth, we trust that these negotiations will reach a successful conclusion without untoward delay.

In recent years my own country has been plagued by problems which confront many Latin American and Caribbean countries, namely rampant inflation, large deficits in the balance of payments, little economic growth and a mounting level of external debt.

Attempts to reduce the rate of inflation gradually, by partial measures, did not bring positive results. The National Unity government launched at the end of June 1985 a comprehensive disinflation program, aimed at a speedy reduction of rate of inflation, while preserving simultaneously the competitiveness of the economy.

The Israeli parliament has passed a law prohibiting the government from borrowing money from the Central Bank to finance government budget deficits, gradually implemented within three years. Since July 1985, the government did not inject liquidity into the economy. Monetary aggregates were kept stable in nominal terms, while interest rates were kept very high in real terms. Indexation was substantially reduced both for wages, and for short-term financial assets.

This past year as a result of the marked decline in the government deficit, and the implementation of a stringent monetary policy, and the significant drop in real wages that took place, there has been a real economic turn around. Inflation has declined from a level of 25 per cent per month to a level of 1 to 1.5 per cent per month. (In the last four months the rate of inflation has been less than 10 per cent per annum).

There has been a significant improvement in the balance of payments. Our economic program is now focused on renewing economic growth while zealously maintaining price stability.

We must bear in mind that growth is not an artificial process nourished by artificial incentives pumped increasingly into a shaky, unstable economic structure. It is the natural outcome of a proper and creditable economic regime, characterized by a high motivation to work and to be efficient, enjoying a high degree of public confidence and zealously preserving internal and external stability.

Several non-regional countries have already offered to host the IDB's 1989 Meeting. I would, therefore, like to go on record now and extend an invitation for the subsequent Annual Meeting to be held in Israel.

We would welcome the opportunity to show participants both the historical and the developmental aspects of our country, and we trust that our invitation will be accepted.

Address by Mrs. Eegje M. Schoo, Alternate Governor for The Netherlands and Minister for Development Cooperation

It is a great pleasure and privilege for me to address, for the first time, the Annual Meeting of the Inter-American Development Bank. Allow me to express, on behalf of the Netherlands' delegation, my gratitude to the people and Government of Costa Rica for the warm welcome and hospitality extended to us in this beautiful city of San José.

It is now almost four years ago that the Latin American debt crisis emerged. Nowadays, Latin America and the Caribbean are still facing similar if not more serious economic and financial difficulties. These problems continue to pose a challenge in manyfold respect: to the global financial system at large, to the development process and to the political democracies in Latin America and, last but not least, to the peoples in Latin America in their daily quest for a decent standard of living. Of course, economic adjustment policies remain a prerequisite for the restoration of internal and external financial imbalances.

At the same time, however, we must recognize that the international economic environment has not been very conducive to a lasting recovery of the economies of the region. A new complicating factor is the recent unprecedented drop in oil prices, which seriously aggravates the financial problems for some already heavily debt-burdened countries, while alleviating the import bill of others.

Broad international cooperation by all interested parties concerned is needed if the objective of sustained economic growth in Latin America is to be achieved. The Baker plan provides a basic framework for such a cooperation and I believe we have no alternative but to make it work. Restoration of the creditworthiness of the highly indebted Latin American countries should be our first goal. In this connection the IMF and the World Bank, but also the IDB, can make an important contribution through effective policy advice and the right type of financing packages.

A substantial increase in the level of disbursements of the Multilateral Development Banks however, should not be made at the expense of quality standards set for the projects and programs to be financed. This is all the more necessary since an increase in the disbursement level calls for adequate economic policies that will ensure an efficient use of the incremental resources made available. Second, appropriate conditionality is required to safeguard the financial position and excellent credit rating of the multilateral development banks. Finally, it is essential that we do not overlook the smaller developing countries, but see to it that all debtor nations are satisfactorily dealt with.

These remarks bring me to the future role to be assigned to the Inter-American Development Bank against the background of the Baker plan. In my view, the Bank's comparative advantage as a development financing institution lies in the financing of specific development projects. I believe the Bank will serve its borrowing members best if it makes full use of the opportunities offered by the field offices and their competent local staff. Decentralized policy preparation does,

of course, not exclude an enhanced IDB role in sectoral lending. In the latter area as well as in any projected adjustment lending a close policy coordination between the Bank and the World Bank is essential.

Now that we are well under way in this final year of the Sixth Replenishment cycle and new replenishment negotiations have started, we should seize the opportunity to thoroughly reflect upon the course we would like the Inter-American Development Bank to pursue in the years to come. Any redefinition of the Bank's operational development goals should be rooted in the original development mandate of the Bank. Our current preoccupation with the external financial problems of Latin America must not detract us from the basic concept of development, i.e. creating conditions which stimulate production and income, and in which a fair distribution of resources can take place over various countries, sectors of the economy and the poorer sections of society.

In this connection, I consider the substantial shortfall in concessional loan approvals of the past three years a matter of the highest concern. In the light of the poor living conditions in which a substantial part of the population of many countries of the region finds itself, it is equally disquieting to note that in the same period only 35 per cent of total lending approved is expected to benefit low-income groups. Also allocations for agriculture and rural development were unable to come close to the targets set for this sector.

To be clear, I realize that current economic conditions complicate the execution of the Sixth Replenishment Program and the fulfillment of the social targets and sectoral allocations intended. I also believe the current overall commitment problem and the economic pressures of the moment call for flexibility in additional Bank funding for certain countries and projects. Besides, any increase in the level of adjustment lending will make it even more difficult to attain the distributional targets agreed upon in the past. These circumstances imply, however, that we have to do our utmost to ensure that a fair share of the benefits of all other operational Bank activities will accrue to low-income groups by incorporating clear distributive guidelines in a policy framework for the years to come.

It is my considered view that the Inter-American Development Bank would do best concentrating on the long-term development needs of the region. Those needs not only include the strengthening of the economic and physical infrastructure, but manpower development as well. Development of human resources in the end will prove an invaluable asset for further development. Poverty in Latin America is still widespread in the cities as well as in the rural sectors. Local participation in projects through cooperatives, foundations, and women's organizations would be crucial to the success of a grass-roots development process. The Bank has the structure and the staff to live up to this challenge.

I would like to stress that long-term development needs dictate a substantial level of concessional lending during the Seventh Replenishment period. In this connection, it might be worthwhile considering new mechanisms of concessional funding and lending that would benefit the poorest population groups. Securing the maintenance of a sufficient volume of concessional resources is of vital importance to the smaller and less developed countries of Latin America and the Caribbean. I trust, therefore, that we all will succeed in meeting this challenge and contribute effectively to the essential improvements in the region's social environment.

I have taken note of the deliberations in the Committee of the Board of Governors last week with some reservations. Those discussions seem to suggest

that the efficiency and effectiveness of the Bank's operations would almost entirely depend on its decision-making structure. Let me say, however, that the strength of the Bank is primarily reflected in the full commitment of their members to implement its basic mandate. I have outlined the development needs of Latin America and the Caribbean. These are evident and we are all aware of that. In searching for a possible additional role for the Bank, we should be certain that any design, any restructuring of the IDB effectively assists in meeting the development priorities of the region. I call on the Committee of the Board of Governors and Management, therefore, to concentrate at their next meeting on areas of agreement and not to focus on existing differences. The basis for the next deliberations should be appropriate documentation to be provided by management in order to guide our thinking.

In talking about the implementation of the Bank's development mandate, I should like to touch on one other point of concern. We have stressed this point before but I want to reiterate what has been submitted by the Netherlands last year. Multilateral financial institutions should be governed by the principle of universality and discrimination between members on the basis of their political regimes should be excluded. I find it distressing to note that these principles are still called into question. If this attitude were to continue, and were to impede the processing of economically and technically justified projects, the very survival of these vital institutions will appear to be at stake.

I would now like to spend some thoughts on current Bank policies.

With regard to the flexible policy response to the economic crisis through the Bank's special programs, I would like to emphasize first and foremost their temporary nature.

At all times we must take into account the specific circumstances that prevail in each member country and, when appropriate, take the necessary measures with a view to structural progress. The Bank, however, should provide a clear understanding—a policy framework if you allow me that term—by which policy decisions are taken. Therefore, if some kind of flexibility in the lending criteria is decided upon, there will still remain the need to thoroughly examine the validity and priority of projects or programs to be financed.

With regard to the Bank's efforts made to improve the living conditions of low-income groups, my Government is especially pleased with the Small Projects Program. The success of its activities demonstrates how effective a modest volume of resources can be in stimulating productivity, income and employment in rural and urban areas alike. This program deserves amplification and, if possible, an extension within the framework of an overall concessional program.

As regards the Inter-American Investment Corporation (IIC), I assure you, that my Government will do its utmost to complete the necessary legal requirements as soon as possible so that we can take our full part in the promising IIC activities immediately thereafter.

In conclusion, I wish to congratulate Mr. Antonio Ortiz Mena on his re-election as President of the Bank in 1985. May I also pay tribute to the President, the Bank's Management and its competent staff for their excellent performance in the past year.

Please be assured of the Netherlands' continued commitment to fostering the social and economic development of the countries of Latin America and the Caribbean. We would be more than happy to have you all in Amsterdam for the Annual Meeting of 1989.

Address by Mr. Ricardo Zerbino Cavajani, Governor for Uruguay and Minister of Economy and Finance

On behalf of the Government and the people of Uruguay and the members of our delegation, I wish to begin my words by expressing our most sincere appreciation to the government and the people of Costa Rica for the generous hospitality and warm welcome they have shown us. In addition I wish to recognize the efforts they have made along with Bank personnel, in organizing this Annual Meeting of the Bank.

When we spoke to this same gathering a year ago in Vienna, we explained the difficult economic and social situation that confronted Uruguay when the democratic government took office. At that time we made special mention of the economic recession that had gone on for four years. In its external dimension, the recession was aggravated by high debt which compromised future growth possibilities. In the domestic arena, severe indebtedness took its toll on productive sectors. The fiscal deficit stood at 10 per cent of GDP and declining real income, combined with 14 per cent unemployment, jeopardized the social and political stability of the country.

Faced with this situation, the Government implemented a non-recessionary adjustment program aimed at eliminating the financial disequilibria in the economy while not neglecting to establish a suitable framework for economic recovery. The strategy consisted mainly of rescheduling the external debt so as to attenuate the outward transfer of resources which would have made recovery impossible, reducing the fiscal deficit to 6 per cent of the GDP during the first year and establishing a legal framework for rescheduling the domestic indebtedness of enterprises with the financial system. This was done within the context of a free exchange system, a floating exchange rate and openness in the commercial and financial spheres, all of which served to spur on the country's production activities.

The results have been satisfactory. During the last half of 1985, the economy grew by 2.5 per cent after having declined systematically for more than four years, unemployment was reduced by 3 per cent with respect to the previous year and the Central Bank's international reserves were strengthened. Inflation is still high, but it has eased to a rate of 60 per cent.

It is worth mentioning that these results have been partly brought about by certain changes in the external situation, particularly the decline in interest rates, which, although still very high in real terms, have allowed for a lower level of transfers abroad. As far as trade is concerned, however, the protectionism of the industrialized countries has increased, particularly in the area of agricultural products, where protectionist measures and dumping have led to a sharp drop in prices.

Having achieved this much so far, we look forward with faith and optimism to the task ahead of us. We are still concerned about the public sector deficit: it must be lowered if we are to reduce inflation and free resources for productive use by the private sector. For the second year of our program, we are projecting a fiscal deficit of under 5 per cent of GDP and an inflation rate on the order of 45 per cent.

Gradually, we shall be taking the steps necessary to bring these disequilibria to reasonable levels.

In addition, we shall continue to promote policies designed to enhance the country's export potential, as that is the only way of guaranteeing sustained growth over the long term for an economy such as ours. We believe that what we have done up to now has revived the private sector's confidence in the future of the country and we trust that we will be able to maintain the pattern of growth we have re-established.

At this point, I would like to comment on relations between our country and the Bank.

Over the past year, and thanks to the determined support of Bank President Ortiz Mena and the efforts of the Bank staff, we have been able to define a portfolio of projects to be carried out in various sectors of the economy, with the broad participation of the private sector and with due regard for the needs of low-income sectors. Taken together as a whole, these projects will foster economic growth and social development. The total amount financed under these projects will be higher than the total amount approved by the Bank over the last five years.

In light of the above, emphasis is being placed on the agricultural sector by implementing a group of projects which will particularly benefit that sector which is one of the pillars of our economy. These projects will deal with the technological aspects of production, the promotion of lines of production in which the country has clear advantages and the removal of obstacles which hinder the growth of crop and livestock production.

We are referring to the global farm credit projects, to the development of dairying and rice-growing areas, to the animal health project and others which, as a whole, comprise a true modernization program for the sector.

We are also stressing the social sectors through the implementation of projects of low-cost housing, urban sanitation, drinking water supply and other infrastructure works which will benefit the lower-income sectors.

At the same time, the Bank has approved a loan which is extremely important to the country. This loan will provide for the creation of a preinvestment fund to finance studies aimed at identifying priority areas for investments, as well as the preparation of the projects themselves. This will increase the country's capacity to absorb available financing.

Finally, I would like to comment on some general matters with regard to our Bank.

First, I am happy to announce to my fellow Governors that in this city of San José, Costa Rica, I have signed and deposited the instrument of ratification of the Agreement Establishing the Inter-American Investment Corporation. We trust that this initiative will provide a suitable means for ensuring the effective development of efficient and dynamic small- and medium-sized enterprises in all the countries of the region.

As we begin our negotiations on the Seventh Increase of Resources, the international economic situation is very different from the one which prevailed during negotiations on the Sixth Increase. We must therefore be fully aware of the task facing us and of the urgent needs of our countries in a deeply disturbed international economy with severely distorted financial markets.

Given the financial constraints which exist at the international level, no one can help being aware of the need for the multilateral credit institutions to maximize

their contributions of resources by streamlining access to them.

The utilization of Bank resources was particularly hampered by the lack of counterpart funds which in turn was caused by the financial constraints brought about by the drop in export prices and the external debt service.

That is why we feel the Bank should continue to streamline its disbursement policies, as it did in adopting the Special Operating Program. There is no doubt that the measures included in that program should be analyzed in the light of their results and that some of them should be extended over the next few years. It is urgently necessary, therefore, that criteria be established to make the project financing matrix more flexible; the program cap for Group A countries also needs to be revised.

We must also increase concessional resources and strengthen their placement by re-examining, as we discuss the next increase in resources, those decisions which were taken under circumstances that were very different from those facing us now. In particular, we should study the question of access to the Fund for Special Operations and the expansion of the Intermediate Financing Facility, as well as of the Export Financing Program.

We view as very constructive the proposal that during the Seventh Increase in Resources the Bank should also be able to make fast-disbursing loans in the form of sectoral loans. This is made necessary by the contracting terms currently prevailing on the international capital markets.

We feel that the nature and amount of these new operations, as well as the degree of conditionality which they will entail, should be discussed together with the amount of the Seventh General Resource Increase.

The conditionality of fast-disbursing loans must not, in any event, interfere with the sovereign rights of the individual countries. In providing credit to support adjustment and growth policies, the Bank must not disregard the fact that the policies themselves must be made by the governments.

We also realize that in venturing into this new type of lending, the Bank will have to fine-tune its operations. The constant enhancement of the Bank's efficiency must continue to be one of the main concerns of Management and of the Board of Executive Directors.

The situation in our region has changed a great deal since the Bank was founded. We must therefore accept, conscientiously and responsibly, such adjustments as are made necessary by radically changed circumstances. Nevertheless, we feel obliged, as we conclude our remarks, to reaffirm our conviction that the IDB has been, is and will continue to be a development bank. In saying this, we wish to express our determined support for any measures that will strengthen the Bank's capacity to finance investment projects in the sectors of production, infrastructure and social areas, as these are the pillars that will support the growth of our countries and the development of our peoples.

Address by Mr. Ricaurte Vásquez, Governor for Panama and Minister of Planning and Economic Policy

On behalf of the Delegation which I am honored to head, and speaking for the Government and people of Panama, I wish to thank Costa Rica, our neighbor and sister nation, and the vital voice of democracy on the Central American Isthmus and throughout the Americas, for the many displays of kindness, hospitality and welcome we have received since our arrival.

Similarly, on behalf of those I represent and for myself, I wish to extend our most cordial and warm greetings to the Costa Rican authorities and people, and to all the distinguished official delegates, observers and special guests attending this Twenty-Seventh Annual Meeting of the Board of Governors of the Inter-American Development Bank.

It has been a source of great satisfaction throughout 1985—as we have celebrated the Twenty-Fifth Anniversary of the founding of the Bank—to see the wide recognition of the Bank's maturity and consolidation following a quarter century of operations.

The well deserved recognition for the magnificent work the Bank has performed on behalf of the socioeconomic development of the countries of Latin America and the Caribbean obliges us to extend our most effusive congratulations to our very distinguished President, the members of the Board of Executive Directors and to all the staff and Management who are responsible for the day-to-day work of the Bank.

In this regard, I wish to refer explicitly to the outstanding performance and strong leadership of Mr. Antonio Ortiz Mena, which led us all to recognize the pressing need to re-elect him unanimously for a third term as President of the Inter-American Development Bank, as we indeed did in November 1985.

As we gather here in San José for this annual meeting, we all realize that our deliberations will be crucial to the future of this institution. At this Twenty-Seventh Meeting of the Board of Governors, we have the great and historic responsibility of ensuring that the application of the Sixth Increase in Resources, currently in force, is concluded in the most satisfactory manner possible. We must also establish guidelines and parameters for the work of the Bank up to the end of this decade through the agreement we will be reaching on the Seventh Increase in Resources. In this debate, therefore, we wish to state clearly what our main concerns are in connection with these important matters.

I wish to place on the record our serious concern over the fact that the figures for authorized lending operations during the last three years fell about $700 million below the amount authorized for loans during that same period. We would not be so concerned about these figures were it not for the fact that the lower level of loans granted by the Bank during the period mentioned falls largely within the category of loans that should have been authorized for Group C and Group D countries, i.e., for countries with limited markets, on the one hand, and for relatively less developed countries, on the other.

We have also noted that, departing from a long-standing tradition of over 15 years, in 1985 the Bank did not authorize a higher level of lending than in the year

immediately preceding. In 1984, $3,567 million worth of loans were approved, whereas in 1985, the figure was $3,061 million. This was the case not only with the volume of loans authorized but also with the amounts disbursed. Thus, in 1984 disbursements amounted to $2,377 million, while in 1985, they amounted to $2,343 million. This represented a break in a well-established practice of the Bank in respect of disbursements.

We feel that this situation undoubtedly has a lot to do with the adjustment process and the severe financial austerity being experienced by the borrowing countries. In Panama, for example, we have had to limit and delay financing for social improvement projects that could have qualified for IDB loans, because we did not have the counterpart funds to assure the overall financing of such projects. In addition, the operation of projects designed to provide social services calls for a flow of resources to cover recurring expenditures. As a result, we have been obliged to take the distressing decision to sacrifice these projects.

This has two negative consequences, i.e., there is less economic growth because of the lower levels of expenditures, especially in investment, and there is a more limited potential for future development, because of the lower level of current investments. Today's budget is balanced at the expense of tomorrow's development.

It seems that the Bank has been faced with a definite lack of demand for resources, mainly from borrowing countries in Groups C and D, and that this has held back the projected utilization of the Bank's available resources during the last three years.

Paradoxically, during this same period, in all of our countries, the need for these resources has risen much more than expected, as a direct result of the economic and financial crisis.

One might think that the Bank has not had a suitable institutional mechanism for internal programming and for advising borrowing countries on project preparation, in order to ensure the timely utilization of the Bank's resources. We do not agree with this view, as we are sure that both the Board of Executive Directors and the Management of the Bank are constantly striving to see that resources are utilized not only in a timely fashion, but also in the most efficient manner possible. We therefore ask both the Board of Executive Directors and the Management to make every effort to ensure that the Bank continues to have the institutional capacity required for the full utilization of its resources.

In view of this situation, it would appear that by the end of this fiscal year, the Bank will have a significant amount of resources available, including substantial amounts of concessional resources, mainly in the Fund for Special Operations, unless we now adopt guidelines and measures to expedite their utilization, which will at the same time be consistent with economic policies established by the borrowing countries. In this connection, the inventory of possible policy measures drawn up by the Bank's Management is very interesting and useful; the Board of Executive Directors might wish to consider adopting it during the course of the next few weeks. These suggestions include the possibility of increasing the eligible financing percentages for projects underway by supplementing the existing matrix, and by applying the expanded matrix retroactively and financing ancillary or associated costs of social infrastructure projects currently underway, on the basis of the criteria recently authorized at the Special Meeting of the Board of Governors held in Washington in September 1985 and set forth in document AB-1109.

With regard to the Seventh Increase in Resources, which will determine the

Bank's performance up to the end of the 1980s, the Government of Panama is prepared to continue supporting the regular activities which the Bank has been carrying out and, to this end, would support a significant and reasonable real annual increase in its loan program for the next few years. We also feel that, given the difficulties caused by the current economic, fiscal and financial situation of many of our countries, a greater amount of concessional resources should be made available, especially for countries that have limited markets or are relatively less developed.

We must realize that the world is going through a process of economic adjustment which has serious fiscal and financial implications. This is the source of the problem; the solutions must be directed to the cause and not to the effects. Recent efforts have been aimed at financial adjustment rather than at the cause. Hence, the Republic of Panama welcomes those initiatives and proposals which are aimed at fostering rapid and sustained economic growth. However, we must all make some sacrifice in order to contribute towards solving the problem; the developing countries cannot be expected to make all the sacrifices.

As far as the Bank is concerned, it must continue to serve as one of the main financial institutions which effectively help our countries overcome the serious problem of the real transfer of resources by fostering more balanced and sustained development in the Latin American and Caribbean region. In this regard, we feel that we should provide for a reasonable volume of resources for fast-disbursing loans which will make it possible to alleviate the financial problems of the borrowing countries during this period of transition.

If we agree, as I believe we do, that our fundamental objective is to achieve the comprehensive development of our countries through growth, then let us keep the objective clearly in mind and make the distinction between it and its operational implementation. As regards the latter, the recent practice of cross conditionality is not a goal but a mechanism which is being used more and more frequently and rigidly. This inflexibility is a straitjacket which hampers efforts to manage the current financial situation wisely and may even be counterproductive.

The achievement of the objective of growth is fundamental and beneficial to all parties concerned. We must not confuse the mechanics and the interrelationship of loans with the need for program consistency. The consistency is essential; the mechanics are merely accessory. The conditionality being applied at present is not only undesirable, in some cases it jeopardizes the success of the programs agreed on.

We sincerely hope that the negotiations on the Seventh Increase in Resources will benefit all the member countries of the Bank. I wish to be very emphatic in stating the multilateral nature of the Bank is not negotiable; we trust that it will be preserved at all cost by all the Governors present at this Annual Meeting.

Panama shares with a great number of countries in the region the desire to preserve peace in the midst of a process of political, economic, social and financial changes; we trust this effort will, in the long run, safeguard the participation of all in order to benefit many. As we face this challenge, we do so within the context of our own reality, which is affected by the special circumstances affecting the region.

Our effort will at all times be based on a pragmatic outlook, which identifies us as a nation. After all, the development effort is meant to benefit mankind, not to be an academic task. We have no doubt that our efforts here will be crowned with success.

Address by Mr. César Romeo Acosta, Alternate Governor for Paraguay and President of the Central Bank

On behalf of the delegation of the Republic of Paraguay I have the honor to present warm greetings to Governors of the Inter-American Development Bank and to the members of the participating delegations through the Chairman of the Annual Meeting, Mr. Porfirio Morera.

We also extend our greetings, and our recognition for the term of office he has just completed, to the President of the Bank, Mr. Antonio Ortiz Mena, and to the Executive Directors and staff.

This Twenty-Seventh Annual Meeting which brings us together today is an exceptional opportunity, as it is every year, for the representatives of the member countries of the Bank to meet again and evaluate the past year's activities, to examine today's economic circumstances and to delineate with care and balance the prospects for future action.

The complexity of current problems and the disorder of international relations translate into a multitude of political and social disagreements.

The rigidity of prices and financial conditions that prevails in international markets offers little hope for the efforts of our countries to achieve enough economic growth to improve their ability to meet external financing obligations and commitments.

This circumstance demands growing cooperation from the international financial system to consolidate the economic and social well-being of our peoples.

Unlike other resource replenishment exercises which debated only operational proposals and alternative mechanisms for strengthening our institution, in accordance with its basic objectives, the Seventh General Increase appears to have connotations that make it particularly complex and deserving of prudent and responsible attention.

The tomorrow of our institution, whose impact on the economic and social history of Latin America and the Caribbean is unquestionable, depends on the decisions of today.

Preserving the nature of the Bank as a long-term development agency that finances specific projects on the basis of their technical, economic and financial viability, and preserving its present voting structure shall constitute unavoidable commitments within the framework of these negotiations.

We agree that it is necessary for our institution to undergo constant change; the dynamics of human undertakings demands it of the Bank, as it does of other organizations. What concerns us, however, is that the organizational improvements suggested at the start of the Seventh Replenishment negotiations are not instruments that adapt the Bank to changing realities but ones that alter the original objectives behind the establishment of the Inter-American Development Bank.

We affirm our trust in preserving the multilateral character of the Bank and continuing to accord preferential treatment to the relatively less developed and small market countries. In this sense, we welcome the proposals made by several governors to increase the amount and the coverage of the Bank's concessional funds.

It is hoped that this support is not contingent on other qualifying ideas that prevent it from going into practice.

Allow me please to refer briefly to recent economic developments in my country and the outlook there.

While economic activity in Paraguay slowed down in 1982 and 1983, the country is now showing signs of gradual improvement and greater dynamism in terms of the most important production factors.

The growth rate in 1984 was 3 per cent and in 1985, close to 3.5 per cent. Unemployment declined between those two years from 10 to 8 per cent.

Despite the unfavorable effects of trade relations and the constantly heavier burden of financial charges, expressed in foreign exchange, the amount of the external debt was kept at manageable levels, with financial charges taking a reasonable percentage of the value of exports.

Paraguay is aware of its responsibility in arranging and managing its public debt properly and wants to be a good payer and to fulfill its obligations. Also, public interest works that have been successfully completed and others now in progress are eloquent statements of proper management and adequate choices for the undertakings financed with the cooperation of friendly countries and financial agencies.

The development of productive activity and the free play of economic forces are fully guaranteed and, for this purpose, have the permanent guidance and decisive support of the government, especially through measures and instruments suited to requirements and expectations.

Among these actions, we are most pleased to have signed the agreement which accredits Paraguay as a member of the Inter-American Investment Corporation.

The political and institutional framework that make these public projects possible is order and stability, with social peace, under a system of peaceful relations among its citizens and a reign of democracy.

We come to this Twenty-Seventh Annual Meeting of the Board of Governors aware of the problems that surround us but with an optimism grounded on the wisdom with which our countries and the Bank will bring to these deliberations.

In thanking the fine people of Costa Rica and their distinguished government for the many and cordial kindnesses, we offer our best wishes that success will crown the negotiations for the Seventh General Increase of resources which start, by a happy coincidence, in this very city of San Jose, the capital of this noble country which, like ours, is a model of solid democratic practice.

This setting invites us to accept the fundamental precepts of equitable and respectful participation of each and every one person engaged in this common effort whose ultimate objective is none other than the well-being of all Latin Americans.

Address by Mr. Hugo Palacios-Mejía, Governor for Colombia and Minister of Finance

Introduction

At this meeting, as at our last three meetings, the development of Latin America and the Caribbean remains dependent on a solution being found to the external financing problem. But new factors have emerged in the economic and political spheres that this meeting must consider. One, to be sure, is the Baker initiative. Another is the negotiations on the increase of the Bank's capital. Yet another is the changes that have taken place in the markets for oil and coffee, and for other primary products and raw materials that we export. And, finally, we must consider the recent experience of our member countries.

Colombia's Past Experience and Outlook for the Future

I would like now, if I may, to say a few words about Colombia's past experience and its outlook for the future.

The Government of President Belisario Betancur will complete its term of office on August 7, 1986. The two candidates most likely to succeed him are both honest and knowledgeable men who are committed to democracy and are well versed in international relations and economics. Whichever wins, he will undoubtedly set our nation on certain new paths; but none of the programs that the candidates have put forward would mean a sudden upheaval in our institutions or disregarding of our commitments. The international financial community can therefore look forward with confidence to the imminent changes on Colombia's political scene, in the certainty that the changes the future brings will come about by democratic processes and by strictly legal means.

President Betancur's Government is very proud of its achievements in the area of economic policy and, in particular, of the international cooperation arrangements that it has been able to set up in this connection. That our pride is justified is borne out by the recent changes in key economic indicators: we have reduced the balance-of-payments current account deficit from 10 per cent of the gross domestic product (GDP) in 1982 to 4.5 per cent in 1985, and we are aiming for 1 per cent in 1986; we have reduced the consolidated public-sector deficit from approximately 7 per cent in 1982 to 4.4 per cent in 1985, and we are aiming for 2 per cent in 1986; throughout this period, we have continued to achieve positive GDP growth rates; and in spite of a swift pace of devaluation, we have reduced the inflation that existed at the beginning of the period, and we will continue to keep it under control. In 1985, we began once again to build up international reserves. The economic dislocations that we have had to deal with, the entry into the job market of young people born at a time when Colombia's population was growing at a rate of over 3 per cent a year, and the new (and welcome) presence of women in the universities and in the labor force could have raised overt unemployment to dramatic levels. But luckily this did not happen: although we continue to endure very high rates of unemployment, in 1985 they started to decline, and substantial progress is expected in this area this year.

It was clear at the end of 1985 that our economic adjustment measures were having some success, and to this we must now add the "coffee bonanza" that is boosting the total value of our coffee exports in 1986 from $1.6 billion to over $3.0 billion. At the same time, we are beginning to export coal and our oil exports are resuming. Thus, for 1986 we are mounting a program to "sow the seeds of the bonanza," aimed at directing the increased coffee revenues to capital investment, improving the country's external financial position, and offsetting the monetary effects of the bonanza. We will not let this last objective, however, divert our attention from the structural aims of our economic policy: we are not going to indulge in imports of luxury goods, or revalue the real exchange rate, or stop assisting exporters because we have seen that only sustained export growth can provide a stable solution to the external financing problems of countries such as ours. We will maintain our present current real exchange-rate level, the best that Colombia has had in its history, and we will strive to use our foreign-exchange surpluses to replace or lower the cost of external financing within a non-inflationary context. In this regard, then, our country is in a special situation, with sufficient lines of bank credit to be able to continue expanding foreign trade and to pursue its international policy of incurring moderate and selective external debt.

The Betancur Government has had to face gigantic dislocations in the financial sector, and it has successfully dealt with them. To do this, it has been necessary to take drastic decisions to restore the economy to good health. Fortunately, we have resources and institutions such as the Guarantee Fund *(Fondo de Garantías)* that will enable us to finish the job we have started, facilitate the capitalization of those organizations that require it, and return to the private sector several of the entities that we had to nationalize to prevent them from shutting down and thus harming savers holding shares in them and their creditors.

Relations with the IDB

The IDB's contribution to Colombia's economic and social development since the Bank's founding has been of immense value. Colombia has received from the IDB loans amounting to $2,988 million, and the country's current indebtedness to the Bank stands at $1,010 million. Technical assistance has been very useful, and has complemented the financial resources received. The Bank's activity in the area of economic and social progress has also served as a catalyst to make available even larger sums from commercial banks and suppliers. Investment programs to build large hydroelectric power stations, to build roads and communications systems, to strengthen the agricultural sector, to build drinking-water supply systems and houses, to build schools, to provide credit for industry, and so on, have won financial and technical support from the IDB.

IDB staff have contributed in a large way to training Colombian technical personnel working in several branches of the public service, and these bodies have in turn become more efficient in helping to develop investment projects and programs. It is certainly difficult to imagine the major economic and social strides that the country has made over the past 25 years being made without the IDB having done its part. I am therefore very pleased to be able to express the Government's thanks to the President of the IDB, and to its Executive Directors and Management.

In describing the major contribution that the Bank is making to Colombia, it is especially important to mention the novel small projects and small business

program. This program has resulted in a broad support system being established for small businesses, which represent a substantial part of production activity in our cities. With this program, the Bank has made it possible for the public and private sectors to join forces to the benefit of the poorest Colombians.

Relations with Other International Organizations

Over the last three years, Colombia has continued to receive credit from multinational financial institutions such as the World Bank and the Inter-American Development Bank. Both institutions have supported us with considerable sums, and also with administrative arrangements that have facilitated disbursements.

In addition, Colombia has sought the support of the international commercial banks, and finally succeeded in obtaining it through a $1 billion credit which was signed in December of 1985 and from which the first disbursement may be made in May.

To get the banks to agree to grant this credit, it was necessary to persuade the International Monetary Fund, without the Fund itself having a loan agreement with Colombia, to certify every three months that the Government had met its economic program targets. Although the Fund initially put up a great deal of opposition to taking on this role, it finally consented to do so and thereby rendered a great service to our country for which we are grateful. In 1985, we met or exceeded all the targets that the Fund had to certify. For 1986 the National Council on Economic and Social Policy *(Consejo Nacional de Política Económica y Social) (CONPES)* adopted a new program, and on the basis of it we have asked the Fund to certify that new quarterly targets have been met.

In all this, we should like to point out two things. First, with regard to the advantages of a gradual adjustment versus a sudden one, a sudden adjustment would have aroused political and social tensions that might, possibly, have been too powerful for a democratic system to withstand. Second, concerning the need for timely support from credit institutions, Colombia financed the adjustment using a large portion of its reserves, and credit obtained from multilateral institutions; assistance from the commercial banks has been slow to come, but we have managed to maintain the aggregate total of lines of credit for the banking system at the same level since November 1984.

It is because of this experience that we attach so much importance to the capitalization of our Inter-American Development Bank and its structural and operating reforms, as well as to reaching agreement on ways to implement the program set out by Mr. James Baker, the U.S. Secretary of the Treasury, in Seoul in 1985, a program which shares much common ground with the "Cartagena Consensus," especially in the stress it places on the need to achieve growth and on avoiding the erection of barriers to international trade. The program must be supplemented, as well, with measures to protect debtor countries better from the impact of high interest rates. In addition, all of us who have some role to play in the region's external financing problem should work out more streamlined procedures to facilitate the negotiation and preparation of loan documents with the commercial banks, because it is common for this stage to take more time than reaching the basic decisions as to the amount and cost of the financing.

The Capitalization and Reform of the Inter-American Development Bank

Observers of Latin America's economy estimate the region's external financing

needs over the next four years at $140 billion. Agreement exists on the need to increase the resources of the Inter-American Development Bank substantially. We believe that a figure on the order of $25 billion needs to be looked at, and we are pleased to see that Mr. Baker, in his speech in Seoul, pointed out the importance of the IDB to Latin America and the Caribbean.

To be sure reforms are needed in the Bank as they will come to be needed in any organization either with the passage of time or because of the emergence of circumstances as exceptional as those in which Latin America and the Caribbean now find themselves. But the nature of these reforms, and their scope, depends in large measure on the amount of resources that the Bank has to mobilize, with the result that they cannot be discussed in the abstract. It is our hope that, very soon, the Management of the Bank and the member countries will give clear indications of what resources are needed and how they should be made available in order to be able, in the light of this information, to determine what administrative reforms are needed. It is very important that a high proportion of the new capital be paid-in rather than simply standing in reserve as a guarantee.

Although it is very likely that Colombia will prefer to continue to gear its credit applications to the financing of projects, we nonetheless appreciate that it may be of interest to the region that the IDB allocate a portion of its resources to sectoral loans.

Our own experience leads us to appreciate the advantages of coordination between international lending institutions, and consequently we do feel that this is a direction in which the Bank should be moving. However, in order for this not to hold up loan approval and execution, it is essential that we first define precisely what sort of objectives each lender's credit is to fulfill, and what economic variables are to be the yardstick against which the achievement of these objectives is to be measured. The IDB, a Latin American and Caribbean institution by nature, must preserve this character and maintain its independence regardless; we would not want it simply to become the executing agency of credit decisions made by another institution.

In no way would Colombia support reforms that would give a power of veto to one country as regards the use of the ordinary capital resources. Moreover, it is very important that decisions on the granting of loans continue to be made solely on the basis of the borrowing country's capacity to repay and the merits of the projects it proposes. We do consider it acceptable, however, in highly controversial cases, that the Board of Executive Directors should set up committees capable of developing solutions that the committee could fully endorse. However, the make-up and functions of these committees must not be such that they will alter the delicate balances we have achieved in the Agreement Establishing the Bank as to the make-up of the Board of Executive Directors, and vesting it with decision-making powers subordinate only to those of the Board of Governors.

It would also be a good thing if, at least temporarily, the Bank were to adjust the project financing matrix, and to make provision for financing projects that are already in execution but which have not yet been completed even though they are still of interest and economically viable.

Conclusions

In 1985, Colombia successfully completed its economic adjustment program, thanks to this and the new situation on the coffee markets, it is ready to enter a

period of stable growth.

During the adjustment process, Colombia received timely support from the President and the Management of the IDB. The time seems right now for us to express our thanks.

Our experience through these past few years entitles us to press the point that international lenders must require countries to make not sudden economic adjustments, but gradual ones. The Baker Plan, which shares much common ground with the Cartagena Consensus, deserves praise insofar as it points to the need for growth during the adjustment process, for greater international trade opportunities, and for suitable flows of resources to the region. An agreement should be reached between the countries and organizations concerned so that, by including other factors that experience has shown to be advisable, it can get under way quickly. Latin America and the Caribbean must focus their efforts on achieving a substantial capitalization of the IDB, which is more important now than ever for the region's external financing. The Bank, to be sure, must make internal reforms to meet the very special needs posed by these times. Colombia wishes to express its firm support for these objectives, and its confidence in the proven ability to guide the Bank of Don Antonio Ortiz Mena.

ADDRESSES

THIRD PLENARY SESSION

March 25, 1986

Address by Mr. J. L. F. Buist, Alternate Governor for the United Kingdom and Under-Secretary International Division, Overseas Development Administration

It is for me personally a great honor and pleasure to have been appointed again to serve as the United Kingdom's Alternate Governor for the Inter-American Development Bank. The United Kingdom Governor, the Minister for Overseas Development, has asked me to express to you his hopes for a successful outcome to this meeting and for the Bank's important work in the year ahead. On his behalf, and on behalf of my Delegation, I should like to thank the Government and people of Costa Rica for their warm and generous hospitality, and to congratulate them, and the Bank staff, on the arrangements made for our discussions in these lovely and elegant surroundings.

I should like to reaffirm my Government's deep sympathy for all those who have suffered from disasters, particularly in Mexico, Colombia and only two weeks ago in Bolivia and Peru. We think the Bank is to be congratulated for its speedy action to provide relief in the first two of those countries, and we hope it will be able to provide help in Bolivia and Peru when more information is available.

Mr. Chairman, you have already set out admirably the economic problems now facing the Latin American and Caribbean countries. We agree with you that our Bank ought to play a more significant role in the common international effort to help them steer through the rough economic seas to safer and calmer waters. That demands from the helmsman unprecedented experience and wisdom. We have both these qualities in our distinguished President, Don Antonio Ortiz Mena, and I should like to thank him for agreeing to continue to carry this heavy burden.

The main theme of our 1986 meeting has already been well put by yourself and President Ortiz Mena. I shall not therefore waste time by describing again the evolution of the region's economic and payments problems. But I should like to underline the intense interest which was aroused in Britain, particularly in financial circles, by the very successful and thought-provoking seminar held a few weeks ago in London, which was jointly hosted by the Bank under the title "Beyond the Debt Crisis—Latin America: The Next Ten Years." Reading with care the contributions made at that meeting by our President and by distinguished Ministers and other representatives, I was struck by the very wide agreement in those addresses not only on the nature of the problems, but also upon the appropriate combination of solutions, I detected, as I detect today, very wide support for the general approach put forward at Seoul last autumn by Secretary Baker of the United States for a strategy of growth-oriented adjustment, to be upheld not only by wide-ranging and difficult domestic economic, budgetary and institutional policy changes, but by increased infusions of outside finance.

This Bank cannot stand on the sidelines of such an effort, leaving the action to others. But if it is to play an active part this will demand considerable changes in its own approach to development and reconstruction lending. For we cannot be satisfied with what the Bank achieved in 1985. Its net disbursements to the region fell by nearly $100 million, and its commitments by over $500 million. That trend

must be reversed. These drops are the result of the retrenchment and necessary postponement of many traditional projects by the borrowing countries. Of course quantity is not everything. Quality is just as important. By "quality" I mean particularly improving the incremental capital output ratio, and raising and bringing forward the benefits of the core investments which still merit Bank support. This too requires Bank staff and management to look at lending with new eyes. Let me outline what we think the main changes should include.

First, to be fully effective the operations of the Bank need to be prepared and carried out taking into account the prospects and requirements of the borrowing country, seen and analyzed as a whole. That means, developing a process for close comparison of views with the Bretton Woods institutions, and especially the World Bank, and deploying lending which reinforces and supports a coherent strategy for recovery, put forward by the borrower with the support of all the relevant institutions. Such an approach could also allow borrowers to help rally potential sources of external finance in a more coordinated and effective way. There are different possible mechanisms for this. Not every country would necessarily want to adopt the same pattern of coordination. But in other areas of the world borrowers have made good and wide use of the Consultative Group system, and some variation of this could on occasion be useful. It is of course already applied for several Caribbean member countries.

Second, we should bear in mind that, as a rule, all projects in the public sector need to be reviewed when adjustment is undertaken, so that their priority and nature can be assessed against the resources available for a balanced public investment program, which is harmonized with the fiscal possibilities and which meets the most urgent requirements of the nation. That is exactly why so many of the Bank's traditional lending possibilities have fallen away. Such projects as remain may also have to be reshaped. There may for instance now be a pressing need not to develop new capacity, but to restore, maintain and improve the efficiency of whatever is already available. Provided the right macroeconomic and sectoral policies are in place, an investment of this kind can bring a much larger economic return to the borrower.

Third, the natural development of the Bank's past experience towards support for adjustment must be in the direction of appropriate support for policy and institutional change within particular sectors. We hope to see the Bank develop more effective tools for appraising and discussing sectoral investment. In education, for instance, it should examine labor market trends, access to education, the respective roles of private and public education, the balance between investment at different levels of education, the case for action to reform curricula, the policy towards cost recovery, and the links between the educational system generally and technological, social and economic change. The Bank has already experimented with sectoral lending programs for industry and for agricultural credit, but we have not been happy with the relative lack of attention so far to the basic sectoral issues they raise. These programs urgently need to be reconsidered and amended if they are to provide a greater immediate impact in favor of the process of growth-oriented adjustment.

Fourth, we need to take a new look at the distribution of resources between different country groups. While the arrangements we agreed to in AB-910 have so far been broadly valid, the Bank must now have more flexibility to respond to the most far-reaching efforts at adjustment by an appropriate corresponding financial

effort. It is important that its lending portfolio should not be determined solely, or even largely, by the relative debt and payments burden facing each borrower. But where a country is pursuing suitably wide-ranging reforms, the Bank should not be prevented from supporting these reforms by artificial devices such as the limit on lending to a particular country group.

We have taken one step towards improving the capacity of the Bank during the past 12 months by agreeing to the merger of the ordinary and inter-regional capitals. My Government was one of the first to vote in favor of the resolution on the merger and we hope that it can obtain a sufficient majority to be adopted if possible during this very meeting. The Bank will also be strengthened by the membership of Norway, which we hope will be completed in a very short time. For our part we are particularly glad that this will add to the non-regional membership, and we look forward to working with Norway within our constituency in the Bank. Over the next few months our main task must be to agree on the Seventh Replenishment. The Committee of the Board of Governors has already begun to discuss the Bank's possible new role. We have set out in that Committee the chief elements in our own approach to the issues involved, and we have asked for that statement to be distributed to all Committee members and observers. We hope the negotiations will now move ahead swiftly, and we look to Management to provide full and early material to help the process forward. But since it is urgent to begin at once to experiment with new financing in support of reforms, we have also suggested in the Committee that, without waiting for the conclusion of the Seventh Replenishment negotiations, the Bank should offer in 1986 to co-finance with the World Bank some sectoral adjustment loans to selected borrowing members.

Before concluding, I wish to underline two particular concerns we have about the lending program. These two concerns are linked. The first is our disappointment at the Bank's continuing inability last year to meet the target we set in AB-910 that half our lending should directly benefit lower income groups, primarily through projects that stress the creation of productive employment in the rural and urban areas. Mr. Chairman, fulfillment of this target becomes more important, not less, in times like these, if the increased social strains which you mentioned are to be contained. And we think the target itself is expressed with enough flexibility for a good deal more imagination to be used by Bank staff and borrowers in working up possible investments of this kind.

Our second concern is that the Bank should pay the most rigorous attention to environmental and social issues in appraising investment requests. There is a widespread and growing understanding, and consequent apprehension, among the public in Britain about the links between certain types of development and climatic and other changes tending to destroy or degrade natural resources whose conservation is vital to the common heritage of mankind. The pressure of rapid population growth also has an adverse impact, as it does on the distribution of the benefits of economic growth generally, and we continue to believe that the Bank should consider a more active role in that area. But whereas economic growth expands what the population can share, natural resources are limited, and any damage inflicted upon them can permanently reduce what is available in the future. We believe, however, that such resources can often be exploited in a sensible and carefully-managed way which balances the needs of development and conservation. These resources, of course, are controlled by sovereign countries and it is their governments who carry the chief responsibility for their custody and use. But

the Bank represents the wider international community, and we therefore have every right to expect that it will scrutinize all lending proposals to satisfy itself that their environmental and social impact has been thoroughly assessed, that measures have been agreed where necessary to deal properly with any likely adverse effects, and that these measures will be adequately monitored by the Bank's staff as the project is put into effect. Accordingly we welcome what is restated in the Annual Report on this subject, although we believe that both social and environmental aspects need to be examined at the same time and in the same perspective. We were particularly delighted to learn from President Ortiz Mena how the Bank is supporting the conservation program of the Government of Costa Rica. Once again this small country is in the forefront in expressing its own commitment to an important human cause.

Address by Mr. Leopoldo Portnoy, Temporary Alternate Governor for Argentina and Vice President of the Central Bank

It is an honor for me to be able to address this meeting on behalf of my country's delegation and to join our fellow Governors in expressing our gratitude and appreciation to the Government and people of Costa Rica for their warm welcome and the generous hospitality we are enjoying during our stay in San Jose, this beautiful capital.

I also wish to congratulate Mr. Antonio Ortiz Mena on his re-election as President of the Bank and for the report he has presented to the Board of Governors. May I also congratulate the Board of Executive Directors and the Management staff on their invaluable work for the Bank.

Towards the end of 1984, there seemed to be some hope that the world economic and financial crisis might be coming to an end, considering the levels of economic recovery which had been taking place throughout 1983 and 1984. However, the indicators for 1985 confirm our fears that the recovery was not consolidated and that recession and stagnation continue.

This crisis has serious implications for the countries of the Latin American and Caribbean region, and it has upset the efforts which the region has been making through a prolonged and painful adjustment process.

We are certain that if the adjustment processes do not bring some favorable results within a short time, our potential for growth will deteriorate rapidly. This will in turn cause uncertainty among our peoples, who wish to live in freedom, with progress.

It is generally recognized that the region has made a remarkable adjustment effort and that it has at all times presented its requirements with a view to achieving permanent solutions, maintaining balance among the interests at stake and avoiding any destabilization of the international financial system.

However, in order for the countries of the region to be able to get out of the asymmetrical situation in which we find ourselves, the industrialized countries must respond to our attitude of sacrifice and careful negotiation by meeting us half-way.

Up to now, what we have seen are fiscal readjustments, a loss of purchasing power among our people, a sharp reduction in imports and a deterioration in the growth of our economies.

It is evident to all that some of the major causes of the precarious economic and financial situation of Latin America and the Caribbean and of the degradation of our social conditions are the high level of the external debt service, the protectionist trading practices of the industrialized countries, the fall in the prices of commodities and the closing down of external financing. Until such time as a suitable solution is found to these problem and—this is not entirely in our hand—we do not see how we can get back onto the road to development with peace.

Policies and mechanisms which could lead to a solution have been discussed repeatedly, but up to now the developed world does not seem to be sensitive to these efforts.

The external debt situation is manageable and solutions can be found within a growing world economy. A growing world economy means, among other things, growing world trade and assured transfers of financial and technological resources. This in turn calls for clear rules of the game.

The developed countries cannot and should not subsidize the production and export of their commodities. Moreover, they must comply with international rules, eliminating all barriers which are detrimental to the interests of the whole and cause further imbalances in the world situation.

The Latin American countries find it impossible to understand why the fiscal disorder of the countries of the center has become chronic, creating disturbances which not only affect the countries directly involved, but which also affect the international capital markets, raising real interest levels and absorbing the meager funds of the developing countries.

Over the last four years, the Latin American region has transferred more than $100 billion in net capital to the developed countries.

One final remark on this issue: maturities, prices and contractual terms for the debt should be reviewed so as to bring them in line with the future growth of debtor countries and their actual repayment capacity.

I wish now to refer very briefly to the efforts my country is making to reorganize its economy and its finances.

In mid-1985, Argentina announced and began to implement an economic reform program whose main emphasis lay in eliminating the sharp inflation that had affected us for a long time. The Government's program departs from the more traditional policies recommended by the International Monetary Fund. Essentially, it is based on the following:

Firstly, the decision that the Government will not resort to the Central Bank to finance its expenditures.

Secondly, the adoption of a monetary reform under which the Argentine peso was replaced by a new currency, and the application of a scale for converting transactions carried out before the changeover, which included indexing mechanisms, into transactions contracted in the new currency.

Thirdly, the establishment of a suitable fixed exchange rate, in order to encourage greater production of exportable goods.

Fourthly, the freezing of prices and wages so as to break the inflationary inertia brought about by the expectations of society.

The early results of the program being applied may already be seen. The inflation rate has fallen drastically, from its mid-1985 peak of over 30 per cent per month, to a recent level of less than 3 per cent per month. Moreover, there are signs of recovery in production and sales in several sectors of the economy, and there is no evidence of widespread pressures from demand nor of a shortage of products. I must add that the measures adopted, which undoubtedly entail sacrifices on the part of the community, have been viewed favorably by the public.

The program has achieved stability in nominal variables, and the necessary steps are being taken to ensure that this stability is considered a normal ingredient in the economic life of the country. What we need now is to find an adequate solution for the external sector that will enable us to meet our obligations and reverse the longstanding downward trend in the rate of investment.

We know we are understood by the international financial community and we trust that we will receive aid from the multilateral banks, especially the Inter-American Development Bank.

During the months remaining in 1986, the Bank and its member countries will be completing the implementation of the Sixth Increase in Resources. At the present rate of execution, and considering the forecasts studied by the Bank's Management and Board of Executive Directors, it appears that, unless execution conditions change drastically, the Bank will be left with a large amount of unused resources. We shall thus be faced with the paradox of a heavy need for capital funds coupled with blockages within the Bank which prevent the Bank's surplus capital and its special funds from being used.

This is due to the fact that the conditions for executing the program were established at a time when the situation was very different from today. Changing economic and social circumstances should have led the Bank and its members to adapt to the new times, but this has not happened.

This far into the current year, this is the last practical opportunity for speeding up the execution of this cycle. To this end, I propose that Management submit, as an urgent matter, such projects as may be necessary in order that they may be dealt with by the Board of Executive Directors or the Board of Governors, as the case may be, thus allowing for expeditious approval of measures—with which we are all familiar—aimed at streamlining the matrix, raising the ceilings for the Group A countries and expanding the criteria for the utilization of the resources of the Fund for Special Operations. That mass of resources could activate investment in the region while at the same time expediting the execution of works being carried out by enteprises of developed countries

We also propose that lines of credit for export be expanded, taking advantage of the existence of surpluses.

We wish to improve the credibility of systems and agreements we have discussed and on which we have agreed on previous occasions. Therefore, the measures we propose here must not be tied to global negotiations.

I feel that we have not made much progress, and perhaps we have moved backward, in our discussions on the Seventh Increase in Resources. Nevertheless, I wish to repeat that we believe in the need for negotiation, based on mutual respect and understanding.

Our country believes that the Inter-American Development Bank should continue being a multilateral institution and that it should preserve its regional character. Throughout its history, its decisions have been taken in an atmosphere of mutual agreement, applying the Agreement Establishing the Bank. These criteria must continue to be applied at all levels of the organization. There is no reason or precedent to justify changing this practice.

Where a change is needed is in the matter of the amount of resources which should be provided to the Bank in order for it to continue fulfilling its mission to serve the region.

Most of these resources should be earmarked for project financing. We agree with the idea that an amount of no more than 20 per cent may be used for sectoral loans, the negotiating terms and disbursement of which may be tied to compliance with internal sectoral parameters, avoiding cross conditionality with other institutions and with due respect, in all cases, for the countries' policies for improving the operation of the sectors concerned.

Our Bank has played an important role in the execution of programs with concessional funds. It has thus been able to respond to social needs and to those of the less developed economies of the region, encouraging and speeding up their growth.

The Seventh Increase in Resources should provide for a substantial amount of concessional resources, with flexible execution criteria.

My country undertakes to make the efforts necessary to achieve these objectives.

In order for the Bank to be able to fulfill its objectives, certain administrative changes must be made in its organization. These must be duly studied by Management itself, approved by its Board of Executive Directors and implemented by its President.

I feel I must refer to certain specific matters relating to the future of the Bank.

Recently, as talks on the Seventh Increase in Resources have begun, certain proposals have been made for changing the voting system. In brief, under these proposals, the characteristics of development programs and plans, as well as loans and their conditions, would be defined by the Inter-American Development Bank and, specifically, by the developed countries.

This change is proposed even in the event that it should be decided to create an executive committee of the Committee of the Whole, which would operate in an equivalent fashion.

The idea of allowing greater flexibility in conditions for loans under the Sixth Replenishment, including concessional loans, and the definition of the Seventh Replenishment, have been made conditional upon the acceptance *in toto* of the aforementioned proposal.

The proposals mentioned above have no legal basis, only political force. In our view, a different frame of reference is required for a dialogue. We trust that valid solutions will be found, in a very short time, in order to make this possible. Those who have the most power exercise it the most when they wield it the least.

This is an expectation shared by all the countries and peoples of Latin America and the Caribbean. We have the obligation to find the way to a solution and Argentina will make every effort to do so.

In the modern world, the only option we have is for all countries to live together in peace, whatever may be their level of development.

Address by Mr. Franz Vranitzky, Governor for Austria and Federal Minister of Finance

To begin with, I wish to express my sincere gratitude to the Government and people of Costa Rica for their friendly welcome and kind hospitality and for the excellent arrangements for this meeting. I should also like to thank President Ortiz Mena, the Management and Staff of the Bank for their dedicated work for the development of the region and for their report on the activities of the Bank in the year under review. As this report discusses in detail the economic situation in Latin America and the Caribbean, I will confine myself to a few remarks on this subject.

At our last Annual Meeting, when Austria had the great honor and privilege to welcome the Board of Governors in Vienna, expectations were expressed that the upward trend in the economic development of the region might be maintained and even intensified. These expectations have not been met. The slowdown in the economic growth in the industrialized countries together with continued protectionist measures applied by several countries prevented an increase in Latin American exports and made it even more difficult for the countries of the region to service their external debt. External indebtedness remains the crucial problem for Latin America. I believe that this problem cannot be solved by financial and monetary policies alone. We have to be realistic enough to acknowledge that in dealing with economic and monetary questions political interests will also play a role. However, in an international organization like the IDB, discussions on political goals should be carried out in a way that their outcome is acceptable to all parties. No member of the international community should get the feeling that size and strength have prevailed over superior arguments.

Efforts to solve the debt problem will have to be undertaken by creditors and debtors. As the Annual Report rightly points out closer cooperation between Latin American countries and their principal economic partners is essential in order to launch the necessary medium- and long-term measures to restore sustained economic growth in the region. We all know that there is no panacea for coming to grips with the debt problem. Solutions have to be elaborated with due regard to the particular circumstances of each individual country. Nevertheless there are some common issues which have to be tackled by most countries of the region.

Creation of adequate employment for the growing population of Latin America cannot be achieved solely by import substitution. The economic growth rates necessary to provide higher standards of living for more people can only be achieved by export-oriented economic policies paying due attention to an economic environment favorable to domestic resource generation. Export oriented policies, however, require trading partners to allow for easy access of Latin American exports to their markets. Austria has refrained from relying on import restrictions.

I believe that access to export markets is at least equally important to sustained development as increased transfers of financial resources. In particular, the debtor countries of the region need to strengthen trade flows to regain a degree of creditworthiness which will enable them to raise sufficient finance for their further development. I invite my fellow Governors to engage in avoiding trade restrictions.

A decisive role in the process of economic development has to be played by the international financial institutions and above all by Latin America's own development bank. Closer cooperation between the World Bank and the Inter-American Development Bank will be needed especially in preparing country programs and in intensifying the dialogue between both organizations and the borrowing countries. In order to enable the World Bank and the Inter-American Development Bank to increase the resource flow both institutions must be provided with additional funds.

Negotiations on a Seventh General Replenishment of Resources for the IDB have started here in San Jose. The first round of discussions has shown that the positions of the different groups of member countries with respect to the main issues are still wide apart but that there is a common determination on all sides to come to a consensus on the most important questions. In view of the necessity to provide the Bank with the resources needed to widen its assistance in the region we all will have to make every effort to come to an agreement as soon as possible. In deciding on the volume of the Seventh Replenishment, on the future loan program, new forms of financing and operating rules, the results of Bank lending in the past years will have to be taken into consideration.

A review of the lending operations of IDB under the Sixth Replenishment shows that the Bank had difficulties in reaching the original lending targets. The fiscal year 1985 was characterized by delays in the placement of concessional resources and by shortfalls in the lending targets for rural development and agriculture as well as in the distributive impact of approved projects, so that the envisaged target of 50 per cent lending to benefit low-income groups during the Sixth Replenishment period will hardly be achieved. These unsatisfactory results could not be prevented although the Bank demonstrated flexibility as for example by instituting a special operating program and by applying enlarged criteria to concessional lending.

The financial pressures experienced by many countries in the region caused delayed and reduced counterpart contributions from the borrowers. Due to these financial constraints some countries tried to concentrate available resources on quick revenue creating projects, whereas projects in other sectors such as social infrastructure and agriculture received less attention. This policy affected in a negative way IDB projects and especially those financed on soft terms. Any reduction in the support of infrastructure and agriculture, however, should not be acceptable for IDB. In particular, I would like to stress the need for continued expansion of health services even in periods of fiscal constraint. Although recipient countries will have to prove their interest in projects by contributing a certain share of the funds required, even for projects where reflows are not to be realized quickly, the Fund for Special Operations (FSO) should be flexible enough to ensure continued project activity in social sectors.

I should like to refer to a special activity of the IDB mentioned in the Annual Report, which I consider to be of major importance. The Bank has undertaken a financing program for small projects. I believe this kind of financing to be the best way to assist those sectors of the population with the lowest incomes, who would hardly have access to conventional resources. Since its inception in 1978 this program has supported 60,000 beneficiaries through cumulative financing of $59 million. I believe that this type of financing should receive much more attention and I consider the approved 18 operations totaling $6.7 million in 1985 as too low.

Let me now turn to matters of special importance to the nonregional members of the Bank. This year they can look back on ten years of cooperation with American States in the IDB. This anniversary provides the occasion to review the position of the nonregional members in the Bank and the role they played in the Bank's performance during the past decade. In these ten years the resources of the Bank and the FSO have been considerably increased. The nonregional members have always been willing to contribute a fair share to the resources of our institution. In view of the limitations imposed by the Articles of Agreement their subscriptions to the capital could only be modest. On the other hand they have been requested to provide quite substantial amounts to the FSO. In spite of considerable efforts to provide the Bank and its soft window with sufficient resources, the influence of the nonregional members in the decision making process remains insufficient. During the ongoing discussions on the Seventh General Increase, the distribution of the capital, the voting power and the contributions to the FSO should, therefore, be reviewed. We would consider it appropriate to bring the nonregional capital share and voting power more in line with the financial contributions to the soft window of the Bank. In this context it cannot be overlooked that nonregional countries contribute also through their capital markets to the strengthening of the capital basis of the Bank and to its lending ability.

A couple of months ago the Board of Governors approved the Norwegian application for membership. The admission of Norway will bring the number of nonregional members of the Bank to 17 and would justify the realization of the long-standing request for a third nonregional seat in the Board of Executive Directors. Another point I want to raise in this connection is the modest participation of nationals from nonregional countries in the Bank's staff. I would urge the Bank's Management to adopt a more positive attitude as regards applications of candidates from these countries.

In concluding, let me reiterate my conviction that concerted efforts of Latin American countries, their trading partners and multilateral development institutions, in particular to IDB, will lead the region to a path of economic and social progress. The outstanding personality of President Ortiz Mena, his high qualifications and long experience will enable the Bank to play a dominant role in our common endeavours.

Address by Mr. Jesus Silva-Herzog Flores, Governor for Mexico and Secretary of Finance and Public Credit

This Twenty-Seventh Annual Meeting of the Board of Governors of the Inter-American Development Bank takes place at a time when the international situation is marked by complex economic issues and tenuous political stability. The magnitude of the problems we now face poses a challenge to our ability to work towards and to make decisions in support of the attainment of higher levels of development in Latin America. Consequently, the Bank's work in the future will be of pivotal importance, and the strengthening of its activities will test our determination to unite in a common effort.

On behalf of the Government of Mexico, I wish to offer my thanks to the people and the Government of Costa Rica for their warm hospitality and high sense of organization they have displayed. It is my hope that the bonds of friendship, communication, and understanding that link our countries will continue to grow closer.

I am pleased, as well, to extend my sincere congratulations to Mr. Antonio Ortiz Mena for the report that he has given to this meeting, and for the distinguished role that he has played during his 15 years as President of the Bank, with the support of the Governors, the Board of Executive Directors, and the Bank's entire staff.

Looking back on the more than a quarter of a century since the Bank's founding, no one can dispute that it has contributed substantially to Latin American development. In the face of changing conditions both around the world and within the region, it has modernized its operating structure and adapted to the new demands of its member contries. Also, it has strengthened its multilateral character and its financial capacity as more and more new countries have joined, both from within the Americas and from elsewhere in the world.

Thus, from 1961 to 1985, the Bank has channeled more than $31 billion in loans to finance projects having an aggregate cost of approximately $106 billion. In addition, the Bank was the first international institution that focused its attention on rural financing in a large way, and it has been a pioneer in its support for housing and tourism.

To traditional development activities such as energy and industry it has added urban development, public health, and environmental protection. The IDB's involvement in the establishment of basic infrastructure has had an enormous impact on the increase in production in Latin America, and has clearly benefited the general population and the private sector.

It is important to stress that the Bank has worked continuously towards Latin American economic integration in promoting the establishment of credit and technical cooperation mechanisms aimed at accelerating this process. In this area, it stands as a continuing example, attesting to the effectiveness of intra-regional cooperation.

The quality of the Bank's loan portfolio, its high level of loan recovery, and its scrupulous financial management have earned the confidence of the world's capital markets, which have looked with favor on its placement of securities.

Special mention should be made of the IDB's actions in 1983 to help countries facing liquidity problems. The timely implementation of the Special Operating Program and the Industrial Recovery Program effectively complemented the countries' own efforts to overcome the sudden problems they faced. This enabled the Bank to maintain its level of operations at a time when other similar institutions were reducing their loans.

There can be no doubt that, through these actions, the Bank has demonstrated its flexibility and its ability to respond to current needs. Today, we have to take advantage of this potential and strengthen it further in order to be better able to cope with the difficult circumstances now facing Latin America.

We are now in the midst of one of the most critical moments in recent history. The world economic situtation offers bleak prospects for the developing countries. Uneven recovery and slow growth in the industrialized nations, an insufficient decline in real interest rates, the sharp drop in prices for primary products, exchange-rate instability, and the reinforcement of protectionist barriers are all contributing to the present uncertainty and hampering our adjustment and development efforts.

At the domestic level, the prevailing economic conditions cannot be maintained. They continue to be characterized by negative rates of growth of GDP, shrinking *per capita* incomes, rising unemployment, a marked decline in investment, unfavorable terms of trade, a severe cutting of imports, and, above all, an acute shortage of external financing.

A few figures will serve to illustrate the situation. The annual rate of growth of *per capita* income was 2 per cent from 1977 to 1980, while it was minus 1.5 per cent from 1981 to 1985.

In the last five years, Latin America's terms of trade prices have fallen more than 16 per cent. If this had not happened, our countries would have had an extra $15 billion in 1985 which, taken together with the $30 billion trade surplus on goods and services, would have made it possible to pay interest on the external debt and increase the region's international reserves by some $10 billion.

Lastly, mention must be made of the involuntary change that our economies have undergone in becoming net exporters of capital. Since 1982, approximately $106 billion has been transferred to the financial sector abroad. This is nearly four times the total of all the loans granted by the IDB in its 25 years of existence (just over $31 billion).

The region remains mired in the same critical situation in which it found itself in 1982. The consequences of this are reflected in a deepening of structural problems, which is reducing the effectiveness of the development programs currently under way. Since our last meeting in Vienna, in March of 1985, not only have economic prospects not brightened, but even more obstacles have had to be overcome.

Difficulties in some Latin American countries have been aggravated by the recent drop in oil prices, which translates into sizeable losses in export earnings and has a considerable impact on the flow of foreign exchange and tax revenues. This limits even further the ability to meet the needs of the population and cope with debt service obligations.

On the other hand, for the principal industrialized countries this collapse of international oil prices is going to mean a savings estimated at between $60 and $70 billion in 1986. This windfall could well be put towards greater international

solidarity and economic cooperation.

Special mention must be made of the serious political and social repercussions of the situation, which jeoparadizes Latin America's stability and counteracts the laudable momentum towards democratic processes that the region has seen in recent years. Because of this, all the member countries, and the Bank itself, have an obligation to take a responsible, realistic, and creative approach to the current situation.

It is plain that solutions to the present crisis will not be easily found. Everyone must contribute with the means at his disposal. By reason of the work that it has done in the past and its close ties to the region, the Bank must take a leading role in Latin American recovery.

Consequently, it is vital that the forthcoming replenishment of resources be in keeping with the needs of the borrower countries which are striving to solve their problems and to improve their economic relations with the international community. As we said last year, the Seventh Replenishment must more than double the amount of the Sixth Replenishment, so as to provide the Bank with adequate financing capacity.

That the industrialized countries are showing interest in supporting the efforts of the Latin American countries is encouraging. But we believe that this interest must take the form of effective support for institutions, such as the IDB, that have demonstrated a high level of responsibility and efficiency in financing projects to benefit developing countries.

In this regard, it is important to underscore the importance of reviewing the Bank's operating policies from time to time, so as to assess the efficiency of its services and take advantage of the experience gained over time. This will make it possible to avoid taking hasty decisions and to establish clear and precise rules and coordinated policies that will assure continued progress.

We are therefore glad to see that a study is going ahead, at the initiative of the President of the Bank, to determine what personnel and operating structure will be necessary in order to meet the needs of the Seventh Replenishment period. We are confident that these steps, together with the abilities of the Bank's technical staff and the efficiency of its Management, will make it possible to meet the challenges of the years ahead.

Similarly, the Bank needs a strong and representative Board of Executive Directors, in which matters of interest to all member countries can effectively continue to be discussed. While it is true that the nations of Latin America hold a majority of the voting power in the Bank, it is none the less true that this majority has been used in a highly responsible way. Consensus has prevailed in the Board's decisions, not the imposition of group interests.

We must not lose sight of the principal purpose for which our Bank was brought into being: to be an instrument to promote development. Consequently, we are pleased that the Bank has resisted pressures to increase conditionality in its operations, while at the same time ensuring that this does not result in wastefulness in the utilization of its resources. On the contrary, this stance demonstrates the Bank's respect for the individual internal problems of each beneficiary country. The best course for the Bank, therefore, is to strengthen its coordination with other multilateral institutions, but it would be wrong for conditionality to be imposed from an alien perspective.

Latin America has reiterated its willingness to persevere in working towards

its objectives for structural change, while at the same time meeting its immediate needs. However, there can be no doubt that the success of its efforts requires a global approach in the medium and long terms, a more favorable international economic environment, additional inflows of development financing, and debt service which is in accordance with its actual capacity to pay and does not constrain the potential for growth.

It is satisfying to see the advances that have been made in the Inter-American Development Bank's various areas of activity during the 26 years since it was founded.

There are today several areas of Latin American life in which the IDB is taking an active and positive role. However, in regard to the wrenching external debt problem, there is a need to reassess the size of the Bank's contribution, especially in view of the expertise that it has accumulated over a quarter of a century of serious, professional work.

So far, the burden of the solution to the problem has been borne by the debtor countries. Moreover, the most widely publicized proposals for solving the problem continue to prescribe essentially the same measures that have been put forward since the start of the crisis, and continue to recommend precisely what many of our countries have already been doing for some time.

Mexico's position on this issue has been stated in other public forums. It is worth repeating here: the solution to the external debt problem must be arrived at within a framework of shared responsibility between debtor and creditor countries, the international commercial banks, and multilateral financial institutions.

No one can have the slightest doubt that there is an urgent need for everyone to do his full share. All must share the responsibility and sacrifice with the peoples of Latin America.

Given its prestige, its expertise in the area, and its operating capabilities, the IDB cannot and must not restrict itself to implementing measures to resolve the debt problem that have been conceived and designed with a short-term perspective, and which place little emphasis on the specific needs inherent to the region's development.

This Twenty-Seventh Annual Meeting of the Board of Governors must therefore instruct the Board of Executive Directors to establish specific measures that will facilitate the Bank's participation in and contribution to the shared resolution of the external debt problem.

Although it is true that some basic objectives will be met if certain questions of vital importance are resolved—such as the Seventh Replenishment of Resources—it is also true that very little progress has been made in developing specific technical proposals that will enable us to elaborate strategies for overcoming the problems we face in the medium and long terms.

We would do well to ask ourselves, now, under what internal and external conditions the projected 550 million Latin Americans of the first decade of the Twenty-First Century will be living—especially considering that the majority of them have already been born.

If current trends continue in such areas as access to foreign markets, the terms of trade, and capital flows, conditions will not favor the advance of democracy, economic growth, and general well-being in the region.

There is also another sense in which it is important to determine in timely fashion—which is to say, now—within what political, economic, and social

structures we will begin the next century. How will we participate in the advance of technology, how will internal production have to be organized, what changes or fine-tuning will be needed in our education systems—in short, what systems will apportion the goods and services that imbue dignity to the lives of human beings?

Herein lies a vast and rich new territory that we must begin to explore. For the Inter-American Development Bank this area offers great potential, because of the Bank's wealth of experience and the professionalism and technical abilities of its staff. Much progress would be made in this work if, at our Twenty-Eighth Annual Meeting, technical proposals were put forward that would allow the Governors to discuss and examine, on a firmer foundation, some of the questions that will determine the future shape of Latin America.

In a situation as complex as the one in which we now find ourselves, it is inevitable that different, and even diametrically opposed, points of view and proposals should be put forward in response to the same problems. This means that we must examine proposals together, share the burdens and sacrifices, and adopt solutions satisfactory to all sides; but, above all, it means that we must avoid confrontation and develop ways and means of economic cooperation that will guarantee that the needs of each of our countries are met and that the objectives that each of our countries has set itself are achieved.

Address by Mr. Manuel Azpúrua Arreaza, Governor for Venezuela and Minister of Finance

I am honored to greet on behalf of the Government of Venezuela the authorities and the people of Costa Rica on the occasion of this Twenty-Seventh Meeting of the Board of Governors. We should like to take this opportunity to reaffirm the ties of friendship and cooperation that have linked our two countries, while extending our greetings to the Chairman of the Board of Governors, the President of the Bank, and our fellow Governors at this gathering as well.

We come to this meeting imbued with a spirit of optimism, despite the ominous economic and financial situation of our countries, which are confronted with the most severe economic crisis the region has experienced in the past 30 years. We are confident that the Inter-American Development Bank will find the most effective means of intensifying its role as the agency responsible for promoting economic and social development in Latin America.

The marked stagnation in the gross domestic product of most of our countries, the soaring unemployment rates, intolerable levels of foreign debt, and drastic plummeting of export revenues may well be unprecedented in the region. So far reaching is this crisis that it can only be surmounted by dint of determined efforts on the part of the more developed countries to find alternatives permitting a realignment of economic activity and a seemly increase in the flow of external resources. The goal will be the restoration of sustained growth that will once and for all remove the roadblocks to the region's economic and social progress.

The meeting of the Cartagena Consensus, held recently in Punta del Este, Uruguay, placed renewed emphasis on the need for greatly intensified dialogue with the industrialized countries in order to find ways to stem the protectionist tide, lower the ballooning real interest rates, and establish mechanisms to slow the decline of commodity prices—factors that have exacerbated our current economic difficulties. Attainment of the economic growth objectives and maintenance of the region's political stability will be impossible unless an appropriate and definitive solution to all these problems can be found. We therefore consider the Brussels meeting between the member countries of the Cartagena Consensus and the European Economic Community to be of consummate importance, and we hope it will be the forerunner of similar meetings with industrialized country governments to deal with the problems of foreign debt.

The Baker Initiative introduced last year by the United States Secretary of the Treasury impresses us as a signal contribution to the quest for decisive solutions to our countries' complex foreign indebtedness problems, given the imperious need to resume an adequate flow of financial resources to the region, thus enabling it to meet those commitments without interrupting the progress of development and economic expansion. We nevertheless have reservations about the stringent requirements and conditions that might be attached to the use of funding from this program.

Even the most conservative calculations reflect the region's need for copious financial inputs. The Economic and Social Development Department of the Inter-American Development Bank estimates that with a forecast of sustained

growth between 1986 and 1990, Latin America will require roughly $140 billion in external financing, $100 billion of which would be net external loans. A further *sine qua non* is a substantial increase in direct external investment that will share with us the risks and opportunities offered by our countries' economic growth.

In the case of Venezuela, the decline in oil prices and the resultant impact on the balance of payments and fiscal revenues have accentuated our economic difficulties. We have met this situation by taking a series of measures designed to diversify the economy, increase fiscal income from internal sources, and reduce public spending by increasing its efficacy. In doing so, however, we have carefully guarded against any interruption in the indispensable social programs that meet our population's basic needs or of the priority investment programs essential to the country's economic growth.

In this context, and despite its present difficulties, Venezuela continues to be a willing contributor—insofar as those constraints permit—to the improvement of the hemisphere's economically less developed countries through direct participation on behalf of productive projects and, fundamentally, through its support to multilateral financing organizations, particularly the Inter-American Development Bank.

The member countries of the Bank can no longer postpone the requisite strengthening of the institution. This offers the industrialized countries an opportunity to put into practice their oft-repeated willingness to cooperate with Latin American economic development. The Bank's Seventh Capital Replenishment, scheduled for the forthcoming fiscal year, thus becomes vitally important, and it must be utilized to endow the institution with sufficient funds to continue providing the region with the necessary external financing, maintaining or improving present employment levels. We are, of course, concerned over the linking of this Replenishment to institutional changes that might alter the objectives and purposes for which the Inter-American Development Bank was established, and the possible introduction of controversial political elements that could impede the accomplishment of those purposes.

The paid-in capital contributions to the Bank could be raised as a means of reducing the high cost of its financing while strengthening the institution's equity structure and borrowing capacity. Such a step would provide tangible proof of the member countries' interest in the agency's definitive consolidation.

Not only does Latin America's economic situation require extensive enhancement of the resources traditionally made available to the Bank, to be achieved by means of a substantial increase in its capital replenishments; it also calls for a concomitant and efficacious search for new financing options. In this connection, Venezuela again asserts its concern over the lack of concrete proposals—which could be incorporated into the conceptual framework of the Agreement Establishing the Bank—designed to secure funds through other than traditional channels, thus allowing the IDB to attract all sorts of public and private investors under market conditions.

Along these same lines, we should like to emphasize the importance of finding mechanisms for the utilization of such resources that permit the financing of both intra- and extra-regional exports, given the urgent need for immediate expansion of the Export Financing Program.

Unquestionably the mounting need for borrower countries to seek IDB financing makes it incumbent upon the Bank to streamline and expedite its

operations in all respects, in the areas of programming and analysis as well as that of disbursements. Also needed is a review of current policies governing the allocation of resources, particularly those relative to the limits imposed on the granting of the external loan component.

This Seventh Replenishment exercise should be accompanied by a significant growth in the lending program, plus the broadening and expansion of the criteria for project eligibility and access to resources—especially those of a concessional nature—in the case of the countries in Groups C and D. We feel that the Bank should adopt measures designed in each instance to set up an annual inventory of loan projects that would allow each of its borrowing member countries equitable access to IDB resources, naturally taking into account the needs and development priorities established by the respective countries.

I should like to close by expressing our gratification that the necessary majority of the signatory countries has been obtained for the constitution of the Inter-American Investment Corporation, an agency that will join its efforts to those of the Bank in stimulating the promotion of small- and medium-scale enterprise in the region. We trust that this is the appropriate time to repeat our invitation that the first meeting of the Governors of that Corporation be held in Caracas.

Address by Mr. Francisco Swett M., Governor for Ecuador and Minister of Finance and Public Credit

May I begin by conveying warmest fraternal greetings from the people and Government of Ecuador to the people and Government of Costa Rica. This beautiful country is not only blessed with fine scenery. Its people have over the course of many generations furnished important examples for the rest of Latin America, such as the zealous practice of democracy, constant adherence to the principles of peace between peoples, and full respect for human rights.

I should like also to take this opportunity to congratulate my close personal friend Antonio Ortiz Mena on his well-merited unanimous re-election as President of the Bank. His re-election testifies to his great stature as a leader of Latin America and as a man of vision who over the course of 15 years has firmly impressed that vision on this Latin American institution—an institution that 10 years ago became truly international with the accession of the nonregional countries to membership.

I am pleased to be able to report that since the last occasion when I had the opportunity to address this meeting in my capacity of Governor for Ecuador, the policy developed by the Government of León Febres-Cordero Ribadeneyra, Constitutional President of the Republic of Ecuador, has borne very promising fruit in those areas that it has fallen to me to administer. During 1985, the Ecuadoran economy followed the path of economic stabilization. Conscious of the need to impose coherent and cohesive instrumental policies, the economic authorities proceeded to attack the problems of the inherited crisis by revising, in both form and substance, Ecuador's policies concerning exchange rates; interest rate structure and levels; the fixing of wages and salaries; domestic price management, discarding the fixing of prices by decree and allowing the market forces greater play, progressively abolishing the subsidies that were grotesquely distorting economic activity, and promoting the reactivation of the private sector. Ecuador's entire external debt—both the commercial and the official portions—was refinanced; and a number of productive sectors and activities were opened up to external investment.

The result of fiscal management is such that, even though public expenditure rose by more than 20 per cent in real terms, a substantial surplus is being built up on the accounts of the consolidated public sector, equal to 2½ per cent of GDP. As a result of diligent tax administration, the revenues collected from income taxes, sales tax and customs duties rose by an average of 52 per cent in nominal terms and 28 per cent in real terms. The expenditure policy put the emphasis on the execution of projects necessary to the recovery of the national economy and also to redress the accounts of a number of public sector agencies, enterprises and entities which had been knocked totally out of balance by the crisis that began in 1982. Current expenditure was managed so as to help maintain the purchasing power of public-sector employees and of the entities and ministries. This same policy was applied to wages and salaries in order to maintain maximum consistency between the goals of sustaining income and employment levels.

In the areas of the external accounts and of monetary, exchange and credit

management, the monetary and economic authorities acted in concert. The Central Bank of Ecuador measured out the appropriate levels of liquidity to stimulate private sector economic growth and to give the appropriate signals and stimuli to economic activities to encourage progressive diversification of domestic production and the production of traditional and nontraditional export products. Finally, policy tended to free interest rates from their previous ties, allowing the market forces greater play. The immediate result of this was to substantially increase savings and consequently to strengthen the intermediation capacity of the national financial system. The effect of this policy was to make available additional credit resources, of domestic origin, allowing more adequate financing of productive activities. Through all these means, the balance-of-payments results were encouraging: the year closed with a substantial and appreciable surplus, reflected in an increase in the international monetary reserves and elimination of the external payment arrears of the Central Bank of Ecuador.

Refinancing the external debt culminated in separate multiannual agreements with the commercial banks and with the member countries of the Paris Club. It is pointed out that so far Ecuador is the only country to have achieved a multiannual agreement with the Paris Club. Through the extension of its external debt payments up to 1996, Ecuador became one of the first Latin American countries to cross the threshold of the unrelenting external debt crisis, allowing us to outline a strategy for progressive normalization of our operations on the international financial markets.

To sum up, in 1985 the Ecuadoran economy grew by nearly 4 per cent. Inflation declined from 28 per cent at the end of 1984 to 23.5 per cent at the end of 1985. The unemployment rate fell from 13 per cent to 9 per cent. The accounts of the consolidated public sector went from deficit to surplus. The multiple exchange rates practices were abolished and the exchange system unified, the international monetary reserve was increased, and import controls were progressively relaxed. What is most important, as evidenced by numerous public opinion surveys, the Ecuadoran public demonstrated its confidence and its faith in the soundness and effectiveness of the economic policies being applied.

The recovery of the Ecuadoran economy during the first 16 months of President Febres-Cordero's administration enables us to face the current oil price crisis with calm and with reasonable optimism. The magnitude of the crisis cannot be overstated. If the price of Ecuadoran oil were to average around $15 per barrel in 1986, Ecuador would lose $700 million in export earnings and the bases would be laid for income shortfalls of around 5.5 per cent of GDP in the case of the consolidated public sector and 3½ per cent in that of the general national budget. For such a loss to materialize in such a short time could be catastrophic with an unhealthy economy; it is nonetheless delicate and worrying for an economy of the kind described above.

The strategy for dealing with these events has been based on (i) testing and verification of the validity of the economic policy goals as originally formulated; (ii) revision of those goals when necessary, and adoption of new goals in line with changed circumstances; (iii) measures to correct the balance-of-payments difficulties, and (iv) the implementation of a policy of increasing public sector income and reducing public expenditure in order to bring the national fiscal accounts into satisfactory balance.

Detailed analysis of the list of goals revealed that many of the original

economic policy goals continue to be valid. Thus, we shall continue the effort to raise fiscal revenues through efficient and effective tax administration; shall pursue the progressive opening up of the economy, using the instruments of exchange and monetary policy to control domestic liquidity levels and determine import demand; shall continue to combat inflation, which we consider to be the worst of the regressive taxes and one that hits basically the least protected sections of the population; shall continue to pursue progressive normalization of relations with the international financial community; shall redouble our efforts to increase the flow of resources from the multilateral development banks; shall establish strict priority ranking of public expenditures, and shall accord greater incentives and give greater attention to export activities.

In the fiscal area, the authorities have decided that public expenditure needs to be reduced progressively, postponing in part the execution of certain projects that had been scheduled for execution but not started. We expect in this way, including cuts in current expenditures, to trim public expenditure by between 5 per cent and 10 per cent.

On the income side, the fiscal authorities, in conjunction with the monetary authorities, have proceeded to open up imports of motor vehicles, aware of the enormous fiscal impact that such transactions have. In addition, an exchange risk premium has been instituted which will mean that in the future importers will not be exposed to enormous losses during the 120-day period when they are making their payments to the foreign suppliers. This latter measure has important fringe effects on the determination of liquidity levels in the economy, pressures on the free exchange market, import demand, and fiscal revenues (since the net revenue from the risk premiums will go directly into the national treasury).

The efforts accomplished in the area of tax administration have yielded spectacular results during the first two months of the year: compared to the same period of 1985, revenue from internal taxes rose by practically 100 per cent and revenue from customs duty revenue by 120 per cent. We are undertaking a thorough study of Ecuador's tax structure with the object of abolishing many of tax ties left over from the earmarking of oil resources. We are preparing comprehensive reforms of basic legislation, such as the laws governing Income Tax, the Commercial Transactions Tax and the Selective Comsumption Tax, the Law Regulating Public Expenditure and the Tax Code. The revised texts will reflect our philosophy of simplifying procedures, progressively eliminating the distortions caused by the countless tax privileges and exemptions that exist today, and totally reforming the tax scale structure so that it does not encourage tax evasion.

With regard to Ecuador's external accounts, we consider that the loss caused by the fall in oil prices will be offset in part by better export prices and volumes in the cases of coffee, cocoa, bananas, shrimps and other nontraditional products. Substantial savings will be realized through the entry into effect of the external debt refinancing agreements, both through the reduction in interest rate margins and the reduction in the rates themselves as the world economy recovers. Finally, the maintenance of a real exchange rate policy will foster proper rationing of imports through the prices and incomes mechanism instead of through the familiar import prohibitions.

The policy governing external credits, along with access to multilateral financing sources must perforce play a more important role, not only in alleviating the crisis, but also as a valuable instrument for national development in the medium term.

Here I should like to avail myself of the opportunity to underscore certain points of policy that my government has maintained over the years in its relations with the IDB. We feel that there has been excessive delay in the placement of the resources provided by the Sixth Replenishment. Although discussion focusing on flexibilization of the matrix as a partial solution to the economic and financial problems spawned by the Latin American debt crisis started two years ago, to date no action has been taken that would permit effective and more flexible implementation of the matrix in a manner consistent with the circumstances of each country, particularly the less developed ones. It has also been posited that proper use has not been made of the Fund for Special Operations, but that argument fails to take into account the recommendations in document AB-910 which are guidelines rather than hard and fast programming. Although preference should be given to social projects in the utilization of the Fund for Special Operations, it is important to realize that over a period of time, and under adverse economic conditions, individual country priorities may become subject to change; as a result, the resources are supposed to serve the countries, rather than devising country policies to make them suit the available funding. Finally, although the area of disbursements is highly complex and cannot be depicted simplistically in terms of black and white, the fact of the matter is that there has indeed been inordinate delay with them. This has meant that in many countries the commitment fees charged have become truly onerous: a situation that worsens the countries' economic plight, however favorable the effect on the Bank's balance sheet.

It is to be hoped that the Seventh Replenishment will be accomplished expeditiously and in a manner consistent with the policies expressly set forth in the initiative of U.S. Treasury Secretary James Baker. Certain points should nevertheless be made regarding this replenishment and its laudable purposes. In the first place, the principle of sovereignty in the economic decisions of each country should prevail at all times, and the analysis and conduct of the decision-making process should be the purview of the economic authorities, based on their own experience and their more accurate understanding of the real economic, political and social situation.

This does not prevent the Bank from taking measures and precautions to ensure that only the most deserving economic and social development projects are selected for financing. We believe that, notwithstanding the high degree of professional expertise achieved by the IDB staff, project analysis can still be improved and streamlined. As for the role assigned to sectoral-type projects in connection with funds from the Seventh Replenishment, we also believe that such programs may well offer significant advantages because of their global characteristics and the speed with which disbursement takes place. There can be no doubt, however, that the IDB must develop the institutional capacity necessary to deal with non-project loans of this kind.

Finally, insofar as the approval of future operations is concerned, it is our opinion that only the contractual conditionality currently in force should be maintained; and that the member countries' ability to make their votes count at the meetings of the Board of Executive Directors should be preserved since—as we have noted before—both the executive levels and the professionals in the Bank have, and should have, the necessary authority to express objective views concerning the operations presented for the Institution's consideration. The same logic may be extended to operations using concessional funding, since it may not be

adduced that these will not have effect in the future. The real point is the need to refine the operations connected with those funds.

We are absolutely certain that the principles set out earlier will be effective in practice. For our part, we will take, as we already have taken, the necessary precautions and measures to enhance Ecuador's role as a member and client of the Inter-American Development Bank. The national government has organized a follow-up committee for externally financed projects, of which I am honored to be the chairman, whose very purpose is to be an instrument and an appropriate forum responsible for monitoring the progress of each and every one of the external contracts. This instrument will be able to determine the nature of the problems that come up in project execution, be they financial, administrative or legal. This committee also has the instructions to prepare the programming of new projects and to see that all the conditions set for timely disbursement of the funds are carried out expeditiously.

Soon we will be consulting with the authorities of the Bank on utilization of IDB resources in co-financing projects and complementary financing with commercial banks. This, it should be noted, does not imply any abandonment of social interest projects for which we will continue insisting it is necessary to have free access to the resources of the Fund for Special Operations.

Similarly, since the national government believes in the need to strengthen the private sector and support the activities of free enterprise within the framework of full compliance with the laws, we shall proceed to become most active in the discussions and decisions of the Inter-American Investment Corporation whose instrument we ratified in April 1985.

If we had to draw an analogy between the behavior of economies and that of human beings, we would have to say that economies also frequently acquire harmful addictions and habits which create real dependence. Our economy has become addicted to aggressive commercial external lending, and to high oil prices. It has fallen upon our government to find ways, first of all, of ending the addiction to debt and now the addiction to oil. This is not a simple job, and victories never come easily or painlessly. We repeat once again our principle that international cooperation is critical to the resolution of Latin America's external debt crisis. For this reason, we have watched most attentively the unfolding of the Baker initiative. We sincerely hope the policies and programs that develop under the terms of that plan will lead to stabilization with growth. Beyond this, we demand from the developed countries the wisdom and vision to uproot protectionist and discriminatory practices in foreign trade, since these constitute in fact the greatest obstacle to full recovery of our economies. We insist that it is necessary for the monetary authorities of the Group of Five countries to exercise their discretionary authority and coordinate their policies in such a way that international interest rates decline to levels consonant with economic reality. Furthermore, we underline the need for commercial banks to show some degree of support for the cause of national development, to assume a fairer share of the commercial profit risk, and understand the obvious facts that the countries of Latin America cannot become net exporters of capital, for the basic reason of economic efficiency, not to mention principles of equity, and *de facto* measures which can produce desperate situations.

To bring this to an end, I wish to emphasize that the people of Ecuador have a true devotion to democracy and liberty which they have demonstrated on innumer-

able occasions through the course of history. For its part, the national government is scrupulously respectful of democratic and parliamentary institutions. This respect and firm position are fully corroborated by the actions of the branches of government and the Ecuadoran Armed Forces in defense of constitutional rights. I wish to take this opportunity to extend on behalf of all the Ecuadoran people a cordial and sincere invitation to meet in Quito at the Twenty-Ninth Annual Meeting of the Board of Governors of the IDB in 1988 when we will offer to all of you the same hospitality we have been accorded here.

Address by Mr. Lynden Pindling, Governor for the Bahamas and Prime Minister and Minister of Finance, On Behalf of the Caribbean Group

It is both a distinct honor and a great pleasure for me to address this Twenty-Seventh Annual Meeting of the Board of Governors of the Inter-American Development Bank on behalf of The Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago. On behalf of the Caribbean Group, I should like to express our deep appreciation to the Government and people of the Republic of Costa Rica for the warm hospitality which they have extended to us, and the excellent arrangements which they have made for this Meeting.

I am also happy to join previous speakers in congratulating our President, Don Antonio Ortiz Mena, on his unanimous re-election for a further five-year term of office. His able guidance has moulded the Inter-American Development Bank into a major instrument for channeling development finance to Latin America and the Caribbean during the 1970s. The innovative and pragmatic responses which our Bank has made to the external financing needs of our region in the turbulent decade of the 1980s can be attributed, in large measure, to his inspired leadership and, as a result, we can face the uncertain prospects for adjustment and growth in our several economies with the calm assurance of the support of a vibrant and dynamic institution.

We have now reached the midpoint of a decade of unprecedented disturbances in the functioning of the international economy. Following the recovery which began late in 1982, the industrial countries now appear to have entered a period of more moderate but better balanced growth which is supported by increasing convergence in the policies and performance of individual member countries. The September 1985 initiative on exchange rates by the Group of Five and other actions to address fiscal deficits suggest that the major industrialized countries are beginning to confront some of the more serious causes of imbalance, particularly the high value of the U.S. dollar. It is likely, however, that the large United States budget and current account deficits will persist for some time.

While the average rate of growth of output in the OECD countries as a whole was less than 3 per cent in 1985, gains in employment were recorded in several countries. Although some further improvement in levels of employment is in prospect, however, the rates of unemployment generally still remain at or near record high levels. A significant feature of this recovery has been the weak link between industrial country performance, on the one hand, and the growth in the volume of world trade, on the other hand. This has had a particularly depressing effect on developing countries whose growth is highly dependent on exports.

Actions taken to promote and sustain recovery in the industrial countries appear likely to be conditioned by a continued policy emphasis on reducing the rate of inflation and containing the size of the public sector and government budget deficits. Further declines in interest rates, along with the significant reductions which were recorded in 1985, helped to provide some relief to the more heavily indebted countries but concerted action most certainly will be necessary in order to make any major impact on their burden of external indebtedness, especially since

both short-term and long-term interest rates continue to be high by historical standards.

We must all be concerned that the economic performance of developing countries during 1985 was disappointing following the encouraging recovery of 1984. The major features associated with this unhappy situation have been a marked deceleration in economic growth, the persistence of high levels of inflation and unemployment and the failure to improve external creditworthiness. In this regard, I should like to note that while the gross domestic product of the Latin American region grew by more than 3 per cent, this performance was heavily dependent on high growth in Brazil. Indeed, in 1985 the economic performance of the rest of Latin America declined in per capita terms. The persistent sluggish performance in the Latin American and Caribbean economies can be attributed to the structural deficiencies in these economies and the slowdown in the industrial countries on whose demand their export earnings are dependent. In addition, export earnings were adversely affected by a further weakening in dollar denominated prices not only of petroleum, but also of sugar, bauxite, maize, beef, wheat, soybeans and cotton. While we recognize that the success of strategies of export-oriented growth is dependent on the vagaries of market forces, we are, nevertheless, gravely concerned that our efforts at promoting the recovery of our economies are being further impeded by the threat of increasing protectionism in the industrial countries.

The Caribbean Economies

Economic adjustment in the small countries of the Caribbean Group continues to be retarded by depressed demand and weak prices for our traditional exports of bauxite/alumina and sugar. These fundamental problems of growth and development in our small open economies have been compounded by locational shifts in demand for Caribbean exports. Shortages of foreign exchange and declining investment flows inhibit our capacity to create alternative sources of output and employment. While there has been a measure of improvement in the tourism sectors of some of our economies this has been offset by poor performance in manufacturing, induced or otherwise. Although we can look forward to a further easing in the rate of inflation through reductions in fuel costs, the steep decline in petroleum prices has resulted in a significant fall in the real purchasing power of the exports of one of our member countries. In view of our unfavorable economic performance, our countries continue to face difficulties in their fiscal situations and their external payments positions and levels of unemployment continue to remain high as a result of these problems of external demand and domestic resource availability.

The small countries of the Caribbean have had to implement policies of stabilization and adjustment which have severely compressed domestic demand and restricted imports, particularly of capital goods, in some cases severely curtailing productive capacity. The unavailability of external financing on favorable terms to fill this gap has sharply reduced investment programs thereby limiting the ability of our economies to generate future growth. At the same time, we have seen a considerable fall in real wages and in levels of social well-being. While such contractionary policies were unavoidable in the context of global recession, we now need to pursue new initiatives which are more appropriate to an improving international economy. A key element of our adjustment strategy must

be the implementation of quick-gestating investment projects which will assist our countries to return to sustainable growth and generate the levels of employment and income consistent with the maintenance of stable societies.

I am pleased to note that the Inter-American Development Bank continues to perform the important role of channeling external finance to the countries of the Caribbean Group. In 1985, which saw the return of Trinidad and Tobago as an active borrower after a protracted period of voluntary abstention, the Bank approved a total of eight projects for our sub-region, accounting for a total commitment of $120.9 million. Compared with 1984, this represented a doubling in the number of projects and an increase of $22.7 million in the total commitments made to the Caribbean countries but problems continue to be experienced in the country coverage of this activity. As in the past, these commitments were distributed between social sector operations, infrastructure, and productive sector investments. Our countries also continued to benefit from the technical cooperation provided by the Bank.

Bank Lending in 1985

It must be a matter of concern to all members, that in 1985 the Bank was unable to maintain the level of total loan commitments achieved in 1984 and overall commitments of $3.1 billion were some $500 million below the level reached in 1984 representing a significant drop in real terms. This reduction in the lending program was occasioned largely by the under-utilization of remaining resources targeted for the Group C and D countries. This reduction in multilateral financing, particularly at a time when normal sources of commercial credit have dried up, raises important questions concerning the policies and lending conditions of our institution. We suggest that much greater attention needs to be paid to the institutional factors which influence the size and nature of project pipelines and which determine the pace at which loan applications are processed.

It is in this context that we welcome the approval of the resolution by the Committee of the Board of Governors, after some two years of discussion, which will allow a wider interpretation of the eligibility criteria for the use of the resources of the Fund for Special Operations by Group D countries. I regret that this increased flexibility will only indirectly benefit Group C countries when they receive loans for similar projects to those qualifying for FSO financing in Group D countries which in their cases will be eligible for interest subsidies under the Intermediate Financing Facility. Given the problems which currently impede economic adjustment and growth in the smallest member countries of the Bank, a review of the country criteria which prohibit the access of these countries to FSO funding at present is urgently required. That review should pay special attention to the problems which these countries continue to experience due to their vulnerability and which tend to be ignored by an undue focus on per capita income.

The Seventh Replenishment

We are rapidly approaching the time when we must give consideration to the replenishment of the resources of the Bank. The slower pace of utilization of the resources of the Sixth Replenishment has provided us with the opportunity to undertake the most careful assessment of the quantum of resources which the Inter-American Development Bank will require to permit it to continue to play its crucial role in the financing of investment for the development of the countries of

our hemisphere. In making this determination we shall have to take account of the nature of future recovery of the international economy, the prospective evolution of the external positions of the major indebted countries of the region, and the needs of other members of the Bank for traditional forms of project finance.

There appears to be general agreement that a change in the structure of new financing, which would permit a better balance between increased official development assistance, equity financing and commercial loans, could significantly assist the process of recovery and growth in the countries of our Region. An important factor, too, will be the decisions taken by private creditors regarding new debt restructurings and financial packages and the resumption of voluntary lending. In this context a crucial issue concerns the terms and modalities of such restructurings and the evolution of future financial instruments which meet the needs of both debtors and creditors.

There can be no doubt, that the contribution of the Inter-American Development Bank to the financing needs of the countries of the region must take account of the differing requirements of the various categories of its borrowing members. Historically, the Bank's strength has been in the provision of resources for development projects and it was in this way that the Bank has been able to make a substantial contribution to the development of the Latin American and Caribbean Region. We are convinced that this emphasis should continue. At the same time, we recognize the importance of maintaining a domestic environment which will ensure the sustainability of the benefits of projects. This concern leads us to seek to improve the efficiency of domestic resource allocations and to intensify our efforts to increase the productivity of investments and the competitiveness of our exports.

We are pleased to note the efforts of the Bank to increase the flow of resources to the region through complementary financing arrangements. This mechanism is a welcome addition to the Bank's operations. We feel quite strongly that the Bank should strengthen its ability to participate in official co-financing operations and to continue to promote the development of complementary financing activities which would augment the supply of external resources available for new investment.

The proposal that our Bank should introduce a major program of what has been called "well-targeted non-project lending" needs to be subjected to the most careful examination. Even if agreement can be reached on this form of lending instrument, its implementation would require major institutional changes which the experience of other institutions has shown requires considerable time for successful implementation. Additionally, a major shift in the composition of the Bank's portfolio is likely to present important implications for its funding strategy and the terms and conditions of its lending operations. Neither of these issues can be resolved merely by associating the Bank's policies with that of other multilateral institutions.

We have a long and important agenda for our forthcoming negotiations. Our shareholders have always advocated that the Bank must be responsive to the changing needs of the region. In our past deliberations we have shown a commendable capacity for practical and pragmatic innovation so I have no doubt that our institution will respond to the current crisis with ingênuity. I am equally certain that the decisions which we shall reach will ensure sustained and equitable development of the countries of this Hemisphere.

Address by Mr. João Sayad, Governor for Brazil and Minister in Charge of the Planning Secretariat, Office of the President of the Republic

I should like first of all to pay tribute to Costa Rica, this courageous and likable country which is today extending its hospitality to us with affection and a profound sense of Latin American amity and whose exemplary democratic history has offered a model for all the peoples of the continent. I congratulate Your Excellency on your election as Chairman of this Meeting of Governors. I am confident that the task of guiding the work of the Inter-American Development Bank in this Meeting is in capable hands.

Also, our President, Mr. Antonio Ortiz Mena, has just been elected to a new term of office. We are fortunate in this, for it means that we shall have extensive access to his wide experience, ability and wisdom in guiding the Bank in the new phase that lies before us, a phase that we hope will produce not only a stronger Bank but also one that is well structured and even better equipped to perform, as it has done throughout its 25 years of existence, a dynamic and decisive role in the economic development of the countries of Latin America and the Caribbean.

Brazil has a high opinion of the IDB's contribution to its modernization and growth in virtually all the vital sectors of our economy, with very tangible benefits for the Brazilian people. Since it was established, the Bank has lent Brazil more that $5 billion. These resources have been used for basic infrastructure projects in such sectors as energy, industry and transportation and also in projects of wide impact and social benefit in, for example, education, basic sanitation and public health. These are concrete achievements which guided us in adopting our position of resolute support for consolidation of the IDB as a key agency in the international financial system in the transition, which we hope is now beginning, to an era of greater emphasis on economic growth. The high rating that the IDB's bonds enjoy on the international capital market and the Bank's impressive financial performance give us solid grounds for believing that sound bases already exist for expanding its role, either through additional resources in the impending Seventh Replenishment or through enlargement of the scope of its activities, allowing it to make loans with a greater macroeconomic and sectoral impact. I am confident that the Bank will successfully adjust to these new challenges and organize itself to assume new responsibilities. I do not believe that any radical changes need to be made to the Bank—or, much less, to the Agreement establishing it—for us to be able to assign to it this new dimension to which we all ardently aspire. I am confident that we shall be able to find the right measure for any structural adaptations that may be necessary to ensure that the Bank's normal operations are not affected and that its transition to a larger scale of activity takes place gradually and in orderly fashion. The Brazilian Government is guided by these general principles and will not cease to take an active and constructive role in the present discussions on the future of the Inter-American Development Bank.

Situations already exist in 1986 which in my view call for prompt and flexible action. As is well known, the IDB will have surplus foreign exchange resources left over from the Sixth Replenishment which it will not be able to disburse or even

allocate under the current rules. The economic crisis, which has affected us all, has sharply curtailed the borrowing countries' capacity to contribute sufficient counterpart funds to expand their lists of projects. A valuable instrument for escaping from this dramatic impasse, already available to us, is to make the matrix that regulates the foreign exchange portion of the Bank's loans less rigid. Why not introduce into it the flexibility with which other international financial institutions already operate? Why not take this step? Another point: our operating rules also refer to the obsolete concept of "graduation," which originated at a time when countries like Mexico, Argentina and Brazil had virtually unlimited access to the international capital market. We cannot ignore the fact that since then we have experienced the sharp and sudden crisis of 1982 and that, in practice, there is no access whatever to money on this new market. I am well aware that this limitation affects only the Group A countries and that members might fear that its abolition could lead to a disproportionate increase in our respective shares in the IDB's lending program. I believe that, provided it is effected in a rational and balanced manner, suspension of the current ceiling will serve to inject greater dynamism into the Bank and will in no way diminish the resources available for the countries of groups B, C and D. For all these reasons, the Brazilian Government considers that while we should give attention to the four-year 1987-90 period, in doing so we should not neglect 1986 and should not, through excessive rigidity, lose opportunities already at our disposal to make loans of great socioeconomic importance for the member countries.

I should like now, with your permission, to report to you on the efforts that the Government and people of Brazil are making to change the face of our economy. When the Sarney administration took office it made a solemn commitment to the nation: the economic adjustments would not be made at the expense of the people; in other words, alternatives would not be tolerated that implied more recession, more unemployment, more wage cuts. A strategy was devised that began to be put into effect by the National Congress in December 1985 through a substantial reform of the Brazilian tax system which reversed the trend of reduction of the tax burden that had prevailed during the past decade and which is making a decisive contribution to the goal of a huge reduction in the public-sector deficit. The result was to limit the Government's financing needs, domestic debt growth and the pressures on interest rates. This action was accompanied, in January of this year, by trimming of the Government's monetary authority through withdrawal of control of the current transactions account by the Bank of Brazil. This measure, in conjunction with the creation of the Treasury Secretariat and unification of the Federal fiscal budget, will greatly facilitate the supervision and organization of the public finances. Thirdly, domestic and external marketing measures were taken that will neutralize the sharp inflationary effects of the decline in harvest caused by prolonged drought in Brazil's major food producing regions.

These series of measures laid the groundwork for a frontal attack on inflation. Last February Brazil faced the paradoxical situation that while it had restored its economic vigor—through growth of industrial production, restoration of the purchasing power of wages, and upsurge in employment, a gross product growth of over 8 per cent in 1985, dynamic foreign trade, and a sound foreign exchange reserves position—it was nevertheless suffering from the fundamental disequilibria that accelerated inflation inevitably produces, threatening to erode the vital fabric of the Brazilian economy and to turn all the efforts and all the benefits

obtained in 1985 to nothing. However, the primary causes of inflation were brought under control through the three sets of measures described earlier, and during the last days of February Brazil was able to direct a more radical attack on the remaining cause of price escalation, the inertial component, which was increasingly refuelling the inflationary spiral: generalized indexing through monetary correction. This instrument, which was created to protect us against rises in prices, had—perversely—become the greater motor of future inflation.

President José Sarney then took the historic decision to implement the economic stabilization program, replacing the greatly depreciated cruzeiro by the new cruzado, a strong currency which marks and symbolizes a complete transformation of Brazil's economic life. Honoring its commitment to the nation, the Government rejected recession and chose growth, rejected unemployment and decided to protect the people's incomes by freezing prices and adopting an equitable wage policy. The remarkable vigor with which the Brazilian people sprang to the defense of these measures constitutes the best guarantee that the program will succeed and will furnish the bases on which Brazilian society, once inflation has been conquered and the monetary illusion under which we were living has been dispelled, can organize itself to engage in more genuine productive activities, to enhance the possibilities for better income distribution and, above all, to eliminate the intolerable levels of poverty that today afflict a substantial portion of the population.

I do not wish to prolong this presentation unduly. I have therefore prepared a document, available to all who are interested, which goes into detail on the points that I have outlined above. Before concluding, however, I think it appropriate at this time to say a few words about a crucial problem which affects all of Latin America and seriously limits our prospects for maintaining sustained and balanced growth over the medium and long term. I refer to the external debt problem. The enormous effort we have accomplished to remain strictly up to date with our international commitments through full payment of the obligations entered into is affecting the financial equilibrium of the public sector, impairing the resumption of investment, and limiting our capacity to import more in order to modernize our industrial plant. In the final analysis it prevents us from projecting economic growth rates compatible with our demographic characteristics and with the major goals of improving the income distribution profile and mounting a frontal attack on the misery that still afflict our peoples. The limited rescheduling arrangements that we have aimed at in recent years do not suffice for this purpose. It is indispensable that a broad renegotiation of the external debt be initiated now that reduces transfers abroad and leaves us room to use the savings we generate for productive investment. Brazil neither threatens nor confronts. We simply propose that together, creditors and debtors, we embark on the historic task of finding creative, flexible and mutually beneficial solutions in order to prevent external debt service from continuing to be a gigantic obstacle to the reactivation of investment and the growth of our economies. We are confident that all of us will prove capable of the high aims and vision required to redesign the international terms that today threaten to suffocate the debtor countries, so as to permit them to grow through diligent and productive work.

Address by Mr. James W. Conrow, Temporary Alternate Governor for the United States and Deputy Assistant Secretary for Developing Nations, Treasury Department

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Let me begin by congratulating Minister Morera on his election to the Chairmanship of the Board of Governors. Under your guidance, I am confident that we will complete the important tasks that are before us at this Annual Meeting of the Inter-American Development Bank. I also want to express the gratitude of my delegation for the warm welcome and gracious hospitality extended to us by the Government and the people of Costa Rica. It is an extreme pleasure to be here in your beautiful capital city. My delegation will have many pleasant memories to take home.

While we are surrounded by a beautiful environment that diverts our attention, we cannot escape the fact that we, the Governors of the IDB, are here in San José to wrestle with serious issues confronting the international economy, particularly the economies of Latin America and the Caribbean.

We must continue to dedicate ourselves to resolving the debt crisis—with its obvious and significant adverse effects on the economies of debtor countries and its potential adverse consequences for the international economy as a whole.

We have a strategy for addressing the debt problem—introduced by U.S. Secretary of the Treasury James Baker in Seoul last fall—which all major parties—debtor and industrialized country governments, the international financial institutions and the commercial banks have welcomed. Our task as Governors is to decide what role the IDB will play in this initiative.

The debt initiative outlined by Secretary Baker is based on the belief that the key to resolving the debt crisis is to create the conditions for sustained economic growth in debtor countries. The foundation for this strategy is continued economic growth in the industrialized countries, with low inflation and continued efforts to reduce interest rates further and to resist protectionist pressures in the area of trade. We continue to see significant progress in the performance of the economies of the industrialized countries. The debt initiative builds on this foundation by focusing on three critical elements:

- Effective policy reform by debtor countries.
- Significant new lending by commercial banks.
- An enhanced role, with increased lending, by the international financial institutions.

The centerpiece, and most critical of these elements, is effective policy reform by debtor countries. In our view, without economic reform, no amount of money—whether derived from external borrowing, financial aid, or inflationary domestic monetary expansion—will produce sustained growth.

The fundamental thrust of these policy reforms should be movement toward a market-oriented economy which has proved to be the most efficient mechanism to allocate resources. Examples of the types of reform we believe are needed include:

- The privatization of burdensome and inefficient public enterprises.
- The development of more efficient domestic capital and equity markets.

- Growth-oriented tax reform.
- Improvement of the environment for both domestic and foreign direct investment.
- Reduction or elimination of impediments to trade.

I recognize that many of these reforms touch on sensitive political issues, and that their benefits may become visible only over the longer term. I also recognize that such reform is difficult, and that it takes time. Moreover, it has to be financed. But to attract that finance, reform must occur and must be effective. I am pleased to note that significant progress is being made throughout the hemisphere to implement these necessary reforms. This has been a courageous effort by your governments and your people. As we all know, this commitment to make these necessary changes will have to continue in the years ahead if we are to achieve sustainable economic growth in your countries.

With regard to the commercial banks, I note that commercial banks in virtually all of the major creditor nations have now indicated their willingness to support this debt initiative and to provide net new lending to the debtor nations who are willing to implement these structural changes. Commercial banks know that without growth in the debtor nations—and an improved ability to earn foreign exchange—the creditworthiness of debtor countries will not improve or, to put it bluntly, the banks cannot expect favorable earnings on assets of declining quality. The banking community also knows that growth must be financed in large part from private capital resources.

But, commercial banks should not be enticed unwillingly into new lending to debtor nations. If sound growth-oriented policies are adopted by the debtor countries, commercial banks will benefit from improvements in the quality of outstanding loans.

Traditionally, commercial banks have worked with troubled clients, because they believed it to be in their own self-interest. The present international debt situation is no different. When debtor countries implement sound growth-oriented policies, the commercial banks must respond with new lending to enable this growth process to continue.

The third element of the debt initiative is an enhanced role for, and increased lending by the international financial institutions. Let me stress at the outset that the IMF must continue to play its very important role in the overall debt strategy. Enhanced roles for the multilateral development banks will be supplemental to the IMF's role, not a substitute for it.

While the IMF must give more emphasis to growth-oriented policies, we must remember that the IMF's central mission is not that of a development institution. It needs to concentrate its resources on relatively short-term balance-of-payments programs. The IMF's contribution to longer-term reform efforts will necessarily be somewhat more limited. Nevertheless, I am confident that the IMF will indeed meet this challenge by responding effectively to the needs of its member countries.

On the other hand, the mission of the World Bank, the IDB, and the other MDBs is more focused on longer-term development issues. The World Bank already has experience in addressing some of the types of structural problems that most debtor countries face. And, we believe that a larger percentage of the World Bank's new lending will need to be fast-disbursing sectoral and structural adjustment loans. The World Bank also has ample capacity to increase such lending by

some $2 billion per year over the next three years and to concentrate that lending more heavily on large debtors that are willing to adopt effective reform programs. The U.S. Government is prepared if all the participants in the strategy do their part and there is a demonstrated increase in the demand for quality lending above these levels, to consider a general capital increase for the World Bank.

It will also be essential for the IMF and the World Bank to establish a closer working relationship. I realize this is easy to say, and hard to accomplish. But the member governments of both institutions must insist that some pragmatic method of closer cooperation be developed if economic reform in the debtor nations is going to be effective enough to command additional resources from private banking institutions. Private lenders must be convinced that the long-term structural reforms which have not been sufficiently emphasized in the past will actually take place as a result of this new lending. Furthermore, from the perspective of the borrowing countries, it is essential that the advice being given to these countries from the IFIs must be consistent and not counterproductive.

The question before us, the Governors of the IDB, is whether the IDB will also play a more central role in this debt initiative. Last year in Vienna, U.S. Assistant Secretary David Mulford spoke about how the role of the Bank might be expanded to encourage greater economic development in this hemisphere. He cited the need for reforms that would strengthen the Bank as an institution, raise the caliber of its loans, and increase the impact of its operations in borrowing countries. Secretary Baker, when we presented the debt strategy in Seoul last fall, issued the same request for participation by the IDB. The specific details of the reforms are important issues that engage our attention today.

We have begun a process of discussing with other member Governments the shape of these reforms, how we might change the structure of the Bank, and affect the volume and form of the loans that it provides. Basically, we are looking for ways to improve the quality of the Bank's lending program and to integrate its loans more effectively into an overall economic strategy with each borrowing country that is consistent with those adopted by other international financial institutions. We are also seeking ways to increase cooperation and coordination between the Bank and other international lenders.

This new role for the IDB has occupied our attention for the past few days. While we will not waiver in seeking a solution to our concerns in future negotiations, I am pleased to say that there has been substantial agreement in principle among many members on the desirability of having the IDB play a much greater role in implementing the debt strategy. What we need to do now is to reach an understanding and consensus among ourselves on the specific arrangements required to implement the reforms necessary for the IDB to play this role. This is always the most difficult part of any negotiation. We should not allow this opportunity to pass us by without making every effort to achieve the necessary consensus on the future role of the IDB.

In 1984 you will recall we began negotiations on establishing the Inter-American Investment Corporation as an affiliate of the IDB whose objective is to promote private sector activity. I am particularly pleased with the progress that has been made toward establishing the Inter-American Investment Corporation. Here in Costa Rica, we have now passed the two-thirds requirement to activate on this important new institution. We look forward to the inaugural meeting in Caracas in June and the beginning of operations. The IIC operations can be of direct benefit to

our debt initiative. Its programs in support of small- and medium-size private firms will help revitalize an important part of the private sector throughout Latin America and the Caribbean.

Another encouraging development in this area has been the agreement to establish the Multilateral Investment Guarantee Agency. Willingness to re-examine policies toward direct foreign investments is a key element of the reforms we recommend. Such investments provide needed capital and technology. They help to stabilize capital flows and improve the management of external debt. By stimulating private direct investment flows to developing countries, MIGA will provide greater scope for the private sector in developing countries and support greater reliance on equity as opposed to debt capital. We are seeking authorization and full funding for U.S. participation in MIGA as part of our FY 1987 budget proposals. I want to encourage all members of the IDB to join us in the MIGA as a further reflection of our countries working together to achieve our common objective.

As we go forward with the lending programs of the IDB, we must continue to place our emphasis on project lending. In doing so, we must be extremely cautious of the environmental effects of implementing these projects. Natural resources of our countries must be protected for future generations. Yet, we have seen mistakes being made which have damaged the environment in our member countries because we haven't fully appreciated the impact our projects have on the environment. I want to encourage all of you to look more closely at this extremely important issue.

On behalf of Secretary Baker, I would like to take this opportunity to extend a very cordial invitation to all of you to hold the next Annual Meeting of the IDB in Miami, Florida. We look forward to hosting this meeting because it does reflect the genuine support and commitment the United States holds for the important work of the IDB.

In closing, I would like to congratulate President Ortiz Mena on his re-election to a fourth term of office. Under his leadership, the Bank has passed successfully through times of enormous change in the international economic environment. We have been fortunate on many occasions to have the benefit of his wide experience in hemispheric affairs. We are at a critical time for the countries of Latin America and the Caribbean. The problem of debt and structural reform need our immediate attention. I am confident the IDB, under the leadership of President Ortiz Mena, will indeed adapt itself so it can play an even greater role in helping to resolve the problems facing our borrowing member countries. We must work together in support of this common objective. We must achieve consensus and we must not waiver from our efforts to strengthen the IDB. On behalf of Secretary Baker, I want to commit the United States to this challenge and stress our commitment to work with you to ensure that we make it a success.

Address by Mr. Volkmar Koehler, Temporary Alternate Governor for the Federal Republic of Germany and Parliamentary Secretary of State

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It is an honor and a pleasure for me to thank you, Mr. Chairman, and your Government for the friendly hospitality which you and your fellow countrymen have afforded us in your beautiful country. Whenever I come here, I feel very much at home. I am certain that the serene and harmonious environment will help us to accomplish our difficult task to the best of our ability.

This Twenty-Seventh Annual Meeting of the Inter-American Development Bank is taking place at a time when many regional member countries have already gone through an extended period of extremely grave economic and concomitant social problems. Nevertheless, many countries have extended and strengthened their democratic stability, a circumstance I note with appreciation.

The regional member countries have undertaken measures involving great sacrifices to restructure their economies, to achieve adjustments in their balance of payments and to service their foreign debts. Furthermore, the region has achieved considerable economic growth and a trade-balance surplus; that growth, however, is very unevenly distributed and not yet stable, investment activities have hardly picked up and the fight against inflation is not yet won. Meanwhile, public patience in the region is running out; there is a limit to the sacrifices the governments can ask the people to make.

I think we all agree that the countries of Latin America and the Caribbean need stronger and more stable economic growth in order to resolve their problems and restore hope to their people.

I am sure we would all agree too that growth will require a considerable amount of foreign funds. We must therefore consider how much and what kind of resources are needed in a given period of time and what share the Inter-American Development Bank can and should have; this means that together we must decide what role we want the Bank to play. We must also consider and decide jointly what kind of growth will best promote sustained economic and social development in the countries of the region. Finally, we must consider and decide which methods and instruments could promote the desired growth process. It is clear that the same growth philosophy cannot apply to all the countries in the region, for they differ too much, not only in population, cultural and natural resources, but also in their various expectations of the future and their national identities.

Nonetheless, I feel that there are some common basic features which justify a common perspective: the promotion of the productive sectors seems to me to have priority not only to increase agricultural production and thus improve food supplies and create permanent jobs keeping people in the rural areas, but also to improve the industrial production. This promotion can serve to improve both the supply on the domestic market and the export potential to neighbouring countries and countries in other regions, as well as creating secure jobs. In my country our experience has been that private initiative can achieve notable success in utilizing scarce resources and making use of gaps in the market. This is why we would like to pass on this experience to you as a recommendation.

More growth in productive economic sectors is, in our view, the best way for the countries in the region to be able to service their debts on a long-term basis and to maintain their credit standing at the same time. These countries must be particularly interested in achieving this so that they can continue to attract the private loans and investments they also need, for the official multilateral and bilateral financing institutions can never provide on their own the funds necessary for strong economic growth. Naturally, the industrial countries are also interested in an overall economic upswing which, in the end, will serve to revitalize international trade as a whole. Every conceivable financial source must be tapped to this end; the developing countries themselves will have the major burden to bear. That is why we are watching with great concern the flight of capital which is draining the countries of urgently needed investment capital. On the other hand, it is hard for a European politician to explain to his taxpayers why it should be their task to contribute to making up for the gaps that have been caused by this runaway capital. We strongly believe that favorable overall conditions are a must for every land of economic growth and development for only they can attract national and foreign investments, including repatriated flight capital.

It goes without saying that the social sectors, especially those benefiting the low-income groups, must not be neglected either. It is our conviction that only socially balanced economic growth will lead to the sort of development from which the whole country and its population will benefit.

I am sure we all agree that the Inter-American Development Bank should play an important role in this process of adjustment and growth. We should therefore consider how its effectiveness can be further improved. The process of negotiations on the Seventh Replenishment offers a unique opportunity to take a fresh look at our institution, which seems to be at the crossroads. Where do we go from here?

The Government of the Federal Republic of Germany has proved in the last few years its increased interest in good relations with the Latin American and Caribbean countries by intensifying its bilateral relations with them in the economic, political and cultural fields. It will give further expression to that interest by cooperating constructively and positively in the work of the Inter-American Development Bank. In the process of negotiations it will contribute its ideas on further improving the effectiveness of the Bank's activities, examine the possibilities of comprehensive planning of the cooperation between the Bank and the individual borrower countries, review the possibilities of extending or shifting the lending activity of the Bank and endeavor to achieve closer cooperation between the IDB and the institutions in Washington.

Basically we support the overall strategy for increased growth and development also with regard to the involvement of the IDB because it very much coincides with our own views and experience. Concerning the details, more elaboration and deliberation is required. But we also believe that the time has come for some important changes—both in policy and structure of the Bank.

If the IDB is to play an effective role in the overall strategy aiming at a successful combination of adjustment and growth in its borrowing member countries, more flexibility in the Bank's lending policies is required—including above all policy-based sector lending. The conditionality of this new type of loans will have to be carefully determined on the basis of country and sector studies. Such changes might even be possible without changing the charter which is always a very cumbersome and risky process—also in political terms.

The opening round of negotiations last week in the Committee of the Board of Governors has not yet brought about tangible results. But this is not surprising. Too much is at stake! There seems, however, to emerge the first basic elements for a consensus which will have to be followed up in further negotiations, which now can and should be prepared by proper documentation.

We see all this as a process of dialogue among partners with the common aim of contributing to greater and sounder socioeconomic growth in the Latin American and Caribbean countries and, at the same time, improving even further the quality and the standing of our Inter-American Development Bank. A substantial capital increase is necessary if all these objectives are to be reached. But such an increase should not be at the expense of the soft loan window of the IDB, from which the smaller and poorer countries can benefit.

The Federal Republic of Germany as a partner will contribute all it can to the success of the Seventh Replenishment—ideas, practical experience and funds.

Address by Mr. Leonel Figueroa, Governor for Peru and President of the Central Reserve Bank

On the occasion of this Twenty-Seventh Annual Meeting of the Board of Governors of the Bank, we meet once again, representing the governments of the countries of the region and of countries outside the region, united by our common interest in strengthening the dialogue and cooperation which will enable our countries to work towards their fundamental objective, that is, improvement of our peoples' living standards.

As we meet now in this hospitable country, Costa Rica, which is a paradigm of democratic continuity in Latin America, I feel it is advisable, and even necessary, to stress some points which, in one way or another, are on the minds of everyone here.

The debt crisis we have been experiencing is not without precedent in history. There have been cases, going back to the past century, where the situation was similar to that we see now; nevertheless, those crises were never of the magnitude and the complexity of the current one. We must therefore look at the circumstances under which it began. This leads us to but one conclusion: we must take steps immediately to find viable and lasting solutions, while maintaining as our fundamental premise the need to achieve economic and social development without further delay.

We only need to recall the fact that before the 1970s, our countries' external debt consisted mainly of loans from international agencies, governments and official agencies, granted on relatively soft terms and earmarked for duly researched investment projects.

Beginning in the 1970s, the conditions prevailing in the international economic system changed drastically. The surplus resources created by the rise in oil prices and the subsequent creation of money on the Eurodollar market, controlled by the private international banks, were placed *en masse* in Third World countries. In their zeal for placing their funds, not only did the banks finance investment projects that had not been properly studied, but they also—sometimes with the agreement of and subtle promotion by certain international agencies—financed balance-of-payments imbalances and public-sector budget deficits.

Although these loans were granted on less favorable terms than those granted by the agencies and governments, the interest rates were below the level of international inflation and thus their real cost, at that time, was negative.

The pseudo beneficiaries of this financial boom were the countries of Latin America, a region which was growing, during the first half of the decade, at an average annual rate of 6.4 per cent.

Towards the end of the decade, the reaction of the industrialized countries to the deteriorating economic conditions was reflected in a rapid and persistent increase in interest rates and a resurgence of protectionism in those countries. To this was later added a fall in the prices of raw materials, which brought a decline in the export earnings of the Latin American countries, as well as an increase in their outlays to service the external debt, thus leading to a negative transfer of resources.

In view of the contractual terms on which responsibility for the obligations was undertaken, the entire burden of the adjustment fell solely on the debtors. An effort was made to manage the crisis by providing for temporary relief in the debt service by postponing maturities and increasing the principal, in exchange for the imposition of short-term economic policies based on an economic model that suited the purposes of the creditors. The main idea was to generate sufficient resources to allow for the servicing of a growing external debt, often brought about by circumstances that were beyond our control. As was to be expected, not only did the recommended models fail to bring the success desired, but they contributed to the economic stagnation of the region and to the generation of social conflicts, thus jeopardizing the democratic stability of our countries.

Peru has not remained unaffected by this situation.

The application of the adjustment programs recommended by the International Monetary Fund, which entailed a high degree of conditionality in order to satisfy our creditors, proved ineffective and did not alleviate the economic crisis. On the contrary, they created a climate of social tension in the country, and led our people to despair of ever achieving a different future.

This was the context in which the new Government of Peru took over its duties in late July of 1985. With its nationalistic and democratic ideals, and aware of its historic responsibility to the Peruvian people, the new Government immediately began to apply an emergency economic program designed to reverse the impact of the serious economic crisis we were experiencing.

The road we have chosen now has a clear horizon, that is, the transformation of the economic structure of our country, so as to improve the income levels of our population, especially that of the more depressed sectors. In other words, reorganization and growth.

Less than eight months after the Government's plan was put underway, the emergency program, which includes a mixed economic policy suited to the circumstances and situation of our country, is bringing positive results. During the course of 1985, the average monthly inflation rate, which during the first half of the year was very close to 11 per cent, fell, beginning in September, to 3 per cent. The devaluation of our currency, which had been occurring at an average monthly rate of over 11 per cent up to July, was stopped after a 12 per cent adjustment decreed in August; our objective is to maintain it up to the end of this year, for foods and basic inputs. Finally, to mention only a few indicators, the variation of the minimum legal income, which by the end of the previous Government had undergone a real deterioration on the order of 31.3 per cent, showed a recovery, after the change of government, of 20.2 per cent in real terms up to the end of 1985.

In this context, it became necessary to reconsider the problem of adjustment with growth in overall terms.

Given our essential and urgent priority of growth, the Government has to devote resources to productive investment as a substitute for the net flow of external capital which, in recent times, became negative. We do not envisage any substantial change in this trend in the immediate future.

Faced with the age-old problem of limited resources and the need to follow priorities in assigning them, and, in particular, bearing in mind that the debt payment must not further compromise our development potential, the Government has had to opt for setting a ceiling on the amount we can remit abroad for debt

service payments. This ceiling has initially been set at 10 per cent of the value of our exports.

We are constantly concerned that this measure be fully understood. Recent experience has shown us that, if we are to grow under present circumstances, we simply cannot pay the debt in the manner required by our creditors.

In the overall development strategy established and currently underway, we do not lose sight of the greater dynamism of the export sector; thus, we expect that resources to be used for debt payment will increase, and the development horizon will become an achievable goal.

In setting the aforementioned figure of 10 per cent, we have tried to convey to the international community the message that, while we intend to comply with our external obligations, even those undertaken by governments which were not supported by the popular vote, Peru wishes to establish clear rules of the game which will not compromise its development and which, at the same time, will provide a serious and viable alternative. Likewise, we wish to promote confidence in Peru, which, having as its goal the improvement of the living standard of its peoples, will make every effort to constantly improve its level of compliance with its obligations.

We know that we can count on the collaboration of our creditors and of the international community in our efforts to overcome obstacles and to strive together to achieve our fundamental objective.

Similar objectives have been supported on countless occasions by international agencies, one of whose fundamental principles is to foster the development of countries and the well-being of their peoples.

It is therefore surprising that, under the present circumstances, when the crisis mainly affects the poorest people, some institutions should seek to apply mechanisms which do not necessarily fit in with the original intent of those of us who participated in their creation.

Last year, this same forum acknowledged that the task of achieving development in Latin America was far from being completed and that the adjustment which the developing countries of the region had had to adopt in order to deal with the high volume of their external debt had caused a decline in the living standards of our peoples.

Latin America therefore hopes that over the next few years, the IDB will increase the percentage of net resources it channels to the region, both within the context of its regular operations and within that of its concessional loans, through the Fund for Special Operations.

In circumstances such as the present ones, where the countries of the region are experiencing severe economic crises despite the adjustment efforts they have made, the IDB, as an institution established to support development, must expand its policies aimed at supporting economic growth and social transformation.

In this context, we wish to explicitly state our position with respect to the action of the institution in the immediate future and over the longer term. We are certain that in order to achieve a lasting economic recovery in the region, the IDB should consider allowing for great flexibility in its lending policies. Hence, we feel it is necessary to adjust the matrix and *pari-passu*'s, since, very often, when our governments delay providing funds, it is due to the lack of liquidity of our economies.

Along this same line, and recognizing the importance of classifying countries

according to their level of relative development, we must point out that in granting concessional loans under the Fund for Special Operations, the Bank should take into account the nature of the project and the social and economic characteristics of the region to which it is directed, independently of the classification of the country in which the project is to be executed.

We feel that the Bank should continue to emphasize the financing of specific development projects. However, this should not preclude the possibility of establishing loans for sectoral programs to supplement support for development projects. We wish to make it clear, however, that in neither case do we agree with the imposition of greater conditionality, as this would, in the long run, only contribute towards "sterilizing" the objectives established for those programs.

In this regard, bearing in mind the wide geographic, economic and social differences that exist in the region, we must insist on each country's sovereign right to define its own economic policy, free from all types of pressure and preconceived patterns. That is why we consider it inappropriate to establish sectoral and macroeconomic conditionality. We are even more justified in not accepting so-called cross conditionality, the application of which means, essentially, giving up the sovereign right to determine our future.

We feel it is important to retain the voting power established in the Agreement Establishing the Bank. The Latin American and Caribbean countries cannot waive the right to participate, in solidarity and as a majority, in the definition of policies and in compliance with the objectives for which the Bank was created.

In conclusion, I only wish to stress that the IDB, as an agency to which more than 40 countries within and outside the region—borrowers and nonborrowers—belong, must maintain its independence and avoid the hegemonic positions of any countries in the decision making process. It must also avoid being made a vehicle or a guarantor for political interests which would only contribute towards breaking down the joint effort which is essential if we are to overcome the current crisis.

To this end, in order to overcome present difficulties, and realizing the fundamental needs and objectives of the governments, we are now faced with the difficult task of continuing a sincere dialogue which will lead to frank and positive technical cooperation to benefit the development of our peoples.

Address by Mr. Enrique Seguel Morel, Temporary Alternate Governor for Chile and President of the Central Bank

On behalf of the delegation of Chile and myself as well, I wish to express to the people and the Government of Costa Rica our appreciation for the hospitality you have shown us during this Twenty-Seventh Annual Meeting of the Board of Governors of the Inter-American Development Bank.

The Chilean Economy

Before we discuss the policies and actions of the Inter-American Development Bank, we wish to review the performance of the Chilean economy in 1985 and its outlook for 1986.

Through sacrifice and austerity, Chile started to grow again in 1985 after its progress had been severely interrupted by the international recession during which its gross national product fell by a real 14.5 per cent in 1982.

On the domestic side, it is worth mentioning that 440,000 new productive jobs have been created in the last two years, bringing unemployment to 11.9 per cent compared with 14 per cent at the end of 1984. Similarly, inflation has slackened; the consumer price index rose by an annual 16.9 per cent during the last half of 1985, a figure that compares favorably with the 26.4 per cent inflation for the year as a whole.

Along with these two accomplishments, the country's external accounts were adjusted, reducing the current account deficit from $2.06 billion in 1984 to slightly more than $1.3 billion in 1985.

The trade surplus more than doubled, reaching a sum close to $800 million. Net international reserves held at their level of the end of 1984, despite the sharp deterioration of prices paid for our exports. The negative effect of these low prices outweighed the more than 10 per cent gain in physical volume of exports other than copper. In 1985, the price of copper—our chief export commodity—fell to the lowest level in history, in real terms. The economic gains, however, were made possible by careful management of the fiscal and monetary policies which were directed toward recovery of productive activity and employment, stabilization of prices and equilibrium in the balance of payments. With these developments, the public sector deficit fell from 4.4 per cent of gross domestic product in 1984 to less than 3 per cent in 1985. This reduction in the public sector's deficit was accompanied by adjustment of public spending, as seen in an increase of investment and the quadrupling of savings between 1984 and 1985. The merit of this increase in public saving is that it came without infringing on fiscal programs in behalf of extreme poverty groups; these are programs that have given such excellent results in the areas of health, nutrition, education and social security.

In fact, in times of sacrifice such as these, the policy decision to benefit the poorest, which the government has implemented since 1973, has been accentuated to such a point that social expenditures accounted for 62 per cent of fiscal spending in 1985, the highest amount of recent decades.

To illustrate this point, I shall merely mention the improvement in infant

mortality; that rate has fallen from 65.2 per thousand live births in 1973 to 20 per thousand in 1984.

In short, the overall improvement in the Chilean economy is the outgrowth of decisive implementation of an economic policy aimed at expanding exports, saving, and investment. This policy, combined with social programs in progress, should become the way for our country to achieve lasting progress, well-being and distributive equity.

One of the areas hardest hit by the economic crisis of recent years was the financial sector. Prompt normalization of both the national banking system and its debtors is one of the major objectives of the present economic program. Under it, measures have been adopted to facilitate the rescheduling of sums owed to the banking system by debtors considered economically viable. The laws that govern bank activities and capitalization have also been improved in an effort to create incentives for the prompt return to the private sector of the financial establishments taken under temporary receivership in early 1983. The capitalization process has had notable success. Since last September, stock in the two largest private banks has been successfully sold for an amount close to 60 per cent of the capital they need for normal operations. Furthermore, significant advances have been made in privatizing state-owned companies.

The economic program that has been undertaken has had the support and understanding of the international financial community. In 1985, payments of principal coming due in 1985-87 for upwards of $5.9 billion were rescheduled. What is more, in the last round of negotiations with international banks, assurances were given that short-term commercial lines of credit for $1.7 billion would be available until 1987. New credits for $1,955 million, included in operations from official and multilateral agencies, were also negotiated. Furthermore, an extended facility program was arranged with the International Monetary Fund for the period 1985-87. During this time, that international agency is expected to disburse $750 million in special drawing rights.

The program we have undertaken allows us to project a growth of output of between 3 and 5 per cent for 1986, with steady reduction in unemployment, a drop in inflation to below 20 per cent and maintenance of international reserves at the reasonable level reached at the end of last year.

We think this is an opportune time to point out also that the recovery of our developing economies will be made much easier if—along with our efforts to introduce structural changes that make our resource allocation as efficient as possible—the industrialized countries apply adequate fiscal and monetary policies conducive to restoring a normal situation in international financial markets. In addition, the most developed nations should strive to maintain the policy of keeping their domestic markets open at all times to products from Latin America. This would demonstrate a true willingness to combat protectionism.

Inter-American Development Bank Action under the Present Conditions

We are attending this Annual Meeting in the belief that Bank support for the development of Latin America and the Caribbean, which has been so important in the past, is now essential, considering how much the resources into the region from other sources have declined and the need to adjust our economies to the difficult conditions of today.

Faced with these conditions, the Bank has sought to adapt its action by

making the *pari-passu* more flexible, supporting industrial recovery programs and implementing measures originally thought adequate and opportune. These have proved insufficient, however, to deal with a recession which unfortunately has lasted much longer than expected. It is for this last reason that we believe the Bank should move immediately to study ways of adapting itself to circumstances that have turned out different from expectations.

Consequently, the change in the *pari-passu* for loans—with the persistence of recessive conditions—has left many projects in execution facing greater difficulties and delays than originally expected and with the borrowers lacking the necessary amounts of counterpart resources. Under these circumstances, which clearly make the projects more expensive and delay the generation of benefits, we believe the Board of Executive Directors should look into the advisability of extending supplementary loans in justified cases.

The persistence of the recession and the need to balance public finances are other factors that have limited the amount of counterpart resources available for new projects. This had led to the paradox of the Bank being forced—unless it takes adequate measures—to fall short of the lending goals set out for the Sixth Replenishment at a time when external resources are most needed to continue the countries' development programs. In this connection, we believe the Bank should study ways of temporarily changing the loan matrix, for as long as it considers appropriate, to raise its share of project and program financing.

We further believe that, given the high level of external debt in the region and the public spending limits our countries have been forced to implement, it should be a high priority of the Bank to refine its mechanisms and policies to channel more resources into specific private sector projects whose size makes them ineligible for global sectoral programs. In these cases, Bank participation takes on special importance as a catalyst to attract more resources, since projects such as these normally intend to secure additional loans from external private sources, direct investment and foreign technology.

We understand that our countries must adjust their economies to present circumstances and change their institutional and productive structures to accelerate development. For its part, the Bank should also adapt its structure and operations to present demands.

In its 26 years the Bank has shown its ability to keep in tune with the economic and social developments in our countries. For this reason we are certain the Bank will emerge stronger from the present challenge and continue playing the fundamental role it has to this time as a multilateral lending agency.

Finally, I wish to express our great satisfaction that the conditions to make the Inter-American Investment Corporation a reality have been fulfilled on the occasion of this Annual Meeting of the Board of Governors. We offer our congratulations to the President of the Bank, Antonio Ortiz Mena, and through him, to the Management, for having forged ahead in that task and taken all the steps that have made it possible to create this institution. No doubt it will be an important contribution to the development and financing of private enterprise in our countries.

Address by Mr. Jens Ostenfeld, Temporary Alternate Governor for Denmark and Ambassador and Deputy Under-Secretary of the Ministry of Foreign Affairs

I take great pleasure in expressing our thanks to the Government and people of Costa Rica for the warm welcome we have received here in their beautiful country's capital city of San Jose.

I would like to take this opportunity to reiterate our satisfaction at the re-election to the Presidency of the Inter-American Development Bank of Don Antonio Ortiz Mena. We are, Mr. President, looking forward to the continuation of your distinguished service at the helm of the IDB. Your vast experience will be extremely valuable for the Bank in the crucial years ahead of us.

Next, I would like to express our pleasure at the approval of Norway as a member of the Bank.

International economic developments in the last couple of years have been marked by improvement in several important areas. In the industrialized countries growth has resumed even if the growth rate of last year did not match that of 1984. World trade has expanded, at times quite strongly. The industrialized countries have taken some steps towards initiating co-ordinated policy adjustments to rectify present imbalances inside and between their economies. The effect on international exchange rates and interest rates have been significant. The nominal interest rates in the international markets dropped by approximately one-fourth from 1984 to 1985, and real interest rates fell even more.

International economic development has had a positive impact on the economies of the countries of Latin America and the Caribbean. But overall it is hardly possible to speak of a significant improvement in the situation of these countries, whose problems are exacerbated by their heavy debt burden.

It is encouraging that in recent years a number of countries in the region has introduced reforms in order to adjust their economies to the economic environment. Some of these efforts are now beginning to pay off, but at the same time they have demanded great sacrifices from the poorest segments of the population. These groups can hardly be asked to tighten their belts further.

Other recent developments have also had considerable impact, including the fall in oil prices, which helps many indebted oil importing countries, but at the same time adds new problems to oil exporting countries, already in difficulties.

In 1985 the Bank once again documented its position as a major source of finance for the development of Latin America and the Caribbean. A closer look at the Bank's lending figures seems, however, to make two observations appropriate. Firstly, we have seen a continued downward trend in the relative importance of the concessional lending from the Fund for Special Operations as compared to the Bank's normal lending. Secondly, we note that the attempts at meeting the target for Bank lending to low-income population groups have not succeeded. My Government finds these developments quite unsatisfactory, and I hope that in 1986 and onwards the Bank will increase its efforts towards a better performance in these respects so as to meet the targets set.

There is no doubt that increased economic growth is essential if the problems

of the debtor countries are to be solved in the longer term. It is also clear that domestic policies to this effect need to be supported by strengthening of the financial transfers to these countries from the outside. It is on this background that my country welcomes the initiative taken last year by the U.S. Secretary of the Treasury, aimed at increased economic growth in the debt-ridden middle-income countries through joint efforts by the countries themselves, the industrialized countries, the multilateral financial institutions and the commercial banking world. Due to the importance of the IDB in the Latin American region we recognize that the IDB could play an important role in this context. My country is ready to consider specific proposals in this regard. At the same time I wish to underline that this effort must not be made at the expense of the IDB's essential role as a provider of financing of long-term project oriented investments.

If the Bank is to succeed in its efforts to promote sustained economic growth in the region it is important that all of its loan operations take place within a co-ordinated policy framework for each country.

Negotiations on the Seventh General Replenishment of Resources have now been initiated. It is our hope that these negotiations will lead to a replenishment which will enable the Bank and the Fund for Special Operations to continue and further expand their efforts for the benefit of economic and social progress of the entire region. My Government finds it essential that particular attention be paid to the interests of the IDB's poorest member countries and to the region's poorest population groups. My Government is prepared to contribute to a significant increase in resources in the context of the Seventh Replenishment based on an equitable burden sharing.

Worldwide we are witnessing a growing understanding of the importance to our own daily lives of the physical environment surrounding us. There is growing recognition that damage to the environment of a country can have lasting, negative effects also for the economic potential of that country, a fact which many European countries are painfully aware of by now. It is of utmost importance for international institutions like the IDB that when examining the economic viability of development projects they give full attention to their environmental aspects in the broader sense of the term.

During this meeting the question of universality in the Bank's operations has once more been raised. I would like to reiterate my Government's concern that all countries should receive treatment in accordance with the principles of the charter of the Bank.

Continued support of the international community is necessary in the efforts to further improve economic and social conditions of Latin America and the Caribbean.

I wish to reaffirm the Danish Government's commitment to these efforts and to the IDB which has a crucial role to play in supporting the development of the region. We are confident that under the wise leadership of its President, Don Antonio Ortiz Mena, the Bank will be able to respond to the challenge before it.

Address by Mr. Carl Johan Aaberg, Governor for Sweden And Under Secretary of State for Foreign Trade, Ministry for Foreign Affairs

I am greatly honored to represent the Swedish Government at the Twenty-Seventh Annual Meeting of the Board of Governors of the Inter-American Development Bank. On behalf of my Government I would like to thank the President and the Government of Costa Rica, the city and the inhabitants of San José for the warm welcome and generous hospitality extended to us.

I wish to pay special tribute to the President of the Bank, the distinguished Mr. Antonio Ortiz Mena, expressing my satisfaction with his re-election last November for a fourth consecutive period. I would also like to take this opportunity to thank him as well as the Management and the staff of the Inter-American Development Bank for the excellent work undertaken in preparation for this Twenty-Seventh Annual Meeting of the Bank and for their dedicated work for the Bank and for its member countries.

My government also welcomes the resolution that has been adopted by the Board of Governors making it possible for Norway to join the Inter-American Development Bank.

In his introductory statement, the President of the Bank expressed concern over the international economy. I am prepared to fully agree with him on this point. But do not let these economic problems over-shadow our deeply felt satisfaction over the positive political developments taking place in several countries in Latin America. We are firmly convinced that it is democratic principles and democratic institutions that form the best ground for effective policies leading out of economic problems. Aggressive policies lead to aggressive resistance. History has taught us that reliance on military measures aggravates political as well as economic problems. Peaceful and democratic solutions pave the way for lasting solutions.

This Annual Meeting is held, however, at a time of great economic turbulence. Economic growth in the industrial countries in 1985 was weaker than expected. The rather drastic changes in the rates of interest and in the price of oil have created a new situation. Some countries have benefited from this—others are negatively affected. It is difficult by now to clearly see what will come out of this. But one thing is sure and that is that the handling of the debt situation is crucial to the outcome of the prevailing economic problems.

The international debt situation has produced serious effects in the developing world. Many countries have been forced to implement drastic adjustment measures to cope with their debt burden. In several countries the situation has had very unfortunate effects on groups of the population already living under difficult circumstances.

Economic growth is the key factor for Latin American countries as well as most other developing countries both to meet with their external obligations and to resume the process of economic and social development. Without economic growth there will be no prospects for a recovery. To Latin America the economic problems have not only been a matter of how to handle the debts but also how to

handle their long-term development strategies. Many Latin American governments have already initiated a process of internal adjustment. Adjustment policies will enable the Latin American countries to draw on the resources that the multilateral and commercial banks will make available over the next few years. Adjustment will also help them to attract direct and portfolio investment in the region. A higher rate of investment is necessary to ensure development. Recent studies have shown that at least $80 billion left Latin America in the form of capital flight in 1981-84. This sum corresponds to all the debt incurred by Latin America in those four years.

This highlights the necessity for Latin American countries to apply realistic exchange and interest rate policies to prevent capital flight.

Cooperation between Latin American countries and their partners in the developed world is needed to restore sustained development growth in the region. We especially welcome realistic initiatives to increase the cooperation among the countries in Central America. Sweden has given its full support to the important initiatives taken by the Contadora group. We hope that strengthened economic cooperation among the Central American countries can pave the way for peaceful solutions to the problems in the area.

A closer cooperation between the Bank and the IMF must be developed and is becoming increasingly important. It is important that a common view on problems and policies in the countries in which they are involved is reached. A set of consistent policy recommendations should be agreed upon in close dialogue with the country concerned. I believe that a closer collaboration with the Fund would benefit the debtors as well as other parties involved.

It is equally important that the international banking system assumes its share of responsibility in trying to find a way out of the present situation. Lack of lending to Latin America would in fact deepen the crisis and make it even more difficult to resolve.

The Inter-American Development Bank has a very important intermediary role linking financial markets and borrowing countries. The Bank can provide loans on favorable conditions and improve the flow of financial resources in order to facilitate the recovery process of the whole region.

Let me now turn to some issues and matters directly related to the IDB's activities.

The discussion in the Bank of a more growth-oriented development policy which began some years ago was intensified in 1985. Changes in the FSO and IFF criteria were partly based on these considerations. Well-aware of the economic and social constraints of the region, the IDB has supported measures to increase flexibility. During recent years the Bank devoted a larger portion of its operations to revitalize the economic machinery and sustain export industries through the Special Operating Program and the Industrial Recovery Program. These initiatives no doubt helped borrowing member countries to develop their exports and to reduce their current account deficits.

I consider a reactivation of the Industrial Recovery Program important provided greater consideration is given to the sectoral and macro-economic context.

The IDB was not set up primarily to cope with critical situations but as an organ for long-term social and economic development with a particular emphasis on the needs of the poorest member countries and population groups.

The final figures for the period 1983-85 show that it was not possible for the Bank to reach the targets for the lending program established for the Sixth Replenishment unless further amendments to the Bank's operating policies are adopted. In spite of the fact that the FSO guidelines have been amended by increasing the IDB's share of the total cost for social infrastructure projects to 90 per cent, I am concerned with the overall performance of the sector. Consideration should be given to a further expansion of the lending criteria of the FSO. I am also worried about the low level of direct benefits for low-income groups. Efforts have to be made to come closer to the Sixth Replenishment's 50 per cent target in this respect.

For the past three years debt rescheduling has come about by agreement between the debtors and the creditors with new marginal financings made available to enable Latin American countries to make timely interest payments.

Financial rescue operations and debt re-schedulings undertaken on a case-by-case basis have made it possible to combat the acute problems. Recent interest rate reductions and the depreciation of the dollar have contributed to an easing of the situation for some countries. The development of the oil prices has worsened the problems for others. Recent instability in some other commodity markets has made the situation even more uncertain. But fundamental problems remain and solutions of a more long-term nature are yet to be found.

My Government is convinced that the debt problems need to be addressed in the framework of a coherent, long-term strategy building on and supplementing the traditional case-by-case approach. Sweden, therefore, welcomes the initiative by the United States Secretary of the Treasury last October which calls for a more comprehensive approach. We agree that the responsibility for addressing the debt problems must be shared between debtor countries, creditor governments, commercial banks and multilateral financing institutions. All actors involved must cooperate and make sustained efforts to create the favorable overall conditions needed for a gradual easing of the debt problems.

Integral elements in an effective debt strategy include:

- Pursuing economic and trade policies conducive to growth and market access.
- Strengthening of the resource situation of the multilateral financial institutions.
- An increase in bilateral development assistance to deal with the special problems of the poorest countries.

We certainly welcome the proposal in the Baker initiative to give the IDB a substantial role in the implementation of an integrated debt strategy. The Bank possesses a unique knowledge of the economic as well as the political structures in Latin America which in a constructive way could add to the expertise in the World Bank and the IMF.

I have to underline the importance of a determined action to resist protectionism. Intensive work is going on in the GATT on the preparations for a new round of multilateral trade negotiations. Sweden is offering its full support to the launching of a new round—this as a means to halt the rising protectionism, stop the erosion of the trade system and lay the ground for further trade liberalization.

The main objective for the Bank is to play an active role in the return to a regime of durable growth in Latin America. It is therefore of vital importance for

the functioning of this Bank as well as the other multilateral institutions that its actions and decisions be based on principles of universality and non-discrimination between members of different political regimes. The IDB was set up to serve the social and economic development of the peoples of Latin America and the Caribbean and these objectives should alone guide the analysis and presentation of projects. It is absolutely necessary that the legitimate rights of all member countries be respected. As several speakers have already stated, it would endanger the future of the Bank, and thereby also an important instrument for development in the whole region, if these basic principles were not respected.

The Swedish Government is convinced that the IDB has an important role to play in Latin America. Sweden is not one of its largest contributors but still we régard our membership in the Bank as an important indication of our willingness to contribute to the common efforts of increasing growth and social welfare in Latin America.

ADDRESSES

FOURTH PLENARY SESSION

March 26, 1986

Address by Mr. Jean-Pierre Arnoldi, Temporary Alternate Governor for Belgium and Counselor at the Treasury Department of the Ministry of Finance

I should like first of all to convey the regrets of the Minister of Finance, Mr. Mark Eyskens, Governor of the Bank for Belgium, that he has been prevented from attending this Meeting of the Board of Governors. He has asked me to represent him and to inform you of Belgium's deep interest in the Inter-American Development Bank and, through it, in Latin America.

I join with the other Governors in thanking the authorities of the Republic of Costa Rica for the warm hospitality they have shown to our delegations on the occasion of this Twenty-Seventh Annual Meeting.

Finally, I should like to convey to President Ortiz Mena the hearty congratulations of the Belgian authorities on his re-election to head our institution, and to assure him of our support in the performance of his high functions, devoted entirely to development and social progress in the continent that is so dear to his heart.

It would be gratifying to be able, at this present Annual Meeting, to speak of the elimination of the disequilibria that have characterized the early part of the decade and of progress in the world economy. Unfortunately, we continue, as last year, to have reasons for concern.

So far as the Bank is concerned, the Annual Report tells us that in 1985 the Bank approved 78 loans for a total amount of $3 billion, a drop of $500 million from 1984, and that disbursements totaled $2.3 billion, about the same as the 1984 level.

This balance sheet contrasts with that for previous years, which were marked by steady growth in the Bank's operations. Nevertheless, the continued success of the Bank's borrowing policy on the capital markets, where it was able once again to mobilize a record amount of resources, up by more than 30 per cent in relation to 1984, is cause for satisfaction. The Bank's Management and staff are to be congratulated on this result and on the borrowing terms secured which have enabled the Bank to reduce its lending rate appreciably.

We have entered upon the last year of the Sixth Replenishment period. That period will also have coincided with the most serious economic crisis that the continent has ever experienced, a crisis whose effects continue to be felt.

In most countries of the region, the per capita gross domestic product has stagnated or even declined. Investment has continued to be depressed and net resource transfers have fallen in aggregate terms. World trade has not matched the expansion that ensued in 1984 following the recovery of the United States economy. While for some countries the recent fall in oil prices has brought some degree of relief, for others their problems have become disturbingly serious.

It is therefore quite understandable that doubts have arisen in the Bank's member countries concerning the correctness of the adjustment policies they have applied.

The negotiations relating to the new replenishment of the Bank's resources have just been started. They offer an opportunity for reflection on this problem and

also on the means to be deployed to reactivate the growth process in Latin America on sound bases. In doing so we should also define the place of the Bank in an overall strategy, as well as the adjustments required to render its action more effective.

An element that seems to have been lacking up to now is an adequately coordinated approach among the various parties involved: developing countries, industrialized countries, international institutions and private entrepreneurs. To be able to create conditions that can generate lasting growth for Latin America, we obviously need to give special attention to resolving the external debt problem so that the countries can meet their debt payments without any further inroads on the level of living of their populations. There is no need to cite figures, particularly in this forum. The measures taken so far, despite their merits, have only been able to remedy crisis situations and postpone the problem, without eliminating their fundamental causes. If we wish to contribute to genuine relief of the debt problem, which is vital for the international financial system as a whole, we need to go beyond what we have done so far.

In that connection, tribute must be paid to the position taken by the United States Treasury Secretary on the occasion of the 1985 Annual Meetings of the Bretton Woods organizations, held in Seoul, in putting forward the elements of a coherent solution. A growing consensus appears to have emerged on the broad lines of such a solution, but little real progress has been accomplished since then.

The time has come to prolong certain recent favorable developments, such as the concerted declines in interest rates, which while alleviating the debt payments burden should also facilitate economic recovery. Above all else, the importance of international cooperation must be reaffirmed.

The pursuit of adjustment in the developing countries remains the key factor. However, it should be oriented more than in previous years toward well-focussed recovery programs so that the substantial reductions in capital expenditures no longer jeopardize the countries' long-term development.

Other important factors will be the availability of external resources complementing the adjustments applied, and the increased mobilization of domestic savings for productive purposes. In view of the volume of funds that will be required, a substantial share will have to be in the form of private capital inflows, in a larger amount than the current transfers. To that end, the multilateral financial institutions, such as the Inter-American Development Bank, could play a larger role, not only in recycling part of these private flows but also in developing their catalyzing activities.

It would also be desirable to attract a larger volume of foreign private capital in the form of investments that generate technology transfers but also impose less severe external debt constraints. To that end it will be necessary to create a receptive climate and incentives for these types of flows in the host countries.

The Inter-American Development Bank is more than just a financial agency. It brings substantial expertise combined with financial stringency to the conduct of its operations. These assets should be harnessed to even greater effect in the future.

To that end, the Bank should enhance the effectiveness of its operations by scrutinizing more closely the macroeconomic framework of its activities in each of its member countries. The institution of coherent programming based on correct economic choices is an important element. This would also call for a regular and constructive dialogue between the Bank and its member countries to enable this

programming to be adjusted to reflect changes in their economic situations.

In order to strengthen its role it would be appropriate that the Bank add a new loan instrument to the battery currently at its disposal. I refer to sectoral adjustment loans, which would enable the Bank to contribute the necessary resources for the reforms and other measures adopted by the countries in response to changing economic data and thereby to enhance investment productivity. Increased cooperation in all fields of common interest with the other international financial institutions operating in the region is also important; such cooperation should not, however, encroach on their own identities.

As the outcome of the negotiations relating to the Seventh Replenishment of Resources, the Bank should obtain sufficient resources to resume the expansion of its traditional activities and also to undertake a new program of support for sectoral adjustment.

In this scenario, serious attention would also have to be given to the situation of the Bank's less developed countries and to the most disadvantaged sections of their populations. During the current period, the public-sector budget cuts have essentially affected investment projects in the social sectors, resulting for many people in a deterioration in their level of living. This is reflected in the results of the Bank's work in this field over the last three years. Despite certain flexibility measures decided on by the Board of Governors with the object of facilitating absorption of the resources of the Fund for Special Operations, the results for 1985 fall short of the Sixth Replenishment targets. Moreover, only one-third of the loans approved by the Bank in 1985 benefitted the low-income groups.

It is necessary to remedy that situation, which imposes the cruelest sacrifices on the most disadvantaged groups. In this area also, responsibility rests primarily with the governments of the developing countries. The Bank can nevertheless make a positive contribution by making resources available on suitable terms. The vulnerability of these countries' economies and their relatively lower ability to justify this external financing, which the Bank can provide to them either through the Fund for Special Operations or through continuation of the Intermediate Financing Facility.

The year 1986 marks the Tenth Anniversary of the accession of the first group of nonregional countries to membership of the Inter-American Development Bank. Since then, the number of such countries has grown steadily, as has their contribution to the expansion of the Bank's operations, evidenced by the importance of their capital markets to the Bank's borrowings. The recent approval of the resolution concerning the admission of Norway is a laudable further step in that direction.

The year 1986 is also a crucial year for the future of Latin America and of the Bank. In the negotiations concerning the increase in resources that have just begun, Belgium is ready to play a constructive role, as a full partner in the Bank, in the search for a balanced solution.

If we are able to take these steps, we will be able a year from now to congratulate ourselves on the gains we have made in the area of recovery and success in the Seventh General Increase in Resources which should be on a par with our confidence in the Bank.

Address by Mr. Adolfo Linares Arraya, Temporary Alternate Governor for Bolivia

We wish, first of all, to express our appreciation to the people and Government of Costa Rica for the hospitality they have shown us. This is the most auspicious place to assess the results achieved by the Inter-American Development Bank during the past year, as well as to define the guidelines for concluding the Sixth Increase in Resources and lay the foundation for negotiations on a new increase that will be consistent with the changing situation of Latin America and the Caribbean.

We also wish to take this opportunity to convey to Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank, our warmest wishes for success in the new term he is beginning. His re-election shows our recognition of his outstanding performance. We are sure that with his able leadership the Bank will be able to move along on the difficult road before it.

The magnitude of the resources mobilized by the Inter-American Development Bank over the 26 years of its existence provides clear evidence of the strength of this multilateral agency. Nevertheless, the deterioration of the region's economy during the current decade, as well as the absence of a solution to the problems caused by an overwhelming external debt, make it essential for the Bank to undertake new initiatives and to participate much more actively in cooperation for the development of the region, which has been halted by the inadequacy of domestic savings and the difficulty of generating the foreign exchange necessary to ensure economic recovery and make it possible to comply with external obligations.

As a regional financial institution, the IDB was created for the purpose of promoting and speeding up the economic and social development of the member countries of Latin America and the Caribbean. This purpose and this nature have been zealously preserved throughout its existence. It would not be wise to allow some kind of political interference of conditioning to distort its multilateral regional character, or to allow criteria other than strictly technical ones to interfere in decisions relating to its operational program. To place limitations or conditions on the Bank's work would lead it to alignments with other existing agencies whose task is different from that of the IDB.

The countries that contribute the greatest amount of resources are well aware of the fact that such resources always fall short of the amounts needed to finance the progress of one of the least developed regions which nevertheless plays a very important role in balancing the political forces of the hemisphere.

What we should be concerned about, fundamentally, is how to expand the Bank's activities to directly benefit the developing countries, particularly the relatively less developed ones and those with limited markets. In this regard, efforts should be made to ensure that it is technically possible to implement projects satisfactorily and that financing fulfills its essential purpose and achieves the desired results.

As Mr. Ortiz Mena noted in his inaugural address, resource commitments were inadequate during 1985, when the level fell by 12 per cent with respect to the

previous year. This situation becomes even more dramatic when one bears in mind the placement of resources charged to the Intermediate Financing Facility and those of the Fund for Special Operations, where only 58 per cent and 57 per cent of program targets have actually been met. Disbursements have not kept up with those of previous years either; this means that the transfer of resources to the region has not been consistent with its requirements. All this is happening precisely at a time when greater commitments and annual disbursements are required, mainly to make it possible to overcome the recession which has had such a dramatic impact on the entire region. In addition, the Bank's technical cooperation should also be stepped up.

Bolivia has once again come to this meeting of the Board of Governors under singularly dramatic circumstances. In order not to be too lengthy in describing the Bolivian crisis, I will refer only to a few aspects of it. Over the last four years, the GDP has fallen by around 25 per cent, and this has seriously affected per capita income levels. An unprecedented hyperinflation has wreaked havoc with prices and wages, aggravating social tensions. Growing fiscal deficits and low collection levels have made it necessary to resort to haphazard issues which have also accentuated the crisis.

We must also stress the fact that during 1986, Bolivia's export earnings will only amount to $600 million; 70 per cent of this will come from the sale of gas to Argentina and 30 per cent from the sale of mineral ores on the world market. In the latter case, as a result of the break-up of the International Tin Council, there are no quotations for the 18 per cent budgeted for tin exports.

Although we do not wish to make a historical analysis, we must mention that for five decades, up to 1970, Bolivia virtually depended on its tin exports. However, any income surpluses which might have been created by these exports were insufficient for the task of overcoming the endemic poverty of the country nor did they allow for the implementation of significant export-diversification projects. Thus, the country was plunged into an alarming state of neglect, which was only interrupted in 1952, after which, despite the fact that its export prices were not profitable, the country embarked on a policy of geographic and economic recovery.

During the 1970s, the demand for energy in the Argentine Republic and the prospects for exploiting large gas deposits made it possible to reach a sales agreement with that neighboring country for an amount of approximately $340 million per year. This brought a significant injection of income into the Bolivian economy.

Parallel to this, during the period 1982-85, Bolivia began to undergo an uncontainable inflationary process resulting from social demands which could not be adequately met because of an obsolete production apparatus and an erratic economic policy which led to a disproportionate growth of the State. In mid-1985, Bolivia had five-digit inflation; that would have led to total chaos had there not been a substantive change in the orientation of the economy as a result of the constitutional transfer of power to Dr. Víctor Paz Estenssoro.

In effect, beginning in August 1985, the Government adopted a new economic plan designed to halt hyperinflation and lay the foundations for an orderly and sustained economic recovery. Some of the fundamental measures included in this plan are the implementation of real and flexible changes aimed at promoting exports, the liberalization of external prices, the adoption of monetary incentives

to encourage financial circles and the imposition of strict fiscal discipline.

The measures and their consequences were very harsh but the decision to adopt the former and endure the latter was inevitable if the country was to manage to sharply contain hyperinflation, eliminate speculation and improve the financial status of some important public enterprises.

The social crisis had reached the point where key State institutions were rendered incapable of exercising the power vested in them. Under such circumstances, the social pressures had led the previous government to declare a unilateral moratorium on its external debt with the private international banks.

The conscientiousness of the working class played a decisive part in making it possible for the anti-inflationary model established in Bolivia in 1985 to be implemented without violence. As the economy was placed on a sounder basis and prices made more realistic, the Bolivian economy was stabilized, and, in principle, disorder, social confusion and institutional chaos were eliminated.

When the general situation of Bolivia had not only stabilized but showed signs of recovery in some subsectors of the economy, the Argentine Republic, which has historical links of brotherhood with our country, was obliged, also by its own serious economic and financial crisis, to propose a reduction in its purchase of gas from our country to half the volume and one-third the price agreed upon.

This is a dangerous situation, inasmuch as the agreements with the Argentine Republic expire in 1992 and Bolivia is still studying new possibilities for exporting gas to other areas. The step taken by our neighbor, viewed in the context of the Bolivian crisis, will cause alterations in the Bolivian Government's stabilization plan, which is restricted by our very low export earnings. We trust that the friendship and mutual understanding of the Governments of the two countries will make it possible to find an adequate solution to this serious problem.

Even more dramatic, however, was the crisis of the International Tin Council, which has even made it impossible to obtain quotations for this metal, thus throwing the tin market into utter confusion.

Despite all these problems, it was decided that Bolivia should attend meetings with the international creditor banks and request a meeting with the Club of Paris in order to renegotiate its external debt, thus ratifying the Government's willingness to meet its obligations.

Within this overall scene, Bolivia has received recognition for the efforts made by its Government and its people to reorganize the economy within the context of the strict preservation of democratic values and human rights. This international understanding has brought fruit in the form of a development which has greatly boosted our morale, i.e., the drawing up of an emergency plan for Bolivia, which was approved at the fortieth session of the United Nations General Assembly on the proposal of Secretary General Javier Pérez de Cuéllar and of Jaime Lusinchi and Felipe González, Presidents of Venezuela and Spain. This initiative has also had the support of IDB President Antonio Ortiz Mena.

Apart from indicating the world's solidarity with the economy of a people who are the victims of extreme exploitation as regards the prices of its raw materials, this plan might set a precedent to encourage multilateral agencies to adopt, in the future, institutionalized systems for cooperating with countries suffering from financial constraints, by eliminating rigid procedures such as the requirement of an economic counterpart which the countries in question are not able to provide at this time. This does not mean that these countries do not have to

make efforts on their own, but the fact is that such efforts have at this point reached their limit.

We believe this meeting gives us the opportunity to stress that there is no such thing as a "beggar" nation, but rather that there are nations which suffer from the consequences of an unjust system which puts the people in an unacceptably humiliating position.

We appreciate the work the Bank has done for the benefit of our countries and we offer it our strong support. But it must expand its action in the light of the new requirements and needs of the region. We hope that the Inter-American Investment Corporation will be able to begin operations very soon and that it will be able to contribute additional financing for the development of our countries.

At the same time, we hope that it will be possible soon to agree on the Seventh Increase in the Resources of the Bank, in order that it may meet the current development needs of the region. This is an important item on the Bank's agenda and we attach great importance to it, particularly as regards differential treatment for different groups of countries according to their different possibilities for response and their development capacity. We trust that the decisions that have to be taken in order to crystallize the region's expectations will be adopted in due time, so as to ensure a substantial volume of loans, especially under resources from the Fund for Special Operations. Greater resource commitments are only made possible by periodic increases on the part of the member countries of the Bank.

At this crucial moment, Bolivia needs ample support from the IDB, from other multilateral agencies, and from the Governments of friendly countries and their cooperation agencies. In this regard, we ask the Bank, our Bank, and all the representatives of countries and institutions gathered here for your cooperation, in order that the institution may have additional resources it needs, and on suitable terms, including resources for concessional loans, for small projects, for the complementary financing system and for any other mechanism that will enable us to tackle the current economic deterioration. The Bank must act effectively and in accordance with the needs of its members countries which, in the case of Bolivia, are both considerable and pressing.

Address by Mr. Kai Helenius, Temporary Alternate Governor for Finland and Director-General of the Finnish International Development Agency, Ministry for Foreign Affairs

I would like first of all to express my warm gratitude on behalf of Finland to the Government and the people of Costa Rica for hosting this Twenty-Seventh Annual Meeting of the Inter-American Development Bank and for the excellent arrangements and the warm hospitality that has been extended to us.

I also want to join other speakers and extend my warmest congratulations to the President of the Bank, Mr. Antonio Ortiz Mena, for his re-election. The unanimous decision of the Board of Governors is a most concrete reaffirmation of the confidence of the Bank's member countries in his experience and ability in the leadership of the Bank.

I also wish to express our satisfaction over the approval of the membership of Norway in the IDB.

Mr. Chairman, during the course of 1985 and early 1986, economic development has generally been encouraging. In the industrialized countries, there has been a resumption of growth and inflation has been cut down substantially.

At the same time, serious problems persist and many of them are particularly relevant to the economic situation of Latin America. These negative developments consist, inter alia, of slowing down of growth, sharply declining external financing, weakening of commodity prices and the continued strong inflationary pressures in many indebted countries. The weakening of the rate of growth in the United States has had a direct negative impact on the export earnings of Latin America, those being estimated to have fallen by about 3 per cent in 1985 as compared to an increase of 10 per cent during the previous year. It is evident that efforts towards resolving the debt problem will be seriously hampered if this trend in exports is not reversed.

Towards the end of last year, general recognition emerged that an overall strategy to solve the debt problem must be created. The mere continuation of efforts to postpone debt repayment, to cut imports and to expand exports were conceived to be insufficient to spark recovery. As the Nordic Finance Ministers stressed only recently "the debt problems need to be addressed in a framework of coherent, long-term strategy building and supplementing the traditional case-by-case approach." The initiative by the United States Secretary of Treasury, which calls for a more comprehensive approach and points out the need for more growth-oriented policies to support continued adjustment in debtor countries, is therefore welcomed. We share the opinion that responsibility for addressing the debt problems must be shared between debtor countries, creditor governments, multilateral financial institutions and commercial banks.

The achievement of sustained long-term growth will necessitate further adjustment measures on the part of debtor nations, i.a. introduction of realistic exchange rates, which should help stem and reverse capital flight, proper incentives for production, institutional reforms, promotion of additional investments and domestic savings.

At the same time major responsibility for the strengthening of the debt strategy lies with the governments of the industrialized countries. These countries should create an environment of moderate, non-inflationary and sustainable growth. These policies should be complemented by determined action to resist protectionism.

The role of multilateral financial institutions will be of particular importance in any efforts to solve debt problems. We feel that there is scope for enlarging the role of the Inter-American Development Bank in this field also. The negotiations on the Seventh Replenishment Increase which were officially initiated only a few days ago will provide the necessary framework for clarifying the conceptual and operational aspects of the Baker initiative vis-a-vis the Bank for defining the action that needs to be taken in the coming years.

Traditionally we have seen and continue to see the role of the IDB to be a major regional development financing institution which should mainly concentrate on development projects. However, some flexibility in the role of the IDB is called for as the debt situation of the Latin American countries remains grave. Adoption of sectoral adjustment lending would be a way for the IDB to assist its borrowing members in their adjustment process. Country strategies formulated with due regard to the development priorities of the borrower would be an appropriate basis for sectoral adjustment lending.

Resumed growth necessitates closer collaboration between different multilateral financial institutions. While these institutions—the World Bank, the IMF and the regional development banks—must preserve their proper role and identities, common views on problems and policies in different borrowing countries should be worked out.

To be able to fulfill its responsibility the IDB must be provided with adequate funds, including an appropriate paid-in component, in the Seventh Replenishment of its resources. We should aim at a timely conclusion of these negotiations so that the new replenishment becomes effective at the beginning of next year.

The purpose of the Bank, as laid down in the Agreement Establishing the IDB, is "to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively." This and other provisions suggest that it is the responsibility of the Bank to support and foster development-oriented economic policies in all member countries without discrimination and in the Latin American region as a whole.

As regards the fulfillment of objectives of the Sixth Replenishment, as described in the Annual Report of the Bank, a certain resignation can be read between lines, in particular with respect to activities aimed at low-income groups. In an economic crisis like the one that has prevailed in Latin America the poorest segments of the population tend to be the most vulnerable.

Therefore, more attention should be paid to the needs of the low-income population groups in addition to the new innovative lending, for instance, in the form of the program of financing of small projects, which has been undertaken.

This relates also to the use of resources of the Fund for Special Operations (FSO). Even with the enlarged lending criteria of this Fund to include global agricultural credits, its resources are still underutilized. We look forward to the Bank to strive to the full commitment of these funds, which could also be allocated to other employment intensive sectors.

As regards the Bank's lending by sectors it can be noted that there has been a

sharp decline in lending to agricultural and rural development. This stands in contradiction with the objective set forth by the Board of Governors. With a view to balanced development of the region we expect the Bank to direct more resources to projects in the agricultural and forestry sectors. We warmly welcome the cooperation of the IDB with the International Fund for Agricultural Development in these fields. We also note with satisfaction the increased emphasis attributed to soil conservation measures and environmental aspects.

We are entering a most challenging period. Concerted and coordinated action will be needed on the part of governments and financing institutions in assisting Latin America to overcome its difficulties and to achieve sustained economic and social development. The IDB should continue to have a most central and catalytic role in this exercise. I wish the Bank, the Management and the Board of Directors and the staff success in this important work.

Address by Mr. Lamberto Dini, Alternate Governor for Italy and Director General of the Bank of Italy

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It is a pleasure to participate in the Twenty-Seventh Annual Meeting of the Inter-American Development Bank (IDB) in this lovely city of San José. I wish to thank the Government of Costa Rica for the warm hospitality and the management and staff of the Bank for the excellent organization of the meeting. I would also like to congratulate Mr. Ortiz Mena on his re-election as President of the IDB. He will no doubt continue to provide effective leadership to the institution.

World economic performance in 1985 was less buoyant than the year before: the growth of real GDP in industrial countries was halved while that of world trade declined even more sharply, from 8.8 to 2.7 per cent.

The effect of the slowdown on the developing nations was aggravated by the worsening in their terms of trade caused by declining commodity prices. In fact, their growth decelerated by one percentage point to 3.1 per cent, while the volume of their exports stagnated, after increasing by more than 7 per cent in 1984. Their progress in restoring a sustainable external position thus came to a halt. For the first time in three years the LDCs combined current account deficit widened, though it was still less than half that recorded in 1982. Moreover, their debt/GDP and debt service ratios increased slightly, and remained abnormally high for the most indebted countries.

The flow of finance to the indebted developing countries fell further in 1985 owing to the contraction in private capital flows, and the financial constraint was aggravated by high real interest rates.

It is now urgent to channel an adequate flow of resources to these countries to allow them to attain higher growth rates while implementing programs of internal economic reform. The program for sustained growth outlined by Secretary Baker at the Seoul Annual Meeting provides a workable strategy for removing deep-seated obstacles to growth and bringing the debt problem to an orderly solution.

Although economic conditions in Latin America vary significantly, very substantial foreign debt is a common feature. The size of the debt and the large portion owed to commercial banks mean this region is and will remain at the center of the debt problem. The external adjustment process undertaken by Latin American countries has been on an unprecedented scale and has brought striking and rapid results: in just three years they have reduced their current account deficit to $6.4 billion, a seventh of the 1982 figure, and raised their trade surplus from $7 billion in 1982 to $33 billion last year.

In most countries, unfortunately, this improvement has not been accompanied by a reduction in internal disequilibria. Generally, inflation rates and budget deficits are still too high. Moreover, low saving ratios, structural rigidities and massive flight of capital continue to hamper the achievement of sustained non-inflationary growth. In reality, a return to growth is essential for a region which has improved its current account balance mainly by reducing imports and investment, and where per capita incomes are now below pre-crisis levels.

The picture for 1986 is profoundly influenced by the falling oil prices. While

the economic outlook is undoubtedly improving for most countries, there will be adverse repercussions for a number of heavily indebted oil-exporting nations. Lower oil prices can be expected to generate more vigorous growth in the industrial area and a worldwide decline in interest rates. This should prove extremely beneficial to Latin American countries, by enhancing their export prospects and easing their debt servicing burden. But it will take some time before the improvement materializes, while the abrupt reduction in export earnings of the heavily-indebted oil exporters, such as Mexico, Venezuela and Ecuador, is already placing new strains on their debt servicing capacity. This is a new problem, which may have to be tackled separately with the collaboration of all the parties concerned.

Since its establishment, the IDB has played an important role in channeling resources and assisting development in Latin America. However, the positive results achieved over the last 25 years should not obscure the difficulties the IDB now faces in responding to the changing needs of members. This is reflected in the Bank's overall lending which declined in 1985.

The Baker program has assigned to this institution, as well as to the World Bank, the challenging target of increasing disbursements to the major indebted members by 50 per cent and raising the share of structural and sectoral adjustment financing. To meet this challenge, IDB operations will have to improve substantially in both quantity and quality.

A prerequisite is for members to reach a consensus on the Seventh Replenishment providing the Bank with commensurate resources, and for the Bank to revise its organization and lending policy in order to streamline procedures and enhance disbursement of loans. Even though the primarily project-finance nature of IDB lending should be preserved, today's circumstances justify an increase in sectoral-framework loans. I would like to stress, however, that sectoral loans must be coupled with appropriate conditionality in order to foster reform where needed and to reinforce structural conditions for the development of production and exports. Indeed, it is in the interest of borrowing and non-borrowing members that every effort be made to ensure the efficient and effective use of these resources. Moreover, it would be desirable for non-borrowers, including non-regional members, to participate more actively in the Bank's decision-making process and to be more broadly represented in its professional staff.

Since the strategy for overcoming the debt problem of Latin America calls for extensive international cooperation, the IDB should develop closer links with other international financial institutions, especially the World Bank. It would also be a valuable step forward if the IDB were to formulate "country strategies" providing a comprehensive and consistent framework for the Bank's action in individual member countries.

The aim of devoting a greater portion of the Bank's resources to projects to benefit low-income groups has so far not been achieved. The Bank should continue its efforts in that direction, and should try to analyze more fully the impact of its projects on low-income groups. In this context I would like to support the Fund for Special Operations (FSO) as an instrument for helping the least-developed members. The expansion of FSO criteria decided last September should enable the Bank to commit available funds during the current year.

The merger of the IDB's ordinary and inter-regional capital should also strengthen the Bank's financial structure, simplify its operations, and enhance its

presence in international financial markets.

It seems unlikely that the IDB will be able to achieve its loan targets for 1986 unless some changes are made in the lending guidelines. A workable solution to this problem must be found and we are confident that the proposals that emerge in the context of the Seventh Replenishment exercise will be given full consideration.

After lengthy negotiations, the Inter-American Investment Corporation should soon begin operations. Italy, which has supported this initiative, firmly believes that the Corporation can make a positive contribution in promoting private investment and in channeling external resources to Latin America. This is of major importance to the easing of the region's debt situation, and to the restoration of a better balance between debt and non-debt-creating flows. We shall work to ensure that the agreement establishing the Corporation is ratified by Italy at an early date.

The coming years are bound to be difficult and demanding for Latin America. I trust the IDB will be up to the task and play its part to the full in meeting the challenge.

Address by Mr. Vladimir Radović, Temporary Alternate Governor for Yugoslavia and Special Advisor of the Federal Ministry of Finance

On behalf of my country's government, I am particularly pleased and honored to voice our sincere thanks to the government and people of Costa Rica for the warm hospitality we are enjoying in this beautiful central plateau.

We should also like to join in the congratulations tendered to Mr. Antonio Ortiz Mena at the start of his new mandate as President of the Bank. His election by acclamation betokens not only the recognition of the fruitful labor he has performed thus far, but also the unanimous conviction of all the member countries that in these times of crisis, Mr. Ortiz Mena's experience and prestige represent the best possible guarantee of judicious leadership in the Bank's future activities.

In the time that has elapsed since the last Annual Meeting of the Inter-American Development Bank, the external indebtedness problem of many developing countries, particularly those of Latin America, has once again become acute. Increasingly aware of the drawbacks implicit in the application of standard remedies and routine treatment to different realities, the developed countries have now begun to introduce new elements into their handling of the debt problem; in this connection, the "program for sustained growth" proposed by the United States at Seoul and, more recently, the expression of its willingness to hold an international monetary conference are of special importance.

If the developed countries postulate economic growth as a *sine qua non* for solution of the debt problem, they must also accept the idea that the maintenance of a current account surplus, increased savings, and renewed medium-term growth would ease the burden of external debt even more. The degree of progress made in dealing with this global phenomenon hinges on the elaboration of new elements introduced by the developed countries as well as on the acceptance thereof by developing nations, for without the latter's consent the program of sustained growth espoused by U.S. Treasury Secretary James A. Baker cannot be implemented.

Early this month, the developing countries attending the Buenos Aires meeting of the Group of Twenty-Four ministers to deal with international monetary affairs also issued an important communiqué outlining a common approach to the solution of the debt problem. My government supports all of the positions set out in the Buenos Aires communiqué, firmly convinced that they represent a solid basis for an equitable and lasting solution to the problem that concerns all of us.

The present annual meeting confirms the need for the Inter-American Development Bank to help solve the debt problem in addition to continuing its support for the economic growth of Latin America and the Caribbean. During the negotiations for the Seventh Replenishment of IDB resources, however, its member countries should not be confronted with two diametrically opposite views of the Bank's future role. We must redouble our efforts to find the best possible solution, enabling the Bank, on the one hand, to pursue its traditional financing of specific projects and, on the other, to adjust its operating policies in such a way as to permit the borrowers to make use of loans featuring faster disbursement, such as those earmarked for sectoral improvement, which are by definition subject to sectoral conditionality. In this way, the Bank would not only achieve better adaptation of

its operating policies to today's challenges: it would also help solve the debt problem and establish a more solid basis for sustained economic growth of the countries of Latin America and the Caribbean.

At the end of the meeting of the Board of Governors held here in San José, where we have begun our examination of factors relevant to the Seventh General Increase in the Bank's Resources, a certain amount of progress toward reaching a consensus is evident.

The Government of Yugoslavia wishes to express its support for the efforts being made by the Bank's Board of Executive Directors and Management to attain the goals established by the Sixth Replenishment.

Given the shortage of local counterpart funding triggered by the austerity measures put into effect by the countries of Latin America in recent years, it is easy to see why some of those goals have not been achieved in the three years since the Sixth Replenishment went into effect.

The source of greatest concern, however, is the limited number of concessional loans granted from the Fund for Special Operations. Despite the flexibilization measures adopted by the Board of Governors in September 1985, we are clearly far from accomplishing the proposed objectives. In view of the importance of continued financing of social projects, it would be worthwhile for the Bank also to underwrite part of the recurrent costs following completion of projects in the social area. We are also troubled by the fact that only 35 per cent of all loans approved provide benefits for low-income groups.

If the principal cause of such underutilization of the Bank's resources is the excessively stringent use of funds from the Sixth Replenishment, we support the proposals that would endow the institution with greater operating flexibility in the 1987-90 period.

We further believe that the Inter-American Development Bank should maintain a special commitment to the Group C and D countries, since none of them is included in Treasury Secretary Baker's sustained growth program, notwithstanding the copious amounts they pay for debt service.

In our opinion, the Bank should play a much more active part in the cofinancing program. At the Dubrovnik conference on cofinancing organized in late March of last year in my country in cooperation with the IDB, a number of representatives of potential funding sources criticized the Bank for overemphasizing its complementary program instead of introducing innovations and new cofinancing instruments that would be better adapted to the context of the region's external debt. We still think that the Bank could be more amenable to the examination of new and different cofinancing modalities with export credit agencies, institutional investors and other international financial institutions as well as with commercial banks.

I should like to take advantage of this opportunity to repeat the invitation extended by my government, offering Belgrade as the site of the Thirtieth Annual Meeting of the Inter-American Development Bank's Board of Governors in 1989.

Let me close by noting that the main reason we are all gathered here is to contribute to the development of Latin America and the Caribbean, a fact that may well bear repeating. If it is true that growth is essential to a nation's ability to repay its debts, it is equally true that we must join efforts to find an equitable solution to the debt problem so the countries of this region can continue to grow. Growth and development must continue and be maintained at all costs, because only in a healthy economy can people improve their living conditions and well-being.

Address by Mr. Jacques Vilgrain, Governor for Haiti and Minister of Planning

Allow me to begin by greeting this prestigious gathering on behalf of the new government of the Republic of Haiti. Its leader, Lt. Gen. Henri Namphy, has also asked me to convey to the Governors of the IDB his heartfelt wishes for a highly successful Twenty-Seventh Annual Meeting.

I should also like to voice the thanks of the Haitian Delegation to the government and the people of Costa Rica for their warm welcome and generous hospitality, which have unquestionably helped create an atmosphere of cordiality propitious to the success of this meeting. The decisions reached here will assuredly enable the IDB to continue to redress the economic disequilibrium and injustice that have engendered the poverty, frustration and violence clouding the closing years of this century.

As you are all aware, the Republic of Haiti is undergoing a crucial period in its history. On February 7, 1986, after 28 years of oppression, the Haitian people finally ousted the dictatorship. This was accomplished without violence or the use of arms, by dint of peaceful demonstrations organized by a goodly assortment of population sectors: young people, Catholic and Protestant churches, and residents of various parts of the country figured prominently among them. In the interim since that never-to-be-forgotten February 7, 1986, the people of Haiti have experienced the restoration of their human rights and are now laying the foundation for a democracy that will endure from this time onward.

I am sure, then, that you can understand how tremendously gratified I am to have this opportunity of expressing the Haitian Government's support for the splendid work performed by the Inter-American Development Bank during more than a quarter of a century devoted to the integral development of the peoples of Latin America, Central America and the Caribbean.

It is in this context that I should like to acquaint this august audience with the extremely difficult economic position in which Haiti finds itself, the legacy of 28 years of an administration which displayed very little concern over the *res publica*. This parlous situation was further exacerbated in the last five years by the world economic crisis, which produced a negative growth rate in the gross domestic product (GDP) for 1980-81 and 1981-82. Even the slight and tenuous recovery of the three ensuing fiscal years posted a mere 1.4 per cent annual growth rate, barely equal to that of the country's population increase.

Further to be deplored is the stagnation of credit allocated to private sector productive activities and the dwindling of external aid, which, together with other factors, explain the negligible growth rate.

From the sectoral standpoint, illiteracy and the lack of training of Haiti's rural population, antiquated cropping methods and inadequate irrigation infrastructure continue to restrict farm sector productivity.

At the same time, the limited purchasing power of most of the population plus the concomitant cutback in import substitution industries thwart the growth of an industrial sector serving the local market.

Finally, the industries that assemble products designed for export which had

progressed fairly well in recent years are now plagued by inadequate infrastructure in addition to other obstacles to their growth.

All of these factors could well lead in the short or medium term to new periods of stagnation in the country's overall production unless the necessary remedies are applied without delay.

For its part, external trade by and large reflects the economic situation of the country as a whole, which makes it heavily dependent on foreign goods. Furthermore, sharp fluctuations in the market for our principal commodities destabilize Haiti's export revenue and trigger balance-of-payments crises. In the same order of things, the downturn in the number of tourists and their shorter stays and lower average expenditures have brought some tourism activities to a standstill while exercising a negative impact on the inflow of foreign exchange.

The resultant decline in import volume has aggravated the worsening quality of life of our population.

Problems arising in the financial and monetary areas include the current public sector deficit and the global balance-of-payments shortfall, the reduction of which constitutes one of the government's primary concerns.

The sizable fiscal deficit hampers rapid growth of private sector investments. The increased money supply is due to the fact that the share of internal credit granted to the central government to meet its deficit is larger than that allocated to the financing of private sector investment projects.

Unfortunately, the goal of progressive reduction of the balance-of-payments deficit has very little chance of succeeding so long as the country's negative net external exchange position persists.

In the overall picture, Haiti's economy continues to be fraught with internal difficulties of both structural and cyclical origin and they threaten a renewed recession.

The situation is complicated by the fact that current political events in Haiti have opened the floodgates to the people's long-suppressed demands for their rights. The need for radical measures that will provide lasting solutions to the country's economic and social problems thus becomes all the more imperious. Unfortunately, such outbursts have occasioned physical damage to the economic and social infrastructure in a number of sectors. The result is an extremely critical situation calling for immediate measures from the government that also entail considerable outlays of public funds.

From the time it took office, the provisional government issued formal guarantees to all foreign and friendly powers and to the international institutions with which Haiti has entered into treaties, accords and agreements that it will respect such undertakings. Since it entertains no political ambitions, its principal mission comprises the maintenance of peace and order; respect for civil liberties and human rights; institutional strengthening; regulation of the functioning of political parties; the drafting of a liberal constitution; the organization of free elections, and laying the groundwork for efficacious operation of the definitive government within the framework of democracy.

In addition, the provisional government has adopted a whole series of measures and presented an economic and social action program broadly designed to lower the cost of living; provide sound management of public finances; eliminate monopolies; create jobs; stimulate investment; eradicate waste in state enterprises and public administration, and preserve monetary stability.

The objectives of that program cannot, however, be accomplished without help from the international community within the framework of mutual respect and solidarity among peoples. In this connection, we particularly request that the Inter-American Development Bank give early consideration to the following forms of economic and technical cooperation with Haiti:

- Implementation of a reconstruction program.
- Emergency assistance for urgent repairs and replacement of equipment.
- Reactivation of approved projects with more flexible terms permitting accelerated disbursement.
- Improvement of the conditions governing loans granted to Haiti within the framework of the October 1985 programming mission.
- Intervention of the IDB on behalf of rescheduling of the external public debt.
- Assistance in institutional strengthening; improving of the national planning system to achieve integral development; the training of technical and administrative managers for both public and private sectors, and the promotion of investments.

In this context we confirm the government's priorities, which continue to be:

- Integral rural development.
- Promotion of small and medium-scale enterprises.
- Accelerated creation of productive jobs through the implementation of labor-intensive projects.
- Development of nontraditional sources of fuel and energy.
- Raising the literacy level of the population.
- Construction and improvement of infrastructure, particularly in the area of agriculture.
- Economic decentralization designed primarily to improve the situations of the most disadvantaged regions and groups.
- Preservation of financial and monetary stability.

Given the particularly critical situation facing the country at present, and the structural obstacles to its development, we believe it essential that all loans to the Republic of Haiti be made on concessional terms from the Fund for Special Operations. Along the same lines, we request that an exception be granted in the case of Haiti in the form of special treatment exempting it at least at this juncture, and for a period of at least two years, from the requirement of providing local counterpart funds.

We find this year's Annual Meeting of the Board of Governors to be of signal importance. It imbues us with a firm resolve to constantly improve our countries' development planning and unflaggingly pursue development until we can satisfy the needs and aspirations of our peoples. The re-election of Mr. Antonio Ortiz Mena as President of the IDB should be considered a guarantee of this institution's outstanding contribution to progress in the hemisphere, thanks to its role as purveyor of funds from the industrialized countries to the developing ones. Accordingly, I take the liberty of asking the international community in general, and the cooperation agencies that assist Haiti in particular, to implement the resolutions adopted in Manila by the Fifth Conference of UNCTAD in favor of the less developed countries. I also fervently hope for their deep understanding of the

need for their assistance to Haiti, given the country's adverse economic situation. In other words, as the spokesman for the Government of the Republic of Haiti I ask the developed countries and all those taking part in this Seventh Replenishment to preserve, broaden and improve the eligibility criteria established for Haiti at the time of the Sixth Replenishment.

I should be remiss if I were to close without addressing special congratulations to the IDB on all its achievements and the remarkable contribution it has made to the development of Latin America, Central America and the Caribbean. In the name of the people of Haiti, I pay public tribute to the agencies of bilateral and multilateral assistance that recently hastened to offer their assistance to Haiti, whether by supplying food or by increasing their technical and financial assistance to our country. We are most grateful for their prompt solicitude and the interest they have evinced in the people of Haiti, who can now face the future with hope and confidence.

Address by Mr. Hugo Guiliani Cury, Governor for the Dominican Republic and Governor of the Central Bank

On behalf of the Dominican Delegation and speaking also for myself, I am very happy to express our heartfelt appreciation to the Government and people of Costa Rica for the warm welcome they have extended to us.

This is an appropriate forum for commenting briefly on the present situation of Latin America and particularly of the Dominican Republic. All of our countries have been forced to adopt difficult adjustment programs since 1982. This unavoidable but necessary process had to be accomplished in very short order and under adverse external circumstances, thus giving rise to a recessive impact on most of our economies.

Some of our best-known writers have pointed out that Latin Americans are inclined to be romantic. The great Nicaraguan poet Rubén Darío once asked "What creature that lives is not romantic?" In the present circumstances, and after more than three years of economic crisis, we are still awaiting a marked improvement in the industrialized countries' economies so that they, as the engines of the world economy, can in turn bring about an upgrading of our economic situation.

The experience of the last three years should suffice to dash our hopes in this respect. The product growth rate of the principal industrialized countries in 1986-87 will be 2.6 per cent, i.e. the same as last year and considerably below the 1984 level. Inflation is expected to drop to 3.6 per cent in 1986-87, a slight improvement over previous years. The prospects for those two factors alone—growth of real product and inflation—will depend largely on the monetary and fiscal policies of those countries in the next two years. In this regard, it is expected that the fiscal deficits will decline somewhat, while the aggregate money supply should increase in 1986 and then decline in 1987. A dispassionate analysis of those figures shows that some of the measures that should have been taken by the industrialized countries to ease the adjustment burden on the developing countries did not come to pass. A brief statement of some of those measures follows.

First of all, the industrialized countries have been unable to eliminate restraints on trade and reduce their fiscal deficits through the proper mix of monetary and fiscal policies.

Secondly, industrial country economies have been unable to achieve more than a 4 per cent increase in the gross product. This was considered to be the minimum level needed to stimulate developing country trade and exports.

Thirdly, no improvement has been achieved in capital and credit flows to developing countries. In practice the so-called voluntary credit from the banking system has not materialized, and a shortage of funding from the multilateral agencies has become evident. Despite the hopes that have been raised by the Baker Plan, these resources may serve only to provide a few countries with amounts similar to their external debt-service payments. We should be able to deduce from all these factors that the so-called "shared adjustment" has not materialized, nor will it do so in the future.

These facts should provide food for thought and lead us to assimilate the

lessons of this crisis, enabling us to realize once and for all that our economic policies must be designed to reconcile the objectives of growth with the real volume of resources available to us.

In short, we confront one of the great paradoxes of our times: impoverished countries that have made heroic efforts to adjust their economies and keep democracy alive, in the face of an asymmetric crisis that subjects us to a painful adjustment process. How long we can continue to do this, no one—absolutely no one—can tell.

I wish now to refer briefly to the position that certain industrialized countries have expressed regarding policies that the IDB should adopt in the future.

We are concerned at the prospect of the Bank's Seventh Replenishment opening the way to the possibility of cross-conditionality with other institutions. We are concerned as well about the insistence that certain changes be made in the Bank's institutional machinery. We do agree that there must be greater flexibility in the ceilings agreed upon for the Group A countries. But we must recall that the IDB has played a leading role in the poorest countries in the region, and we must not allow this work to be neglected. In 1984 and 1985, the IDB granted loans totaling $1,605 million to the poor countries that make up Group D, whereas the World Bank extended only $228 million worth of financing to these countries. Let us also bear in mind that in 1984 and 1985—precisely during the period of Latin America's greatest difficulties—the World Bank granted new sector and structural-adjustment loans in only three Latin American countries: Chile, Colombia and Uruguay. The IDB has been, is, and will remain the principal spokesman for the poor countries making up Group D. An attempt to redirect the work of the Bank to other aims or to refashion the IDB in the image of other multilateral agencies would strip our regional agency of its identity and would be detrimental to the Bank's future development. Recalling the old saying, "If it isn't broken, don't fix it," let us remember that there is no substitute for the IDB's experience.

The Dominican Republic is the country that has perhaps had to make the greatest sacrifice in the adjustment process, and it is a true exponent of the crisis that we have all experienced. The dramatic events that occurred in the Dominican Republic in April 1984 were the tragic expression of a profound crisis that pointed unfailingly toward a financial collapse with unforeseeable consequences for our nation.

All of this compelled us to carry out, on January 23, 1985, a far-reaching monetary and exchange reform designed to correct domestic and external disequilibria that had been building up for years. Our stabilization program has been based on seven main pillars:

- Exchange-rate unification, which involved a depreciation of our currency and the establishment of a floating exchange rate system.
- No utilization of any additional domestic financing by the Central Bank.
- No acquisition of external debts at terms of under one year.
- Substantial reduction in the public-sector deficit.
- Price and wage deregulation in order to eliminate distortions and subsidies.
- Regularization of the situation of the country's external sector.
- Initiation of a reform of the interest rates structure.

Today, 14 months after the adjustment process was launched, the Dominican

Republic has made significant progress in stabilizing its economy. The following are some of the results achieved:

First of all, we have unified our exchange rate under a free flotation system.

Secondly, we have succeeded in raising the value of the Dominican peso in relation to the U.S. dollar by more than 10 per cent.

Thirdly, even with exchange-rate unification and price and wage deregulation, inflation began to decline in the second half of the year, falling to 37.5 per cent in 1985 and to a projected level of only 14 per cent in 1986.

Fourthly, we did not utilize Central Bank domestic financing, which declined by 4 per cent of the balance recorded during 1985, and at the same time succeeded in reducing the public-sector deficit to only 2 per cent of GDP.

Fifthly, the Dominican Republic's external debt rose by only 1.8 per cent over the 1984 level, and there was no increase in our external obligations having terms of less than one year. It must be underscored that, despite a difficult adjustment process, the Dominican Republic has only marginally had to increase its level of external indebtedness.

Sixthly, we have succeeded in renegotiating our external debt with the members of the Paris Club and with the international banking system. With the latter we obtained terms comparable only with the best negotiations of the larger countries. We consolidated six years' debt and obtained a total term of 13 years, with 5 years of grace and an interest rate margin of 1⅜ above LIBOR. In 1985 we accomplished an enormous domestic effort, devoting 40 per cent of our goods and services export earnings to external debt service. Our country will be fully up to date with its interest payments to the international banks by the middle of next April, thereby regularizing its situation with its creditor banks.

It should be noted also that we have successfully complied with the various quantitative ceilings and qualitative targets of the stand-by arrangement concluded with the International Monetary Fund for 1985.

The economic policies implemented by the administration of President Jorge Blanco in 1985 have succeeded, in the space of only a year, in avoiding the financial collapse of the nation and placing our economy on a sound footing that enables us to base our economic recovery on a new, basically export-oriented development model. Even so, the success of our country's stabilization program has not been accomplished without problems. One of these is that the adjustment took place over a very short period, compelling us to opt for the course of adapting money flow to goods and services flow. In addition, in 1985 we had to absorb the reduction in the United States quota, and the low prices, for sugar, our principal export crop, and also to cope with a long drought which affected agricultural production. These factors together led to a decline of almost 2 per cent in our Gross Domestic Product in 1985.

The worst has already passed but this does not mean that everything is all right. We need to pursue some of the stabilization policies adopted in 1985. Among other things, we need:

- To continue to apply fiscal and monetary discipline and to pursue correction of the disequilibria that exist in certain autonomous public-sector enterprises.
- To recognize that conversion of the productive apparatus is not feasible in the short term and that the entire human and financial effort must continue to place greater emphasis on exports.

- To alter the tax structure to make it more equitable and less dependent on changes in foreign trade.

Despite the limitations that still persist, we have made a start on the economic recovery process and we have reduced fuel prices. But costs of other goods have also fallen as the Dominican peso has risen in value. We are launching our economic recovery using real financial resources obtained from abroad and from domestic savings. We are aware that we must to the maximum possible extent avoid adopting development policies that are not mutually coherent or that lack real sources to finance the development that is pursued. If we did otherwise, we would slip back into economic instability, destroying what has already been achieved.

I fervently believe and put into practice the principle that the solutions to our problems must not come from outside. Our countries have to understand that the crisis can be overcome only on the basis of the internal effort that we are able to put toward this goal. This brings us to a final thought. The battle to find solutions has to be directed and waged by each of us in our own country and in the light of our own particular circumstances. I am certain that, with a little more unity, efficiency, and effort, we will succeed in putting the crisis behind us and improving our people's standard of living.

Address by Mr. Willem Alfred Udenhout, Governor for Suriname and Prime Minister and Minister of Finance and Planning

Allow me, on behalf of the Government of Suriname to express my sincere appreciation for the hospitality extended to us by the Government and the people of Costa Rica.

I also wish to express gratitude for the facilities and the productive environment that have been made available; these provisions will encourage effective participation in what may eventually turn out to be one of the most important meetings of our region.

Allow me, furthermore, to thank the distinguished President, Antonio Ortiz Mena, the management and the staff of the Bank for their work and achievements in 1985, a time when living conditions for our peoples have deteriorated while economic performance was not satisfactory.

I find it an honor to address this meeting for the first time and to be given an excellent opportunity to exchange views with my fellow Governors and the management of the Bank.

Between the Governors meeting in Vienna last year and this annual meeting in San José, the relationship between the Bank and Suriname has been strengthened appreciably, while naturally there is room for further improvement.

Very recently Suriname and the IDB have signed three project agreements, two of which were meant to improve the living conditions of our people, while the other project, a global credit-line, was selected for the strengthening of our industrial sector.

The serious economic problems which our region has been facing for some time have been variously highlighted and analyzed. The declining prices for our main commodities, high interest rates, trade barriers in industrialized countries, are just a few factors that are notably retarding a structural and comprehensive solution for our complex problems.

In this context we share the profound interest of many countries in the proposals put forward by major industrialized countries; we are closely studying and express our willingness to cooperate in the implementation of any initiative that can contribute to the alleviation of our current economic problems without long-term adverse influence on our socioeconomic structures.

We believe that the solution to the problems of our region lies mainly in economic growth, and that within a social environment. Improvement of the living conditions of the majority of our peoples has repeatedly proved to be the only reliable basis for sustained economic growth. Therefore, no productive investment should be considered without satisfying the preconditions of acceptable living conditions.

Like others, Suriname has suffered, through a variety of causes, a loss of foreign currency, as a result of which progress in many development projects has been very slow. Serious steps are currently taken to secure the sociopolitical basis and the productive environment that will facilitate international financing of major foreign currency earners.

The IDB is by far the most important multilateral regional financial institution for the financing of medium- and long-term investment projects to further socioeconomic growth in our region. This Bank is also a unique institution, since it embodies 25 years of experience in the financing of development projects in countries of our region, an experience acquired during very different economic conditions.

The growth of our Bank, therefore, reflects a deep insight into our development problems and required solutions, as well as the innovative capacity to cope with changing circumstances in our economies.

Besides the standing acquired by the IDB, this enables it to enter into a supportive dialogue with our authorities. The appreciation of our Bank in the international financial markets, and the intermediate role it plays in interconnecting the economies of north and south are all features which must be preserved at any cost.

Countries with an open economy and small market, in a process of transition, need an innovative approach of the IDB to prevent them from lagging behind. It is well known that in some of these countries the execution of a single project can determine the development perspective of an entire sector.

Some of these countries have, indeed, the basic social and physical infrastructure for accelerated growth, and are in an urgent need for a package of capital and technical assistance compatible with their socioeconomic realities.

Therefore, we take the view that there is an urgent need to look for solutions, to remove the bottlenecks, in the use of FSO funds and the IFF mechanism for these countries. We believe that we must prevent mechanical interpretations of trends experienced in the past in the use of these concessionary funds. We are aware of the needs for development which are not always reflected in well-elaborated demands due to the inability to cope with certain encountered obstacles.

For these reasons we feel that there is a need to increase the level of concessionary loans through the FSO and IFF mechanisms of the Bank and to operate these mechanisms on more flexible criteria.

In this context it is worthwhile to explore the possibilities of well tailored-packages of financial and technical ingredients, as well as special high level project-pipeline management for above-mentioned countries for speeding up their economic growth.

The San José Annual Meeting of the IDB is held at a time where there is an unprecedented need for a creative and open mind approach for the development problems and solutions for our region. We must, therefore, more than ever, reach consensus in a timely manner on the global measures to be taken for the furthering of socioeconomic development for our region.

Therefore, we want to go on record as calling for the appreciation of regional and non-regional member countries which have expressed, in one way or another, their support for the intricacies of the C and D countries and their rightful request to increase the volume of the concessional funds and to implement measures which will effectively expand access to these mechanisms.

Address by Mrs. Maria Alexandra Gomes, Alternate Governor for Portugal and Director-General of the Office for External Economic Cooperation

It is with the greatest pleasure that I join my fellow Governors of the Inter-American Development Bank in thanking the Government and people of Costa Rica for the warm welcome they have shown us in this beautiful city of San Jose. I wish to congratulate the Chairman of this meeting for his able leadership of our work at this crucial time when we must define the future course of our institution.

I would like to extend a very special greeting to President Antonio Ortiz Mena as he begins his 16th year at the head of the Inter-American Development Bank. The outcome of the election of November 29, 1985, when the Board of Governors elected him to his fourth consecutive term as President of the Inter-American Development Bank speaks well of the work he has done and is a testimony to the consensus that exists in that regard, clearly showing our complete confidence in his ability to continue leading the Bank as it faces the tremendous challenge of the next few years.

As noted by the Board of Governors, Latin America experienced rapid economic growth for two decades; this was interrupted by the crisis of 1982 and 1983. Growth was again stimulated during the recovery of 1984, but was not sustained during 1985. Consequently, this continent is now undergoing an extremely complex transition.

The per capita product has fallen sharply and the situation with respect to the foreign debt represents a serious obstacle to the recovery of the economy and the launching of a process of sustained economic growth. Latin America and the Caribbean have immense human and material resources which must be mobilized imaginatively and they have the determination that will enable them to recover and improve the living standard of their peoples through the comprehensive development of the continent.

After three years during which harsh adjustment programs were applied, it is now internationally recognized that the development of the Latin American region calls for a strengthening of external financing at levels that will make it possible to generate a level of wealth above and beyond that which is needed merely to meet their past commitments.

Throughout its 25 years of activities, the IDB has played a key role in the overall development of the continent and has demonstrated, through the diversification of its mechanisms and the measures it has taken to streamline its work, that it has the capacity to adapt to and deal with new situations such as the one which has now arisen.

Nevertheless, the Bank is now faced with difficulties in carrying out the program of loans approved for the four-year period 1983-86 under the Sixth General Increase in resources. After a noteworthy performance in 1983 and 1984, the 1985 program execution rate was only 77 per cent of the overall amount established for new commitments, mainly as the result of a sharp drop in loans disbursed under the Intermediate Financing Facility and in concessional loans granted under the Fund for Special Operations.

Indeed, for the third time in 25 years of operations, and for the first time since 1968, the volume of loans granted by the Bank fell with respect to the previous year, making it virtually impossible to attain the objectives established for the Sixth Increase in Resources even should there be a strong recovery during 1986.

The experience gained over a quarter of a century of rapid economic growth and a decade of serious difficulties leads us to recognize the need to study ways of implementing genuine national economic policies and joint action programs that will allow for optimum use to be made of the resources available and avoid a repetition of the recent experience of many population groups, who saw their living standards regressing to levels they had surpassed ten years ago.

Throughout its existence, the Inter-American Development Bank has managed to establish itself and consolidate its position as a sound financial institution which is thoroughly familiar with the problems and potentialities of its member countries and has an invaluable overall vision of the region as a whole. As a predominantly Latin American institution, with its well-established character as a multilateral and regional development bank and invaluable experience in the financing of projects and the mobilization of resources, the IDB has a fundamental role to play in the development of the region.

The difficulties of the present will provide the driving force for the battle of the future and for the negotiations regarding the Seventh General Increase in Resources. Through the joint efforts of the IDB and of all its member states, the general guidelines must be drawn to ensure that the new resources made available are put into concrete and effective action programs that meet the needs of the New World and its citizens.

The ties which bind Portugal and Latin America and the similarity of some of the problems we are facing in our economic development efforts make it easy for us to understand the challenges which the Latin American region is facing and the anxiety it is experiencing.

When Portugal became a member of the European Community, it did not change its attitude towards the world or towards mankind. Europe and Latin America must continue to work together to reach greater mutual understanding.

Solidarity involves receiving and giving; it requires commitment and communication. That is why we insist on the need to study new modes of cooperation in which we can take advantage of the experience gained and make better use of the means and the potentialities which each member country is able to contribute towards the valuable common action with which the IDB is identified.

ADDRESSES

FIFTH PLENARY SESSION

March 26, 1986

CLOSING SESSION

Remarks by Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank

Introduction

The discussions of the Twenty-Seventh Annual Meeting of the Board of Governors, set in this beautiful city and this splendid National Theater, a fitting symbol of the Costa Rican people's love of culture, draw to a close after three days of intense work.

Speaking on behalf of all those here, I wish to express our fullest appreciation to the Government and the people of Costa Rica for the generous hospitality they have shown us. It has been a great pleasure for all of us to work and live in an environment that is part and parcel of the culture and democracy that thrive in this country.

Let me also express our deepest recognition to Mr. Franz Vranitzky, the Governor for Austria, for his skillful direction of the preparatory work for this Meeting. We likewise thank Mr. Ricardo Zerbino, the Governor for the Republic of Uruguay, for his able and effective leadership of the Committee of the Board of Governors over the last two years.

The conduct of our business over the last three days was entrusted to Mr. Porfirio Morera Batres, Governor for Costa Rica. As we thank him for his outstanding dedication to our labors, I wish to convey through him our gratitude to all the Costa Rican personnel who collaborated with the Bank staff for the excellent way in which the Meeting unfolded. Thanks to their painstaking and professional efforts, our Annual Meeting has attained the success that the Governors emphasized in their addresses.

I wish to mention at this point the decisive contribution of an outstanding Costa Rican, Mr. Jorge Hazera, which made possible the success of this Meeting. For many years, Mr. Hazera rendered brilliant service as the Secretary of the Bank, and now, commissioned by Costa Rica, he had the responsibility of coordinating the preparations for this Meeting. As many of you know, Mr. Hazera was in a serious accident a few days ago, and we wish him a most speedy recovery.

As has become traditional, the Annual Meeting of the Board of Governors is a time for signing loan and technical cooperation contracts between the Bank and its borrower countries. At this Meeting, 16 loan contracts and one technical cooperation agreement amounting to more than $500 million were signed with nine countries and one regional organization.

Our Annual Meeting also provides an opportunity for government officials from the member countries of the Bank, representatives of multilateral agencies and the world of finance and international trade to make contacts and reach agreement on matters relating to the economic development of our countries. I wish to thank all the 2,000 persons who joined us on this occasion. We are pleased that the Bank continues being an appropriate forum for the fertile exchange of ideas and solutions of interest to our countries.

As for future Meetings of the Board of Governors, I am pleased to inform you that during the preparatory session of this Meeting, the Governor for Ecuador reiterated his country's offer to serve as host for the 1988 Annual Meeting. The

Governors for the Netherlands and Yugoslavia also reiterated the proposals of their respective countries to serve as hosts for the 1989 Annual Meeting. The Governor for Israel made a similar offer for a subsequent Meeting. As all the Governors know, our next Meeting will take place in Miami, in the United States, at the end of March 1987.

Continuing a regular practice, several other agencies have held meetings over the last few days. One of the more important of these was the meeting convened by the Central American Bank for Economic Integration to move ahead with plans to create a special fund to channel resources provided by several countries from outside the Central American region. Our Bank, which has worked closely with this sister agency since its early days, remains willing to continue to lend it firm support.

We are convinced that the Central American Bank will have an increasingly important role in strengthening Central American integration, which the Governor for Guatemala referred to when he spoke on behalf of all the countries of the region. One task in which collaboration between our two banks can have a significant impact is in promoting the production of nontraditional exports which might be of interest to private investors from industrialized countries. With this idea in mind, the Bank held two very successful meetings in Japan and Canada last year. We want to continue working with the Central American countries in activities such as these, since we believe they are of great interest to these countries.

Inter-American Investment Corporation

Last Sunday several member countries of the Bank signed or ratified the Articles of Agreement Establishing the Inter-American Investment Corporation, in a ceremony held at this very place. I am most pleased to inform the Governors that, as a result, the Bank has now received the instruments of subscription or acceptance of the document from enough countries to enable the Articles of Agreement of that new body to enter into force.

As the Governors for Chile, the Netherlands and Uruguay, among others, have pointed out, the decision to put this new corporation into motion is particularly important at this time. It will play spearhead support for private sector activity in Latin America, especially by small- and medium-scale industries, which is vital to reviving economic growth in the region.

The Governor for Venezuela has reiterated his country's formal offer to be the site of the First Meeting of the Board of Governors of the Corporation. We are most thankful for this offer which reflects the pioneering interest of that country in creating this new organization which Latin America has long wanted. In due course I shall notify the member countries of the Corporation of the date of the meeting.

Conditions and Outlook for the World and Latin American Economies

To a large extent, the addresses of the Governors expressed similar views regarding current conditions and the outlook for the international and Latin American economies. This diagnosis, set out with extraordinary objectivity and frankness, was itself, in my opinion, an achievement of this Meeting, and one that was most timely and valuable for the international economic and financial community.

Starting at this point, we trust we will be able to move ahead with a similar degree of agreement on the design and application of adequate policies to overcome present problems. A central requirement in this effort, as many speakers have brought out, is the recognition that all segments of the international economic system must act within a structure of dialogue, agreement and genuine spirit of multilateral cooperation.

Among the more important conditions for world economic recovery, it was mentioned that the industrialized countries must make an effort to significantly accelerate the pace of their growth on a basis of noninflationary stability. That is fundamental for restarting the pattern of long-term exexpansion of world trade, returning the relative prices of commodities to normal levels and reinstituting the multilateral trade liberalization commitments negotiated under the GATT. Progressive world trade is critical now, not only for the economic future of the industrialized countries but also for the success of the economic adjustment efforts undertaken by the most heavily indebted countries, as was mentioned in the addresses of the Governors for Japan, Peru and Switzerland, among others.

In addition to faster growth of the industrialized economies and expanded world trade, the Governors pointed out the need to continue efforts to rectify and stabilize exchange rates and reduce nominal interest rates even more. It is widely agreed that progress on these fronts would go far to improve the chances of successfully resolving the world debt crisis.

As to the semi-stagnation of production, worsening unemployment, growing inflation and persistent debt problems in many Latin American countries, the Governors agreed that the solution of these problems will require a heavy dose of international cooperation. Many countries of the region have already made significant sacrifices in their economic adjustments, which have allowed them to generate unprecedented trade surpluses that helped in large part to pay interest on their external debts. Their experience, however, has proved inadequate, and the Governors for Germany and Japan, to name just two, mentioned symptoms of fatigue which could jeopardize the continuation of these efforts, and risks of straining social and political tolerance beyond the breaking point in these countries.

In this connection, then, the initiative of the United States Secretary of the Treasury, Mr. James Baker, appears not only pertinent but very timely as well, in the opinion of many. As the Governor for the United States said yesterday, the basic premises of this proposal include achieving stable, noninflationary growth in the industrialized countries, lower interest rates and elimination of protectionism. With these as the groundwork, this proposal suggests that the debtor countries undertake substantial economic policy reforms while the commercial banks provide new financing and the multilateral lending agencies expand their credit function. In a nutshell, this set of measures, if applied effectively as a group, will enable the major debtor countries to shift from a recessive adjustment phase to one of positive transformation and growth. From a political angle also, this initiative will reconfirm the principle of shared responsibility in finding solutions to the debt problem and will call for coordinated contributions from all sectors connected with the problem. This is precisely what the debtor countries have been asking for, as the Governor for Colombia reminded us.

However, in the panoply of solutions suggested for the external debt problem, controversies have arisen about the viability and advisability of this or that proposal, as frequently occurs with complex questions that touch on sensitive

matters of national sovereignty. Questions are often asked, for example, about suggested changes of economic structure and necessary policy measures, political ideology, the identity of the persons who define, measure and evaluate them and the extent to which the prescriptions suit the social, cultural and institutional values of each country. In this connection, the Governors for Austria and Germany pointed out quite fairly that the same development philosophy ought not be applied to all the countries of the region. Solving this dilemma takes tolerance, open dialogue and an effective desire to seek consensus of all those involved.

Role of the Inter-American Development Bank

The Governors for Bolivia and Colombia have emphasized the regional nature of the Bank and stressed that it would be advisable to strengthen this quality. The point was also made that it would be good to bring the Bank into even closer contact with the development agencies of the member countries. To achieve this, the Governor for France suggested strengthening the Bank's offices in the borrower countries and decentralizing their functions. We agree with the idea that the Bank—which has established close bonds of cooperation with public and private agencies in our countries—should strengthen and expand its service activities to these agencies, both through our specialists at the Bank offices and through timely offers of technical assistance.

A large number of Governors, among them the Governors for Canada, Chile, Denmark and Nicaragua, have pointed out that it is vital to preserve the Bank as a regional and multilateral agency, with each and every one of its members having full right to participate in its decisions.

The Governor for the Bahamas—representing the group of Caribbean countries—and the Governor for Spain emphasized the value of the Bank's technical cooperation activities. The Governor for France pointed out in regard to these activities that it would be wise to use and coordinate bilateral technical contributions from the member countries. As I stated previously, I believe that technical cooperation is one of the Bank's more important operation areas, one to which Management will continue giving preferred attention. In the past we have collaborated with great interest in institutional improvements in the Latin American countries. These have included such important areas as improving tax policy and administration, and in the identification, preparation and evaluation of investment programs and projects for development. We believe that meeting such national needs will remain a high priority in coming years.

The Governors for Paraguay, Peru, Suriname, and the United States, emphasized that the Bank would be wise to continue focusing its action on financing specific investment projects for development, in both directly productive sectors and economic and social infrastructure. The Governors for Austria and the Netherlands also stressed that the Bank should continue emphasizing small projects and activities designed for low-income sectors. For their part, the Governors for Denmark and the United States mentioned their concern, which we fully share, with protecting the environment in specific projects we finance.

There is no question that the Bank has built up extensive experience in financing specific projects. This financing is an asset at the disposal of all the member countries and one which holds great potential for our work of reactivating development. The continuing emphasis on these activities is perfectly compatible

with undertaking new experiences in financing sectoral programs. These programs, furthermore, should have additional and complementary resources beyond those assigned to specific projects.

Loan Program for 1986

In connection with our loan program, the Governors for Austria, Italy, Sweden and Switzerland suggested that the Bank adopt more flexible criteria so that credits could be allocated more swiftly. Along this same line, the Governors for Argentina, the Bahamas and Ecuador stated that it was necessary to make more fields of lending activity eligible for the Fund for Special Operations. Their idea was to offer additional support to the relatively less developed countries of the region.

For their part, the Governors for Colombia, France, Panama and Spain asked that consideration be given to changes in the maximum percentage of project cost covered through Bank loans to facilitate the initiation of new, high priority projects, with lower requirements for counterpart funding. In addition, the Governors for Brazil, Chile and Peru thought it well-advised to grant additional loans for projects in progress which have been held by back by insufficient local funding because of fiscal austerity measures taken by the countries.

Some of these suggested measures, as the Governors know, have merited initial consideration by the Board of Executive Directors. Bank Management would be willing to go deeper into these matters and prepare the necessary proposals so that changes could be incorporated into the Bank's operating policies and criteria.

The Governors for Japan, Spain, Venezuela and Yugoslavia mentioned the need to attract additional resources to provide more financing for Bank projects. As you know, the Bank has always thought that one of its primary functions is that of acting as catalyst for other financial resources. Recently, the Management updated several studies pertaining to the complementary financing program and other cofinancing activities. The Bank continues exploring other appropriate ways of finding resources under the present conditions in international financial markets.

We believe that one way to enable our Bank to collaborate with private international banks would be to channel credits from those banks into Bank-financed projects either in progress or in the advanced planning stage which are attractive because of their high rates of return. The Bank has held exploratory conversations on this matter and is willing to consider the most appropriate ways to advance this initiative.

Seventh General Increase in Resources

The Governors for Belgium, France, Mexico and Switzerland made reference to the region's growing needs of external financing and stated that, under present international economic conditions, the Bank must be provided with a significant volume of financing for the period of the Seventh General Increase.

Likewise, the Governors for Colombia, Finland, Switzerland and Venezuela indicated that the new increase in resources should include a large part of callable capital. This type of contribution gives the Bank a more solid image in international financial markets and allows it to transfer resources to the borrowers on the best cost conditions.

In the immediate future, the Bank is going to need, in the opinion of the

Governors for Denmark, Germany, and Italy, a significant volume of concessional resources for both the Fund for Special Operations and the Intermediate Financing Facility. In this connection, the Governors for the Dominican Republic, Guatemala, and Uruguay suggested that the criteria that apply to these resources be broader and more flexible during the new operating period. In this way, they could be more useful to the relatively less developed countries.

The Governor for Haiti called the Meeting's attention to the special status of his country, which is now the only member country of the Bank eligible for concessional financing from the World Bank. With this in mind, he asked that the Bank give his country exceptional and preferential treatment so that the Fund for Special Operations could be the source of all new financing that Haiti receives.

The Governors for Argentina, Brazil and Venezuela took up the matter of Bank resources corresponding to the Sixth General Increase and the existence of limits on the amount of resources available for a certain group of countries. On this point they stated that it would be advisable to revise these amounts immediately. This would permit adequate use of these resources without compromising the amount of financing available to other borrower countries. On this matter of maximum amounts, the Governors for France, Spain, and the United Kingdom suggested it would be best to leave such limits out of the next general increase in resources.

The Governors for Germany, Japan and the United States stated that, under the Seventh General Increase in Resources, the Bank should provide forms of financing other than those it has traditionally used for execution of specific projects. One suggestion in this sense was that the Bank grant rapidly-disbursing sectoral financing. This could be linked to policy measures agreed upon with the borrower countries and based on an evaluation of the requirements for productive activities and other factors.

In connection with sectoral loans, the Governors for Belgium, Finland and the United States indicated that the Bank should set macroeconomic conditions compatible with the structural adjustment requirements set by the World Bank. The Governors for Mexico and Peru, in turn, stated that the conditions which the Bank decides to establish for extending and disbursing new sectoral loans should be independent of those adopted by other lending agencies.

To operate the new forms of financing proposed, the Governors for Sweden, the United Kingdom and the United States stated that the administrative structure of the Bank would have to be changed, and technical personnel experienced in this work hired. The Governors for Canada and Sweden suggested the need to strengthen the consultation and coordination mechanisms with the other international lending agencies, particularly with the World Bank.

As all the Governors are aware, Bank Management is having an independent, high-level consultant conduct an analysis of its programming and operations evaluation systems. This work encompasses not only continuing refinement of the Bank and its quality control systems but also any changes in its structure and operating procedures that might be needed to start extending sectoral loans. The Board of Executive Directors will be informed and consulted in due course about the measures that might be needed in this area.

As you know, the Committee of the Board of Governors decided to meet in Buenos Aires on May 21 and 22 of this year. The sole purpose of that meeting is to continue the consideration of the Seventh General Increase in Resources of the

Bank. This extremely important matter for the Bank was, without a shadow of doubt, the one which took most of our attention in the past few days. The lack of formal resolutions on this matter, however, is no reflection on the progress actually made in the negotiation process which we know is usually lengthy and complex.

Although some countries have taken differing positions on certain fundamental aspects of the financial and institutional future of the Bank, there is obviously a significant level of agreement among the Governors on the need to continue the dialogue and coordination already started. They also agree that the Bank will be called upon to play a major role in coming years as an instrument in the service of Latin America's development. The Bank Management has taken note of the concerns expressed by the Governors and will prepare information to facilitate future negotiations between the member countries of the Bank.

Conclusions

His Excellency, the President of Costa Rica, Luis Alberto Monge, told us at the start of these discussions that the international community was facing a challenge that goes beyond the borders of the region and the boundaries of our time; to secure democracy, peace and liberty during times of great financial crisis. The Governors have met this challenge and I am convinced that in the important work they have decided to undertake in upcoming months, a deep spirit of multilateral cooperation will prevail.

This will enable our institution—with its proven experience and the necessary human capital—to play a leading and decisive role both in interpreting the development needs of the region and in providing the external financial and technical resources that the region needs.

Governors: I am most thankful for the congratulations you have offered me for my new mandate to head the Bank. I accept this office with optimism, aware of the challenges that the region and the Bank face, but convinced as well that the international cooperation needed to make this the task possible will be forthcoming from all our member countries.

Report on the Activities of the Committee of the Board of Governors Since the Board's Last Annual Meeting

Since the holding of the Twenty-Sixth Annual Meeting of the Board of Governors in Vienna, Austria, the Committee of the Board of Governors has met three times: in Rome, Italy, on June 19 and 20, 1985; in Washington, D.C., on September 25, 1985, and in San José, Costa Rica, on March 21 and 22, 1986. At those meetings, the Committee considered the following matters:

1. *Measures relating to the merger of the inter-regional and ordinary capital resources*

1.01 At the meeting held in Rome on June 19 and 20, 1985, the Committee had before it document CA-245, containing a memorandum relating to the merger of the inter-regional and ordinary capital resources: a report on measures to provide for the merger, and an additional annex containing the replies to the specific technical questions raised in connection with this subject.

1.02 At that meeting, the Chairman of the Committee recalled that at the meeting held in Vienna, Austria, the Committee had reached the conclusion that there was a consensus that financial advantages would accrue to the Bank from merging its ordinary and inter-regional capital at the end of 1986 and that, consequently, the substance of the financial part of the issue had been agreed upon.

1.03 At the meeting held in Rome, the Chairman of the Committee noted that there were still certain differences of opinion regarding legal considerations which had to be resolved. In that connection, he recalled that as a result of the amendments made to the Agreement Establishing the Bank in 1976, consequent upon the creation of the inter-regional capital, different voting majorities had been established for approving increases in the ordinary capital and in the inter-regional capital. That made it necessary to define what voting majorities would be required for future increases in the merged capital.

1.04 At the Rome meeting, the Committee agreed to go into recess in order to allow for the holding of meetings and consultations on the matter among the different groups of countries.

1.05 As a result of the consultations held, when the meeting was resumed, the Bank Management submitted for the Committee's consideration a new revised text for Section 2, paragraph 2 of the proposed resolution appearing as Annex A of document CA-245, and the text of a new Section 3, to be included in the aforementioned proposed resolution.

1.06 After hearing statements by the Governors for Argentina, Japan, the Federal Republic of Germany, the United States of America, Colombia, Brazil and Trinidad and Tobago,[1] the Committee agreed to recommend for approval by

[1]See paragraphs 3.06 to 3.12 of document CA-254.

the Board of Governors the proposed resolution appearing in document CA-245-1, which includes the amendments proposed by the Bank Management (see paragraph 1.05 of this Report). The Committee also decided to ask the Board of Executive Directors to submit the aforementioned proposed resolution to the Board of Governors, as soon as possible, through the procedure of taking a vote without calling a meeting provided for in Section 5 of the By-laws of the Inter-American Development Bank.

1.07 In compliance with the above, on July 17, 1985, the Board of Executive Directors agreed to transmit to the Board of Governors the report entitled "Measures to provide for the merger of the inter-regional and ordinary capital resources", which includes the proposed resolution on the merger of the two capitals. It decided that the voting on the matter should be left open up to October 31, 1986.

1.08 On July 19, 1985, the President of the Bank transmitted to the Board of Governors document AB-1106 which, in addition to the aforementioned proposed resolution, includes a copy of the Agreement Establishing the Bank in which the amendments introduced by the proposed resolution are indicated; the explanatory notes setting forth the reason for the proposed amendments to the Agreement Establishing the Bank, numbered according to the numbers of the subsections of Section 2 of the proposed resolution; a copy of the Agreement Establishing the Bank as it would read after making the amendment introduced by the proposed resolution; and the statement made by the Governors at the Fortieth Meeting of the Committee of the Board of Governors.

2. *Application of broader criteria for the use of resources of the Fund for Special Operations for Group D countries, under Fifth Replenishment criteria*

2.01 At the same meeting held in Rome on June 19 and 20, 1985, the Committee recalled that at the Twenty-Sixth Annual Meeting of the Board of Governors held in Vienna, Austria, it was agreed to refer to the Committee the proposal presented by the Governors for the Central American countries, concerning the application of broader criteria for the use of resources of the Fund for Special Operations for Group D countries, under Fifth Replenishment criteria.

2.02 On that occasion, the Committee considered document CA-249, containing the text of the presentation of the question made by the Governor for Honduras, on behalf of the Central American countries, during the Twenty-Sixth Annual Meeting: document CA-250, containing the information provided by the Management of the Bank on the matter; and document CA-251, which included a copy of the letter sent to the President of the Bank by the Office of the Deputy Secretary for International Affairs of the Treasury Department of the United States of America, and of the President's reply to this letter, to which was attached the supplementary information supplied by the Management of the Bank. The Committee also took note of the oral reports on specific aspects of the question presented by the Manager of the Operations and Project Analysis Departments.

2.03 After hearing statements by the Governors for the United States of America, Costa Rica and the Federal Republic of Germany,[1] the Committee agreed to go into recess in order to allow for meetings and consultations among the different groups of countries.

2.04 When the meeting was resumed, the Committee agreed to ask the Board of Executive Directors for its views on the question and thus it asked the Board of Executive Directors to present a report to the Committee by July 31, 1985 at the latest.

2.05 In compliance with the above, on July 31, 1985, document CA-255, which states the views of the Board of Executive Directors of the Bank concerning the use of the Sixth Replenishment foreign currency resources of the Fund for Special Operations, was sent to the Committee.

2.06 Subsequently, at the meeting held in Washington, D.C., on September 25, 1985, the Committee considered document CA-255 and took note of the oral report on the background of the question and action taken to date presented by the Bank's General Counsel.

2.07 After hearing statements by the Governors for Costa Rica and the Federal Republic of Germany,[2] the Committee expressed its agreement with the text of the report submitted by the Board of Executive Directors, set forth in document CA-255, and agreed to submit it to the Board of Governors for consideration, as requested by the Board of Governors at its Twenty-Sixth Annual Meeting.

2.08 At its Special Meeting held in Washington, D.C., on September 25, 1985, the Board of Governors considered the report of the Committee of the Board of Governors regarding the use of the Sixth Replenishment foreign currency resources of the Fund for Special Operations (Document AB-1109), and approved it in the terms set forth in Resolution AG-7/85.

3. *Role of the Bank in the training of member country personnel in the project cycle*

3.01 At the meeting held in San José, Costa Rica on March 21 and 22, 1986, the Committee considered document CA-239-2, which contains the final report on the role of the Bank in the training of member country personnel in the project cycle, submitted pursuant to a request by the Committee of the Board of Governors at its Thirty-Ninth Meeting, held in Vienna, Austria, on March 23, 1985.[3]

3.02 In the light of the report submitted by Management and the statement made by the Manager of the Economic and Social Development Department, the Committee took note of the recommendations set forth in paragraphs 4.1 to 4.7 of document CA-239-2, on the understanding that they would serve as guidelines for the future work of the Bank in the area of training.

[1]See paragraphs 4.03 to 4.05 of document CA-254.
[2]See paragraphs 3.03 and 3.04 of document CA-259.
[3]See paragraphs 4.01 and 4.02 of document CA-246.

3.03 The Committee also noted that there was consensus regarding the final report on the subject and decided to conclude its consideration of the question.

4. *Situation with respect to the Bank's resources*

4.01 At the meeting held in San José, Costa Rica on March 21 and 22, 1986, the Committee, in compliance with the decision taken by the Board of Governors at its Twenty-Sixth Annual Meeting, held in Vienna, Austria in March 1985, formally began negotiations with a view to putting underway the Seventh General Increase in the Resources of the Bank.[1]

4.02 The Chairman of the Committee said that a series of preliminary meetings and preparatory consultations had recently been held; therefore, the time was right for initiating consideration of the situation with respect to the Bank's resources for the period 1987-1990.

4.03 After hearing statements by the Governors for the United States, Japan speaking for itself and on behalf of five of the countries it represents on the Board of Executive Directors, France, Spain, Costa Rica, Italy, Paraguay, the Federal Republic of Germany, the United Kingdom, Argentina, Denmark, Bolivia, Mexico, Brazil, the Netherlands and Belgium, the Committee agreed to go into recess in order to hold meetings and consultations addressing this topic among the different groups of countries.

4.04 When the meeting resumed, the Chairman of the Committee made the following statement: "I wish to inform you that a meeting of chiefs of delegation of the member countries of this Committee was held this afternoon. After a very constructive exchange of ideas, it was decided that I, as Chairman of the Committee, would read a summary of several points which I consider central to the coming stages of the negotiations.

"During this meeting, the Committee has begun the analysis of issues tied to the Seventh General Increase in the Resources of the Bank. In this respect, I believe that certain basic points are elicited both from the issues raised and from the talks and consultations that were held, which might form an organic whole, i.e., a negotiating package that cannot be broken up into its component parts.

"*First*. I feel that the Seventh Replenishment should represent a significant increase in the level of operations and of loan disbursements of the Inter-American Bank, with a view to helping resolve the difficult financial situation Latin America is experiencing, and to getting back on the path to the growth and economic development of the region. In my view, this is a common objective of all the member countries of the Bank and has an immediate precedent in the appeal made by Treasury Secretary Baker at Seoul during the Annual Meeting of the World Bank and the International Monetary Fund.

"However, certain basic elements which must still be defined, such as the global total of the Bank's lending program for 1987-1990, the exact composition of the various types of resources, including, especially, the level of contributions earmarked for financing loans with concessional resources

[1]See document GN-1532-1, para. 2.22.

which benefit countries in Groups C and D. Hence, the points I am going to summarize below would, of course, be subject to a final agreement also being reached on the amount of resources the Bank will have for the next four years, as well as on other related financial aspects.

"*Second.* I have noticed that there is widespread interest in having the Inter-American Development Bank add to its traditional financing categories a new type of financing; this has to do with loans that are not directly related to projects and which are disbursed rapidly. It would also seem advisable not to assign more than 20 to 25 per cent of the Bank's resources during the Seventh Replenishment to this financing system, and to leave the rest of the funds for specific investment projects.

"Finally, I understand that the Bank would restrict its nonproject loan transactions to those of a sectoral nature, i.e., that they would not reach the level of so-called structural adjustment loans.

"*Third.* As several delegations have suggested, during the next four-year period, program frames of reference might be drawn up for all the IDB's lending operations. These would be based on country programming documents which Management would prepare in consultation with the governments concerned and would subsequently submit to the Board of Executive Directors. These documents should contain macroeconomic analyses in order to facilitate dialogue between the borrowing countries and the Bank in connection with the main economic policies applicable to the loan transactions in question.

"*Fourth.* As a result of the above, mechanisms for coordination and consultation with the World Bank should be improved, in order to avoid the adoption of contradictory approaches and the emergence of inconsistencies between the two institutions, which might impede subsequent application of the various economic policy measures decided on by the Latin American and Caribbean countries.

"*Fifth.* From the above, we may also conclude that it would be advisable to make certain internal changes in the organization and operation of the Bank, so as to adapt it to the requirements imposed by the new modality of sectoral lending, by the formulation of country strategies consistent with national priorities, and by improved coordination with the World Bank.

"*Sixth.* Regulations might be established to govern the operation of the Committee of the Whole of the Board of Executive Directors; a committee should be set up to serve as an internal mechanism facilitating more detailed discussion of any loan and policy proposals to which objections have been raised within the Committee of the Whole.

"*Seventh.* Both the internal reorganization of the Bank and the regulations for the Committee of the Whole must be approved by the Board of Executive Directors.

"*Eighth.* It also seems appropriate to state the need for adjustments in some of the operating norms currently in force, in order to allow the 1986 lending program to reflect more adequately the current financing needs of the region.

The following specific points should be considered in this connection:

(a) a temporary adjustment of the project financing matrix that would allow the Bank to increase the proportion it finances of the total cost of projects during a period to be decided upon. In particular, such changes in the matrix would make it possible to grant supplementary loans for projects that are currently underway, thus significantly speeding up short-term disbursements; and

(b) assignment of an additional amount for the loan program established in document AB-910 for countries with a program cap.

From the exchange of views I have had with the Governors during the last few days, I feel that the foregoing points might well be placed on the negotiating table now, in order to allow the Governors to reflect on them and consider them formally at the Committee's next meeting."

5. *Place and date of the next meeting*

5.01 The Committee expressed its appreciation for the invitation made by the authorities of the Argentine Republic and agreed to hold its forty-third meeting in Buenos Aires on May 20 and 21, 1986.

5.02 The aforementioned meeting will take place at the Office of the Banco de la Nación Argentina and the Secretariat of the Bank will in due course inform the Governors of the arrangements for the next meeting.

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Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives

Patrick Mulloy
Committee on Banking, Housing, and Urban Affairs

John Walsh
Committee on Banking, Housing, and Urban Affairs

Alice Goodman
Committee on Banking, Finance and Urban Affairs

Barry Hager
Committee on Banking, Finance and Urban Affairs

Jennifer Martin
Committee on Banking, Finance and Urban Affairs

Peter Schechter
Committee on Banking, Finance and Urban Affairs

Donald Terry
Joint Economic Committee

Greg Wilson
Committee on Banking, Finance and Urban Affairs

Uruguay

Governor

Ricardo Zerbino Cavajani
Minister of Economic Affairs and Finance

Temporary Alternate Governors

Agustín Canessa
Deputy Director
Planning and Budget Office

César Jorge Rodríguez Batlle
Second Vice President
Banco de la República Oriental del Uruguay

Advisors

Juan Ignacio García Pelufo
Technical Advisor to the Minister
Ministry of Finance and Economic Affairs

Kenneth Coates
Executive Director
World Bank
Washington, D.C.

Venezuela

Governor

Manuel Azpúrua Arreaza
Minister of Finance

Temporary Alternate Governors

Jorge Marcano
Director General, Public Finance Sector
Ministry of Finance

Advisors

Carlos Meneses
Director of the Secretariat
Ministry of Finance

Guillermo Pimentel
Executive Director
Inter-American Development Bank

Aquiles Viloria
Manager, International Financial Cooperation
Fondo de Inversiones de Venezuela

Sonia Pérez
Technical Assistant
Office of the Executive Director
Inter-American Development Bank

Yugoslavia

Temporary Alternate Governors

Milosav Drulović
Vice President
Yugoslav Bank for International Economic Cooperation

Vladimir Radović
Senior Advisor
Federal Secretariat of Finance

Advisor

Predrag Vucković
Manager
Yugoslav Bank for International Economic Cooperation

EXECUTIVE DIRECTORS OF THE INTER-AMERICAN DEVELOPMENT BANK PRESENT AT THE MEEETING

Enrique Arias Jiménez
Tulio De Andrea

Colombia and Peru

Luis A. Arnal
Juan Felipe Yriart

Bolivia, Paraguay and Uruguay

Patricio Ayala González
Bienvenido Brito

Dominican Republic and Mexico

Luiz Barbosa
Jacinto Vélez

Brazil, Ecuador and Suriname

José Manuel Casanova
Larry K. Mellinger

United States of America

Jorge Alexey De Synegub
José Páiz Moreira

Costa Rica, El Salvador, Guatemala, Haiti, Honduras and Nicaragua

Tetsuma Fujikawa

Austria, France, Israel, Japan, Portugal, Spain, Switzerland and Yugoslavia

Carlos García Tudero
Benjamín Mira Montt

Argentina and Chile

Guido P. Osterhaus
Taina Teräväinen

Belgium, Denmark, Finland, Germany, Italy, The Netherlands, Sweden and the United Kingdom

Guillermo Pimentel
Reinaldo Decerega

Panama and Venezuela

Sidney Rubinoff
Jean Quesnel

Canada

Joseph A. Tyndall
Calvin B. Knowles

Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago

OBSERVERS FROM NONMEMBER COUNTRIES

Korea

Yung Euy Chung
Assistant Minister for Finance

Hyung-Sup Shim
Director General
International Finance Division
Ministry of Finance

Doo Hyung Lee
Deputy Director
Ministry of Finance

Han Do Huh
Director
Research Department
Bank of Korea

In-Seh Myung
Counselor
Embassy of the Republic of Korea
in Costa Rica

Norway

Jan Arvesen
Ambassador of Norway to Costa Rica

Erik Leikvang
Head of Division
Ministry of Foreign Affairs

Rumania

Traian Munteanu
Senior Economist
Ministry of Finance

OBSERVERS FROM INTERNATIONAL ORGANIZATIONS

Andean Development Corporation (ADC)

José C. Cardenas
Executive President

Víctor Manuel Hoyos
Vice President of Finance

Asian Development Bank (AsDB)

Gunther Schulz
Vice President

Bank for International Settlements (BIS)

Martin de Boer
Manager

Center for Latin American Monetary Studies (CEMLA)

Jorge González del Valle
Director

Central American Bank for Economic Integration (CABEI)

Dante Gabriel Ramírez
Executive President

Roberto Chico Duarte
Executive Vice President

Alejo Aguilar Alvarado
Director for Costa Rica

Víctor Manuel Cuellar Ortíz
Director for El Salvador

Félix Martínez Dacosta
General Counsel

Jorge Papadopolo
Finance Manager

Renán Sagastume Fernández
Chief, Legal Operations

Hugo Ordóñez
Secretary

Carlo Binetti
Advisor to the Executive President

Maritza de Bardales
Secretary to the General Counsel

Central American Monetary Council (CMC)

Tomás Alfonso Medina Hernández
Executive Under Secretary

Carlos Quesada Kikut
Economist

Commission of the European Communities (EEC)

Myriam Wouters
Representative
San José

Council of American Development Foundations (SOLIDARIOS)

Walter J. Brusa
President

Enrique A. Fernández P.
Secretary General

European Investment Bank (EIB)

Arie Pais
Vice President

Fund for the Development of the River Plate Basin (FONPLATA)

Antonio Céspedes T.
Executive Secretary

International Monetary Fund (IMF)

Eduardo Wiesner
Director
Western Hemisphere Department

Hernán P. Puentes
Senior Information Officer
External Relations Department

Latin American Association of Development Finance Institutions (ALIDE)

Carlos Ismael Garatea Yori
Secretary General

Luis M. Pellerano
Director
Santo Domingo

Latin American Export Bank (BLADEX)

Willem de Marez Oyens
Executive Vice President

Mario Luis del Valle
First Vice President

Julio Felipe Lastres
Vice President and Treasurer

Armando A. Núñez Brux
Regional Vice President

María Isabel Olaso
Chief Economist
Economic Division

Nordic Investment Bank (NIB)

Bert Lindstrom
President

Lars Ehrengren
Regional Manager

OAS — Inter-American Institute for Cooperation on Agriculture (OAS-IICA)

Martín Piñeiro
Director General

Rodolfo Martínez Ferraté
Director, Central Area

Harlaw Davis
Deputy Director General

Jorge Werthein
Director of External Relations
San José

OPEC Fund for International Development

Said Aissi
Assistant Director General
Operations Department

Luis González
Officer
Operations Department

Pan American Health Organization (PAHO)

José María Salazar
Chief
External Relations Coordination

Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA)

Raúl Sierra Franco
Secretary General

Guillermo Noriega-Morales
Advisor
General Secretariat

Program of Joint Studies on Latin American Economic Integration

Eduardo Albertal
General Coordinator

UNITED NATIONS

United Nations Economic Commission for Latin America (ECLA)

Joaquín Izcue
Director

United Nations Development Programme (UNDP)

Michael M. Gucovsky
Deputy Assistant Administrator
Regional Bureau for Latin America

Percy Rodríguez-Noboa
Resident Representative
San José

United Nations Food and Agriculture Organization (FAO)

Osvaldo S. Babini Herrera
Representative
San José

International Labour Organisation (ILO) (United Nations)

Guillermo López Guizar
Deputy Director
San José

World Bank Group (IBRD/IDA/IFC)

A. David Knox
Regional Vice President
Latin America and the Caribbean

Gregor Dolenc
Regional Cofinancing Coordinator
Latin America and the Caribbean

Helmut Paul
Director
Latin America and Caribbean I
International Finance Corporation

Peter C. Jones
Divisional Manager
Latin America and Caribbean I
International Finance Corporation

Everett J. Santos
Divisional Manager
Latin American and Caribbean II
International Finance Corporation

Hugh Henry-May
Manager
Caribbean Project Development Facility
International Finance Corporation

Francis Hamilton
Senior Advisor
Promotion and Syndications Department
International Finance Corporation

SPECIAL GUESTS

The Twenty-Seventh Annual Meeting was attended by 1,059 special guests from 37 countries.

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