



# PROCEEDINGS

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Twenty-Ninth Annual Meeting  
of the Board of Governors of the Bank

Third Annual Meeting  
of the Board of Governors of the Corporation

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Caracas, Venezuela, March 1988

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**Inter-American Development Bank**

Inter-American Investment Corporation

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**PROCEEDINGS**

**Twenty-Ninth Annual Meeting  
of the Board of Governors of the Bank**

**Third Annual Meeting  
of the Board of Governors of the Corporation**

**Caracas, Venezuela  
March 1988**

## FOREWORD

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This publication contains the official record and supplementary information relating to the Twenty-Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Third Annual Meeting of the Board of Governors of the Inter-American Investment Corporation, held jointly in Caracas, Venezuela, March 21-23, 1988. It includes the resolutions adopted between the Twenty-Eighth and Twenty-Ninth Annual Meetings of the Bank and at the Twenty-Ninth Meeting, and those adopted between the Second and the Third Annual Meetings of the Corporation and during the course of the latter. It also contains the addresses delivered at the meetings, and the lists of participants, including official delegations, officers of the meetings, and members of the Board of Executive Directors of the Bank and of the Corporation, and observers from nonmember countries and international organizations.

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## OFFICIAL RECORD OF THE MEETINGS

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## Official Record of the Meetings

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The Twenty-Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Third Annual Meeting of the Board of Governors of the Inter-American Investment Corporation were held in Caracas, Venezuela, from March 21-23, 1988.<sup>1</sup> The Inaugural Session was held in the Sala Ríos Reyna of the Teatro Teresa Carreño. The plenary working sessions were held in the Sala Plenaria Manuel Pérez Guerrero of the Parque Central, and the meeting of the Committee of the Board of Governors took place in Sala 1 of the Parque Central.

The Inaugural Session opened with the Alternate Governor for the United States of America, Mr. W. Allen Wallis, in the Chair. Next, the agendas of the meeting of the Bank and the meeting of the Corporation (see page 5) were approved. Mr. Héctor Hurtado, Governor for Venezuela and Minister of Finance of Venezuela, was elected Chairman of the Boards of Governors, and declared the meetings to be officially in session.

### A. Matters considered by the Board of Governors of the Bank

#### 1. Annual report of the Bank for 1987

At the Inaugural Session, the Executive Vice President and Acting President of the Bank reported to the Board of Governors on the institution's activities in 1987 and the outlook for the future.

#### 2. At the Second Plenary Session, the Governors approved the financial statements of the ordinary capital resources, the Fund for Special Operations, and the Intermediate Financing Facility Account for the fiscal year ended December 31, 1987, as set forth in Resolutions AG-5/88, AG-6/88 and AG-7/88, 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 from the General Reserve of the Fund for Special Operations, as set forth in Resolution AG-6/88.

#### 3. Report of the Committee of the Board of Governors of the Bank

At the Second Plenary Session, the Board of Governors of the Bank approved

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<sup>1</sup>Document GN-1628 contains a detailed summary of the meetings.

the report of the Committee of the Board of Governors on the work of the Committee since the Twenty-Eighth Annual Meeting of the Board of Governors of the Bank.

The report contains an account of the meetings held and steps taken in connection with the situation of the Bank's resources for the period from 1987-90 and the Seventh General Increase in the Resources of the Bank.

The report of the Committee of the Board of Governors is found on page 195.

4. Seventh General Increase in the Resources of the Bank

At the Preliminary Session, the Board of Governors of the Bank noted that this point essentially coincided with the report of the Committee of the Board of Governors on its work since the last annual meeting, referred to above. Any further addition at that time was therefore deemed unnecessary.

5. Place and date of future Annual Meetings of the Boards of Governors of the Bank and of the Corporation

At the Fifth Plenary Session, Resolution AG-8/88, CII/AG-2/88 concerning the place and date of future annual meetings of the Boards of Governors of the Bank and of the Corporation was adopted. Appreciation was expressed therein for the invitations extended by the Governors for the Dominican Republic, Germany, Israel, Japan and Yugoslavia. The resolution stated as well that the Governor for the Netherlands had offered the city of Amsterdam as the site of the 1989 Annual Meetings, and that the Management of the Bank had already begun the process provided for in document AB-476-2 for selecting the sites for annual meetings. In addition, the resolution noted that the Board of Governors had accepted the offer by the Governor for Canada to hold the 1990 Annual Meetings in Montreal.

Lastly, the Board of Executive Directors was instructed to submit its recommendations to the Board of Governors in due course, pursuant to the terms of reference set forth in document AB-476-2.

**B. Matters considered by the Board of Governors of the Corporation**

1. Annual report of the Corporation for 1987

At the Inaugural Session, the Board of Governors was apprised of the activities of the Corporation in 1987 and the outlook for the future.

2. At the Fourth Plenary Session and in accordance with Article IV, Section 2(c), of the Agreement Establishing the Corporation, the Governors approved the financial statements of the Inter-American Investment Corporation for the fiscal year ended December 31, 1987, as set forth in Resolution CII/AG-1/88.

3. Report on the signature and acceptance or ratification of the Agreement Establishing the Inter-American Investment Corporation.

At the Fourth Plenary Session, the Governors took note of the updated report on the countries that had already signed and accepted or ratified the Agreement Establishing the Inter-American Investment Corporation. The report is found on page 147.

## **AGENDAS**

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### **Agenda of the Twenty-Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank**

1. Election of the Chairman of the Board of Governors
2. Annual Report of the Bank. Financial statements for 1987:
  - Ordinary 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. Seventh General Increase in the Resources of the Bank
5. Place and date of future Annual Meetings

### **Agenda of the Third Annual Meeting of the Board of Governors of the Inter-American Investment Corporation**

1. Election of the Chairman of the Board of Governors
2. Annual Report of the Corporation. Financial statements for 1987
3. Report on the signature and acceptance or ratification of the Agreement Establishing the Inter-American Investment Corporation

**RESOLUTIONS ADOPTED BETWEEN THE TWENTY-EIGHTTH  
AND THE TWENTY-NINTH ANNUAL MEETINGS OF THE  
INTER-AMERICAN DEVELOPMENT BANK**

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**RESOLUTION AG-6/87**

**PLACE AND DATE OF THE TWENTY-NINTH ANNUAL MEETING  
OF THE BOARD OF GOVERNORS**

The Board of Governors

**RESOLVES:**

That the Twenty-Ninth Annual Meeting of the Board of Governors shall be held in Caracas, Venezuela, from March 21 to March 23, 1988.

(Adopted July 17, 1987)

**RESOLUTION AG-7/87**

**AMENDMENT OF THE REGULATIONS OF THE  
BOARD OF GOVERNORS**

The Board of Governors

**RESOLVES:**

That the text of Section 1(a) of the Regulations of the Board of Governors is amended to read as follows:

“(a) The Board of Governors shall hold a regular meeting annually at such date and place as the Board itself may determine. The site shall be determined by rotation among the member countries, with meetings being held in a nonregional country once in every four-year period and in regional countries the other three years. Nevertheless, during the years from 1989 to 1999, both inclusive, the meetings shall be held in regional countries in the even-numbered years and in nonregional countries in the odd-numbered years. However, the Executive Directors may change the date and place of the meeting when there are circumstances or reasons justifying such action.”

(Adopted October 21, 1987)

## RESOLUTION AG-8/87

### MERGER OF INTER-REGIONAL AND ORDINARY CAPITAL RESOURCES

WHEREAS the Agreement Establishing the Bank provides that the Agreement may be amended to provide for the merger of the inter-regional capital stock and the ordinary capital stock at such time as the Bank shall have discharged its liabilities on all its ordinary capital borrowings which were outstanding at December 31, 1974;

WHEREAS it is anticipated that, as a result of the program for the advance redemption of the ordinary capital borrowings which were outstanding at December 31, 1974, approved by the Board of Executive Directors of the Bank on August 3, 1983, the liabilities on all such debt will have been discharged prior to December 31, 1986;

WHEREAS the Board of Governors has concluded that it would be desirable to proceed with the merger of the two capitals as soon as possible; and

WHEREAS Article XII of the Agreement Establishing the Bank provides for the process of amending the Agreement,

The Board of Governors

RESOLVES THAT:

#### SECTION 1. MERGER

The inter-regional capital resources shall be merged into the ordinary capital resources of the Bank upon the entry into force of this resolution.

#### SECTION 2. AMENDMENTS OF AGREEMENT

The Agreement Establishing the Bank shall be amended as follows:

1. Article II, Section 1A, shall read:

“Section 1A. *Categories of Resources*

The resources of the Bank shall consist of the ordinary capital resources, provided for in this article, and the resources of the Fund for Special Operations established by Article IV (hereinafter called the Fund).”

2. Article II, Section 2, shall be amended as follows:

(1) Section 2(e) shall read:

“(e) Notwithstanding the provisions of paragraphs (c) and (d) of this section and subject to the provisions of Article VIII, Section 4(b), the authorized ordinary capital stock may be increased when the Board of Governors deems it advisable and in a manner agreed upon by a three-fourths majority of the total voting power of the member countries, including a three-fourths majority of the total number of governors, which includes a two-thirds majority of the governors of regional members.”

(2) Section 2(f) shall be deleted.

3. Article II, Section 3(a) and (b), shall read:

“(a) Each member shall subscribe to shares of the ordinary capital stock of the Bank. The number of shares to be subscribed by the original members shall be those set forth in Annex A of this Agreement, which specifies the obligation of

each member as to both paid-in and callable capital. The number of shares to be subscribed by other members shall be determined by the Bank.

(b) In case of an increase in ordinary capital pursuant to Section 2, paragraph (c) or (e) of this article, each member shall have a right to subscribe, under such conditions as the Bank shall decide, to a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the Bank. No member, however, shall be obligated to subscribe to any part of such increased capital."

4. Article II, Section 3(f), shall be deleted.

5. Article II, Section 4(a)(ii), shall read:

"(ii) The callable portion of the subscription for ordinary capital shares of the Bank shall be subject to call only when required to meet the obligations of the Bank created under Article III, Section 4(ii) and (iii) on borrowings of funds for inclusion in the Bank's ordinary capital resources or guarantees chargeable to such resources. In the event of such a call, payment may be made at the option of the member either in gold, in United States dollars, in fully convertible currency of the member country, or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made.

Calls on unpaid subscriptions shall be uniform in percentage on all shares."

6. Article IIA shall be deleted in its entirety.

7. Article III, Section 2(a) and (b), shall read:

"(a) The operations of the Bank shall be divided into ordinary operations and special operations.

(b) The ordinary operations shall be those financed from the Bank's ordinary capital resources, as defined in Article II, Section 5, and shall relate exclusively to loans made, participated in, or guaranteed by the Bank which are repayable only in the respective currency or currencies in which the loans were made. Such operations shall be subject to the terms and conditions that the Bank deems advisable, consistent with the provisions of this Agreement."

8. Article III, Section 3, shall read:

"Section 3. *Basic Principle of Separation*

(a) The ordinary capital resources, as defined in Article II, Section 5, and the resources of the Fund, as defined in Article IV, Section 3(h), shall at all times and in all respects be held, used, obligated, invested, or otherwise disposed of entirely separate from each other.

(b) The ordinary capital resources shall under no circumstances be charged with, or used to discharge, obligations, liabilities or losses arising out of operations for which the resources of the Fund were originally used or committed.

(c) The financial statements of the Bank shall show separately the ordinary operations and the special operations, and the Bank shall establish such other administrative rules as may be necessary to ensure the effective separation of the two types of operations.

(d) Expenses pertaining directly to ordinary operations shall be charged to the ordinary capital resources. Expenses pertaining directly to special operations shall be charged to the resources of the Fund. Other expenses shall be charged as the Bank determines.”

9. Article III, Section 4, shall be amended as follows:

(1) In Section 4(ii) the word “and” shall be added at the end thereof.

(2) Section 4(iii) and (iv) shall be deleted.

(3) Section 4(v) shall be redesignated Section 4(iii) and the phrase “, the inter-regional capital resources,” shall be deleted therefrom.

10. Article III, Section 5, shall be amended as follows:

(1) Section 5(b) and Section 5(d) shall be deleted.

(2) Section 5(c) shall be redesignated Section 5(b).

11. Article IV, Section 3(h)(ii), shall read:

“(ii) all funds raised by borrowing to which the commitment stipulated in Article II, Section 4(a)(ii) is not applicable, i.e., those that are specifically chargeable to the resources of the Fund;”.

12. Article V, Section 1(a), (b) and (c), shall read:

“(a) The currency of any member held by the Bank in its ordinary capital resources or in the resources of the Fund, however acquired, may be used by the Bank and by any recipient from the Bank, without restriction by the member, to make payments for goods and services produced in the territory of such member.

(b) Members may not maintain or impose restrictions of any kind upon the use by the Bank or by any recipient from the Bank, for payments in any country, of the following:

(i) gold and dollars received by the Bank in payment of the 50 per cent portion of each member’s subscription to shares of the Bank’s ordinary capital and of the 50 per cent portion of each member’s quota for contribution to the Fund, pursuant to the provisions of Article II and Article IV, respectively;

(ii) currencies of members purchased with the resources referred to in (i) of this paragraph;

(iii) currencies obtained by borrowings, pursuant to the provisions of Article VII, section 1(i), for inclusion in the capital resources of the Bank;

(iv) gold and dollars received by the Bank in payment on account of principal, interest, and other charges, of loans made from the gold and dollar funds referred to in (i) of this paragraph; currencies received in payment of principal, interest, and other charges, of loans made from currencies referred to in (ii) and (iii) of this paragraph; and currencies received in payment of commissions and fees on all guarantees made by the Bank; and

(v) currencies, other than the member’s own currency, received from the Bank pursuant to Article VII, Section 4(d), and Article IV, Section 10, in distribution of net profits.

(c) A member's currency held by the Bank, whether in its ordinary capital resources or in the resources of the Fund, not covered by paragraph (b) of this section, also may be used by the Bank or any recipient from the Bank for payments in any country without restriction of any kind, unless the member notifies the Bank of its desire that such currency or a portion thereof be restricted to the uses specified in paragraph (a) of this section."

13. Article V, Section 1(d), shall be amended by deleting the words "or inter-regional".
14. Article V, Section 1(e), shall be amended by deleting the phrase ", in its inter-regional capital resources,".
15. Article V, Section 3, shall be amended by deleting the phrase ", in its inter-regional capital resources," in Section 3(a) and (b).
16. Article V, Section 4, shall be amended by deleting the phrase "to the inter-regional capital", in the last sentence.
17. Article VI, Section 3(b), shall be amended by deleting the phrase ", of the inter-regional capital resources,".
18. Article VII, Section 1(i), shall be amended by deleting the phrase "or inter-regional capital resources", in the second sentence.
19. Article VII, Section 3, shall be amended as follows:
  - (1) In Section 3(a) the phrase "or its inter-regional capital resources" shall be deleted.
  - (2) In Section 3(b) the reference to "Article III, Section 4(ii) and (v)" shall be changed to "Article III, Section 4(ii) and (iii)".
  - (3) Section 3(d), (e) and (f) shall be deleted.
20. Article VII, Section 4, shall be amended as follows:
  - (1) In Section 4(a) the phrase "and of the inter-regional capital resources" shall be deleted.
  - (2) In Section 4(b) the phrase "or of the inter-regional capital resources" shall be deleted.
  - (3) In Section 4(c) the phrase "and from the inter-regional capital resources in proportion to the number of inter-regional capital shares held by each member" shall be deleted and the final word "proportions" shall be changed to "proportion".
21. Article VIII, Section 2(b)(ii), shall read:

"(ii) increase or decrease the authorized ordinary capital stock of the Bank and the contributions to the Fund;"
22. Article VIII, Section 2(b)(viii), (ix) and (x), shall read:
  - "(viii) approved, after reviewing the auditors' report, the general balance sheet and the statement of profit and loss of the institution;
  - (ix) determine the reserves and the distribution of the net profits of the ordinary capital resources and of the Fund;
  - (x) select outside auditors to certify to the general balance sheet and the statement of profit and loss of the institution;"

23. Article VIII, Section 4(a), shall be amended by deleting the phrase “and for each share of inter-regional capital stock” and the words “or inter-regional”.
24. Article VIII, Section 4(b), shall be amended by deleting the word “either” and the phrase “or the inter-regional capital stock”.
25. Article VIII, Section 6(a), shall read:

“(a) The Bank shall publish an annual report containing an audited statement of the accounts. It shall also transmit quarterly to the members a summary statement of the financial position and a profit-and-loss statement showing the results of its ordinary operations.”
26. Article IX, Section 3(d)(ii) and (iii), shall be amended by deleting the phrase, “or Article IIA, Section 3(c)”, in the last sentence of each subparagraph.
27. Article X, Section 3(b), first sentence, shall read:

“All creditors holding direct claims shall be paid out of the assets of the Bank and then out of payments to the Bank on unpaid or callable subscriptions.”
28. Article XII shall be amended by deleting paragraph (a)(ii) and redesignating paragraph (a)(i) as paragraph (a).
29. Article XII, paragraph (b)(iii), shall be amended by deleting the phrase “Article IIA, Section 2(e),”.

### SECTION 3. AMENDMENT OF GENERAL RULES

Section 7(a) of the General Rules Governing Admission of Nonregional Countries to Membership in the Bank shall be amended by deleting paragraph (ii) thereof and leaving the preceding paragraph unchanged except for the deletion of the designation “(i)” at the beginning thereof and the word “and” at the end thereof.

### SECTION 4. CONVERSION OF SHARES

Each share of authorized inter-regional capital stock, including each share already subscribed, shall be converted into, by virtue of the merger, without any action on behalf of any member which has subscribed to such share, one share of the authorized ordinary capital stock resulting from the merger.

### SECTION 5. SUCCESSOR CAPITAL

1. All outstanding liabilities of the Bank assumed heretofore and designated as being payable from the ordinary or inter-regional capital resources shall be payable from the ordinary capital resources resulting from the merger. All amounts owing to the Bank and designated as being payable to the ordinary capital resources or to the inter-regional capital resources shall be payable to the ordinary capital resources resulting from the merger and shall be incorporated as a part thereof.

2. All references in Bank documents, including regulations, contracts and agreements, to the inter-regional capital shall, unless the context otherwise requires, be to the ordinary capital resources resulting from the merger.

### SECTION 6. ENTRY INTO FORCE

This resolution and all the provisions thereof, including the foregoing amendments to the Agreement and the General Rules, shall enter into force on the date on which the official communication referred to in Article XII(c) of the Agreement Establishing the Bank has been addressed to members certifying:

- (a) that this resolution containing the amendments to the Agreement and the General Rules has been adopted by the requisite majorities specified in Article II, Section 1(b) and Article XII (a)(i) of the Agreement and Section 7(a)(i) of the General Rules; and
- (b) that the Bank has discharged its liabilities on all its ordinary capital borrowings which were outstanding at December 31, 1974.

(Adopted December 24, 1987)

**RESOLUTION AG-1/88**  
**PLACE AND DATE OF THE THIRTY-FIRST ANNUAL MEETING**  
**OF THE BOARD OF GOVERNORS**

The Board of Governors

**RESOLVES:**

That the Thirty-First Annual Meeting of the Board of Governors shall be held in Montreal, Quebec, Canada, from April 2 to 4, 1990.

(Adopted February 4, 1988)

**RESOLUTIONS ADOPTED AT THE TWENTY-NINTH ANNUAL  
MEETING OF THE INTER-AMERICAN DEVELOPMENT BANK**

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**RESOLUTION AG-5/88 Corr.**

**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, 1987, containing the general balance sheet and the statement of profit and loss, is approved.

(Adopted March 21, 1988)

**RESOLUTION AG-6/88 Corr.**

**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, 1987, 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.

(Adopted March 21, 1988)

**RESOLUTION AG-7/88 Corr.**

**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, 1987, containing the general balance sheet and the statement of changes in fund balance, is approved.

(Adopted March 21, 1988)

**INTER-AMERICAN DEVELOPMENT BANK  
INTER-AMERICAN INVESTMENT CORPORATION**

**RESOLUTION AG-8/88, CII/AG-2/88 Corr.**

**SITE AND DATE OF FUTURE ANNUAL MEETINGS  
OF THE BOARDS OF GOVERNORS OF THE  
INTER-AMERICAN DEVELOPMENT BANK AND THE  
INTER-AMERICAN INVESTMENT CORPORATION**

**WHEREAS:**

The Governor for The Netherlands has previously offered the city of Amsterdam as the site of the Thirtieth Annual Meeting of the Board of Governors of the Inter-American Development Bank and Fourth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation, to be held in 1989; and the Management of the Bank has already begun the process set forth in document AB-476-2 for the selection of the sites of annual meetings, with a formal decision by the Board of Governors expected to be made in this regard in mid-1988;

The Board of Governors has already accepted the offer made by the Governor for Canada of Montreal as the site of the Annual Meeting of the Boards of Governors of the Bank and the Corporation to be held in 1990;

The Governors for Germany, Israel, Japan, and Yugoslavia have offered their countries as sites for the Annual Meeting of the Boards of Governors of the Bank and the Corporation to be held in 1991;

The Governor for the Dominican Republic has offered his country as the site of the Annual Meeting of the Boards of Governors of the Bank and the Corporation to be held in 1992;

The Board of Governors

RESOLVES:

1. To express its appreciation for the invitations extended by the Governors for the Dominican Republic, Germany, Israel, Japan, and Yugoslavia.
2. To instruct the Board of Executive Directors, following the procedure for selecting the sites of Annual Meetings approved by Resolution AG-1/76, to present its recommendations to the Board of Governors in due course, in accordance with the terms of reference set forth in document AB-476-2.

(Adopted March 23, 1988)

**RESOLUTION ADOPTED BETWEEN THE SECOND AND THE  
THIRD ANNUAL MEETINGS OF THE INTER-AMERICAN  
INVESTMENT CORPORATION**

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**RESOLUTION CII/AG-4/87**

**DESIGNATION OF EXTERNAL AUDITORS OF THE  
INTER-AMERICAN INVESTMENT CORPORATION**

The Board of Governors

**RESOLVES:**

That, pursuant to Article IV, Section 2(c)(vii), of the Agreement Establishing the Inter-American Investment Corporation, the firm of Price Waterhouse is selected to be engaged with respect to the fiscal year 1987 to serve as external auditors to examine the general balance sheets and the statements of profit and loss of the institution, in accordance with Section 8 of the By-laws of the Corporation.

(Adopted May 27, 1987)

**RESOLUTIONS ADOPTED AT THE THIRD ANNUAL  
MEETING OF THE INTER-AMERICAN  
INVESTMENT CORPORATION**

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**RESOLUTION CII/AG-1/88**

**FINANCIAL STATEMENT OF THE  
INTER-AMERICAN INVESTMENT CORPORATION**

**WHEREAS:**

The outside auditors of the Bank, selected in accordance with Article IV, Section 2(c)(vii), of the Agreement Establishing the Corporation, have certified the general balance sheet and the statement of profit and loss of the Corporation,

The Board of Governors

**RESOLVES:**

That the financial statement of the Corporation with respect to the fiscal year ended December 31, 1987, containing the general balance sheet and the statement of profits and loss, is approved.

(Adopted March 22, 1988)

**INTER-AMERICAN DEVELOPMENT BANK  
INTER-AMERICAN INVESTMENT CORPORATION**

**RESOLUTION AG-8/88, CII/AG-2/88 Corr.**

**SITE AND DATE OF FUTURE ANNUAL MEETINGS  
OF THE BOARDS OF GOVERNORS OF THE  
INTER-AMERICAN DEVELOPMENT BANK AND THE  
INTER-AMERICAN INVESTMENT CORPORATION**

**WHEREAS:**

The Governor for The Netherlands has previously offered the city of Amsterdam as the site of the Thirtieth Annual Meeting of the Board of Governors of the Inter-American Development Bank and Fourth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation, to be held in 1989; and the Management of the Bank has already begun the process set forth in document AB-476-2 for the selection of the sites of annual meetings, with a formal decision by the Board of Governors expected to be made in this regard in mid-1988;

The Board of Governors has already accepted the offer made by the Governor for Canada of Montreal as the site of the Annual Meeting of the Boards of Governors of the Bank and the Corporation to be held in 1990;

The Governors for Germany, Israel, Japan, and Yugoslavia have offered their countries as sites for the Annual Meeting of the Boards of Governors of the Bank and the Corporation to be held in 1991;

The Governor for the Dominican Republic has offered his country as the site of the Annual Meeting of the Boards of Governors of the Bank and the Corporation to be held in 1992;

The Board of Governors

RESOLVES:

1. To express its appreciation for the invitations extended by the Governors for the Dominican Republic, Germany, Israel, Japan, and Yugoslavia.
2. To instruct the Board of Executive Directors, following the procedure for selecting the sites of Annual Meetings approved by Resolution AG-1/76, to present its recommendations to the Board of Governors in due course, in accordance with the terms of reference set forth in document AB-476-2.

(Adopted March 23, 1988)

## SCHEDULE OF SESSIONS

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### ***Saturday, March 19***

10:00 a.m. Fiftieth Meeting of the Committee of the Board of Governors of the Bank

### ***Sunday, March 20***

3:30 p.m. Preliminary session of the Heads of Delegation of the Twenty-Ninth Annual Meeting of the Board of Governors of the Bank

5:30 p.m. Preliminary session of the Heads of Delegation of the Third Annual Meeting of the Board of Governors of the Corporation

### ***Monday, March 21***

10:00 a.m. Inaugural Session (First Plenary Session)

1. Opening of the Twenty-Ninth Annual Meeting of the Bank and Third Annual Meeting of the Corporation
2. Consideration of the Preliminary Agendas
3. Remarks by the outgoing Chairman of the Boards of Governors
4. Election of the Chairman of the Boards of Governors
5. Statement by the President-Elect of the Inter-American Development Bank and Chairman-Designate of the Board of Executive Directors of the Inter-American Investment Corporation
6. Recess
7. Address by His Excellency the President of the Republic of Venezuela, formally opening the Twenty-Ninth Annual Meeting of the Board of Governors of the Bank and Third Annual Meeting of the Board of Governors of the Corporation

3:00 p.m. Second Plenary Session

1. Annual Report of the Bank. Financial statements for 1987:
  - (a) Ordinary capital resources
  - (b) Fund for Special Operations
  - (c) Intermediate Financing Facility Account
2. Address by the Governor for Japan
3. Address by the Governor for Honduras, speaking on behalf of the Central American countries
4. Report of the Committee of the Board of Governors of the Bank on its activities since the last Annual Meeting

5. Address by the Governor for Finland
6. Address by the Governor for Denmark
7. Address by the Governor for Italy
8. Address by the Governor for Canada
9. Address by the Governor for Paraguay
10. Address by the Governor for Switzerland
11. Address by the Governor for Norway
12. Address by the Governor for Peru
13. Address by the Governor for Sweden
14. Address by the Governor for the Netherlands
15. Address by the Governor for France
16. Address by the Governor for Uruguay

### ***Tuesday, March 22***

#### **9:30 a.m. Third Plenary Session**

1. Address by the Governor for Belgium
2. Address by the Governor for Yugoslavia
3. Address by the Governor for the Dominican Republic
4. Address by the Governor for Mexico
5. Address by the Governor for Panama
6. Address by the Governor for Argentina
7. Address by the Governor for Trinidad and Tobago, speaking on behalf of the English-speaking countries of the Caribbean
8. Address by the Governor for Brazil
9. Address by the Governor for the United States of America
10. Address by the Governor for the United Kingdom
11. Address by the Governor for Bolivia
12. Address by the Governor for Ecuador

#### **3:00 p.m. Fourth Plenary Session (Inter-American Investment Corporation)**

1. Annual report of the Corporation. Financial statements for 1987
2. Report on the signature and acceptance or ratification of the Agreement Establishing the Inter-American Investment Corporation

### ***Wednesday, March 23***

#### **9:30 a.m. Fifth Plenary Session**

1. Address by the Governor for Suriname
2. Address by the Governor for Austria
3. Address by the Governor for Venezuela
4. Address by the Governor for Portugal
5. Address by the Governor for Haiti
6. Address by the Governor for Spain
7. Address by the Governor for Colombia
8. Address by the Governor for the Federal Republic of Germany
9. Address by the Governor for Israel
10. Address by the Governor for Chile
11. Address by the Governor for Nicaragua
12. Place and date of future Annual Meetings of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation

12:30 p.m. Closing Session (Sixth Plenary Session)

1. Statement by the President-Elect of the Bank and Chairman-Designate of the Board of Executive Directors of the Corporation
2. Remarks by the Chairman of the Boards of Governors
3. Closing of the Meeting

## **ADDRESSES**

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### **FIRST PLENARY SESSION**

**March 21, 1988**

**Inaugural Session**

**Remarks by Mr. W. Allen Wallis, Outgoing Chairman of the  
Boards of Governors of the Bank and the Corporation,  
Alternate Governor for the United States of America and  
Undersecretary of State for Economic Affairs**

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One year ago, in Miami, the Governor for the United States of America, James Baker, called for a revitalized Inter-American Development Bank which would play a greater role in promoting economic growth and easing the debt burden of member countries. At that time, we were involved in negotiations to replenish the Bank's resources.

As part of the replenishment proposal, we called for changes within the Bank—improved operations, better analysis of the plans and policies of the borrowing countries, and a reorganized bank structure. We called also for a greater say in IDB decisions for the nonborrowing member countries. We expected that with these necessary changes the Bank would adopt a major program of so-called “sector” lending to support and finance policy reforms and also increase concessional lending to the poorest nations. Mr. Baker pointed out that even with our severe federal budget deficit, the United States Administration was prepared to ask Congress for the funds necessary to enlarge the Bank if appropriate checks and balances were adopted to ensure improvement in the quality of lending.

Since the Miami meeting a year ago, the Committee of the Board of Governors has met twice, once in Washington and once in Guatemala City, but it has failed to resolve the impasse. Now we meet in Caracas one year later with negotiations on a Seventh Replenishment of Resources terminated without success. Thus, for the future, we are left with a small Bank with modest resources and hence a limited role in the region. This is unfortunate, in view of Latin America's needs and opportunities.

Since last year's annual meeting, however, two dramatic events have taken place which may permanently alter the Bank's landscape—the resignation of President Antonio Ortiz Mena in December and the election of Enrique Iglesias to be President. We wish Don Antonio godspeed and good health on his return to his native Mexico. We extend our warm welcome to President-Elect Iglesias. All of us look to him to determine the direction of the Bank for many years to come.

His task will not be easy. We will lend our support in helping President Iglesias provide the leadership necessary to breathe new life into the Inter-American Development Bank. He has a unique opportunity to generate permanent and progressive change throughout the Bank. We expect him to carry out changes in the Bank that will create a more efficient and effective institution.

Latin America and the Caribbean member countries and President Iglesias all share our desire for a strong, competent IDB, a bank with the resources to help alleviate poverty and generate economic growth in the region. But before we commit more money to the Bank, there must be a coincidental commitment by the Bank to reform and a demonstration of that commitment. The Executive Branch of the U.S. Government will not ask our Congress to fund an enlarged Inter-American Development Bank unless the Bank takes these steps. On that, I assure you that Secretary Baker's position is fully supported, without qualification or reservation, by the Department of State, the White House, and all members of the Administration. I assure you also that the United States' position next year will be the same as it is this year and as it was last year.

We will work assiduously to support President Iglesias in the progressive measures that we expect him to introduce. We are hopeful and optimistic.

**Remarks by Mr. Héctor Hurtado, Chairman of the Boards  
of Governors of the Bank and the Corporation,  
Governor for Venezuela and Minister of Finance**

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I thank you for naming me to chair the discussions of this important Meeting of the Board of Governors of the Inter-American Development Bank.

We must begin by regretting the absence of the man who, first as Governor for Mexico when the Bank was established and thereafter as our President since 1971, always demonstrated the greatest interest in having the Bank play a significant role in financing Latin America's development and who raised our institution to the level of activity it has attained. With skill, concern and unflagging hard work, Antonio Ortiz Mena led the Bank through these past 17 years, surmounting moments of crisis and steering it through times of questioning and through radical changes in the basic concepts and modalities of execution of international financial cooperation. During his term of office the basic characteristics evidenced by the Bank from its beginnings were reaffirmed, in particular the consideration given for the first time by the international financial institutions to the social aspects of development. He also maintained the Bank as a "profoundly Latin American" institution, as it was termed by our founding President, Felipe Herrera. The participation of the nonregional countries and the activities of their representatives have not detracted from this eminently Latin American character of the Bank, but have rather strengthened it, by consolidating the role of the Bank as the financing agency for the region representing the interests of the Latin American nations.

Our regret over the absence of "don Antonio," as we affectionately call him, is allayed by the show of unity exhibited by Latin America and the countries of the Caribbean in the unanimous election of the great Latin American, Enrique Iglesias, to replace him. From the senior positions he has held in his country and as an international official for over a decade, Enrique Iglesias has demonstrated his faith in Latin America, a faith fed on the systematic analysis of our reality, our economic and social evolution and the internal and external factors that have influenced it; an analysis conducted from the watchtower of the Economic Commission for Latin America and the Caribbean.

The Boards of Governors of the Bank and of the Inter-American Investment Corporation are meeting for the second time in Venezuela. The first meeting of the Corporation took place in September 1986, and the Bank is meeting here, 25 years after its Fourth Meeting in Caraballeda in 1963. In spite of the years that have gone by, our objectives in 1963 were similar to today's: building the Bank as a suitable instrument for mobilizing financial resources to advance the economic and social development of Latin America.

However, the international scene and the situation in our countries over these 25 years have evolved in a way that has not been very favorable to this objective. Although we have made progress in development, the evolution of the world economy and the North-South system of relations have weakened the position of Latin America, which is experiencing a clear setback in its relative position within the international community.

A quarter of a century ago, Latin America had 12 percent of world trade. Today it scarcely has 6 percent. It enjoyed a favorable balance of trade and its balance of payments was also favorable. The burdensome debt that nowadays absorbs most of our export earnings did not weigh on our countries.

International cooperation was growing stronger, starting with the Declaration of Bogotá in 1960 and the creation of the Social Progress Trust Fund administered by the Inter-American Development Bank, and moving up in 1961 to creation of the ambitious programs of the Alliance for Progress. Forums were held in our continent that brought together our best experts to prepare the Latin American position at the first UNCTAD Conference, held in 1964. So much was expected from that meeting, so many proposals were made to improve trade relations between the industrialized countries and Latin America, but so little, if any, progress is apparent in improving these relations.

The foreign debt and insolvency caused by the flight of capital from the region has brought most of our countries to their knees.

Within this context, which has been called a world crisis, the Inter-American Development Bank must gird itself to play the fundamental role that our countries demand of it. It is not merely a matter of strengthening it as a mechanism for transferring financial resources, which has become very relevant due to the foreign debt crisis afflicting us, but more importantly, the Bank can assist us in preparing and executing projects, especially in the countries with the lowest relative economic development.

Let us seize the opportunity of this meeting of the Board of Governors in Caracas to take up the theme of the institutional and financial consolidation of the Inter-American Development Bank once more, overcoming attitudes and intransigence that frustrated the best efforts in the past, to finally reopen a sincere and constructive dialogue among all the member countries, free from past commitments. In this way, we will open up channels to consolidate the Bank as the preeminent multilateral financing institution in the Latin American region and the Caribbean, which melds the interests of all its members: borrowers and nonborrowers.

## **Remarks by Mr. Michael E. Curtin, Executive Vice President of the Inter-American Development Bank**

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The annual reports covering the activities of the Inter-American Development Bank and the Inter-American Investment Corporation have been distributed and are available for your review, as well as document AB-1262, a written report to the Governors, which highlights the activities of the Bank and the IIC during the year 1987. As these reports indicate, loan approvals during 1987 reached an aggregate value equivalent to \$2,361 million, a level equivalent to that reached in 1980, significantly lower, however, than the record approval in 1984 of just over \$3.5 billion.

The level of the Bank's activity continues to be affected by the recession of investment in productive facilities and social infrastructure projects which has taken place in virtually all of our member countries in recent years.

Our activities in grant and contingent recovery technical assistance reached an aggregate value equivalent to \$47 million, significantly higher than that obtained in 1986. Under the Small Projects Financing Program loans totaled \$8.5 million, nearly twice the level for 1986.

Other significant activities outlined in the documents before you, relate to the merger of capitals, formally undertaken as of December 31, 1987, which not only simplified the Bank's financial statements, but will bring about better use of the Bank's callable capital contributions. Additional activities were taken during the year to strengthen the activity of the Bank in aiding and assisting the economic and social development of Latin America. One, which we consider most important, was the strengthening of the Bank's activities in addressing the environmental consequences of our lending activities. The Bank is committed to continuing to strengthen its operational and technical capabilities in this area of singular importance.

Now, however, is not the time to dwell on the past. Rather, it is time to prepare for the future. At this moment and at this meeting, a new phase of the Inter-American Development Bank is upon us.

The Governors of the Bank elected, by acclamation, a new President of the Bank on February 18, 1988, who will assume office on April 1, 1988.

It is, therefore, my high honor and great privilege to present the President-Elect of the Inter-American Development Bank, Mr. Enrique Iglesias.

**Statement by Mr. Enrique V. Iglesias, President-Elect of the  
Inter-American Development Bank and  
Chairman-Designate of the Board of Executive Directors  
of the Inter-American Investment Corporation**

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**Introduction**

I should like to begin my remarks today by expressing my deepest gratitude to the Government and the people of Venezuela for once again extending their customary warm welcome to the Annual Meeting of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation.

No other place in the Americas could be so deeply symbolic in terms of the destiny of Latin America and the Caribbean as this land of Bolívar, which has given such encouragement to these institutions working on behalf of the economic and social development of Latin America, and which will surely continue to inspire their work.

I am deeply grateful to all the Governors for electing me to head these institutions at the special meeting of the Board of Governors held last month. Your decision honors me as an Uruguayan and as a Latin American, and represents a profound commitment for me as an individual. After many years of service to Latin America, my part of the world, and after answering the call to government service in my own country at such a special time in its history, I am now being given the opportunity to pursue the work of Latin American development still further in this promising and prestigious institution of international economic cooperation.

I will be taking up my duties very soon, determined to serve the objectives of all the member states of the Bank, and hoping to be able, jointly with the Governors, the Executive Directors, and the staff, to contribute to a new phase in the life of the Inter-American Development Bank as it enters its fourth decade.

**In Tribute to the Past**

I succeed two brilliant Latin Americans whose memory and inspiration I cannot help but evoke at this time. Felipe Herrera was the first president of this organization, at a very special time for the region when idealism abounded and expectations ran high. Under his leadership, the Bank took on an identity of its own. It was a pioneer, and opened new areas such as agriculture and social services to international financing; these initiatives were later emulated by other international organizations. It left its stamp on the Americas and strove successfully to be what he himself referred to as "more than just a Bank."

It then fell to Antonio Ortiz Mena, my illustrious predecessor, to consolidate the Bank's institutional presence and expand its membership by bringing in the nonregional member states. Thanks to the perspective afforded by his own experience in economics and administration he left an imprint of financial soundness on the Bank which is its hallmark on the world's financial markets. This reputation we must protect and strengthen further.

This is the legacy handed down to me as I assume the office of President of the Bank—a legacy of commitment to an organization with an identity of its own, commitment to the economic and social development of the region, commitment to an image of respectability and soundness in financial markets. This is a legacy I will respect and uphold.

This is not the time to recount past history or to review the way in which this regional Bank—the first institution of its kind—has set about implementing its policies. Suffice it to mention its loan portfolio of almost \$40 billion thus far, which has served to underpin economic and social investments worth over \$115 billion. These investments are concrete realities today, witness to the Bank's presence in every corner of Latin America and the Caribbean.

As part of this portfolio, the Bank has opened up a broad area of investment in social undertakings fostered by concessional lending and commitments made by the governments themselves in the most recent replenishments of resources. At the same time, the Bank has accorded preferential treatment to the least developed borrowing countries by endeavoring to tailor its operations to these countries' particular needs.

This activity, in the form of allocations of the Bank's own capital holdings as well as funds from other sources, has been supplemented by technical cooperation projects designed to dovetail with domestic policies in a wide variety of sectors ranging from support for capital markets to preinvestment projects and from technology transfers to active engagement in the area of regional integration.

More recently, the Bank has acted as a conduit for bringing additional external resources into the region from a variety of sources to supplement its own lending, and has adopted policies that demonstrate a growing concern for environmental issues.

Viewed from the perspective of three decades of service dedicated to enhancing the region's investment capacity in economic and social areas, the Bank has indeed sown seeds of progress in every one of its member countries.

In doing so, it promoted a spirit of inter-American cooperation that has subsequently been nourished by the entry of nonregional countries which share historical and economic ties with the hemisphere. This has given birth to something more than an instrument for channeling resources. Indeed, the Bank is today—and must continue to be in the future—a bridge for cooperation and communication between and among its member countries, in order to help develop a region whose dynamic potential must become a driving force in the world economy. It is this instrument of cooperation that we must today rethink and adapt to the new realities and new challenges Latin America puts before us.

### **The World and Regional Economic Situation**

Institutions, like people, pass through different stages in their lifetime. The primary obligation of their member countries and of those of us responsible for directing their affairs is to recognize changing times and the demands of new realities, and attempt to tailor each institution accordingly.

I will not tire you with figures or bring to mind the differences in economic conditions prevailing in our countries today. Suffice it to recall once again that Latin America and the Caribbean are in the midst of one of the most turbulent and difficult decades in contemporary economic history. Old and fast-deteriorating economic and social imbalances, the heavy burden of debt inherited from the 1970s, and an international situation not always conducive to overcoming these barriers have all come together to form this difficult crossroads in history.

Along with this regional picture, as all of you are fully aware, the sweeping changes we face on the international scene have prompted the industrialized countries to make severe adjustments in their economies in an effort to achieve acceptable rates of growth, hold inflation down, correct domestic and foreign imbalances, and foster new approaches in international economic relations and in the coordination of their

financial and trade policies. Adjustment policies in the developed economies, together with greater or lesser coordination of their macroeconomic policies, will inevitably continue to color Latin America's relations with other regions. This factor cannot be neglected in our countries' development strategies.

Nor can we ignore the impact of the continuing advances in science and technology on the natural or acquired comparative advantages that the region has enjoyed. No country can afford to disregard these profound changes or fail to take account of them in their development strategies.

### **A Call for Change: The Region's New Challenges**

The 1980s are posing two major challenges to the region. First, it is being called upon to bear the brunt of the problem of its external indebtedness and bring under control the phenomena that usually accompany it, such as acute balance-of-payments deficits and rampant inflation. All of this is having painful repercussions on the social fabric of the region. We need only point to the drop in living standards to the levels of the late 1970s and the sharply declining social indicators in most of our countries.

Second, the region has to make a start on a process of far-reaching structural change in order to modernize its economies in response to the fresh challenges posed by evolving international relations, growing interdependence, and technological change at a pace never before seen in the history of mankind.

The 1990s must be a decade of modernization in the region if we are not to be left on the periphery of history, submerged in uncontrollable social and political crises which may even place in jeopardy the very healthy democratic advances made in recent years.

An awareness of the need for far-reaching change is taking hold.

The quality of macroeconomic policies has improved in almost every country. Efforts to control the fiscal deficit and inflation are an on-going struggle in which every government is engaged. In many countries, the mobilization of resources in order to expand and diversify the export base has yielded good results. Measures hitherto unheard of are being taken to change the scale on which State activities are carried on and to improve their efficiency. More competitive conditions both in domestic markets and in trade between domestic and foreign markets are making domestic and foreign investment more attractive.

All of these steps take time. Yet it is essential that there be widespread recognition that a solution to the debt crisis lies in growth and not recession, and that structural change is necessary and inevitable in a process of growing international economic interdependence. This means there must be more international financial cooperation such as that now being provided through the concerted action of the Bretton Woods institutions and the commercial banks, and more recently through recourse to secondary markets to solve the debt problem.

At the same time as it is working to overcome the debt crisis, which has been the dominant feature of the 1980s, the region will have to set about making profound adjustments in order to modernize its structures of production, expand and diversify its export base, and increase its economic and social efficiency in both the public and private sectors.

This task, to which each country must make its own commitment and devote its most vigorous and decisive efforts, demands not only appropriate macroeconomic policies but also high levels of investment. And herein lies one of the main obstacles that we face in Latin America today, for the large volumes of resources being

transferred abroad to cover debt service requirements mean that the internal savings capacity is insufficient to assure a proper level of investment.

The crisis of the nineteen-eighties hit Latin America hard in regard to both trade and international capital flows. Although the region's exports increased 32 percent by volume from 1980 to 1987, this increase was canceled out by the decline in prices for raw materials. As a result, the nominal value of the region's exports remained at a virtual stand-still during this period.

In financial terms, the crisis has meant a profound change in the composition and direction of capital flows. With the inflow of external credit slowing to a trickle, Latin America has moved from its traditional position as an importer of capital to a phase in which it is a net exporter. During the period from 1982 to 1987, savings transferred out of the region amounted to some \$150 billion, or the equivalent of a little more than the region's total gross internal investment in 1987. This one comparison alone shows the extent to which Latin America is being drained of savings, and illustrates the serious consequences of this for the countries' capacity to make investments and restore long-term economic growth.

In addition, except for a few isolated cases, the tightening up of flows of private financing and the instabilities that accompany adjustment processes have not yet produced the favorable environment necessary to attract external private investment and encourage the repatriation of capital.

From these facts it is clear that international cooperation has to rest on two pillars if the challenges facing the region are to be met. First, public flows of financing that can contribute to capital formation have to be stimulated so as to foster the growth of internal savings and the creation of conditions which will promote private investment.

Second, a gradually freer trade climate has to be established so that our countries can increase their exports—something they must do in order to meet the twin demands of debt service and internal growth. The steps in this direction that GATT's Uruguay Round of negotiations must make are vital to the future of the world and the economic transformation of our region.

Given the present situation, these are the three key factors that must determine the future role of our Bank:

- a. A process of structural reform geared to growth, fairness, and the economic and social modernization of our economies.
- b. A substantial improvement in investment capacity, founded on an increase in internal savings and an increase in external capital from both public and private sources.
- c. Trade that is gradually freer and more competitive, so that we can unleash the forces of expansion and growth that are implicit in trade, which is the engine of present and future development.

### **The Role of the Inter-American Development Bank in the Face of the New Economic and Social Challenges**

The Inter-American Development Bank cannot stand back from any of these challenges; and, as it has done in the past, it must review its policies in the light of the region's needs.

#### **a. *The Bank's Role in Solving the External Debt Problem***

The Bretton Woods institutions, together with the countries themselves and the private banking system, have taken steps to promote solutions to the external debt problem.

The provision of fresh capital has made it possible for the member countries' balance-of-payments situation to be strengthened.

The Inter-American Development Bank has to join in these efforts by ensuring that resources flow to, not from, the countries of Latin America and by pursuing an active disbursement policy that carries implicit within it two essential components. First, the Bank's lending capacity has to be increased, and for this a replenishment of resources is fundamental. And second, the Bank's financial involvement has to be made more dynamic so that it looks beyond project financing as its primary focus; this will make it possible, while not weakening project financing, for new forms of flexible cooperation to be undertaken that are tied in more directly to the countries' sector policies and are thus conducive to a faster rate of disbursement.

One thing I can promise is that I will always speak plainly: the notion of a small Bank, its available funds derived from repayments of past loans, is not a viable option in the medium term. We have to make sure that the Bank does not wind up becoming a net financial burden to the region. Let no one forget that the Bank's fundamental purpose is to facilitate the net transfer of resources from the industrialized countries to the developing countries of the region.

If financial flows should turn negative for an extended period, this will inevitably lead to situations which will have a financial impact not only on the Latin American countries but also on the industrialized countries, and even on other multilateral financing institutions.

While I am certainly not suggesting that the Bank should compete with the Bretton Woods institutions or encroach upon the territory that has been their preserve, I do believe that the Bank has to undertake an in-depth review of its operating mechanisms so that, depending on the circumstances, it can complement or join in with those institutions' efforts to help the countries of the region put the crisis behind them and come to grips with their heavy debt burden.

**b. *The Bank as an Instrument of Change Dedicated to the Modernization of the Region***

If the Bank is to contribute to the central objective of supporting the modernization efforts of the countries of the region, it will need to join with all its member countries in calm, in-depth reflection in order to define the new Bank for new times.

What is needed is an innovative Bank that plays a significant role in the modernization of Latin America and the Caribbean. The first step must be to look ahead and get a clear picture of what the region's key requirements will be, and then to use these as a basis for determining the Bank's new operating mechanisms.

This assumes not only increasing the Bank's financial capacity, but also reviewing and widening its forms of action with its borrowing member countries. Through the concerted efforts of its members, answers will have to be found to such questions as:

- Inasmuch as the investment associated with increased trade will be vital to economic development in the coming years, with respect to both trade within the region and trade with the rest of the world, what can be done to promote such investment?
- How can a closer involvement with the countries' investment policies be achieved, especially in those sectors in which profound change is necessary?
- How can the harmonization of agricultural and urban policies and programmes be achieved in order to contribute effectively to rural development?
- What can be done to assist governments in their efforts to rationalize the activities of the State, change the scale on which they are undertaken, and improve their efficiency?

- How can we join together with the various branches of the private sector—including the commercial banks—so as to stimulate investment and create a climate which will foster greater competitiveness and enhance the role of market forces?
- What can be done to support the countries' efforts to acquire and use to the fullest the technology needed for modernizing production processes?
- What can be done to improve the Bank's technical cooperation capacity to assist the governments of its member countries in the task of defining their policies and modernizing their institutions?

All these questions, which need to be fully thought through by the governments of the member countries and their representatives, are not meant to obscure or diminish the active work that the Bank has done through its history in the form of loans having a clear social orientation directly linked to the well-being of the majority of the people. In this connection, we are thinking in particular of the least developed countries. And here too, I believe that there is a need not only to secure new resources, but also to review efforts to ensure the greatest social effectiveness of the resources already being allocated for these purposes.

The Bank has to give its support to the countries of the region that are working to redefine their strategies of economic growth and social development. In this regard, it must not be forgotten that one of the consequences of the external debt crisis in the 1980s has been that investments in social areas have systematically been put off. This sacrifice during the short-term adjustment process cannot continue for a prolonged period without heightening social tensions, causing despair to the neediest people in the Latin American and Caribbean countries, and spawning social and political conflicts of a seriousness and magnitude that no one can predict.

Nor do I wish to overlook another area in which the Bank has done work that, while modest in scale, is nonetheless very significant for the mobilization of efforts at the very roots of society. Here I am referring to activity in support of the creative entrepreneurial capacity of small producers or producers' associations, which have such a great impact on the capacity to generate employment and production.

### **Modernization of the Bank**

I sincerely believe that increasing the Bank's capital is not only a prerequisite for a Bank that is relevant and equipped to operate in today's world, but also the culmination of a process based on two parallel actions upon which we must embark right away: defining the Bank that we need and want, and the internal modernization of the institution to adapt it to the new requirements.

This is no easy task, but it is unavoidable. We cannot simply ask the member countries to modernize and to adapt themselves to the changing realities of the present-day world. We also have to do so ourselves.

The first condition of this exercise includes a necessary call on the spirit of cooperation of the Bank's members. I do not envisage a Bank functioning in confrontation. I only think in terms of it operating in cooperation and compromise. This has moreover been the dominant note throughout the Bank's entire history. Once we have defined the institution's objectives and agreed on the parameters of its forms of action with the member countries, achieving compromise will be infinitely easier.

Neither do I envisage a Bank that renounces its multilateral character. Its regional personality must be preserved not as a source of inefficiencies but as a wellspring of creativity and consensus in furtherance of common objectives. It is the nature of the

regional cooperative effort which makes the Bank truly effective, which is and must continue to be a major bridge for cooperation among all its member countries, which in the last analysis share common political, social, and economic values.

However, I maintain, with the same conviction, that if the Bank wants to grow in presence and in influence in the processes of change in the region, it must also grow in efficiency, both in its internal functioning and in its relations with the member countries.

The best guarantee that can and must be given to the countries cooperating financially with the region is that of a soundly administered Bank having clear policies in relation to its borrowers. To this end, the improvement of the dialogue with its member countries regarding medium-term programs will not only increase the Bank's capacity for action but will also constitute the best guarantee of efficiency in resource allocation for the international community.

We will, of course, call on the financial community represented by the Bank's shareholders. Then in addition to the new capital replenishment that we hope to negotiate, we will definitely also be calling for additional voluntary contributions that will make it possible to enhance the Bank's operating capability.

In the same spirit I hope to work with its Board of Executive Directors in order to set the Inter-American Investment Corporation in motion within the shortest possible time, since it is an instrument for mobilizing private investment that is destined to play a key and innovative role in coming years.

Governors: This task of redefining the objectives of the IDB to serve the future of Latin America, and of reformulating its policies on cooperation with its member countries, together with its internal restructuring to serve both purposes, is a difficult undertaking but one that cannot be deferred.

This is not just a job for the President and the Executive Directors. It is also a task for which we will call on the direct participation of the Governors.

In these actions I will seek the support and counsel of a High-Level Review Committee, whose recommendations I hope to be able to submit to the Governors in the course of the present year, in accordance with procedures that I will discuss with the Executive Directors.

I also hope to implement in the coming months a policy on the internal restructuring of the Bank, with a view to achieving greater efficiency and soundness in its administration.

However, it is also necessary to add a word of caution on this matter: the reorganization process that I propose to initiate must be carried out objectively and with due care to maintain the morale of the Bank's staff. If this is not ensured, a situation could be brought about which ultimately diminishes, rather than enhances, the efficiency of the institution. It must be borne in mind that, in the last analysis, the efficiency of an institution is not derived so much from certain forms, organization charts and manuals, but rather from a competent and motivated staff. To motivate a multinational staff in an agency such as the Bank, a very special leadership must be exercised, based on clarity of the objectives of the process of change, guarantees concerning the objectivity of this process, and respect for the rights of the staff.

In this spirit, the President of the Bank needs more than just the good intentions and good wishes of the member countries. He needs the counsel of all and a broad spirit of compromise focused on a common objective: the consolidation of the Bank as a development institution of the greatest significance for all its member countries.

Latin America will have to emerge from the crisis of the 1980s, draining and difficult as it has been, with a greater awareness of the need to introduce changes,

which must come from the countries themselves, based on an in-depth critical re-examination of their economic and political policy and on the hard lessons of history and the world in which we have to live. My already long experience in the region makes me optimistic, since over the course of the years I have been able to appreciate the development of the critical awareness of our countries and have observed the adoption of pragmatic policies aimed in the right direction.

However, right from the start we also know that we will not have the Bank that we need without the support of its non-borrowing members. I also call on these to examine, without preconceived ideas, how we can strengthen the Bank, reconsidering the links that they maintain with it and what they expect from it in order to use it as a special instrument of their cooperation with Latin America.

In concluding this address, I can do no less than quote here, in his birthplace, thoughts expressed by the *Liberator* which, I am sure, will serve to inspire and guide us in the tasks we are undertaking today. Referring to the vital need to seek associations and significant convergences of views and interests in order to ensure the success of human activities in moments of crisis, he left us this message:

“When success is not assured, when the state is weak, when the goals are far off, everyone vacillates, opinions are divided, passions are aroused, and the foes will utilize the opportunity to achieve an easy victory. I will tell you what will put us in a position to establish a free government: It is union. But this union will not come to us through divine miracles, but by hard work and by well-directed efforts.”

**Address by His Excellency Jaime Lusinchi,  
President of the Republic of Venezuela**

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On behalf of the Government and people of Venezuela, I wish to extend a most cordial welcome to you.

Today marks the start of the Twenty-Ninth Annual Meeting of the Inter-American Development Bank, for which Venezuela is truly honored to have been chosen as the host country.

This important event has aroused widespread interest. We feel certain that its discussions will be fruitful, and that the constructive spirit of dialogue and cooperation which characterizes the Bank will prevail. We hope that you enjoy your stay with us, and that it provides you with a clear idea of this new Venezuela. Now nearing its Thirtieth year of democratic government, the country is striving to reach new heights and is most gratified to have you here.

The Fourth Annual Meeting of the Inter-American Development Bank was held in Caracas 25 years ago. Our great statesman, Rómulo Betancourt, was President of Venezuela then, and he stated at the time: *"It has been said, and I wish to repeat it here, that we in Latin America are in a race against time, in which the only alternative to development is chaos."*

Although the terms have changed in the quarter-century that has elapsed, the same dilemma arises now in similarly dramatic guise. At that time, our hemisphere was undergoing its first experiences in democracy, and new patterns of structural reform were emerging in the more advanced democracies. There was a growing awareness that persistent arbitrariness, inequity and poverty were contrary to the interests of the hemispheric community, and represented factors in which we could take no pride. The efforts made by each individual country to stop treading this path were supported by collective action, such as that of the Inter-American Development Bank, the Latin American Free Trade Association, and the Alliance for Progress. The social, popular and democratic nature of development was recognized, and this offered new hope for the future. Once again quoting Rómulo Betancourt, who addressed that meeting by paraphrasing the words of Abraham Lincoln, it was finally becoming apparent that it is impossible for a hemisphere to be half multimillionaire and half pauper.

Since then, democracy and chaos have coexisted in various areas of Latin America. Many of our attempts at democracy have failed, and some of the traditional democracies have undergone protracted periods of arbitrariness and regression. Fortunately, with few exceptions, democracy now predominates in the hemisphere.

In the economic field, most of our countries posted high growth rates in the 1960s and 1970s. That, however, did not suffice to ensure sustained growth. At times there were attempts to impose models that conflicted with our peoples' aspirations for democracy and social justice. Such experiments inevitably resulted in economic and political disaster. They represented missteps and a denial of the history of our hemisphere's development, wrongly inspired by the deceptive notion of economic growth devoid of social content.

Today the dilemma of chaos-or-development has assumed new forms. The need for democracy in Latin America is clearly perceived, thus highlighting the social content that should be part of every development effort. But the financial means for achieving this purpose are not available, since a goodly portion of the resources created by our work must now be used to repay foreign debts. The result—unless the necessary

*financial flows are restored—is institutionalized capital flight.*

In such circumstances, the possibilities of development are constrained. The stage now being set is conducive to chaos. And it is not hard to understand that no responsible government can foster or permit such a scenario.

Speaking now in the context of the present issue—debt and survival—the international community must obviously be aware of its ramifications, must realize that we can uphold our decision to honor our financial obligations only if they do not become an obstacle to our development possibilities. And we are not necessarily faced with a choice of options: it is our very existence that is at stake.

That is why it is imperative that the relations between the countries of Latin America and the international financial community be addressed in terms of cooperation, not confrontation. Furthermore, and speaking objectively, this is not only fair, but safe and expedient.

The present situation stems from an excess of optimism and an error of perception on the part of both creditors and debtors. Those were the days of cheerful overspending. That is why we speak of shared responsibility. Let us see: our countries' growth in the 1960s and 1970s led us to think that we had completed the development stages which characterized our efforts in the preceding decades; and that the support of the multilateral financing agencies was no longer indispensable. Some of our countries had already "graduated" (it was not quite clear from what), and we assumed that we could now maintain our growth by means of the financing available from the commercial banking system. A new phrase was minted to describe our status as "newly industrialized countries." We were even presented as a threat to the well-being of the industrial countries. And we were induced to finance development with short-term resources at inordinately high real interest rates. We fell into the trap.

Moreover, the plan devised for resolving the industrial countries' problems did not take the developing countries into account. So it is not mere coincidence that the recovery of the developed economies took place parallel with the debt crisis. The rise in interest rates and the flow of resources to those economies entailed a draining of capital for us that came on top of the requirements of debt repayment.

In these circumstances, the international financial community turned a cold shoulder to the indebted countries, especially those of Latin America, abruptly shutting off the flows of funds to our countries and disregarding the principles of cooperation so often invoked in the past. There then began an exercise in patience which is referred to as debt restructuring and which, while it has averted a radical confrontation, can hardly be classified as an effort to further collaboration.

Faced with this situation we sought to turn to the multilateral mechanisms for balance-of-payments support and development financing; but we found that the conditions had been changed. We were told that the era of multilateralism was over, that project financing was now out of the question and that we ought rather to realign our policies on new patterns and schemes devised in terms foreign to our circumstances. As a result, we found ourselves without financial resources for pursuing our development and with our savings committed in advance.

In this situation, the Inter-American Development Bank has been an exception, since it has maintained its role as a financial instrument for the countries of the region and as a promoter of development projects conceived with an eye to the long-term interests of the countries concerned, without claiming to set itself up as a judge of national economic policies or as an arbiter of the predominant policy trends in each of its member countries.

What is particularly noteworthy is the fact that in the midst of the crisis the

Inter-American Development Bank can take pride in having maintained normal relations with its borrowing countries, without any of the noncompliance situations or stresses which have arisen with other financial agencies. This exceptional circumstance can be attributed to the confidence that the Bank has had in its borrowers, which has been reflected in the confidence which its borrowers have placed in it. Because they felt this inter-American institution to be theirs, the nations of the region have accordingly acted to preserve it as a sound and solid financial entity capable of continuing the support for the region's development that is its *raison d'être*.

The pre-eminent position occupied by the Inter-American Development Bank today derives from the principles that were the basis for its creation, namely principles of hemispheric cooperation based on the capability of the countries of Latin America to determine their own development, coupled with the masterly leadership of the Bank by two outstanding Latin Americans: Felipe Herrera and Antonio Ortiz Mena.

It was Felipe Herrera's task to define the conceptual bases of this inter-American institution and to shape its character as a development agency focused on the hemisphere's pressing social problems.

Antonio Ortiz Mena then had the responsibility, which he carried out in full, to consolidate the Bank as a financial institution capable of obtaining resources in the international markets for furthering the development of the region.

In a few days another great Latin American will assume the presidency of the Bank: Enrique Iglesias, who has devoted his life to studying the region's problems and devising solutions to them. We are certain that he will continue and deepen the tradition of solidity and creativity which is the hallmark of the Inter-American Development Bank.

Fourteen years ago, when Venezuela announced that it was setting up a Trust Fund within the Inter-American Development Bank as a means whereby our country might share part of its bounty with the rest of the Latin American community, the Governor for Venezuela—Mr. Héctor Hurtado, then as now Minister of Finance—put the Venezuelan position unequivocally. He said at the time, with regard to our contribution: "Venezuela views this as a collective undertaking. This collective approach that Venezuela wishes to impart to the Fund also assumes that in the management of its resources there will be no positions of privilege and no vetoes. No one country will be able to take unto itself a position as leader or overseer of an activity that belongs to all."

Venezuela's position remains unchanged. We view cooperation as a dialogue. We view our institutions as alliances among countries that are equally worthy of respect. We regard development as a common undertaking in which there are no privileged views or interests.

Of key importance in this approach are efforts aimed at bringing the countries of Latin America closer together and fostering Latin American integration. The Andean Pact, today revitalized by mutual agreement among its member countries, the Latin American Integration Association, which has demonstrated a capacity for survival that can be explained only by the importance of its objectives, and other integration efforts that have flourished in the warm spring climate of democracy that prevails in the region, are examples of spheres of action to which we should together direct our special efforts.

Latin America is much more than a geographic concept. It is a tapestry woven of historical, social, cultural, and ethical imperatives. Moreover, its role in the world and its democratic and progressive aspirations can only be affirmed if they go hand in hand with the consolidation of an economy that is regional in nature, which is not subject to the uncertainty of confrontations lying beyond its control, or to global intrigues in

which its voice cannot be heard. Certainly it is not our role to join in a chorus in which we have no say in calling the tune.

In this Latin American context, we Venezuelans have in recent years been learning to deal with problems without precedent in our country's history. We have had to cope with a suspension of international credit and collapsing prices for our main export product, and have had to adjust our way of life to new economic circumstances at home and abroad. We have attacked these problems seriously, have tightened our belts, and have instilled new vigor in our efforts to produce goods. This has been a collective endeavor.

In the space of four years, we have reduced our imports to half what they were before, and have restored our domestic economy to good health. We have increased our non-oil exports and have met our international commitments with sacrifice and decorum. We can also boast a political stability and social peace remarkable in any part of the world. And because of this, we have admired the ability of other countries in the region to face up to the same problems with dignity and without bending to external pressure.

The Inter-American Development Bank, as an expression of Latin America, has displayed the same serious approach. It has not strayed from its mission, and has been the forum in which Latin America's will to develop has taken shape—the will to develop that is the expression of its own needs and its pluralistic convictions.

Along the same lines, other forums for Latin America's political expression have emerged, such as the Group of Eight which met in Acapulco last December and spoke for the major countries of the region, seeking to bring together the many voices of Latin America and the Caribbean.

Peace and security in the hemisphere, development, and integration are the principal areas in which a common position and an agenda for action were established. Likewise, the problems of debt and protectionism in the industrialized countries were examined as causes of difficulties in the region, and the spirit of political dialogue made manifest in the Cartagena Consensus was reaffirmed.

These forums, as well as others, in particular the Latin American Economic System (SELA) and the UN Economic Commission for Latin America and the Caribbean (ECLAC), point to a more systematic shaping of Latin American awareness—an awareness which is being expressed in many different forms, in the political as well as the economic and cultural spheres.

The Inter-American Development Bank is one of the most important examples of the Latin American concept of development, comprising its singularity and its *raison d'être*. The Bank was born in response to an aspiration held by the countries of the region, at a time when efforts towards regional integration began and democracy was being revived in Latin America. This, then, was a response to three concepts which, being linked to the most fundamental needs of our peoples, are inextricably joined: democracy, integration and development. In fact, this interdependence is so great that anyone who does not understand its inherent relationships is out of place in our hemisphere.

The IDB was born, then, at the same time as integration and democracy; it was born because of them, and can only survive with them. For this reason, the rebirth of democracy and integration augur well for the strengthening of the Bank.

On a broader front, the international setting in which the Bank and the Latin American countries live and operate determines how effective our efforts are and how much progress can be made in achieving these goals.

The multilateral approach sustained by the IDB, which became more marked with

the participation of the nonregional countries, strengthens the possibilities for mutual cooperation. The concept of development in its most diverse phases—economic growth, education, health, housing, welfare, income distribution—is also an essential requirement for effective action. Concerted action based on an economic strategy that is responsive to the needs and aspirations of each country with ongoing development programs is the only way to ensure the rational use of resources.

Shared responsibility is the key to success in any joint undertaking. Unilateral initiatives, however good they may appear to be, are destined to fail. Models imposed from without are useless. Thus, it is necessary to strengthen the IDB as a profoundly Latin American institution, as its first president, Felipe Herrera, used to say. In this sense, the creation of the Inter-American Investment Corporation is a step in the right direction.

The IDB has, in short, been true to its founding ideas, and served as an alternative to an international financial system based on development that is controlled and conditioned. In this sense, the Bank has opened up new paths. This is its trademark, the stamp of its originality which *per se* has caused the institution problems. Yet the Bank cannot abandon this uniqueness without relinquishing its very essence—its Latin American roots.

I dare not conclude without referring to the problems presented by the trade restrictions widely practiced today in industrialized countries. We are being encouraged, and rightly so, to adopt development strategies aimed at gearing our economies towards international markets, but at the same time the doors to world markets have been closed to us or threaten to be closed. There is much talk of competition, but in effect competition is being hindered.

The isolation tradewise of the industrial countries is compounded by isolation in matters of financing, which keeps international economic relationships from becoming truly global. Isolation breeds isolation. Without an international financial system that can successfully move resources from one region to another, there can be no justification for feeding the savings of our countries into the international financial system, regardless of the origin of the underlying obligations.

As a member of the international financial system, the IDB needs an environment and state of mind that is conducive to steering flows of funds to the most promising development projects available, without regard to whether or not the economic strategies coincide with the passing ideological preferences of some key countries.

Investment in Latin America today is necessary, possible and advantageous. This is a hemisphere that had high rates of growth for over three decades and has successfully endured huge transfers of resources abroad in recent years. We have the manpower and natural resources required for profitable investment and to overcome the crisis of the past few years, one attributable in large measure to external factors, as is self-evident in its widespread nature.

The international financial community must support this investment effort, on the grounds of both cooperation and self-interest. This has been understood by the Inter-American Development Bank. We are thus grateful for its undertakings, certain it will find a solution to both present and future problems in order to continue its operations in support of Latin American development.

Such is the IDB we all have in mind and which we hope to improve and strengthen. Such an instrument serves the highest purposes of international cooperation. A bank that wavers from that purpose would be useless to us and we do not want or encourage it. What is more, a bank deprived of such a purpose would not further international harmony and cooperation construed in the historical perspective.

I thought it would be well to summarize these ideas in welcoming the delegates and expressing our best wishes for the success of this important meeting of the Governors of the Inter-American Development Bank.

Twenty-five years after the Fourth Meeting of the Governors, which was opened by President Rómulo Betancourt, we are faced with the same diplomatic situation, albeit naturally with somewhat different overtones. Similar concerns and interests prevail. The only thing is that 25 years do not pass in vain and we ourselves are not the same as we were then. It is thus a time for action and reflection by all parties concerned.

**ADDRESSES**

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**SECOND PLENARY SESSION**

**March 21, 1988**

**Address by Mr. Toyoo Gyohten,  
Temporary Alternate Governor for Japan and  
Vice Minister of Finance for International Affairs**

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On behalf of the Government of Japan, I would like to express my appreciation to the Government of Venezuela and the people of Caracas for the warm welcome that they have extended us at this joint annual meeting of the Inter-American Development Bank (IDB) and the Inter-American Investment Corporation (IIC). It is a great pleasure for me to be able to attend this annual meeting in this wonderful city of Caracas, the celebrated birthplace of Simón Bolívar, in this great country of Venezuela, blessed as it is with a beautiful coastline, the majestic Andes on the horizon, and your many scenic lakes, as well as with your riches of petroleum, iron ore and other natural resources.

At the same time, I would like to salute former President Antonio Ortiz Mena for the leadership that he has shown and the great contributions that he has made over the last 17 years in the cause of economic development and social progress for the Latin American and Caribbean nations. I sincerely wish him all the best as he leaves the IDB and returns to Mexico to devote his considerable expertise and energies to advancing Mexican economic development.

Likewise, I would like to express my sincere congratulations to President-Elect Enrique V. Iglesias on his selection as the IDB's third President. We are all familiar with the outstanding leadership that he has displayed at the GATT Uruguay Round, and I am confident that he will bring these same outstanding leadership qualities to the IDB in these difficult times. I would also like to express my appreciation to Mr. Michael E. Curtin for his services as Executive Vice President and Acting President.

Finally, I am confident that Minister of Finance Héctor Hurtado will be more than up to his responsibilities as Chairman of this annual meeting and will lead the meeting to a successful conclusion.

With the market recoveries in the prices of oil and other commodities, most of the Latin American and Caribbean nations have experienced modest improvements in their trade balances, and the low interest rates for the major currencies have had a positive effect on their balances of payments. The nations of the region are gradually reaping the benefits of their economic austerity, privatization, and other efforts. However, their sustained economic development is still hindered by the high levels of external debt service, and their economies remain sluggish and inflation-ridden.

The debt problem is the most important issue currently facing the nations of Latin America and the Caribbean. Overall, the developing countries' total outstanding debts topped \$1.1 trillion in 1987, and the total is still rising. The situation can only be termed perilous. The Latin American and Caribbean countries account for about 40 percent of the total debt of all developing countries, about 80 percent of which is owed to private sector financial institutions.

Because of the growing fears about the debt problem, the flow of international capital—particularly private sector capital—to the developing countries has gradually diminished, and this has hobbled efforts to solve the twin problems of debt and development.

Given today's highly interdependent international relationships, this problem facing the Latin American and Caribbean countries is not simply a problem for this area alone but casts a dark shadow over world economic growth and stability, in that failure to deal with the problem properly could well throw the entire world economy into

turmoil. However, there are encouraging signs for a solution to the debt problem. International financial support has been provided for countries such as Mexico and Argentina and major progress is being made in the negotiations between Brazil and the consortium of private sector lenders. While any solution to the debt problem must be premised upon the developing countries' own self-help efforts to promote growth-oriented economic adjustments, it is also essential that the international financial institutions, the industrialized countries, and the private sector financial institutions work together to devise and implement responses in line with market mechanisms on a case-by-case basis.

Looking specifically at the need to sustain the flow of capital, it is imperative that the developing countries foster a favorable environment for this inflow, including restructuring their economies in market-oriented ways, improving their climates for attracting and utilizing foreign capital, promoting the development of capital markets, deregulating in various areas, and enhancing political and social stability.

At the same time, the industrialized countries—the providers of capital—must work to devise means of promoting the flow of capital in support of these efforts by the developing countries.

Direct investment has an especially important role to play here in that it provides new capital without creating new debt; and it is also increasingly important because of the impact that it has in furthering technology transfers, creating employment, and invigorating the private sector. Debt equity swaps are one effective means of lightening the debtor country's burden and promoting the inflow of direct investment.

The idea of a menu of financing options as suggested by U.S. Treasury Secretary Baker at the last World Bank-IMF Annual Meeting is basically desirable in that it would expand the scope of choice for private-sector banks seeking to participate in new financing. In Latin America, this menu approach has been seen in Argentina's exit bonds, Bolivia's debt-nature swap, and Mexico's debt-bond swap, and these are all attracting well-deserved attention.

In any case, there is no single remedy for the debt and development problems, and it is very important that all parties concerned join hands and minds in a concerted, tenacious effort to find solutions for these problems.

Japan has initiated a number of practical measures to respond positively in light of the severity and urgency of the debt problem in Latin America, the Caribbean countries, and elsewhere.

With a view to ensuring the flow of funds from Japan to the developing countries, Japan is now making a major effort to implement a massive program to recycle more than \$30 billion in public and private untied funds to the developing countries.

Of the more than \$12 billion in bilateral recycling, \$4 billion has been tentatively earmarked for the Latin American and Caribbean countries by the Export-Import Bank of Japan and the other organizations, assuming that it will be possible to obtain international cooperation for financial support including the IMF, the World Bank and private sector banks.

So far, the Export-Import Bank of Japan has arranged co-financing with the World Bank for Argentina and Colombia, the Overseas Economic Cooperation Fund (OECF) has arranged co-financing with IDA for Bolivia, the Export-Import Bank has arranged co-financing with the IDB for Venezuela, and the Export-Import Bank has provided financing to Trinidad and Tobago in the form of purchasing a private placement of bonds. Moreover, we are still negotiating with a number of Latin American and Caribbean countries for the provision of financing under similar schemes.

This \$4 billion also includes two-step loans for export promotion, under which the

Export-Import Bank provides financing to the development banks and other institutions in the Latin American and Caribbean countries and these financial institutions then on-lend that money to local export industries that need it for expansion and modernization. We believe this is a very positive form of cooperation because export expansion is one of the most effective ways to solve the debt and development problems facing these countries.

There is also an increasing flow of funds from Japanese private-sector banks to the Latin American and Caribbean countries, as Japanese banks have made an active effort to support Mexico, Argentina and other countries within the framework of international cooperation. In order to sustain these favorable developments, we are working to promote more co-financing by the Export-Import Bank with the private sector banks.

At the same time, we are also looking at ways to promote private investment. At the last World Bank-IMF Annual Meeting, for example, Japan suggested that an international development institution could play an intermediary role in arranging debt-equity swaps. Promoting private investment will require greater development by the Latin American and Caribbean stock markets.

Looking at Official Development Assistance (ODA) overall, we are in the middle of the third medium-term target plan to ensure that the total disbursed ODA is at least \$40 billion for the 1986-92 seven-year period.

To give you an idea of how serious we are about achieving these third medium-term targets, the fiscal 1988 Japanese Government budget includes approximately 701 billion yen for ODA—a 6.5 percent increase and even more than the fiscal 1987 increase of 5.8 percent.

The Latin American and Caribbean region includes a great many countries buffeted by debt and development problems, and it is now more imperative than ever that the IDB and the IIC function as effective regional development institutions.

Founded for the purpose of promoting the economic and social development of the countries in the region, the IDB is the oldest regional development bank in existence. Not only does the IDB provide financing for a wide range of economic and social development projects in borrowing countries throughout the region, it also provides a wide range of technical cooperation for achieving development targets and has been a major contributor to the region's well-being.

Complementing these efforts, the IIC has as its purpose the strengthening of the private sector in the region's borrowing countries, with special attention to encouraging the establishment, expansion, and modernization of small- and medium-sized private enterprises.

Cooperating with such global institutions as the World Bank and the IMF, these two organizations are now being called upon to provide greater support for the Latin American and Caribbean countries' economic restructuring efforts.

The first imperative if the IDB and the IIC are to achieve their goal of helping the countries of the region restructure their economies is that the IDB's own financial base be strengthened. Even though it is now 15 months since the lending period was begun for a Seventh Increase of Resources, there has been no real progress to speak of. As a result, new lending is being curtailed and the net transfers from the Bank to the borrowing countries turned negative last year. At the same time, the dearth of resources available for the IDB has resulted in the IDB's not being able to make any new borrowings this year. This is a deplorable situation.

I would like to strongly urge prompt agreement on the Seventh Increase of Resources. And in connection with the negotiations for this Seventh Increase of Resources, I would like to note that I have the highest regard for the emphasis on

country programming and sector loans and other changes that will doubtless be effective in helping the borrowing countries promote economic restructuring.

Another imperative is for an early start in the IIC's operations. Although the IIC was established here in Caracas in September 1986, it has done virtually nothing in the last year and a half. A General Manager has to be chosen without further delay. I hope we will have strong leadership from the new President of the Bank on this matter.

I very much feel that Japan needs to do more for the IDB and IIC's development. This means not only more in terms of financial cooperation and human resources, but also more in the operating aspects as well.

Realizing the crucial need for the enhancement of the IDB's own financial base, Japan has responded very positively in the negotiations on the Seventh Increase of Resources—and we are sorry to see that disagreements among the countries of the region have blocked any agreement so far. I very much hope that the countries of the region will take the opportunity of this annual meeting to iron out their differences and to reach some kind of agreement on this much-needed replenishment. As an example, it might be a practical approach for us to concentrate first on the issues of the Seventh Replenishment which could be agreed upon without much difficulty. I assure you that Japan is prepared to cooperate positively if an agreement can be reached.

In line with the program for recycling funds that I mentioned earlier, Japan hopes to establish a Special Fund in the IDB similar to the Japan Special Fund established within the World Bank.

With this Special Fund, Japan would be able to provide untied grants to the developing countries through the IDB so that they could get the technical assistance they need to formulate and implement projects, thus encouraging the flow of private-sector Japanese funds to the developing countries, and the Government of Japan has provided 3.5 billion yen in the fiscal 1988 budget for these grants. We are currently consulting with the Bank on this proposed fund, and hope to be able to announce its establishment next month.

At the same time, Japan is promoting expanded Export-Import Bank and Overseas Economic Cooperation Fund co-financing with the IDB under the recycling program. The Export-Import Bank, for example, reached agreement with the IDB on co-financing for Venezuela last December. Looking ahead, we hope to utilize the regular consultations by the Export-Import Bank of Japan and Overseas Economic Cooperation Fund with the IDB to identify promising projects and to promote the smooth implementation of the recycling program.

Along with these efforts for financial cooperation, Japan is prepared to play an increasing role within the IDB. There is an increasing awareness in Japan of the importance of the Latin American and Caribbean region. The Japanese people's desire to cooperate with the IDB and the IIC has, therefore, grown rapidly in recent years. One manifestation of this development is the invitation to hold the 1991 annual meeting in Nagoya. Nagoya's businessmen are especially hoping that they will be able to host the 1991 meeting, and I am confident that a Nagoya meeting would be warmly welcomed not only by Nagoya but by business and financial leaders throughout Japan—and that it would be an excellent opportunity for the IDB and the IIC to publicize the situation in the Latin American and Caribbean region and to stimulate Japanese friendship and financial support for the region's development.

I know that the IDB and IIC meet outside the region periodically, and I have heard that it has been pretty much settled that we will go to Amsterdam for our 1989 meeting. If Amsterdam is indeed chosen, that would mean that all three of the extra-regional meetings will have been held in Europe—and would lend further weight to the

argument for Nagoya in 1991. Nagoya is located in the approximate center of Japan—midway between Tokyo and Osaka—and it is well known for its rich historical and cultural heritage as well as for its industrial vigor.

I sincerely hope the Governors and their governments will favor our invitation to Nagoya for 1991.

Finally, I would like to express our sincere hope that your new management and forceful leadership will result in your dealing with the problems facing the IDB and the IIC successfully and that the groundwork will be laid for enhanced regional cooperation for a new surge of economic and social development throughout the region.

Japan is fully behind the new team, and I assure you we will continue to do whatever we can to help the IDB and the IIC find solutions to the issues before them.

**Address by Mr. Reginaldo Panting, Governor for Honduras and Minister of Economic Affairs and Trade, on Behalf of the Central American Countries**

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For the past three annual meetings of the IDB, Central America, on whose behalf I have the honor to address this meeting of Governors, has stressed the difficulties facing it and the efforts it is making to return to the path of economic development. Despite its enormous problems, our region, in a display of its common core of historic, geographical, social and cultural roots, has attended this forum to raise its problems, suggest solutions, and ask the international community to assist the Central American region as a whole.

The economic problem is closely tied to peace in Central America. More important still, peace is essential to halt human suffering and the waste of human life that has afflicted us so painfully.

Peace efforts began in May 1986 at the meeting of Central American Presidents known as Esquipulas I, a historic encounter which was the first time in years that the regional heads of state had sat down to discuss our main problems and attempt to reach common solutions acceptable to all.

Contrary to what many expected, it was not long before the meeting yielded results, and when the Central American presidents met in August 1987 at Esquipulas II, they signed the agreements entitled "Procedure for Establishing a Firm and Lasting Peace in Central America."

Coupled with the events in the political sphere, Central Americans were active in the economic area in 1987 in common efforts to probe the mechanisms for dialogue and analysis in search of viable solutions that would be in the region's interest. The ministers responsible for economic integration instructed the regional organizations to act to instill new life into our common market and to revamp the blueprint for integration.

It was against this background that the Central American governments allotted the regional organizations a key role in our economic recovery and in the integration process itself. As a result, we feel it is essential for CABEI to be strengthened financially and institutionally. Specifically, we support the acceptance by CABEI of members from outside Central America by bringing Mexico, Argentina and Venezuela (the latter under a special trust arrangement) into the provisional mechanism of the Fund for the Economic and Social Development of Central America. We appeal to other Latin American and nonregional countries in the industrial world to follow the example of these countries and to join in the process of expanding the equity capital of CABEI. We also renew our appeal to the IDB to reinstate its financial and technical support for CABEI.

The depth and duration of the economic crisis in Central America has been unprecedented in the past half century. The slight economic recovery in 1987 fell short of the growth rates posted in the past decade. Although the regional GDP was 2.8 percent higher than in the preceding year, in real terms it was still lower than eight years ago. The situation is even more catastrophic in some individual instances.

The balance-of-payments deficit has deepened despite a dramatic reduction in imports, which has for all intents and purposes changed the dimensions of our national economies. Exports have lost their momentum and in some cases have declined

sharply, in part because of civil strife, but mainly because of plunging prices for our main export products.

Immediate steps are required to break out of this vicious circle and lay the groundwork for sustained and stepped-up growth of our national economies. There can be no lasting peace in the absence of development or without a more equitable distribution of the fruits of growth, particularly if we are to put an end to the social unrest that has plagued us for so long.

In October 1987, the United Nations General Assembly adopted a resolution unanimously supporting the Esquipulas accords and urging the international community to increase technical, economic and financial assistance to the Central American countries. The resolution also asked the Secretary General of the UN to prepare and promote a special plan of cooperation for Central America for submission to the UN General Assembly no later than April 30 of this year. The report of the UN mission to Central America to implement the resolution has now been circulated and includes what could become the groundwork for a special plan of economic cooperation targeted to Central America.

Under this special plan, international organizations will be called upon to play a key role in the field of financing by providing additional support, over and above what would normally be expected from them. The Inter-American Development Bank, our Bank, should not stand on the sidelines in this effort since it has a prime part to play, coordinating certain of the actions provided for in the special plan. We Central Americans wish to urge the Bank to participate effectively in this effort from the very outset.

The Secretary General of the Organization of American States, with the cooperation of the Pan American Health Office and the Inter-American Development Bank itself, are carrying out a Social Investment Program for the Development of the Countries of the Central American Isthmus. At this meeting we wish to confirm the Central American governments' support for the program and we ask the IDB to continue and intensify its support so that it will be an unqualified success.

The European Economic Community is cooperating closely with Central America. At the last meeting held recently in Hamburg (February 29 to March 1, 1988) the Community, the countries of Central America and the countries of the Contadora Group reaffirmed the close ties between economic and social development, peace and political stability.

With regard to the IDB, the Central American countries are concerned about the fact that in 1987 the main financial operations indicators fell sharply in comparison with the preceding year, and have dropped for virtually three years in succession. It would seem that our Bank is downscaling at the time it is most greatly needed in Latin America and the Caribbean. This cannot continue without causing serious harm to the region. Under the Agreement Establishing the Bank, its main goal is to help speed up the process of the individual and collective economic and social development of regional developing member countries. This can only be achieved through a sizable and growing transfer of resources to these countries. Otherwise, as is now beginning to happen, the tightening up of operations will lead to negative flows that will be difficult for the member countries to withstand, especially the smallest in general and Central American countries in particular, where the Bank has been one of the main financiers of development. In 1987, eight member countries received no loans at all from the Bank, including two in Central America plus the Bank of Central America. One of our countries has not received an IDB loan in over four years.

In addition, the Bank has significant resources committed to member countries that have not been disbursed. This is partly due to slow execution of projects, but also to a large extent to the introduction of conditions that are increasingly burdensome for the countries to comply with.

We urge that negotiations for the Seventh Replenishment be reestablished and stepped up so that the Bank can attain its goals. Through constructive dialogue, based on a spirit of international cooperation and maintaining the Bank's essentially multilateral character, an understanding can surely be reached that will satisfy the interests of the different parties.

Due to factors beyond the control of the countries, certain projects have encountered financial problems during execution. This is particularly true in cases in which the original estimates eventually turned out to be overly optimistic due to such external factors. In these situations, the Bank should seek imaginative solutions that will help to overcome the problems of specific projects, adjusting their financial flows to their debt service, increasing project financing, or rescheduling repayment deadlines.

On various occasions, the most needy member countries of the Bank have indicated that the requirements for use of the Fund for Special Operations should be made more flexible. On this occasion, we wish to urge that flexibility be established because the FSO is crucial in the financing of those countries since they find it difficult to meet normal conditions for external financing, which is why their resources must be built up and used with utmost rationality. Along this line, we support adequate capitalization of the Fund's profits so that the real value of the Fund is at least maintained.

In the same vein, we consider it necessary to financially strengthen the Intermediate Financing Facility and to apply it more flexibly so that Group C countries can maintain adequate access to concessionary resources.

We are also concerned over the fact that the inventory of projects in the smallest countries has shrunk. This is especially true in the case of Central America and we therefore urge the Bank to take an active role in solving this problem.

These are the most important challenges that our new President, Dr. Enrique Iglesias, must tackle without delay. On welcoming him, we wish him success in his activities in the conviction that his professional and negotiating skills will permit him to renew the Bank's leading role and dynamism in these difficult times for its developing member countries. Without adequate capitalization the Bank would have to reconsider its objectives and practically be forced to focus on those countries where its contribution is most relevant.

Adjustments necessitated by shrinking Latin American economies have already gone on for a long time; the next decade must be one of growth for the region and to achieve this the Bank's capital must be fortified and the debt globally restructured under conditions tailored to the actual situation in debtor countries.

Central America is going through crucial times and we must do all that is necessary to save it.

As the Central American heads of government stated in the preamble to the Esquipulas II accords: "We have Central American paths to peace and development, but we need help to turn them into realities. We ask for international treatment that will guarantee development so that the peace we seek will be a lasting one."

## **Address by Mr. Kai Helenius, Governor for Finland and Undersecretary of State, Ministry for Foreign Affairs**

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On behalf of the Government of Finland, I wish to express my warm gratitude to the Government of Venezuela and the City of Caracas for hosting this Twenty-Ninth Annual Meeting of the Inter-American Development Bank, and for the warm and generous hospitality extended to us.

I should also like to congratulate you, Mr. Chairman, on your election to chair this important meeting.

Today we express our most sincere thanks, and our deepest appreciation for the work of Mr. Antonio Ortiz Mena, President of this Bank for almost two decades. We pay tribute today to his unflinching dedication to promoting economic and social progress in the Latin American and Caribbean region. The successes achieved and the paths set for continued future activities will serve as a basis for the Bank's future work to help achieve sustained growth in the borrowing countries.

Mr. Ortiz Mena also played a central role in inviting the nonregional countries to membership in the Bank. Finland joined the IDB in 1977, and on behalf of my Government I would like to express our deep gratitude for having been able to work with the IDB under his guidance.

This is an occasion to welcome and wish success to the new President of the Bank, Mr. Enrique Iglesias. Mr. Iglesias, on behalf of the Government of Finland, I have the pleasure to congratulate you on your election to this important office, and, specifically, on the unanimous support given to your election by the regional member countries. Finland wishes to express her deep satisfaction with seeing the IDB continue its activities under the guidance of yet another acknowledged authority with international renown.

My government supports the IDB as a strong regional and multilateral development financing institution. With sufficient financing and clear priorities in its work, the IDB's role in promoting economic and social development should, and would, be strengthened.

Strengthening the role of the IDB calls for concerted action on the part of its member countries. In view of the exceptionally low lending level of 1987, we consider it utmost important that the Bank soon be able to resume its normal scope of operations and to prepare for an expansion of its lending program. In this regard progress in the Seventh Replenishment negotiations is the key issue. Since there already exists a broad range of issues where mutual understanding has been reached, the replenishment negotiations should now proceed vigorously towards securing a sufficient capital base and sufficient resources for the Fund for Special Operations, the FSO, for several years to come.

In our view, the soft lending plays a central role in the Bank's activities and its relative share should not be weakened.

As regards the capital increase, we support the continuous efforts to increase the efficiency of the IDB, including the reorganization of the Bank. We also support more effective country programming as a means of reaching the goal of sustainable growth. The country strategies should be designed in cooperation with the borrowing countries themselves and be based on realistic development objectives.

The IDB needs to have an adequate focus in its lending towards growth-oriented goals and adjustment policies. Although the primary responsibility for correcting the

economic imbalances rests with the borrowing countries themselves, the international community must actively support these adjustment efforts.

The Bank's activities will depend on the individual and collective decisions of its member governments, as well as on the ability of the Bank to be a catalytic agent in stimulating foreign investment in the region. I express my government's support for the Bank's policies that aim at promoting, not only direct investment to the regional member countries, but especially the kind of investment that carries the potential for increasing inter-regional economic cooperation.

In the present world economic situation, we cannot overlook the uncertainties that influence foreign investment. While there are many external factors influencing flows of private capital, sound economic management remains as the crucial factor determining the attractiveness of a country to an investor. In this regard, capital flight can only be reversed, if the private sector has confidence in the economic policies of the country. The IDB can play an important role in stimulating private capital to its borrowing countries also through means of co-financing. In this respect we also give our full support to the Bank's efforts to promote cooperation with other financial institutions.

The Bank should continue to take into account those basic factors that tend to govern the dynamics of the development process. If we wish to attain and create conditions for sustainable economic progress, we need to ascertain that all groups within societies are included in the process. The great potential of the low-income groups has to be released.

That this can be done is illustrated by the way women have in many areas begun to realize their full potential if and where given the opportunity—i.e. access to education and access to income-generating activities. The women in Latin America and the Caribbean have already changed the structure of the labor market.

Sustainable development and long-term growth require coherent incorporation of environmental aspects into all phases of the development process. Finland deems it important that environmental considerations be duly observed in lending programs. In the developing countries deforestation, in particular that of tropical forests, is reaching alarming proportions. Rapid population growth in many countries aggravates the situation. Protection of the environment is a long-term priority of utmost importance for sustainable economic growth as well as for agricultural and rural development involving both men and women. Strengthened efforts in this field are needed. I wish especially to underline the importance of reforestation measures.

Securing a meaningful productive role for the small peasant or the landless rural poor calls for additional measures besides those aiming at a safe environment. Income generation is the key issue, and projects aimed at creating self-employment outside the home require continued funding.

I should also like to emphasize here the importance of the support given to the private sector both regarding the creation of jobs in small-scale production, and regarding increased export income. Additional financial flows to the region help the countries to diversify their economies and achieve sustainable development. In this connection I should like to express our special appreciation for activities such as the Seminar on New Perspectives on Latin American Development arranged in Helsinki last October. Contact fora like this will be needed also in the future.

To sum up, I refer here to what I said earlier about the importance of the multilateral character of the IDB as an integral part of its financial role. At the same time, the Bank has an important regional role to play in promoting inter-regional economic cooperation. The precondition for this is political and social stability. My

Government strongly supports the peace process in Central America, the cornerstone for regional development.

On behalf of the Finnish Government I wish to reiterate our full support for the IDB, which has an important role to play in the social and economic development of the region.

**Address by Mr. Bjørn Olsen, Governor for Denmark,  
Ambassador, and Undersecretary of State,  
Ministry of Foreign Affairs**

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First, allow me to express my sincere thanks to the government and the people of Venezuela and to the city of Caracas for the warm hospitality extended to us.

Next, I would like to congratulate the president-elect, Minister of External Relations of Uruguay, his Excellency Mr. Enrique V. Iglesias, on his election as President of the Bank.

Your name, Mr. Iglesias, has become internationally familiar and acclaimed, in particular in connection with your skillful work in initiating the Uruguay round of multilateral trade negotiations, and we all hope and expect that your tenure as president of the IDB will be a successful one.

The picture of the international economy at the time of this meeting is a mixed one. On the positive side it is noteworthy that the economic growth in the industrialized countries did not decline as feared in 1987 and has even proven able to withstand serious shocks.

Inflation in the industrialized countries remains low, some of the worst imbalances among them seem to be diminishing and world trade has grown moderately. And after several years of decline some commodity prices now seem to be recovering.

These modest improvements have, however, not been sufficient to prevent the decline of the growth in the region and regrettably it is quite clear that growth in the industrialized countries will not, in the immediate future, become the engine for growth in developing countries that was hoped for when the adjustment with growth-strategy was originally conceived.

Another feature of the strategy—massive injections of new money from commercial banks—has also failed to materialize up until now.

In this situation it is understandable that some of the countries in the region have had difficulties in sustaining their adjustment efforts. There is, however, no viable alternative to adjustment, so the whole international community must look for ways to stimulate the process.

The countries of the region must encourage local savings and discourage capital flight. They must diversify exports and remove obstacles to foreign private investments in productive enterprises and improved technology. The industrialized countries on their side must work more consistently for increased economic growth and improve the access of developing country products, including commodities, to their markets. New approaches to relieving the debt service burden must be developed and utilized to a wider extent. And finally, international financing institutions have to be strengthened.

In this connection it is encouraging that the executive directors of the World Bank have finally agreed on a substantial general capital increase, which will enable the Bank to continue and enhance its efforts, also in this region. The GCI must now be implemented as soon as possible, and I am proud to announce that my government was the first to vote for the GCI resolution.

Some of the poor countries of the region will also be able to strengthen their adjustment efforts by borrowing on very soft terms from the IMF's Enhanced Structural Adjustment Facility, which was agreed to last December, and to which the Danish financial authorities have just approved a grant contribution.

There is, however, an important piece missing in this picture. I am referring to our

Bank, the Inter-American Development Bank, which is eminently suited to play a major role in alleviating the present problems of this region, but has not yet been allowed to do so. The second anniversary of the start of negotiations on the Seventh Increase of the Resources of the Bank is no cause for celebration. We have been so close to succeeding in our negotiations that it must be incomprehensible to the outside world that we have not been able to go the last mile of the way. The negotiations should now be resumed and finalized as soon as possible so that the Bank can regain its role as the most important lender of the region.

At the same time I would like to express the hope that new negotiations might lead to a more satisfactory agreement with regard to the size of the FSO. Like most other donors, Denmark has declared itself prepared to contribute a good deal more than so far agreed, if other donors take their share. The poorest countries of the region have a great need for concessional loans and the Bank should be able to satisfy that need to a much greater extent than envisaged.

Poverty is, however, not confined to the region's poorest countries. It is therefore important that the Bank take the problems of the poor into consideration, also in its lending to A and B countries. The Bank should do its utmost to fulfill the target that at least 50 percent of its lending should benefit low-income groups. In the opinion of my country there is no conflict between poverty alleviation and profitable lending, between equity and efficiency. Increase in the productivity and purchasing power of the very poor can contribute as much to economic growth as traditional capital investment. Constructive poverty alleviation measures can also make it easier to sustain adjustment. The World Bank is realizing this and is about to embark on a number of new measures to fight poverty. I feel that the IDB Management and staff should study these measures, learn from appropriate World Bank experience, and formulate a comprehensive Bank policy in this important field.

In my statement at last year's annual meeting, I said that the IDB was the only major development institution that did not have as one of its fundamental policies a clear comprehensive approach to the question of women in development. Today, I note with satisfaction that in 1987 Management proposed, and the Board of Executive Directors adopted, a policy which will assist member countries in the region in their efforts to bring about further integration of women into all stages of the development process, and improve their socioeconomic situation.

It is now up to Management to implement this policy in the Bank's lending policies and projects. One step that could facilitate this would be for the Bank itself to employ more women in professional posts.

I have stressed the importance of taking into consideration weak population groups when designing projects. Another important dimension is the long-term sustainability of projects. Projects that destroy natural resources such as the rain forest can at best only be profitable in the short term. I know that the Bank is aware of the importance of taking the environmental effects of its projects into account, but further progress should be made in this field. It must be assured that attention is paid to the environment during the whole project cycle, not least in project selection and at the other end of the cycle—during implementation, follow-up and evaluation. We therefore expect Management to initiate a discussion in the Board of Executive Directors on how the Bank intends to implement the recommendations of the World Commission on Environment and Development.

Let me conclude by reaffirming my government's commitment to strengthening the Bank so that it can maintain its unique role in the development of the Latin American and Caribbean region.

## **Address by Mr. Lamberto Dini, Alternate Governor for Italy and Director General of the Bank of Italy**

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I wish to begin by thanking the Government of Venezuela for its warm hospitality to the participants in the Twenty-Ninth Annual Meeting of the Inter-American Development Bank (IDB) in this great city of Caracas, and the Bank's management and staff for the excellent organization of the meeting.

My next pleasurable duty is to express Italy's gratitude and appreciation to Mr. Ortiz Mena for the great achievements of the IDB under his most distinguished leadership. During his 17 years as President, the Bank's membership has increased from 23 to 44 countries, enhancing its multilateral character, and it has been an important force in promoting economic and social advancement in Latin America. A warm welcome goes to the newly elected President, Mr. Enrique Iglesias, who takes the helm at a particularly delicate juncture for continuing progress in Latin America.

We note with satisfaction that in 1987 the international economic environment became significantly more favorable to developing countries' adjustment efforts. Output in the industrial countries expanded by nearly 3 percent and the volume of world trade by almost 5 percent. After years of declines, commodity prices have firmed, with direct benefits for the many Latin American economies that export primary products.

It should be appreciated that these results owe much to the cooperative efforts of the major industrial nations, which are striving to reduce payments imbalances in an environment of sustained growth and greater exchange rate stability. Some progress has been made, insofar as a substantial adjustment in the trade volumes of the major countries is now apparent and some improvement in value terms is occurring as well. Nevertheless, external disequilibria remain a threat to the growth of the world economy. If, however, we persist with the present coordinated strategy it should be possible to sustain world demand while consolidating what we have accomplished so far in reducing current account imbalances. Indeed, in 1988 output in the industrial countries is expected to expand for the sixth consecutive year and prospects for 1989 indicate a continuation of growth.

Developments in Latin America have been mixed. In spite of a relatively favourable external environment, the growth rate for the region as a whole declined in 1987 by almost two percentage points to its lowest level since 1983. At 2.3 percent, GNP growth failed to provide an adequate increase in per capita incomes. These developments can only be attributed in part to tight financial constraints. Uncertainties in implementing adjustment programs and structural reforms have led to an acceleration of inflation which is endangering the results achieved so far in laying the foundations for sustainable economic growth. Mainly as a consequence of slippages in bringing fiscal deficits under control, inflation rates have soared to alarmingly high levels in many countries, including some of the larger ones.

We are encouraged by the gains which have been made on the external payments front. The combined current account deficit of the Latin American nations narrowed substantially and debt-export ratios improved significantly. Debt service ratios also improved, from 45 to 38 percent, the first significant decline since 1983. These positive results were due mainly to a strong export performance. As the Bank's annual report highlights, in the last few years some countries, such as Brazil and Mexico, have succeeded in diversifying their exports and substantially expanding those of manufac-

tured goods. Efforts in this direction should be sustained by realistic exchange rates, trade liberalization measures and market-oriented pricing policies.

We are firmly convinced that the strategy which has been followed so far is the only viable one to deal with the debt situation. Even though important progress has been made, this problem cannot be solved rapidly or painlessly. The focus will therefore continue to be on the adoption of growth-oriented adjustment policies by debtor countries and on securing sufficient financing. The IMF, the IBRD and the regional banks must continue to play their crucial role in the design and the direct financing of adequate programs as well as through their catalytic function in fund-raising from other sources. The maintenance of a case-by-case approach is essential. The mirage of global debt relief must be firmly dispelled, since this would only undermine adjustment efforts and delay improvement in debtor countries' creditworthiness. Furthermore, cooperative solutions are the only possible ones and countries that have followed confrontational approaches with the financial community are realizing that this is against their own interests.

Considerable financial relief has been provided to debtor nations through rescheduling. In 1987 the total private and official debt that was rescheduled reached an all-time high of over \$100 billion, about two thirds of which involved Latin America. However, for the fifth consecutive year Latin American countries' debt service payments exceeded new loans from private sources and there continued to be net financial transfers to private creditors. Further progress is therefore needed in providing larger financial flows to these countries and in creating the conditions which will allow a resumption of spontaneous market lending. In particular, policy performance in debtor nations has been uneven and has not restored private sector confidence. There can be little doubt that the pursuit of sound domestic policies and the actual implementation of structural reform programs will encourage an increase in bank lending, a reversal of capital flight and greater foreign investment, thereby strengthening growth prospects.

An important element of flexibility in the debt strategy has been introduced by the resort to a diversified menu of options in financial packages such as the one negotiated last year by Argentina. Other important examples of innovative approaches that permit a reduction of bank debt and ease the external financial constraint include the debt conversion mechanism recently adopted by Mexico. Voluntary market-based techniques, which help rationalize the diversity of interests among bank creditors and securitize bank's claims, should not be discouraged. The governments of industrial countries can facilitate the success of new techniques by providing a flexible fiscal and regulatory environment.

We believe that official financial flows to debtor countries, especially to promote investment projects, must be stepped up as well. An important contribution to this goal should come from the recent agreement for a sizeable increase of the World Bank's capital. In this context, I want to express Italy's firm commitment to providing more resources to developing countries. Last December Italy concluded an important bilateral agreement with Argentina, which in particular provides for new loans amounting to some \$3 billion over the next five years, half on concessional terms. Furthermore, in the past two years Italy has substantially increased its net aid disbursements to low-income countries.

In spite of the enormous financial needs of Latin America, loans approved by the IDB decreased further to \$2.3 billion in 1987, from \$3 billion in 1986. This disturbing trend is due in part to the inability of prospective borrowers to provide counterpart funds. However, it has also been increasingly due to the Bank's prospective resource constraints stemming from the lack of agreement on a general capital increase.

We believe that the Bank must play a stronger role in promoting development in Latin America and the Caribbean. As the IDB's lending and borrowing capacity are being exhausted, their replenishment is urgently needed. This should be coupled with a revision of lending policies and procedures, to ensure the most efficient use of the Bank's resources. We note with satisfaction that the discussions on sector loans and country programming have made progress. As part of this strategy, we support a relaxation of the existing ceilings on lending to the largest borrowers and the introduction of more flexible criteria for the employment of concessional resources.

An overall agreement on these issues as part of the negotiations on the Seventh General Increase of Resources has so far been impeded, however, by the lack of consensus on changes in the Executive Board's decision-making mechanism. We find it most alarming that, at a time when Latin America has such great financial needs, a stiffening of positions could lead to a deadlock in these vital negotiations. In our view, the first main task of President Iglesias should be to take stock of the Bank's achievements and present difficulties in order to design a strategy that is in line with the enhanced role that the IDB is expected to play in Latin America in the years ahead. Within this framework we should then seek the resumption of negotiations and an agreement on the voting mechanism, which should reflect the need to increase the non-borrowing countries' influence in the Executive Board while preserving the IDB's multilateral character.

As for more specific aspects of the Bank's operations, an area to which we attach importance is cooperation with other multilateral organizations and in particular with the World Bank. This collaboration could be fostered by the reforms in the IDB's lending policies that are being discussed. Moreover, the IDB could help members to find additional resources by promoting co-financing operations with official and other external sources.

We also support a further increase in the technical cooperation program, especially in favor of the lower income countries. In this context, greater efforts should be made to enhance the dialogue with member states with the aim of identifying investment opportunities and preparing projects eligible for funding by the Bank. Moreover, we welcome the increased emphasis now being given to environmental questions in the design of investment projects.

In the years ahead Latin America will have to strengthen its endeavors to deal with the debt problem. If they are to succeed, economic reforms in developing countries have to be supported by the international community. We must therefore redouble our efforts to bring about conditions that will enable the Inter-American Development Bank to play a greater role in this process. In concluding, I would like to assure President Iglesias that the IDB will continue to enjoy Italy's active and unflagging support.

**Address by Mr. Jack Murta,  
Temporary Alternate Governor for Canada and  
Member of Parliament, House of Commons**

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I am honored to represent the Government of Canada at this Twenty-Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank. I bring you the best wishes of the Canadian Governor, the Secretary of State for External Affairs, the Right Honorable Joe Clark.

I would also like to extend my congratulations and appreciation to the Government of Venezuela and the Management of the Bank for the splendid arrangements made for our meeting here in Caracas. It is indeed propitious that this meeting, which has raised high hopes for the future of the Bank, is being held in the birthplace of that untiring advocate of hemispheric solidarity, Simon Bolivar.

I want, first of all, to express the gratitude of my government to the outgoing President, Mr. Antonio Ortiz Mena. During his administration, the Bank greatly expanded its operations as well as its membership. We extend to him our best wishes and success in his future endeavors.

I wish personally to congratulate Mr. Enrique Iglesias on his election as President. It was indeed a privilege for Canada to support the nomination of an individual with such outstanding credentials. We are confident our new President, with the assistance of all members, will guide the Bank through the challenging times ahead.

We strongly appreciate the perceptive analysis of the current economic situation and of the challenges facing the region, which was presented by the President-Elect. As he explained so convincingly this morning, we strongly believe that by its very nature, the Inter-American Development Bank has a unique role to play in the development of the region, both as a catalyst for mobilizing financial resources, and as an instrument for assisting governments in the design and implementation of sound economic policies. This unique role is reinforced by the fact that the IDB is the most significant source of multilateral financing to the smallest and least developed countries of the region. As a truly regional organization, the Bank, in our view, is well positioned to be an effective instrument in bringing about a better, more informed dialogue between recipients and donors, a respected source of policy advice to governments in the region and a useful mechanism to mobilize public and private investment from all sources. Like the President, we see the Bank as an effective partner in the process of change leading to modernization of the Latin American and Caribbean economies.

The debt crisis in Latin America presents a special and urgent challenge to the Bank. While there is a pressing need to respond to the region's requirement for increased external financing, these scarce resources must also be used in projects with high developmental impact. Consequently, careful attention must be given to the macroeconomic and sectoral policy environment within which Bank-financed projects are conceived and implemented. This involves the need for greater and more systematic dialogue, not only with national authorities, but with other multilateral and bilateral sources of additional financing and for greater country focus in the programming of loans.

However, we must face the fact that the Bank is presently unable to optimize the developmental impact of its lending program in a difficult economic environment. Not only is the region still struggling with an unprecedented developmental and financial crisis, but at the same time, the Bank itself cannot fulfill its vital role in the region.

Loan commitments and disbursements alike are being reduced to levels which inevitably bring us to negative flows, thus exacerbating the drain on the region's scarce reserves and debt management capacity. Recent exchange rate fluctuations have further eroded the Bank's borrowing and lending capacity. Obviously, this disturbing situation calls for strong corrective measures.

For this reason, we have listened with great interest to the inaugural address of the President-elect. We concur with the views he has expressed which will enable the Bank to regain its leading role in supporting the region's modernization and structural reforms. Naturally, the Bank can perform its new role only if the entire membership agrees on a substantial transformation of this institution. Attention must now focus on how to implement basic reforms in the Bank's organization and policies in order to improve the quality of the lending program. In Canada's view, this entails a much stronger planning and programming process, appropriate loan conditionality and more effective coordination with other multilateral agencies. This will also require accompanying measures to strengthen budgeting and manpower allocations so as to achieve the specific goals set forth in country programs. As mentioned this morning by the President-elect, both stronger management and policies could provide acceptable means to satisfy the legitimate and well-known concerns of the non-borrowing countries. We also believe that concrete and meaningful reforms of the Bank, along these lines, agreed to and implemented, would encourage agreement on a substantial resource increase. We recognize this is by no means an easy task, demanding the highest degree of cooperation, compromise and good will, consonant with the spirit Mr. Iglesias has so clearly demonstrated this morning.

Canada, a major and active supporter of this Bank and a strong proponent of constructive multilateralism, cannot but view with concern the present impasse in the negotiations for a Seventh General Resource Increase. The election of Mr. Iglesias provides an excellent opportunity to reopen dialogue on this issue. We share the desire of President-elect Iglesias for concrete, decisive measures to resolve the problem. We are sympathetic to his efforts toward finding a solution which preserves the fundamental interests of all members and the integrity of the institution. We believe in his vision of the Bank as an efficient instrument for development and a significant contributor in the alleviation of the debt crisis. We welcome the initiative of the President-elect for the creation of a high-level advisory group to assist the Governors in this endeavor. We encourage all members of the Bank, in a true spirit of solidarity, to join in this effort being launched by our new President.

Finally, may I take this opportunity to thank my fellow Governors for choosing Montreal as the site for the Thirty-First Annual Meeting of the Bank. Canadians are greatly honored to be your hosts in 1990. I am sure they will give you the warm welcome you deserve.

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

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As the Inter-American Development Bank's Governor for the Republic of Paraguay I am honored to address its Twenty-Ninth Annual Meeting of the Board of Governors and the Third Annual Meeting of the Board of Governors of the Inter-American Investment Corporation.

The delegation which I lead takes pleasure in extending fraternal greetings to the government and people of Venezuela and expressing our appreciation for the courtesies and hospitality they have offered us.

I must first pay tribute to the brilliant work of that distinguished Latin American gentleman and former President of the Inter-American Development Bank, Mr. Antonio Ortiz Mena, who throughout 17 years of unstinting and tireless devotion to his office demonstrated his extensive professional training, skill and solid experience, placing them at the service of the countries of the region—particularly those with fewer resources. Speaking as the representative of the Republic of Paraguay, I should like to express our special gratitude to Mr. Ortiz Mena for his knowledgeable interpretation of our country's will to progress and his faithful and enthusiastic support for the various projects that have materialized under IDB auspices.

During his presidency, Mr. Ortiz Mena gave purposeful leadership to the IDB thanks to his particular sensitivity, intelligence and thorough knowledge of the particular features and needs of the Latin American countries, leaving his personal mark on Inter-American Development Bank policy. Now that he is leaving the Bank to return to his beloved homeland, we want Mr. Ortiz Mena to know that the affection of the Paraguayan people goes with him.

For all these reasons, I speak for my country's government in assuring Mr. Ortiz Mena once again of our heartfelt thanks and sincere best wishes for his personal happiness and success in his future endeavors.

The Special Meeting of IDB Governors that took place on February 18, accepted Mr. Ortiz Mena's resignation and at the same time elected as his successor the distinguished statesman, Mr. Enrique Iglesias: the candidate supported by the Republic of Paraguay and the man who will guide the future course of the IDB. Judging by his broad professional training and the extensive experience acquired through the many important positions he has held, we are fully confident that in carrying out his new duties as President of the Inter-American Development Bank, he will display the same skill, wisdom and readiness to serve the high interests of the countries of the region and will continue to further the different projects through the IDB, thereby assuring continuity for our peoples' development process and progress.

On behalf of the Government of the Republic of Paraguay, I am pleased to offer Mr. Enrique Iglesias our most sincere congratulations on his election to the presidency of the IDB, with our best wishes for success in this capacity.

On February 14, 1988, the Government of Paraguay held general elections to choose the President of the Republic, the senators and deputies and the members of the electoral boards, authorizing the participation of the legally recognized parties: the Partido Colorado, the Liberal, and the Radical Liberal. The elections were attended by observers from a number of European and American countries and by members of the foreign press. The result was an overwhelming victory for the Partido Colorado: General Stroessner and the senators and deputies for the new parliament were elected

for the 1988-93 period. President Stroessner's government will be based on an economic program that will defend the external and domestic value of the currency and be predicated on the political order established in the 1967 National Constitution as the positive basis for enhanced well-being and social, national and international coexistence.

The Partido Colorado is a political association that was founded in 1887. It has therefore existed for more than 100 years, and it has the greatest voting strength.

I wish to take this opportunity to give a brief overview of the present situation and future prospects of Paraguay's economy.

The Paraguayan economy experienced a promising recovery in 1987, with gross domestic product real growth of 4.3 percent, and forecasts suggest 6 percent growth for 1988. Public revenues also posted a significant increase of 40 percent making it possible to cover expenditures and resume public investment at previous levels. My country's government hopes that with its plans to adjust the tax base in the short term and the improvement in tax collection, in conjunction with proper management of public spending, the nation's budget will be further stabilized.

The external sector showed a healthy improvement in 1987, with a 50 percent increase in exports, comprising mainly cotton, soybeans, timber, and vegetable oils. Forecasts indicate that 1988 will see new advances in exports resulting from increases in cotton and soybean production of 85 percent and 30 percent respectively; such increases would give an estimated harvest of 450,000 tons of cotton and 1.4 million tons of soybeans.

Thanks to the improved export earnings in 1987, there were no problems in meeting external debt payments, or in paying for imported goods and services. International monetary reserves increased by 10 percent in 1987.

In brief, the economic recovery achieved in 1987, and forecast of a higher rate of growth in 1988, added to prospects of a stronger external sector, present a positive short-term picture of Paraguay's economy. This favorable scenario, together with possible adjustments in the tax system, and the prudent handling of monetary control instruments, augur well for sustained growth.

We are aware of Paraguay's limitations as a landlocked commodity exporter exposed to the fluctuations of international market prices, together with the common problems faced by local producers such as climatic factors, financing or competition from neighboring countries with similar products.

However, within the context of the efforts that we, the developing countries, are making to improve our situation, the position adopted by the Inter-American Development Bank regarding the distribution of loans is a matter of special interest to us, bearing in mind that external financing is a dynamizing factor for our economy. It is accordingly appropriate to underscore the need to maintain the principle of equality of access to concessional resources in effect, since this principle protects would-be borrowers against being rejected for unacceptable reasons. We are fully confident that the new management of the Inter-American Development Bank, under Dr. Iglesias' leadership, will properly interpret the aspirations of the developing countries. These countries base their hopes for growth on timely financial assistance from the IDB, which has contributed so effectively to the economic and social development of our countries ever since its foundation in 1960.

This contribution has been made possible thanks to the actively development-oriented and multilateral character of the IDB, and it is on these principles that the continuance of the Bank's role as leader will depend; a role assigned to it by both its founders and the nations it serves.

Finally, my wish for all the peoples of Latin America, here so worthily represented, is that their efforts to attain well-being and progress may continue to be crowned with success; and, once again, I extend to Dr. Enrique Iglesias our best wishes for success in the difficult task of guiding the Inter-American Development Bank through the world of today and tomorrow, and through its activities, steadily furthering the progress of the countries of the region.

**Address by Mr. David de Pury, Governor for Switzerland,  
Ambassador and Delegate of the Swiss Federal Council  
for Trade Agreements**

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On behalf of the Swiss Delegation, let me first express my sincere appreciation to the Government and people of Venezuela for the warm welcome and the hospitality extended to us as well as for the excellent arrangements made in hosting this Annual Meeting of the Inter-American Development Bank and the Inter-American Investment Corporation.

Allow me to take this opportunity to thank Mr. Antonio Ortiz Mena on behalf of my government for his excellent leadership of the IDB since 1971. With regret we have taken note of his decision to resign as IDB President. We are glad that in the person of Mr. Enrique V. Iglesias, a remarkable successor with unique international experience and prestige has been found. His unanimous election, for which I would like to congratulate him again, bears witness to the great confidence of the member countries in his capacities. Despite the enormous challenges the IDB is confronted with, the Swiss Government is convinced that Mr. Iglesias will have a successful period in office provided that we all support him in his difficult task. For my part, I can assure him of Switzerland's continued support for the IDB and the IIC.

**IDB Lending and the Replenishment of IDB Resources**

In 1987, IDB lending was only \$2.361 billion which is 22.3 percent less than it was in 1986. This modest lending resulted in a sharp drop of net disbursements which amounted to \$990 million only, thus corresponding to the level of the IDB's net disbursements in 1980. Moreover, for the first time in IDB history the Bank's net flow of convertible currency to the region has been negative by \$118.4 million. This is a staggering figure.

The continued depreciation of the U.S. dollar during the course of last year led to a substantial reduction in the IDB's borrowing capacity, a problem also faced by other multilateral development banks. At the end of 1987, the IDB's outstanding debt exceeded the sum of the callable capital subscriptions of its non-borrowing members plus the accumulated Special Reserve by about \$100 million. This situation was the consequence of exchange rate movements of almost as large a proportion as the unused borrowing capacity of the Bank at the beginning of 1987 and was not the result of the IDB's borrowing actions. It is in our view unlikely therefore that this uneasy transitional situation will give rise to concerns in the financial markets. The Swiss Government nevertheless very much supports the IDB's intention to restore an appropriate margin of unused borrowing capacity. This traditional policy of financial prudence of the IDB will help ensure the maintenance of the Bank's Triple-A rating. But this policy of prudence implies as we know that in the absence of a capital increase, the Bank will be severely constrained in its new borrowing operations. Consequently, the projected IDB lending capacity for 1988 and 1989 amounts to an average of \$2.4 billion which is about a third less than the average annual lending during the period of the Sixth Replenishment.

This is dramatically insufficient under current economic and social conditions in the region. For five consecutive years now we have witnessed a net transfer of financial resources out of the region. GDP per capita has been stagnating since the beginning of

this decade. The level of investment is totally inadequate in terms of future economic growth and of the creation of so urgently needed new employment opportunities for a fast growing labour force. It is therefore the common responsibility of all IDB members to endow the Bank with substantial additional resources enabling it to assume the tasks for which it has been created.

But as we all know, the main reason for the failure of the negotiations on the Seventh General Increase of IDB resources was the unresolved controversy about the introduction of a new decision-making mechanism. With the regional developing countries and the other nonregional members, Switzerland took the view that any decision-making mechanism must be compatible with the charter of the Bank and with basic principles of multilateral cooperation. Switzerland therefore urges all members to do their utmost that the replenishment negotiations can be resumed and successfully completed in a spirit of multilateral cooperation.

This is not to say that all we need is a capital replenishment. This is not the case. Other elements of the replenishment negotiations are crucially important. The IDB needs to strengthen its country programming in order to generate an adequate project pipeline in accordance with lending priorities. This should be done in close cooperation with the concerned recipient countries. In this context, a reorganization of the Bank is necessary. Moreover, the IDB should continue to increase its operative efficiency, for instance by improving the recruitment procedures of its senior staff.

### **Importance of Social Sector Support**

In many countries of the region, economic adjustment programs aimed at reducing external imbalances and at restoring sustained economic growth have already been under way for a relatively long period. The depreciation of local currencies, the dismissal of employees in the public sector, the abolition of state-controlled prices and other measures taken within these programs have entailed, at least in the short run, considerable hardships for some groups of the population such as the urban poor and the unemployed. The situation of many poor has been further exacerbated by reductions of public expenditures for social infrastructure and by the shortening or elimination of previous subsidies.

The Swiss Government appreciates that a considerable part (17.7 percent) of IDB lending in 1987 was again allocated to social infrastructure projects. But despite this social sector focus, only 41 percent of IDB lending which was subject to distributive analysis was oriented directly to lower-income groups instead of at least half of the lending program as provided for in the Sixth General Increase in the Resources of the Bank. It would be unfair solely to blame the IDB for the non-achievement of the lower-income group target. Its achievement depends first of all on the borrowing government's willingness and capacity to implement poverty-focused projects.

In some countries of the region governments and donors should attach higher importance to the social costs of economic adjustment. This view is based on the following main reasons which I would like to spell out briefly:

A first consideration is that, while there is no doubt that the overwhelming majority of a country's population will in the medium to longer term be better off due to the successful implementation of an economic recovery program, several groups are in the short run adversely affected by some adjustment measures. People suffering from inevitable but intolerable consequences of adjustment, or who will continue to live in absolute poverty despite the improvement of the general economic situation, deserve special attention. Appropriate compensatory measures and projects in their favor are

first and foremost a matter of social justice and humanity. A second general consideration is that the longer unsatisfactory living conditions last, the more expressions of frustration can be expected to increase. This might ultimately jeopardize the economic adjustment sought, and even lead to a relapse into a state of political unrest and economic instability. A third consideration is that improvements of access by poor sections of the population to health care, education, drinking water or other facilities aimed at meeting basic needs have a direct, positive impact on their ability to produce and to earn their living—in economic terms: on productivity and economic growth itself.

## **Environment**

During the last years, Switzerland has closely followed the IDB's measures in the field of environmental protection and the conservation of natural resources. These measures include the adoption of an environmental management policy, the establishment of an Environmental Management Committee to strengthen compliance with the policy, and the systematic inclusion of environmental protection measures in a wide range of Bank projects. Such an environmental policy is exemplary also for other institutions. In May 1987, the Swiss Government participated in the IDB Conference on the Environment. We took note with satisfaction of the environmental consciousness of the IDB staff and also of the growing environmental consciousness of the participants from the borrowing countries. Switzerland will continue to support the IDB's efforts to apply environmental criteria in the selection of projects and to give due consideration to environmental aspects during the whole project cycle.

## **International Trade and Economic Environment**

Before concluding, I would like to add a few words on the importance of an improved world trade and economic environment for the success of all efforts undertaken in favor of renewed economic growth in Latin America.

There is no doubt in my mind that the vital efforts of adjustment undertaken by the Latin American nations themselves, that the efforts of the IDB, the IMF, the World Bank and the international financial community all need a revitalized international economic and trading framework in order to really bear fruit. It is no coincidence if both the erosion, not to say the collapse of the world monetary and the world trading systems and the loss of momentum of world economic growth occurred at about the same time in the mid 1970s.

We need to bring back more discipline, more foresight into the system in order to find our way back to more productive—not speculative—investments and to more trade. There is no way Latin America—and for that matter the world—can recover, if trade does not increase substantially. Surplus countries in Europe and Japan in particular will have to import a lot more goods over the next years to help correct the huge macroeconomic imbalances which are prevailing today. Trade will only increase substantially, if it is submitted to a truly open and dynamic multilateral system.

To restore that system and to extend it to new areas of trade—mainly services and investments, but also agriculture—is what we are trying to achieve in the Uruguay Round of GATT. The GATT system has eroded. Voluntary export restraint agreements, quotas and subsidies of all sorts have mushroomed and have led to a dramatic fragmentation and sectorialization of the world market. It is urgent that this fragmentation of world trade be halted. We the smaller nations have a particular stake in having the rule of multilateral—not bilateral—reciprocity reestablished.

It is vital that we make urgent progress in the Uruguay Round and that one day, in the not too distant future, a new boom of world trade—this time in the largest sense of this word, in a sense including agriculture, services and investments—brings back to us the sustained and dynamic economic growth the world so badly needs to face all its economic challenges.

Let me conclude by expressing our sincere thanks to the Bank's management and staff, for their hard and excellent work which was particularly difficult because of the continuous uncertainty about the outcome of the replenishment negotiations.

**Address by Mr. Bernt H. Lund,  
Alternate Governor for Norway and  
Secretary General of the Ministry of Development Cooperation**

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It is an honor and a great pleasure for me to address you on behalf of my government and the Norwegian delegation. Let me start by expressing my warm gratitude to the people and Government of Venezuela for the generous hospitality extended to us, and to the Bank's Management and staff for their efficient arrangements for this Twenty-Ninth Annual Meeting of the Inter-American Development Bank.

The Bank has played a very important role in the economic and social development of Latin America and the Caribbean over the last 28 years, almost two-thirds of them under the leadership of President Ortiz Mena. I would like to take this opportunity to express my government's appreciation to Mr. Ortiz Mena for his dedicated work for the IDB and development in Latin America over many years.

Equally, I would like to heartily congratulate you, Mr. Iglesias, on your recent election as President of our Institution. This post is indeed very demanding, challenging and important. The issues you are going to be confronted with are daunting given the present serious but also dynamic situation of this region. We are convinced that you have the personal and professional qualities needed to do an excellent job. We know that you have committed yourself to issues that we also think are extremely important, and we look forward very much to cooperating with you in the future.

Rather than try to cover all the important issues that the Bank is facing at present, I will use this occasion to highlight two issues of major concern; namely the urgent need for an increase in the Bank's resources and the critical global environmental situation.

For Latin America and the Caribbean, debt servicing is increasingly draining scarce financial resources from new investments in human resources as well as in plant and equipment. Interest payments to the region's external creditors appear to have been even higher in 1987 than in 1986, and the net transfer of financial resources from the region was negative for a fifth consecutive year. This is an intolerable situation, especially when we know that internal savings constitute a substantial part of resources being transferred from Latin America. In this situation the Bank's ambitions ought to go beyond its important role in economic and social development in Latin America and the Caribbean. Some of the most dramatic imbalances in the world economy exist today within this very region. Private banks and multilateral finance institutions are seeking answers to solve those problems. It could be expected that this Bank with its unique membership structure, could play an active role in this development.

The new dynamic situation in the region at the present time, which is manifested through national democratization efforts as well as a number of regional and subregional cooperation initiatives, requires a substantially increased financing base if the momentum is to be sustained. I am in particular referring to the ongoing peace process in Central America, to which my government is lending its full support. But also in other parts of the region, cooperation efforts are dependent on international support.

At this critical juncture for the region with its huge need for additional financing and innovative solutions, it is very regrettable that the overall lending program of the Bank over the last years has dropped considerably from the peak of \$3.2 billion in 1984 to only \$2.4 billion in 1987. The low lending level in 1987 reflects of course the fact that no agreement was reached during that year on the Seventh General Increase of the Bank's resources.

As I stated a year ago in Miami, my government thinks it is very important that the multilateral character of the Bank is maintained. The fact that the Inter-American Development Bank is a multilateral bank must be properly reflected in its decision making structure. I sincerely regret that it has not been possible to achieve consensus on this very important issue during the past year.

There is indeed a recognition by all member countries of the urgent need for a capital increase. This has become more and more evident and was recently documented once more by Management in its presentation of the prospective resource availabilities and financial conditions of the Bank in 1988-89.

The recent exchange rate movements of the dollar have reduced the Bank's lending capacity substantially. The projected lending program in 1988 and 1989 is slightly higher than in 1987, but still modest. The low level of activity projected for 1988 and 1989 gives rise for concern about the negative net flows of resources for the borrowers vis-à-vis the Bank, and points more than ever to the urgent need for a capital increase to offset the drastic impact of the dollar depreciation.

I sincerely hope that it shall be possible to resume negotiations and work out a satisfactory solution on the Seventh General Increase in the Bank's resources in the very near future. I think that a positive outcome of these negotiations will be of vital importance. Otherwise, I strongly fear that the Bank will fail to play its crucial development role in the region. As strongly as I can, I urge all members of the Bank to further strengthen their efforts and support the new President in this respect.

However, the lack of fresh capital must not paralyze us. We must use the time while we are waiting to study ways and means to make this Bank an even better organization. The choice of ways and means in organizational reform is not unimportant. It can bring about changes in power relations that some would cherish and some would fear. It must be our short term aim to find ways to reduce those fears and let this institution expand along the lines of her old tradition of mutual respect.

In December 1987, the UN General Assembly adopted a resolution on the follow-up of the report from the World Commission on Environment and Development, both by the UN system, other international organizations and by governments.

The overriding message of the report is that the environmental crisis can only be properly managed through a comprehensive program for growth with sustainable development incorporating the environmental dimension. That is to say, economic growth that enhances the resource base rather than degrades it.

While economic development often has been regarded as a danger to the environment, the environmental effects are now in the process of endangering economic and social development. Sustainable growth is necessary to safeguard the resource base and contribute to the alleviation of mass poverty. Mass poverty is in itself an important reason for and result of environmental degradation.

The Bank has been increasingly sensitive to environmental concerns since the approval of the Environmental Management Policy in 1979, and has taken important initiatives to ensure that development in the region is more sustainable and ecologically sound. I believe that the recently adopted nine-point work program for 1987-88 can be a useful basis for the Bank's future work.

However, I would also urge the Bank to integrate the recommendations of the World Commission on Environment and Development in its future implementation of environmental policies and lending practices. In this connection I would like to stress the importance of addressing environmental issues in the context of overall economic policy in addition to integrating environmental measures in individual projects. Sustainable development, meaning that we meet the needs of today without compromising

the ability of future generations to meet their needs, should become a fundamental commitment also for the Inter-American Development Bank.

Economic growth in the developing countries is essential for a sustainable development. In this context, the available resources must be fully utilized.

Women's access to better education and training opportunities, new technologies and to all levels and sectors of the labor market is not only an equity issue. It is also a question of the effective utilization by the region of an enormous productive resource, which can increase productivity and overall economic growth considerably.

I therefore welcome the Bank's recent initiatives in support for women's active participation in the development process, and would like to express my full support for the Bank's new policy on women in development.

I consider an action plan to be of utmost importance and would urge the Bank to develop such a plan as soon as possible. Organizational strengthening in this area would also be required in order to make substantial progress.

Under the leadership of our new President, Mr. Iglesias, I sincerely hope and believe that the Inter-American Development Bank will succeed in solving its present difficulties. This is a great challenge and an extremely important task. The new president and the Bank will certainly have the strong support of my government in these endeavors.

## **Address by Mr. César G. Atala, Governor for Peru and Ambassador of Peru to the United States of America**

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The Bank's current delicate situation and the difficult economic and social circumstances that must be faced by the countries in the region highlight the great importance and significance of the present meeting of the IDB Board of Governors. It is in this forum that we must debate problems of all kinds that affect the economic and social development of our countries, including financial problems. We come here hoping to achieve concerted action between creditor and debtor countries, donors and recipients, to find solutions to our most pressing problems.

Before setting out my country's position with regard to these problems, on behalf of Peru, I wish to bear witness to our gratitude to Mr. Antonio Ortiz Mena for his 17 years of total devotion to the Inter-American Development Bank and the serious, solid and visionary impact of his presidency.

This meeting unquestionably represents a historic milestone in the life of the Bank. We have elected a new president in a truly difficult time for our Institution, at a moment which appears to be the end of one stage and the beginning of a new one that can be both promising and fertile in its consequences for Latin America and the Caribbean. This hope leads us to assure Mr. Enrique V. Iglesias, the President Elect, of our conviction that his qualifications, proven over long and fruitful years of effective public service, his extraordinary negotiating skills and his personal appeal are in themselves full guarantees that he will succeed in directing the IDB, and this success will undoubtedly benefit the whole of our America.

### **Regional Economic Situation**

The economic recession that has been afflicting Latin America for a number of years now with unprecedented gravity, is best expressed in the worrisome statistics showing that the per capita gross domestic product in 1987 barely reached the levels that applied ten years ago.

In recent years the depression has taken on dimensions that have overwhelmed the growth capacity of developing countries. On the one hand lies the problem of the foreign debt, exacerbated by the implications of a technological revolution that has considerably reduced demand by industrialized countries for a large number of exportable materials from the region, and on the other, we have the pernicious effects that derive from negative net financial transfers in the last five years.

Lack of economic growth, the excessive burden of the foreign debt and the financial weakness caused by the negative transfer of resources bring in their wake an unacceptable drop in consumption patterns, low investment levels, increasing use of domestic savings for foreign debt service and constant pressure on the inflation rate.

### **The Peruvian Economic Situation**

The current Peruvian government, at the start of its constitutional term in July 1985, found an economy that was deteriorating rapidly; production was virtually paralyzed; industrial capacity had dropped to levels below 50 percent of full potential, and underemployment and unemployment threatened a serious social breakdown. The foreign debt was not being serviced and national pessimism at the beginning of 1985 had reached truly alarming levels. From the first day of President Garcia's term,

economic policy was aimed at stepping up the use of installed capacity to achieve economic growth rates that would lead to a much needed improvement in the standard of living of Peru's population.

Despite the unfavorable condition of the international economy, thanks to an extraordinary effort, appreciable growth of over 7 percent in the gross national product was achieved in 1986 and 1987. That was a rate much higher than in preceding years.

This satisfactory result, however, could not prevent the consequent pressure on the balance of payments. Higher imports during those two years, especially of machinery, equipment and inputs for industry, mainly necessary due to the inadequate and dependent structure of this sector, were not compensated for by adequate export volumes. This inevitably caused a major drop in international reserves.

To make better use of reserves, it has been necessary to apply economic measures that limit the growth rate of the economy. In a nation whose per capita income is unfortunately low, the difficult dilemma shared by many of our countries of choosing between the need to grow and the imperative of maintaining adequate levels of international reserves becomes even more troublesome.

Peru has chosen the path of selective growth based on a policy of austerity. This policy involves sacrifice, but at the same time takes care to maintain and raise, insofar as possible, the income levels of the least-favored classes, so that the required national sacrifices are apportioned on the basis of very clear criteria of social justice. Peru's economic policy for the coming years will be aimed at increasing exports, encouraging domestic savings and mobilizing foreign savings so as to achieve sustained growth based on more solid structural foundations.

A recently-implemented three-year economic program contains a sharp adjustment in relative economic prices, including the price of fuel and imported foods. Interest and exchange rates have been raised to more realistic levels, without causing any traumatic effects. Steps have been taken to implement fiscal austerity and better tax collection. The minimum wage has been increased to protect the domestic finances of the majority of the population.

This set of measures and those to be taken at future intervals respond to a carefully worked out plan for selective growth which, at the same time, will safeguard adequate levels of international reserves.

### **International Economic Prospects**

At the moment, the prospects for the world economy are not very clear or encouraging for developing countries. It appears that it will be quite some time yet for the effects of the technological revolution to settle to the bottom. It has altered the correlation between economic forces and financial sources that prevailed at the beginning in the 1960s when the IDB inaugurated its activities.

In that period we knew, or thought we knew, what our objectives were in economic development and social progress. We also thought we knew what courses to chart that would lead us to these goals, which from a distance appeared to be more like reflections of life in industrialized countries than the products of the progressive and constant evolution of the socioeconomic realities of our countries. We probably did not see that, given our cultural and historical roots, the development patterns established at that time could not always be adapted without encountering stumbling blocks. But the Bank strove forward and the Bank fulfilled the role assigned to it to a very large extent. It was never more effective than when it succeeded in directing the multilateral and cooperative efforts of its member countries towards an action that is brilliantly and

concisely defined in a paragraph from a speech made by a Governor of the Bank during the April 28, 1966 meeting in Mexico, which I take the liberty of quoting: "Equally important as the financial support received from the Inter-American Development Bank is the catalyzing effect it has produced in our countries by promoting a substantial increase in local investment funds, better approaches to preparing programs and formulating projects and last, providing a stimulus to improve administrative systems. Thus, the necessary cooperation between external aid and internal efforts is underway, which is the keystone of the principles consecrated in the Punta del Este Charter." This quote, gentlemen, is taken from the words of the person who, 22 years later, and once again a governor of the IDB, is presiding today over this meeting with unequalled authority, skill and experience, Mr. Héctor Hurtado.

Almost 30 years have passed since the IDB was founded. The conceptual framework that has served to guide the policies of the IDB all these years not only shows the natural erosion caused by time, but no longer appears to be the most efficient way to absorb the impact of the deep changes caused by the technological revolution of our time, and therefore it must be attuned to the realities and circumstances of the 1990s.

The catalytic and advisory function of the IDB should be stressed in the future. It should be prepared to deepen the cooperative and multilateral nature of its actions. It should also help to establish norms for realistic and proven economic policies, taking care to ensure the development of the creative capacity of the large working class majorities. In them, just as much as in the empresarial group, lies the best potential for a prosperous, creative and unchallengeably democratic region.

This means that the IDB's conceptual frame must be revised. Norms for financing and technical cooperation must be developed based on experience and hard reality, that will lead to economic management which permits and stimulates opportunities for the creation of wealth by and for the benefit of our great impoverished masses. This does not, however, imply that no sacrifices need be made or that responsibility and discipline are not required.

Clearly, the basic concepts on which IDB policies are based must be modernized. They must offer the region, and especially the least developed countries, the most effective path to implement economic and financial measures that favor sustained financial growth, with administrative and fiscal discipline. This would accentuate rather than downplay the development of majority groups and the ability of the poorer classes to create wealth, ensuring that it is distributed more justly and effectively.

We all know that the concepts I have mentioned with respect to the IDB are a matter of prime concern to the President-Elect of the IDB, Mr. Enrique V. Iglesias, as we have heard him say so eloquently and persuasively today. I am fully convinced that he will act vigorously, but thoughtfully, in bringing about the modernization of the IDB and maximizing its efficiency.

It is said that it is always darkest just before dawn.

We would like to suggest to the President-elect that, as soon as he deems feasible, he reopen the dialogue with and among all of the IDB's member countries, to find a way around the impasse that has held up the replenishment of resources. It is my understanding that, to assist the new President in his efforts, consideration might be given to calling a meeting of the Board of Governors of the IDB this year, to discuss the ideas that will have surfaced by then, so that the hope that we all share for a cooperative, multilateral, strong and increasingly effective Inter-American Development Bank will become a reality.

**Address by Mr. Carl-Johan Groth, Alternate Governor for Sweden  
and Assistant Undersecretary for International Development,  
Ministry for Foreign Affairs**

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Let me start by expressing my sincere gratitude to the people and Government of Venezuela for their kind hospitality, and to the Management and staff of the Inter-American Development Bank for their excellent arrangements for this Twenty-Ninth Annual Meeting of the Inter-American Development Bank.

I would also like to take the opportunity to ask our Chairman to convey to Don Antonio Ortiz Mena the Swedish Government's profound gratitude for his outstanding service as President of the Inter-American Development Bank for 17 years.

Let me also wish our President-Elect, Dr. Enrique Iglesias, every success in the important and difficult work before him. I also congratulate him on his inspiring and important inaugural address this morning.

This Annual Meeting of the Inter-American Development Bank is taking place at a time when this institution stands at a crossroads. It is therefore appropriate for us to pause and take stock.

Although the economies of the Latin American and Caribbean countries are potentially dynamic and robust, they have in recent years gone through a period of stagnation and in some cases their gross national product has even declined. Ambitious and effective structural adjustment programs have been put in place—an arduous and painful process. However, it takes time before tangible results in the form of renewed growth can be enjoyed. Thus, a major threat to the ongoing process currently is the risk of exhaustion and frustration.

One of the overriding problems of the region is the problem of foreign debt. This is not only an economic problem but one of major political importance. There is a very clear interdependence—the debt problem affects both the developing countries of the region and the industrialized countries as well as the relationship between these groups. It imposes risks upon the entire international financial system.

We recognize that long-term solutions are necessary and that measures in support of growth-oriented adjustment programs must be intensified and coordinated. The debtor countries themselves must do their part by reducing inflation, adopting realistic exchange rates and interest rate policies as well as increasing and diversifying exports and creating better conditions for foreign and domestic investment.

Furthermore, *credible adjustment measures are necessary to attract additional financing and to stem and reverse capital flight.* A debtor country cannot expect creditors to extend new loans if its own nationals and companies do not have confidence in the policies pursued and the economic outlook ahead.

It is important that the heavy burden of adjustment is not placed on the poorest groups of the population who are already living under harsh conditions. We believe that the IDB has continued to play its proper and traditional role in focusing on the distributional effects of its activities. Long-term social and economic development and growth remains the primary objective and this necessitates particular emphasis on the needs of the poorest member countries and population groups.

With their own financial resources and their policy guidance the IMF, the World Bank group and the IDB have had a fundamental role in supporting the implementation of strong growth-oriented adjustment programs. Furthermore, they have served as a

catalyst for other financial flows to debtor countries. However, we believe that the IDB should play a stronger and more innovative role in different co-financing schemes.

We strongly support a continued leading role for the international financial institutions and see the necessity for increased and even more effective cooperation between them. Joint analysis, consistent policy recommendations and complementarity in support of the debtor nations' adjustment efforts are essential. However, at the same time each institution should retain its particular function and concentrate on areas where it has its relative advantages and particular skills.

Furthermore, it is indispensable that the private banks play a more active role in the debt strategy. A number of innovative financing techniques have recently been evolved with new instruments such as debt conversion, swaps, securitization, etc.—which, taken together, can make worthwhile contributions in individual cases. We believe that this path can be further pursued and developed in joint efforts by the banks and the debtors.

Any solution for the indebted countries is necessarily connected with global trade and global economic development.

The new round of multilateral trade negotiations within the framework of GATT, which was so successfully launched on the Latin American continent under the able auspices of our new President in his former capacity and named after his country, is both an opportunity and a challenge. If protectionist tendencies could be stemmed, the international trading system improved and strengthened, and traditional and new-trade issues tackled, this would indeed benefit all nations, not least the debt-ridden ones. Progress in the Uruguay Round is continuing despite trade frictions and persistent concerns over exchange rate fluctuations and trade imbalances. We must all see to it that this positive development continues and leads to successful results. Sweden is firmly committed to this objective.

In contributing to the future well-being of the region, the IDB will have to give further attention to the environmental aspects in all its activities. The overriding message of the Report of the World Commission on Environment and Development, which was launched last year, is that sustainable development is not possible without a comprehensive program for growth and sound management of the natural resources.

The present situation in Central America warrants a particular comment. The political tensions and conflicts in that region have their roots in economic and social factors that can only be understood if seen in a historical perspective. A peaceful, constructive approach to the problems now, is decisive for the future well-being of the region. The regional leaders are acutely aware of this as is evident in the Peace Agreement of August 7, 1987, concluded between the five Central American Presidents. The Bank should therefore actively pursue work in areas that reinforce these regional efforts among the five countries.

We welcome the important decision to increase the capital resources of the World Bank. However, we regret that the IDB has not yet been given the opportunity to play its full role as has been called for—not least in the context of the Baker initiative. On the contrary, recent financial projections for this institution during 1988 and 1989 indicate an even lower lending capacity than during recent years.

It is a matter of urgency to agree on the outstanding questions that would break the stalemate in the replenishment negotiations. In any government or private enterprise, there must be a constant search for efficiency and adjustment to new circumstances. This also applies to the IDB.

We do not believe that *status quo* would be the right choice in a period when

measures to improve the economic situation in the region cannot wait. Without constructive change we will risk a deterioration of the situation and even greater problems in the future.

Finally, let me express the hope that 1988 will be a year of consensus building in the Bank. We would welcome initiatives by the President-Elect in this spirit. Like others, we would very much expect the IDB to play a vital role in the economic and social development of the region. In order to do so, the IDB needs to retain its character as a truly multilateral development institution equipped with resources commensurate with the problems and needs of the years ahead.

## **Address by Mr. H. Onno Ruding, Governor for the Netherlands and Minister of Finance**

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I should like to say how great a pleasure it is to participate in the Twenty-Ninth Annual Meeting of the Inter-American Development Bank and the Third Annual Meeting of the Inter-American Investment Corporation in this beautiful city of Caracas. I am impressed by the warmth and the generous hospitality of the Venezuelan people and want to express the gratitude of my delegation to the Venezuelan Government.

The departure of Mr. Ortiz Mena is a great loss to the Bank and its member states. I wish to thank him for his achievement during the 17 years that he served as a President in building up the Bank and making it an indispensable element in the development of the region. At the same time I should like to congratulate Mr. Iglesias most warmly over his election. I wish him every success in his new position and I am confident that under his inspiring leadership the Bank will proceed with its efforts to solve its present political, financial and organizational problems.

The IDB should keep on playing a significant role in the development efforts of its borrowing member countries and in the debt strategy. The current debt strategy calls for serious efforts by all the parties involved. The external environment has not always made adjustment easy. Growth in the industrialized countries is likely to continue for the sixth year in succession, but the rate will be modest.

Protectionist policies have restrained export growth while private capital flows to many indebted countries have been stagnant. For growth-oriented adjustment programs to succeed without unduly affecting the standard of living, which has already suffered a heavy toll, sufficient external financing is needed.

The combination of policy advice, technical know-how and financing uniquely qualifies the multilateral development banks for a central role in the current debt strategy. Their essential role in fostering sound adjustment policies and thereby confidence at home and abroad should be stressed.

However, it is with regret that I note the reluctance of the commercial banks to provide net new money to those countries that are engaged in adequate adjustment efforts. I trust that, strengthened by improved reserve positions and making good use of the new instruments produced by the secondary markets, the banks too will shoulder their responsibility. Based on careful analysis of adjustment programs, they should in their own interests be prepared to be forthcoming in particular cases. It cannot be denied, however, that in several cases adjustment efforts are not sufficiently strong or persistent. A major test in this respect is whether one's own population gives a vote of confidence by repatriating capital or, on the contrary, keeps its distance. A substantial capital flight by nationals of indebted countries heavily complicates the solution of the financial problems of these countries. Such a capital flight also creates an obstacle of an almost moral character for officials in developed countries: how to convince their own people that additional official and private capital flows to indebted developing countries are needed while simultaneously an outflow of capital from these countries is taking place.

I find it encouraging that new techniques have been developed by both debtor countries and creditors, such as exit bonds, debt equity swaps and other debt-conversion schemes reflecting market realities. This and other new techniques provide a welcome supplement to the current debt strategy by contributing to the alleviation of

debt burdens, and smoothing the negotiating process between creditors and debtors, to each other's benefit.

Turning to the Seventh Replenishment, it is clear that the break-down in negotiations threatens to paralyze the activities of the IDB. In order to re-establish the IDB as an effective multilateral development bank, it is essential that the IDB be equipped with adequate resources. I sincerely hope that it will be possible to conclude these negotiations successfully in the very near future. This is all the more important in view of the great needs in the Latin American and Caribbean region for both project and non-project financing. As to the latter, I should like to emphasize that cross-coherence with programs and country programming of other institutions should be key elements in non-project lending by regional development banks such as the IDB. In order to build up experience with this type of lending, I consider it essential that the Bank's capacity for macroeconomic and sectoral analyses be improved and that non-project operations be executed in close coordination with the World Bank. Better macroeconomic and sectoral analysis will also benefit the quality of project lending. As to the latter, I should like to stress that lending for specific projects should continue to be the backbone of the Bank's activities.

I venture to say that a substantial increase in the nonregional contribution to the Bank's capital could be an important element in solving the problems that now beset the institution. A larger non-regional capital share would contribute to a more balanced and truly multilateral character of this institution. It would better correspond to the funding of the FSO by the non-regional countries, and could pave the way for further contributions from those countries, including the concept of cofinancing. Reference should also be made to the importance of nonregional capital markets which in 1987 supplied about three-quarters of total borrowings on relatively favorable terms. This also allowed the Bank to maintain a low interest rate on its loans which is clearly to the benefit of the developing member countries. Finally a more even distribution of capital among industrial countries would also improve the system of checks and balances that is so important in ensuring the smooth functioning of multilateral institutions.

After my previous remarks it will come as no surprise to you that I noted with pleasure the amendment to the Regulations to increase the frequency of Annual Meetings in non-regional countries. I consider this as a positive step towards increasing the involvement of non-regional countries in the IDB. That the next Annual Meeting will be the first under this new policy is not a coincidence. Amsterdam is one of the major capital markets in Europe, it is a major source of private market funding for the IDB and the Netherlands is one of the countries that have for a long time consistently exceeded the UN targets for the provision of development financing.

I am pleased to point out that the Dutch government has decided to reinforce development cooperation with certain regions in Latin America. Dutch development cooperation programs in Central American and four Andean countries will be intensified. The Dutch development efforts in these countries will be aimed at the improvement of living conditions of the low-income groups and, we hope, will, especially in the Central American countries, contribute to the peace and democratization process. Given the experience of the IDB in these regions, the Netherlands looks forward to cooperation with the Bank.

With regard to the distributive impact of IDB-lending we noted with regret that the target that 50 percent of lending should benefit low-income groups has not been realized. I should like to call upon the IDB to intensify its efforts to attain this important goal.

The debt problems of many Latin American countries have increased the relevance of non-debt creating financial flows. I therefore warmly welcome the progress made with putting in place the Inter-American Investment Corporation (IIC). I am confident that the IIC will foster private direct investment in medium- and small-scale enterprises, not only with its own resources but also by catalyzing investments from other sources. I am pleased to say that the Netherlands already ratified the IIC treaty a year ago and looks forward to the first IIC operations. The relatively large share of the non-regional countries in the IIC shows our commitment to this institution. We feel that an adequate representation of our countries at senior management level is imperative.

Turning to environmental issues, I note with satisfaction the enhanced activities of the IDB in this area. The appointment of an environmental expert in the Bank's staff and the training courses for staff members are encouraging examples of such activities. As I understand it, these two developments are just a first step in the new environmental work program of the IDB.

Although specific environmental projects are welcome, I consider it imperative that environmental aspects should be integrated in the project cycle of all projects. It is for this reason that the training program for a large number of staff members is very necessary. In addition to incorporation of environmental aspects in all stages of the project cycle, it is important that environmental considerations be given appropriate attention on a meso- and macro-country level in view of a possibly negative impact on the environment as a result of the interaction between various projects.

In my speech I have presented an agenda for action for the IDB. I was very much encouraged by the statement of the President-elect, Mr. Iglesias, in which he mentioned a number of crucial elements for the new policies of the Bank. In particular, I agree with him that change should be brought about without confrontation, in an open dialogue between the institution and its member countries. I share his view that this calls for a reorganization of the Bank. This constructive dialogue should pave the way for a substantial capital increase at short notice.

Mr. Chairman, Governors of the Inter-American Development Bank and the Inter-American Investment Corporation and members of the delegations, next year I hope to welcome you in my country in the city of Amsterdam for the Annual Meetings.

## **Address by Mr. Jean de Rosen, Temporary Alternate Governor for France and Deputy Assistant Secretary, Treasury**

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On behalf of France, I would like first of all to address my warmest thanks and congratulations to the Venezuelan authorities and to the great city of Caracas. Their cordial and outstandingly well organized welcome will enable us to strengthen our bonds and to work better together.

I would also like to pay tribute, once again, to the work accomplished by President Ortiz Mena. Under his leadership, our institution demonstrated great dynamism while building its reputation in the international financial markets. And when problems developed, for reasons that were not, however, attributable to him, Don Antonio Ortiz Mena, with that greatness that is often found in this part of the world, made the ultimate gesture: he left us, in order to spur the necessary surge of action.

I will develop four ideas:

- a. We are confronted today by great needs and some serious difficulties: let us really recognize this.
- b. It is time to concert our efforts.
- c. Let us be more pragmatic.
- d. Let us have confidence in our new President and give him whatever assistance he asks of us.

### **Needs Must be Satisfied and Our Difficulties Surmounted**

Nobody disputes the magnitude of the needs to be met in Latin America: economic needs—growth; financial needs—debt; social needs—stability; and, of course, political needs. They led us to adopt, all of us, in Miami, the goal of a big Inter-American Development Bank with a capital increase of around \$30 billion.

This objective has not been accomplished and today the needs are more pressing. Allow me to quote just a few figures. In 1985, the Bank's commitments from its ordinary capital were down 14 percent compared with the preceding year. In the fall of 1985, the international community adopted, in Seoul, the objective of increased lending by the multilateral development banks particularly to assist the indebted countries of Latin America. However, the following year, in 1986, the Bank's commitments were down 2 percent. Then in 1987, instead of making up the shortfall they posted a pronounced drop of 27 percent. In 1988, according to the Bank's calculations, they will be down again, by over 23 percent.

Specifically, the Bank's commitments from its ordinary capital in 1988 are put at \$1.5 billion, which is less than half the 1984 level. Net disbursements are also lower and net transfers from the Bank are becoming negative in many Latin American countries.

There cannot therefore be any question of deferring the increase of the Bank's capital any longer if major problems are to be avoided. This increase is not just desirable; it has become an urgent necessity.

On our way to this paradoxical result we have, it seems to me, amassed a number of problems related to our methods, which we must now solve:

- a. One is the defeatist complex: have we not often heard—or said ourselves—things like: "In any case, we can't do anything until such and such a political event is over"?
- b. Another related problem is the passivity complex: have we not often heard—or

said ourselves—things like: “Five of them are going to settle this, the rest of us can only sit back and wait”?

- c. A third problem, which is related to the other two, is that of log jams in how the negotiation process operates:
  - (i) Log jams in how it takes place, with what seems like two opposing camps without any bridges between them.
  - (ii) Log jams in attitudes, which are sometimes too rigid and insufficiently open to dialogue, or to the perfectly legitimate constraints of multilateralism.
- d. I'll add another problem: that, finally, of a certain failure to cover all bases: have the negotiations been thoroughly organized? Has every problem been properly identified? Have the procedures been properly defined? What about the schedule? In short, have all the mechanisms needed to make complex negotiations succeed been fine-tuned?

### **It Is Time to Concert Our Efforts**

Let us seek to concert our attitudes, our methods, and probably also our structures:

- a. Our attitudes: allow me to add my voice to those who have called for us to be more open to one another: assert less, listen more, listen to everyone.
- b. Our procedures: let us work together more, let all who are prepared to do so, whether they are regionals or nonregionals, make their contribution to the negotiations. Let us develop contacts between the countries of the three groups, and use all the bridges available.
- c. Our structures: it seems to me that the time has come to consider opening up more capital to the nonregional countries. Today their participation is limited to 7.5 percent. It would be desirable for the institution, following the example of other multilateral development agencies, to also increase the share of its capital held by nonregional countries.

In any case, this list should not take precedence over the primary task, which is to replenish the capital. But at the proper time, it may be the only way of achieving a long-lasting revitalization of the multilateral nature of the Institution.

### **Let Us Be More Pragmatic**

It is, of course, up to the new President to size up requirements, possible solutions and to define the necessary directions.

In this context, I would like to recall here a simple idea that my country had mentioned in Guatemala. Let's not give up on the goal, which France continues to support, of a large Bank whose mandate goes beyond financing projects. My country, furthermore, was one of the first member states to defend the idea of expanding the Bank's activities to include assistance that goes beyond projects. But we must be ready, if necessary, to proceed step by step.

Let us try to reach an initial decision on project financing and on the flexibility of concessionary funds as quickly as possible. This would be a decisive step that would pave the way for deliberating under better conditions.

If we could achieve this, we would be better armed to work together preparing the Bank for the 1990s. But this is a matter for the new President to decide.

### **Let Us Have Confidence in Our New President and Give Him Whatever Assistance He Asks of Us**

The election of Mr. Enrique Iglesias is an exceptional opportunity for the Bank. With

his legendary dynamism, his skills as a mediator, his international economic, financial, political and banking experience, he has all the qualities required to lead the Bank into the future and get the negotiations back on track.

Let us give him our full confidence. Let us provide him with the information and advice he asks of us. Let us follow the working procedures he decides upon. Let us give him full powers to mediate, and if necessary, to arbitrate.

And if we do this, we can affirm that although the Bank has recently gone through a difficult time, the future is in very good hands, which gives us all cause for hope.

**Address by Mr. César Rodríguez Batlle,  
Temporary Alternate Governor for Uruguay and  
Second Vice President of the Bank of Uruguay**

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I am honored to convey to the Governors, the Chairman and the members of the delegations the compliments of my government and those of the members of my country's delegation. I wish to offer special thanks to the Venezuelan government and the people of Caracas for their hospitality and the magnificent efforts they and the Bank staff have made to organize this meeting.

A few weeks ago we bade farewell to Mr. Antonio Ortiz Mena, thanking him for the 17 years he devoted to directing and building up the Bank. We are aware that the changes that have occurred in the economic and social infrastructures of the countries of Latin America and the Caribbean are due, to a large extent, to the work done by the Bank under his leadership.

We cannot conceal the satisfaction we feel over the broad support received for the appointment of our countryman, Mr. Enrique Iglesias, as President of the Bank. We are fully confident that his intellectual qualities and his broad experience will permit him, with support from all, to effect the transformation that our institution requires under the present circumstances. The favorable response to his remarks this morning has served to confirm our optimism in this regard.

I take the liberty of recalling the words of President Sanguinetti on the election of Mr. Iglesias stating that in his opinion, Uruguay was losing a fine foreign minister but America and the international community were gaining an excellent President of the IDB.

In previous meetings, we have outlined the difficult situation that faced our country when the government took office in 1985. Facing a dark picture, the government defined an economic adjustment strategy compatible with growth levels that would permit a reversal of previous trends and allow servicing of the large foreign debt which constituted an additional obstacle to growth.

The foreign debt was renegotiated, with Uruguay committing itself to abide by its contractual obligations, but following a payment timetable compatible with the objective of reactivating the economy. A new agreement was recently signed which, because of the improved conditions it contains, offers the country a favorable horizon for its growth target. At the same time, more realistic—but firm—goals were set for easing the fiscal deficit, which was cut from the initial 10 percent of the gross product to just over 4 percent during 1987.

This downturn in the deficit was achieved by dint of fiscal housecleaning and stringent management. While that entailed a heightening of overall fiscal pressures and a draconian tightening of the government budget, public investment and the social objectives of spending were not neglected. The result was a simultaneous improvement in fiscal results and an increase in public outlays from 3 to 5 percent of the gross product between 1984 and 1987.

A propitious scenario for business and investment was provided by means of a free exchange market and maximum financial and trade liberalization.

Now that three years have elapsed since this strategy was adopted, we are seeing its results. The GDP has climbed steadily and significantly since the middle of 1985, posting a growth of 6 percent in 1986 and 5 percent in 1987.

The economic recovery was reflected in a cutback of more than four percentage

points in the unemployment rate, which fell from 14 percent in 1984 to 9.3 percent in December 1987. At the same time, real average wages rose sharply, achieving a cumulative 30 percent gain over the three-year period.

Foreign trade plays an important part in that strategy. From its inception, special emphasis was placed on boosting exports, for we are convinced of the advantages of a liberalized economy and the necessity of expanding trade opportunities with all of the countries in the world. During the 1986-87 biennium, Uruguay's exports grew by some 30 percent in dollar terms. Opening of the major markets and elimination of protectionist barriers were seminal to the maintenance of this trend.

Inflation has consistently declined throughout this period, to the point where the annual rate is now 50 percent. The projection for 1988 is around 40 percent for the year. All of these developments were also accompanied by a strong upsurge, amounting to roughly \$250 million, in the Central Bank's foreign exchange reserves.

In short, Uruguay's economy has experienced healthy growth since the middle of 1985, paralleled by a gradual decline in the fiscal deficit, substantial gains in Central Bank reserves, and prompt payment of obligations to foreign creditors. All these indicators point to sustained economic growth, enabling us to view the future with optimism.

The government has announced its objectives for 1988, and they reflect the continued strategy of gradual adjustment. The target for growth of the gross product is 4 percent, with a further decline in unemployment. An additional cut in the fiscal shortfall is projected, bringing it down to 3% of the product. Public spending is nevertheless expected to increase, primarily thanks to implementation of some of the programs financed by the IDB.

As we have noted on other occasions, the government places particular importance on the influx of risk capital for the formation of new enterprises. To this end, agreements to protect investment and deal with double taxation have been signed with the Federal Republic of Germany, and similar accords with other countries are now undergoing consideration. In turn, the past year has seen the implementation of legal mechanisms to convert foreign debt into investment in the production sector, and a free zone law calling for industrial development of such investments has been approved.

I would now like to make a few comments on the relationship between our country and the Bank.

As we pointed out at last year's meeting in Miami, our government stands firm on its decision to submit for the Bank's approval those projects that clearly contain elements to stimulate the economy, and whose economic and social provisions call for genuine national development as a whole.

The list of projects we have studied with the Management of the Bank continues to cover directly productive activities as well as support infrastructure. Clearly conservationist projects have been included, and strides have been made in considering investments that will have social repercussions in public health, technical education, and support for municipalities in the provinces.

We continue to view participation of the private sector as vitally important. It plays a fundamental role in economic growth, at the same time seeking to increase technical cooperation to modernize our government's administrative structure.

Over the last three years, thanks to the wholehearted support of the Bank, the total value of projects approved is equal to almost half of the Bank's total operations with Uruguay since its founding.

The government is anxious to develop an organization which can prepare and evaluate projects, and strengthen the means for their execution. Both future prospects

and projects approved in 1987—several of which are already under way—are concrete proof of this concern. Last year's operations with the Bank reached an all-time high.

Our country is convinced, today more than ever, that the Bank has a vital role to play in the region's development. This is why we must overcome our differences with regard to the Seventh Replenishment as soon as possible.

We have searched long and hard for solutions that make the new capital resource amounts, access mechanisms, and terms for granting capital resources, on the one hand, consistent with the degree of conditionality and programming mechanisms governing the use of such capital, on the other. The aim is to find a coherent and functional system which will meet the Bank's objectives.

We are entering a new phase with the election of a new President, and this is a good time to identify creative formulae in the positions being put forward, formulae that will enable us to reach an in-depth solution for the Bank's future. We must pull out all the stops and give our most enthusiastic support as the President embarks upon this course. Success will unquestionably depend on our willingness to dialogue and reach an understanding.

## **ADDRESSES**

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### **THIRD PLENARY SESSION**

**March 22, 1988**

**Address by Mr. Jean-Pierre Arnoldi,  
Temporary Alternate Governor for Belgium and  
Advisor, Treasury Department, Ministry of Finance**

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I have the great pleasure today of addressing, on behalf of Belgium, the Twenty-Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank. To begin with, may I express my warmest thanks to the Venezuelan authorities and to the city of Caracas for the exceptional welcome they have extended to us.

This is the second time since the establishment of the Bank that Venezuela has hosted the Board of Governors. Many changes have taken place in the interval between the two occasions. Caracas is today a major political, cultural and economic metropolis.

More than five years have elapsed since the debt crisis shook the international financial system. Since then, the countries of Latin America and the Caribbean have passed through difficult times characterized by a marked decline of economic growth, a drop in the level of investments and a deterioration of living standards for the most disadvantaged.

Despite severe adjustments designed to reduce the significant domestic and external imbalances while continuing to service their debts, the situation of the countries of the region remains precarious. Their future prospects are uncertain and at the mercy of outside factors over which they have little or no control. However, a certain number of positive signs can be glimpsed, such as an expansion of the volume of world trade over the past year and an improvement in the current account balance. Unfortunately, on the domestic front, there has been an acceleration of inflation which has assumed disturbing dimensions in certain countries.

As to the amount of the debts, this underwent a moderate expansion in 1987 to exceed \$400 billion, i.e. more than one-third of the world debt. Even though the ratio of the debt to exports of goods and services has diminished, it is still twice as high as it was in 1982 at the time the crisis broke. Moreover, these global figures do not take into account the varying circumstances and situations that the Latin American countries have to grapple with.

The two-fold challenge that arose some years ago, namely that of reviving activity in the developing countries while enabling them to work their way out of their indebtedness, is still there. The slowness of the progress made and the uncertainties that persist seem to be leading to a degree of weariness among the heavily indebted countries. In some circles, the question is being asked whether the policies followed up to this point were indeed appropriate and whether their social cost has not been prohibitive. This weariness is probably the most serious danger that threatens us.

I believe that we have to convince ourselves that adjustment adapted to the particular conditions of each country is the basis for recovery. A sustained upturn in economic activity in the industrial countries is not enough, any more than would be an increase in external flows, if at the same time the indebted countries do not implement adjustment measures to permit efficient utilization of domestic and external resources.

A flexible and coordinated approach on the part of all involved remains the best way to ease the debt burden without causing major tears in the socio-economic fabric of the developing countries and to assure a progressive recovery of their growth.

In 1987, an important positive event was the strengthening of policy coordination among the chief industrial countries. The progress made in the course of the first year

regarding multilateral trade negotiations is satisfactory and gives grounds for optimism.

With regard to resource transfers, it ought to be possible, without being drawn once again into excessive use of bank credit as in the past decade, to attain a more systematic allocation of credit based on adjustments and a debt profile that is tolerable in the medium term.

Official development assistance flows on highly concessional terms to Latin America will remain marginal in relation to the total needs, so they should be allocated selectively in order to benefit the most disadvantaged segments.

This situation is a valid reason for strengthening the multilateral institutions, which are the best place to develop their catalytic function by recycling either directly or indirectly the resources of the capital markets.

I am accordingly heartened to observe the general increase in the capital of the World Bank, which has just been submitted to that institution's Board of Governors for approval and will enable it to provide more extensive support to its member countries, in particular those of Latin America.

The Inter-American Development Bank should be in a vanguard position in the cooperative action envisaged. Up to the present, the Bank's activity has been characterized by a two-fold emphasis, concentrating on quantitative expansion of its lending, on the one hand, and on investment projects, especially in the physical infrastructure sector, on the other.

It seems to me that in the future the accent ought to be placed more on qualitative objectives. Greater importance should be assigned to the economic context of the Bank's projects, rather than focusing solely on their technical feasibility and economic and financial return data. The Bank can be more than a financing institution for specific projects.

For 1987, the Bank's report has also confirmed the trends which were already apparent several months ago. The figure for loans approved amounts to no more than \$2,361 million, hence a reduction of over 20 percent compared with the preceding year or a total comparable to the 1980 level. Disbursements have also posted an appreciable drop, with the result that, in global terms, the Bank's net transfers have been negative. The consequences of this development, especially as regards the new relationship that it brings about between the Bank and its borrowers, will have to be carefully examined, the more so since for 1988 at least, the situation hardly seems favorable any more. To remedy this the Bank must be provided with adequate means. We were disappointed by the suspension of negotiations on the *Seventh Replenishment* in the fall of 1987, after these had been under way for a year and a half and when substantial progress had been made on almost all points. We are ready to support any initiative that would make it possible to restart the discussion process on a constructive basis without delay.

I think that a reorganization of the Bank's structures is indispensable and that it should take into account the real contribution of the nonregional countries to the resources that can be made available to it. To this end, the representation of the nonregional countries in its decision-making organs and the staff should be strengthened in accordance with the multilateral character of the institution.

This reorganization ought above all to be aimed at enabling the Bank to assist its members to absorb the shocks of adjustment while continuing to promote their long-term growth. It would be desirable, in accordance with what has already been agreed, to add a new instrument without delay: sector adjustment loans. However, the Bank ought to remain first and foremost an institution for the financing of economic and social development. Nevertheless, for it to be fully efficient, introduction of country

programming based on correct economic choices is an important element. A regular and constructive dialogue between the Bank and its member countries will make it possible to adapt this programming to the changing realities of the situation. To assist the poorer countries of Group C and, especially, D, more systematic recourse to technical cooperation operations regarding project identification and preparation should be envisaged.

I am gratified to note the adoption in 1987 of an explicit policy on women in development which recognizes both the sociological advance that has occurred and their heightened responsibility. I express the hope that the action plan designed to give effective content to this policy will shortly be finalized. Another reason for satisfaction is the priority assigned by the Bank through its operations to protection and improvement of the environment in its member countries. It has adopted a positive attitude in this sphere consistent with the increased interest these days in the links between the environment and development, a point that features in the agenda for the next meeting of the Development Committee.

Our institution is both a development agency and, at the same time, a bank that has to obtain the bulk of its resources on the capital markets. The preservation of its financial standing must remain a priority, to be accomplished in particular by ensuring that the costs it incurs in the performance of its functions are duly reflected in its lending.

The present situation does not allow for any relaxation; it justifies the pursuit of a prudent financial policy that will ensure its solidity, in the interest of its member countries, both borrowers and nonborrowers. I welcome with satisfaction the merging of the two capitals which became effective as of the end of 1987. Besides simplifying the management of the Bank's financial resources, this ought to permit an expansion of the Bank's borrowing capacity provided an adequate solution is found to the question of the present unit of value.

It seems to me that this latter point, and in particular the consequences of the present temporary formula, should be made the subject of an in-depth study with a view to insulating the Bank's capacity, to the extent possible, from exchange rate fluctuations.

In concluding my address, I must not forget to reiterate to the outgoing President of the Bank the Belgian authorities' appreciation of his work at the head of our institution for the past 17 years. During that period the Bank's resources were multiplied by six and the amount of loans approved by four. As the representative of a nonregional country, I will also remember his efforts to bring about the opening of the share capital and thereby to create a new form of partnership in the Bank.

Turning finally to the President-Elect of the Bank, I would first like to repeat to him our sincere congratulations on his election, which is the reflection of his talent, expertise and great competence in the international sphere.

I do not doubt that he will apply his customary energy in his new function in order to enable the Inter-American Development Bank to become the key instrument for the revitalization of the economies of the region's countries and a driving force for their advancement in social progress and for balanced distribution of wealth.

The task awaiting him is ambitious, noble and demanding, but he can count on devoted and qualified staff with great experience in the different problems faced by the countries of the continent. Belgium is prepared to support him fully, to the best of its ability, thereby pursuing the development process in Latin America and the Caribbean through a revitalized Bank.

**Address by Mr. Boris Skapin, Alternate Governor for the  
Socialist Federal Republic of Yugoslavia and  
Assistant Federal Secretary for Finance**

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It is indeed an honor and pleasure for me to address for the first time an annual meeting of this organization on behalf of the Government of the Socialist Federal Republic of Yugoslavia. My delegation wishes to express its gratitude to the Government of Venezuela and the authorities of the city of Caracas for the extraordinary organization of this gathering. We are enjoying the warm hospitality of the capital of Venezuela.

Let me begin by congratulating Mr. Enrique Iglesias on his election to the post of the President of the Bank. The Yugoslav Government intends to support the new president and the management to ensure the successful conduct of the organization in the forthcoming five-year term. Mr. Iglesias will imminently have to face the difficult tasks of adjusting the Institution both to the changes in economic environment, in particular to the circumstances imposed by the non-reduced economic and debt crisis in Latin America and the Caribbean, and to its redefined objectives.

On this occasion I would also like to convey the deepest gratitude of my government to the outgoing long-time leader of the Inter-American Development Bank, the honorable Mr. Antonio Ortiz Mena, for his very successful management of this institution. Due to Mr. Ortiz Mena's visionary views, the Bank during his term, not only made an invaluable contribution to development needs of member countries in the region, but became one of the leading international financial development institutions and gained an enviable credit reputation on international financial markets. During his presidency the Bank opened to nonregional members. By allowing non-American countries to join, the Bank's multilateral character rounded off and its financial potential increased further, at the same time allowing for reciprocal benefits and an expanded mutual collaboration of regional and nonregional member countries. Our appreciation goes as well to Mr. Michael Curtin, Executive Vice President of the Bank.

The international economic and financial environment in 1987 was not favorable for developing countries in Central and South America. The cycle of falling interest rates, so characteristic for several previous years, did not continue in 1986 or thereafter. There was even an ascending trend during last year which was coupled by the October crash of the world stock markets. Although there was a slight decline in interest rates afterwards, this was not enough to return to the lower levels of the preceding years. An immediate effect was, of course, increased interest payments on the foreign debt which also rose for most countries of the region. The net transfer of financial resources to the region has been negative for several years in a row, and is one of the main factors limiting economic growth. First estimates indicate that the annual average growth of the gross national product of these countries was only about 2 percent in 1987.

Thus the circumstances in which the Inter-American Development Bank operated during 1987 were in many respects unfavorable. They were, *inter alia*, strongly affected by the issue and uncertainty of the Bank's Seventh General Increase of Resources. In connection with this, it is necessary to bear in mind the extraordinary difficulties which Latin American countries have been facing for some time in providing the necessary resources for indispensable imports and local contributions needed for disbursement of foreign development loans. Most of the countries are burdened by

high foreign debt service. Under such circumstances the Bank found itself in a very difficult position and almost in a vicious circle.

Last year, the Bank made a major effort to use the available limited resources as rationally as possible and to try to accomplish the main targets set forth by the previous Sixth Replenishment which was actually nearly completed only last year. The available figures however, point to some good results in the Bank's operations. Of special relevance were the following: introduction of flexible mechanisms and instruments in Bank operations which adapt to the users' particular needs, the earmarking of resources in favor of low-income groups of population, more active small-scale project financing, use of complementary loans, and active support for the economic integration of the region—all this combined with permanent technical assistance. It is true that these accomplishments were to some extent affected by a loan volume that was more than 20 percent lower than the preceding year. But, in our view, quantity was compensated for—and could also be compensated for in the future—in many cases by quality and a more rational utilization of available resources.

### **The Future of the Bank**

To begin with, I should like to state that I share in the vision presented to us so ably yesterday by our President-Elect. In our view, the multilateral character of the Bank emanating from its Statute, and the spirit which guides it to accomplishment of the objectives it was established for, have to be further cherished and maintained. The endeavors to maintain the reputation the Bank has acquired on international capital markets and for its increased share in meeting development, economic and social needs of the borrowing countries, require from all members an active support on the one hand, and continued program and organizational innovations of the Bank itself, on the other. Only a balanced combination of both will make the IDB a modern and efficient organization. This way the Bank will be allowed to respond successfully to challenges at this crucial time, to achieve its original and new program objectives and to contribute more significantly to the solution of enormous debt-burden-related problems of the countries in the region. By doing so the Bank will at the same time pave the way for a lasting and sustainable economic growth of its regional developing members. I am convinced that the IDB's role has to be that of the indisputable leader and innovator for promoting and encouraging economic growth in the area.

In conclusion, let me say that we believe that reaching an agreement of member countries on pending issues related to the Seventh Replenishment of Bank resources has to have high priority.

We must express our concern over the time that has elapsed and the fact that the protracted negotiations during numerous meetings held over the past two years failed to give results. I believe we all expect the delays and omissions in the past to be made up for in the present and forthcoming years. Reaching such an agreement and starting to implement it immediately would allow the Bank to basically keep its project financing orientation and to adapt and increase its business activities, while borrowing countries would benefit without unnecessary interruption from additional funds on favorable terms and conditions for their future sectoral and structural adjustment. In addition, by meeting the program targets, the Bank would also significantly contribute to the resolution of the debt problem and to stability and sustainability of the region's growth and development. We are confident that the Bank's top management will respond adequately and in a timely manner to the recommendations for any improvements in the operations and the running of the institution, particularly if policy lending and other activities are further introduced.

Yugoslavia understands the economic problems of Latin America very well, because many of them are problems that our own country is facing. I believe that it would be very useful for the IDB to continue to take part in the Group of 24 Finance Ministers that are meeting again in April in Washington, and in other international organizations that are attempting to find solutions and new approaches to resolve finance and development problems.

Yugoslav companies have an active interest in an increasing economic cooperation of Yugoslavia with its Latin American partners. The Yugoslav Bank for International Economic Cooperation, as well as other financial institutions, are prepared to assist our companies as well as Latin American companies and the Bank in such an orientation.

Finally, I would like to submit the candidacy of my country to host the annual meeting of the Bank in 1991. In doing this I would also like to remind the Management and my fellow Governors that such an offer was put forward at the 1985 meeting, for the 1989 meeting, but Yugoslavia recently and in the final stage agreed to support the Netherlands, the other country that had offered to host that gathering. Also I am sure that the Bank not only wishes to alternate the meetings between regional and nonregional countries, but also give opportunity as well to nonregional developing countries and in particular to those which, despite their limitations, joined the IDB in the first group. Since all Annual Meetings outside the American Continent have been assigned to developed members, this would, I believe, be one more reason in favor of Yugoslavia hosting you in 1991.

**Address by Mr. Roberto B. Saladín Selín, Governor for the Dominican Republic and Governor of the Central Bank**

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I would like to express my sincere gratitude for the kindness and exquisite hospitality extended to us by the Government and people of Venezuela at this Twenty-Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank. Taking part in an event of this nature in the land of the Liberator, Simón Bolívar, clearly assumes a very special significance for us.

His Excellency, Dr. Joaquín Balaguer, Constitutional President of the Dominican Republic, sends through me affectionate greetings to all here and expresses his conviction that this gathering will shape specific initiatives that will assist the region to surmount the serious crisis now prevailing.

Please allow me to use this opportunity as well to express my most heartfelt congratulations to the President-Elect of the IDB, Enrique Iglesias, a Latin American in word and deed, whose leadership will, we trust, be as successful and as fruitful as that of his predecessor, Antonio Ortiz Mena.

Our America is still beset by one of its worst crises. It has become a commonplace to follow this statement with the figures that confirm this sad fact. For that reason we will not weary you with them on this occasion, but will, with your permission, move on to consider not the present characteristics of the statistics for the region as a whole and for the individual nations—which we are all familiar with and which are a matter of concern to us all—but rather the direct context of this disquieting situation of which the statistics are no more than a reflection.

The Latin American nations undertook serious and responsible adjustment programs which compressed their economies to unsustainable levels, while at the same time implementing a titanic export effort which generated a significant volume of reserves that were applied almost in their entirety to service the external debt. We were obliged to place restraints on our economies that virtually extinguished growth, with the resultant political pressures, all for the purpose of reorganizing our economic space in accordance with the requirement imposed by the majority of the international credit institutions.

We then discovered, with deep apprehension, that the outcome of this grim struggle over the past five years has been an increase in the net outflow of capital from the region, a fall in the prices of our main export products, an acceleration of inflation in a context of exchange rate and monetary turbulence, a calamitous fall in our reserves and a marked shortage of the main consumer goods.

With profound concern we observe that many of our governments are virtually unable to meet the growing and varied needs of the poorest segments of their populations. To justify this apprehension it is sufficient to note that on average the quality of life for Latin Americans is now lower than it was ten years ago. For democracy to survive in Latin America and the Caribbean, as survive it must, we will therefore have to grapple resolutely with the pressing problems besetting the region's peoples.

It is moreover clear that we have not stood idly by as this situation has developed. Major initiatives regarding the problems of debt and development have come from our region in the course of the 1980s. Region-wide plans such as the Quito Plan of Action have been drawn up. Despite the setbacks suffered, the integration schemes still offer a

viable alternative. SELA and ECLAC have also participated in the design of significant economic platforms of regional scope.

Nevertheless, the response of the most developed countries to these initiatives and to our countries' adjustment policies has been to raise protectionist barriers, intensify the quota system and increase subsidies for agricultural production, together with other similar practices. These countries have also failed to carry out the commitments assumed at the November 1982 GATT Ministerial Meeting and are continually hardening their positions in that organization regarding the regulation of world trade.

The macroeconomic policies of the chief developed capitalist economies have been reducing their multiplier effects and are not helping to bring about an expansion of our countries' exports. The region's massive export effort has only served to cover debt commitments, unlike what happened in the past when it also financed economic growth.

In another sphere, we note with great concern that certain multilateral financial agencies are posting recurrent positive balances in their transactions with member countries, which are increasingly needing fresh resources to achieve distinctly modest growth rates.

Payment of the external debt is still the primary challenge facing our countries. The fact is that the most resourceful plans devised by prestigious economists of the region and executed by various countries are implacably blocked by an ever-growing debt that threatens to reduce millions of Latin Americans to servitude. Over the past five years we have observed with anguish the weakening of our currencies and the name changes of many currency units. In my country, the Dominican Republic, payment of the debt service absorbed all of our export earnings in the last three years.

Clearly, we cannot continue in this way. We have to identify formulas that will ease this distressing situation. We must do so preferentially by solutions designed to remedy problems of high priority for our countries. In the case of my country, these include the deterioration of the physical environment of the island as a result of the deforestation caused by the systematic pillaging of our forests. Just a few days ago, on March 16 to be precise, on the occasion of a speech we made to representatives of the most influential sectors of our economy, we formally proposed in the presence of the Ambassador of the United States of America accredited to the Dominican Republic that our bilateral debt to that country, amounting currently to US\$811 million if the amounts rescheduled by the Paris Club are included, be converted into a large-scale program to reforest the wooded areas of the country by private companies, both American and Dominican, interested in this activity, by means of a special debt-equity conversion program consistent with the spirit of the general guidelines approved recently by the U.S. Congress to encourage American banks to donate the debts contracted by Latin America for reforestation projects by allowing them to deduct the value of this debt in the secondary market from their tax liabilities.

Regarding the burden that payment of its external debt represents for the Dominican Republic, our President, Dr. Joaquín Balaguer, informed the National Congress as follows in February last when presenting his report on his government's activity in the previous years: "... a country which is not an oil producer and whose export earnings have fluctuated between US\$700 million and US\$800 million, lacks the capacity to meet commitments of such magnitude without paralyzing its economic growth and, what would be even worse, halting work on basic infrastructure facilities for the country's towns and people which, should it come to such a pass, would undoubtedly expose us to serious disruptions of public order or major social disturbances."

We accordingly join with spokesmen of unquestioned standing in the region who

have underscored the necessity of a political dialogue on the debt problem. Many alternatives have been put forward, some of them quite radical, others with a high degree of restraint, depending on the circumstances. Latin America and the Caribbean have the inalienable right to grow. Therefore, any proposal that would bring about an easing of debt payments, that would give us a breathing space to meet the urgent needs of our peoples, deserves and must have our attention.

The adverse situation in which our countries find themselves requires greater and resolute action on the part of an agency such as the IDB which has played a significant role in the financing of important development projects. We consider it right to affirm that this institution, as a development agency, should continue its action adhering unreservedly to the philosophy behind its creation and which was enshrined in its Establishing Agreement, free of new clauses and provisions that would change its essential nature.

If we refrain from introducing changes and continue to observe the rules of the IDB, we will ensure that the Bank remains the agency best suited to support regional growth. An IDB free of strings and conditionalities will remain above the debate and pressures besetting other multilateral financing agencies. An IDB with net transfers of resources to the region is an IDB acting in accordance with its development-promotion philosophy which, notwithstanding its visionary nature, is still realistic and, therefore, necessary for all its member nations.

We reiterate, as do all our sister countries, the need for greater financial support for an institution such as the IDB which performs an important role in imparting momentum to the economies of the region. At the same time, we salute the position adopted by some nonregional countries in increasing their financial support for the Bank on the grounds that economic reactivation of Latin America would be advantageous for all and would dispel the looming shadows of recession that threaten the world economy. This initiative on the part of the countries referred to is all the more commendable in that it does not carry with it specific conditionalities and requirements that might weaken or conflict with the rules and basic principles of our Institution. In this context, we strongly welcome Japan's proposal to establish a Special Fund in the IDB similar to the one set up in the World Bank.

The Inter-American Development Bank today unquestionably constitutes the most successful regional financial mechanism, if one compares it with other similar agencies in the Third World. We accordingly have reservations about the pressures currently being brought to bear to introduce conditions to be met by our countries if they wish to obtain resources from the IDB. In the present circumstances in which the governments of the region are themselves under pressure of just demands for better living standards, we do not consider it wise to open a new front of conditionalities and restrictions on external credit.

We believe that the occasion of the inauguration of a new President of the IDB will prompt active support that will ensure him success. This support must be reflected in greater flexibility in the negotiations on the Seventh Replenishment and the conducting of those negotiations in a climate of harmony and multilateral cooperation.

Our chief responsibility in these moments, with millions of Latin Americans yearning to live with dignity, in peace and under democracy, is implementation of development programs of wide-ranging economic and social impact. It is for precisely this reason that it is necessary that the replenishment of the IDB's resources for the coming four-year period be at a level adequate to ensure that this, our Bank, will continue, as it has to date, honoring its commitment to be the development bank of our

region which, in terms echoing those of the Liberator, is in the sum of its small nations the great fatherland of Bolívar.

I would like to conclude with a formal request. My small country, the Dominican Republic, is legitimately proud of being the cradle of civilization in the New World. It was the starting point of the renowned Spanish conquistadores who sowed the lands of our hemisphere with Christian crosses. We were the site of the first cathedral and of the first university in America, while the ashes of the Great Discoverer repose forever in Santo Domingo, our capital city. For all these reasons, the Dominican Republic is destined to play a particularly important role in the celebrations of the fifth centenary of the discovery of America to be held in 1992. In light of this circumstance and on behalf of the President of the Dominican Republic, Dr. Joaquín Balaguer, I formally request that my country be chosen as the venue of the Annual Meeting of the Board of Governors of the IDB to be held in 1992, as a due mark of recognition of the part played by my country in the epic of the discovery and settlement of America.

In closing, we would like to support the suggestion put forward yesterday by the Governor for Peru that a meeting of the Board of Governors of the IDB be held in the course of this year to discuss the ideas that will have been put forward by that time concerning the future of the organization.

**Address by Mr. Gustavo Petricioli, Governor for  
Mexico and Secretary of Finance and Public Credit**

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We come to this Twenty-Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank unable to conceal our concern over the present situation in Latin America and the Caribbean. Nevertheless, we are reasonably optimistic that the capacity and potential of the region as a whole will give us room to successfully unravel today's economic and social problems in an atmosphere of peace and development.

We are more convinced of this than ever, here in Venezuela, the land of Bolívar, the "Liberator," where genuine Latin American yearnings are awakened to join forces in our search for fairer and more independent development. On behalf of the Mexican delegation, I should like to express our sincere gratitude to the Venezuelan government and people for their warm hospitality.

Felipe Herrera bore the burden of laying the early foundations of this institution. Don Antonio Ortiz Mena took on the stage of development and consolidation. I take this opportunity to express our deepest appreciation to the man whose 17 years of tireless effort and abnegation left the mark of his concern for Latin American economic and social development on each one of our countries.

It is now Enrique Iglesias' turn to offer the institution his extensive experience, ability, and negotiating skills. We feel certain his leadership will lead to the strengthening and modernization of the Bank. Mexico offers him its full support and trust.

These three distinguished Latin American statesmen are standing proof of the ability and concern shared by our peoples to place their best men at the service of the region through the Inter-American Development Bank.

The Board of Governors is also honored to have Mr. Héctor Hurtado as its Chairman. His thorough understanding of the issues before us guarantees the success of the meeting.

Negative factors came together once again in 1987 to paint a dark picture for Latin America and to place freedom and democracy in our societies in jeopardy. This forces us to act imaginatively and intelligently to find and orchestrate authentic, constructive solutions to the problems that beset our nations.

The approval of the Seventh General Increase in Resources is crucial to the present and future of the Inter-American Development Bank. We cannot turn our back on almost 30 years of effort because of positions at odds with the spirit that led to its inception. We must set aside argument over matters of form and focus our attention on substance, such as the level of the Bank's resources and its lending policies. We cannot invert the order of the discussion nor should we undermine the multilateral character of the Bank. This is not negotiable.

Absurdly enough, after five years of little or no growth, very troublesome adjustment efforts, and faced with clearly inadequate development financing, the net flows between our countries and the Bank have moved into the negative column. This is a critical situation per se and one that is unsustainable. It is imperative for the institution to have sufficient resources for continued support of the economic, political, and social development of Latin America and to be able to funnel them into the area on terms and conditions that are in keeping with domestic policies in the region.

In conjunction with the replenishment negotiations, which in all probability will take many months before being completed and sanctioned by the member states, we

request that immediate steps be taken to see that a minimum program of financing is available during 1988 under which transfers of resources to the region and individual countries can be resumed. This is feasible if we combine imagination and sound financial practices to spell out the maximum amounts lendable and relax the conditions governing their use, particularly in terms of the financing matrix and the sectoral constraints applicable to the Fund for Special Operations.

There is no question about how much progress has been made. Nonetheless, the rapid and at times abrupt changes in the world economy make it necessary for the Bank to begin a process of adjustment and modernization in order to be more attuned to conditions in the region.

This means there must be something more than a capital expansion. The increase in resources has to be combined with efforts to give the Bank a decisive role in structural change and development in Latin America and the Caribbean; in the resolution of the debt problem; and in the process of cooperation and regional integration.

A number of countries in the region have initiated major processes of structural change, which the Bank should encourage and intensify.

More than five years have gone by since the onset of the debt crisis and a resolution of the problem is still far off. To be sure, the approach to the problem thus far has kept the world financial system from collapsing, but it has failed to make debt service compatible with acceptable rates of economic growth. This situation is unsustainable for nations with a young population and an expanding work force.

The short-term arrangements that have managed to spare some countries from crisis and confrontation are temporary in nature and highly vulnerable. Even though it might have made sense in 1982 or even in 1985 to take measures mainly aimed at gaining time, this approach is no longer reasonable.

A realistic approach means we must recognize that the debt crisis has acquired a life of its own. Clearly, the developing countries are overindebted and any attempt to find a continuing solution to the problem means that the claims on them must be reduced. The most viable option is the securitization of the external debt of the debtor nations to trade on the secondary market.

Thus far, discounts on the secondary markets have been of limited benefit to the developing countries. Debt-for-equity swaps, first of all, and the more recent Mexican mechanism of debt-for-bond swaps are some of the efforts being made in this direction. Nevertheless, the process must be strengthened and expedited and institutional arrangements developed for widespread use of patterns of this kind.

We stress the need to find a thorough-going solution to the debt problem with all the accountable parties sharing in the effort.

The solution is necessarily tied to the transfer of resources for development and expanded participation of the Latin American countries in international trade.

The Uruguay Round of GATT trade talks has the purpose of linking market access to the payment of financial claims on our countries. Thus far, no specific proposal exists that would give substance to this purpose. The IDB might be able to offer us some options in this area.

In addition to a leading role in the debt problem, it would seem necessary that the Bank focus its attention, efforts, and resources first and foremost in the following areas, with a view to strengthening its activities in support of development:

- (1) Regional integration demands a new dimension to make it more dynamic.

This means we need to strengthen the Institute for Latin American Integration (INTAL) and avoid changes in its budgetary practices that might interfere in

the fulfillment of its objectives. As a basic part of this process, the IDB must contribute to the expansion of intraregional trade, which has waned as a result of the adjustment efforts made by the countries in the region.

- (2) Restoring growth in trade between Latin American countries has been seriously hampered by the lack of uniform tariffs within the region. The IDB has to take a major role in finding solutions to this problem, and avail itself of the support and experience of other regional organizations such as SELA and the ECLAC. For example, use should be made of the secondary-market discount on Latin American debt as a payment mechanism for intraregional trade and as a formula for the settling of obligations between us.
- (3) As part of the process of structural change in Latin America, our export sector needs to be strengthened. To do this, the IDB will have to take advantage of the efforts of the Latin American Export Bank (BLADEX) and enterprises specializing in foreign trade such as LATINEQUIP to support its work.
- (4) The Bank has an important role to play in strengthening economic and financial relations between Latin America and the United States. This means that the Bank has to engage itself actively in the many and varied forums and levels at which decisions are made and public opinion is formed that exist in such a complex and pluralistic society as that of the United States. The IDB has to serve as a channel of communication, as an authoritative and indispensable voice to be consulted with by these centers of decision and public opinion. Similar work also needs to be done in the Bank's nonregional member countries, where there is often a lack of information but an interest in helping resolve Latin America's problems. In this regard, I would cite in particular the interest being taken by the Japanese Government at this time in supporting the development of the region.
- (5) The Inter-American Investment Corporation has to become a dynamic player that ties together financing, trade, and investment. It is therefore vital that the Corporation begin its operations as soon as possible.
- (6) Cooperation and regional integration have to receive the necessary support from the IDB in order to breathe lasting life into the variety of initiatives that have been put forward at the highest level. This pertains not only to innovative integration processes, but also to decisions which will benefit the least developed countries and specific areas that demand the support of the international community.

In this context, we wish to announce the launching of the Mexican Economic and Financial Cooperation Program for Central America. Later today, documents formalizing the following actions will be signed.

- (a) A \$50 million replenishment for the financial cooperation agreement between Mexico and the Central American Bank for Economic Integration (CABEI), as further support for the execution of development projects by Mexican firms, using the resources of the San José Agreement.
- (b) A technical cooperation agreement between the Mexican entity *Nacional Financiera* and CABEI, to assist the latter in the Central American Industrial Recovery Program.
- (c) A technical cooperation agreement between Mexico's *Banco Nacional de Comercio Exterior* and CABEI, in support of the Program to Promote Nontraditional Central American Exports.
- (d) A study grant program to provide Central Americans with opportunities for professional development in Mexico, by providing resources from the Fund

for Central American Economic and Social Development, set up within CABEL.

In addition, the program provides for the following steps to be taken in the near future:

- (e) The creation of a revolving fund for up to \$65 million, to provide special financing, in Mexican pesos, for Mexican importers of Central American products, with the aim of reducing Central America's present trade imbalance with Mexico.
- (f) The signing of a technical assistance agreement between Mexico and the Economic Commission for Latin America and the Caribbean with respect to the external debt, using resources of the United Nations Development Programme, in support of Central America. This effort will be conducted within the framework of a commission that we will set up with the Central American countries to look at the issue of external debt. Cooperation between the Latin American countries in this area, based on the principles of solidarity and mutual benefit, offers great potential. I am pleased to report that as a specific result of these efforts, we will today be signing with Costa Rica a restructuring of that country's debt with Mexico. In this operation, advantage will be taken of the secondary-market discount, to the benefit of both countries.
- (g) The conclusion of an agreement between the Government of Mexico, the UNDP, ECLAC, and UNIDO, to identify and promote projects in Central America, utilizing the resources of the Mexico-CABEL agreement.
- (h) The formalization of an agreement between the Government of Mexico, ECLAC, CADESCA, and CABEL so that, utilizing the resources of the Mexico-CABEL agreement, impetus can be given to the financing of agricultural projects in Central America, including projects that are geared to exports to Mexico.
- (i) The signing of a technical cooperation agreement with the Permanent Secretariat of the General Treaty on Central American Economic Integration, as a means of helping to re-establish the Central American Common Market.
- (j) We have instructed our Executive Director at the IDB to ask Management to draw up a proposal defining the role that our Bank should play in solving the Central American countries' debt problem, and to include this proposal as an ongoing activity within the Bank's objectives.

This program ties in with our view that we have to support development processes if we are to prevent the deterioration of social and political structures and ensure that tensions are not created which might give rise to further domestic conflict or conflict between the countries in the region.

We urge the international community to take part in this effort.

Despite the seriousness of the crisis in which most of the countries in the region find themselves, we have not become discouraged, for we are convinced that our peoples have the capacity and will to overcome present circumstances and lay the foundations that will enable us to realize Bolívar's dream of Latin American greatness.

We firmly believe that the Bank has a fundamental role to play in this process. We are fully committed to continue supporting it. To strengthen it as the focal point of Latin American development is a task in which we all must persevere.

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

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Let me start by extending our appreciation to the people and Government of Venezuela for the warm hospitality offered to the visitors assembled here at the 29th Annual Meeting of the Board of Governors of the Inter-American Development Bank and Third Annual Meeting of the Board of the Governors of the Inter-American Investment Corporation, to discuss the recent past and the future of Latin America and the Inter-American Development Bank in these difficult times for both our hemisphere and our prime regional lending institution.

This meeting finds us in a state of transition between the 17-year presidency of Mr. Antonio Ortiz Mena, which clearly left its imprint on Latin America through his tireless efforts to fully realize the multilateral concept of the Bank, and the assumption of office by a new President of the Bank, Mr. Enrique Iglesias. We wish him success at the helm of our regional lending institution, which is caught up in the economic and political difficulties typical of the times in which we live. As it did with his predecessor, the Government of Panama pledges its firm support for efforts to strengthen the Bank and its role as a means of fostering regional development and technical cooperation.

The Annual Report summarizes the activities of the Bank during the past year of operations. As in the two earlier years, it reflects substantial reductions both in the volume of loan operations approved and in the volume of disbursement made to the borrowing countries. Lending approved by the Bank in fiscal year 1987 amounted to \$2,361 million, nominally the lowest amount authorized in the present decade, with the exception of the year 1980. This should not be viewed as a mere comparative reference but rather irrefutable proof of the difficulties being experienced in the region in putting forth loan operations and, to some extent perhaps, a more conservative posture on the part of the Bank given present-day conditions both inside and outside the institution.

Disbursements by the Bank in the past fiscal year totaled \$1.919 million, or 84.7 percent of the amount disbursed in the immediately preceding year. This was the lowest level of disbursement by the Bank in four years. Needless to say, the problems of development and well-being can hardly be resolved if the pace of resources targeted to the region slows down, particularly for programs that affect the groups of lesser developed countries with their more limited access to the capital markets.

This meeting of Governors must once again recognize that the problems of Latin American indebtedness have yet to be settled in a manner satisfactory to the parties involved. The sluggish pace of disbursements is not merely a reflection of slower growth rates in the regional economies and the difficulties associated with obtaining counterpart resources, either through exports or in some other way. It is also a reflection of difficulties in obtaining fresh credits and the limited possibilities for cofinancing. The pressure exerted by the net outflows of foreign exchange from the region to the more developed countries, in the form of both cash and debt service, undermines the political foundations of our countries. Furthermore, there is a need that can no longer be postponed to satisfy the region's demand for imported raw materials and inputs for local production, which represents an additional drain on resources. Finding a way to break this vicious circle may in the long run be the only way to attack a discussion of the debt that will set both creditor and debtor countries back on the path of development, which is so vital to our countries.

Technical cooperation projects totaled \$47 million, which is more in line with the

levels attained in this decade. Our delegation was alarmed by the fact that technical cooperation disbursements dropped by one-half during 1986 since it was concerned they would follow a trend similar to that of loan operations. The continent is grappling with very serious development problems for the future which, in part, reflect difficulties associated with technological and structural lags. Therefore, the technical cooperation that flows from Bank operations is of crucial importance. The means of production must be adapted to a changing world if the challenges of the future are to be tackled. We cannot speak of competitiveness in export markets if the Latin American production apparatus is unable to make this technological leap. We repeat the concern we have expressed on previous occasions with even more urgency today.

The matter of the Seventh Replenishment of Bank funds is cause for a certain amount of frustration and discouragement. After almost two years of discussions, the positions adopted seem to be irreconcilable and it increasingly appears that the situation is insoluble unless an unshakable will exists to fortify the institution. The new President of the Bank will find this to be the first and greatest challenge of his mandate.

From the outset, the concomitant factors in this replenishment have been the amount, levels of access, and the participation by the least developed countries that have limited access to capital markets. Some degree of agreement may be reached on sectorial and certain other programs through discussion and dialogue. However, these all take second place to the principle of multilateralism which is the very essence of the Inter-American Development Bank and the subject around which discussion of the Bank has centered. Talk is not about the replenishment in itself, but of preservation of the concept of multilateralism which determines the nature of the Inter-American Development Bank. The importance of preserving this principle cannot be overstated. There can be no regional development bank that is not rooted in this principle. Bilateralism, for its part, has its own character and there are structures of this kind that function outside this Bank; their existence obeys another concept and they serve a different purpose. The coexistence of multiple mechanisms for financing development and investment, this diversity of financing agencies, is necessary and appropriate. It is unacceptable to eliminate multilateral financing mechanisms in order to concentrate exclusively on bilateral mechanisms.

In an increasingly interdependent world, the larger countries must treat the smaller countries with respect and as equals. They must recognize that we are different, although we have a common objective. They must recognize that these differences enrich the possibilities of relations between peoples. Therefore, to balance the power between those who can do more with their possibilities and those who have less, it is necessary for mechanisms like the Inter-American Development Bank to maintain their multilateral structure unaltered, keeping it at least at current levels.

The differences between some of us should not be allowed to scuttle relations between all of us. In this sense, multilateralism is of vital importance. Recent Panamanian experience shows why it must be thus.

In recent months technical and financial assistance to Panama has been suspended, both by bilateral organizations and multilateral organizations that have taken similar positions, retention of payments due to Panama under Canal agreements, the embargo and freezing of the accounts used by the Panamanian banking system for international operations. All these actions have totally paralyzed the Panamanian economy. The service economy that characterizes Panama is not a phenomenon exclusive to this century. It is the role that Panama has been called upon to play for over 400 years, and since the Spanish conquest it has been a place of transit and international trade. To attack the very structure of an economic system is to condemn a society to permanent

impoverishment. This is not an action against a government, it is an action against a people and the resources that have historically represented its basis for development and well-being.

The Inter-American Development Bank, therefore, cannot and will not be able to fulfill its commitment as a financial arm for development of the region unless the structure of its decisions reflects the structure of its shareholders, under the principle of financial support for development. The development of peoples is a right that takes priority over differences between governments. The bilateral instruments already in existence do not require an Inter-American Bank controlled by a few, but rather a Bank that reflects the views of the region it serves and is nourished by our individual characteristics so that it can act more effectively. Otherwise, the Bank would be an instrument of the past. We Panamanians are confident that this will not be its destiny and that the grounds that unite us will prevail over the interests of the few. In this conviction, we view the future with optimism.

**Address by Mr. Juan Sommer, Temporary Alternate Governor for  
Argentina and Undersecretary for Economic Policy,  
Ministry of Economic Affairs**

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On behalf of the Government of the Argentine Republic I would like to convey our fraternal greetings to all the representatives of the regional and nonregional governments at this Meeting of the Board of Governors, together with our gratitude to the people and authorities of this city for their kind welcome.

I would also like to use this opportunity to publicly acknowledge the work done for the region and our country by Mr. Antonio Ortiz Mena, and at the same time to greet the new President-Elect of the IDB, Mr. Enrique Iglesias, wishing him the best of success in his new and difficult task of directing the destinies of our regional bank.

The present international climate still offers little promise for the developing countries. Because of this, the results of the efforts made by the countries of the region to adjust and reorder their economies have been unsatisfactory.

In 1987, the growth of the region's gross domestic product continued to slow, amounting to no more than 2.6 percent, i.e. a per capita increase of just one-half percent.

The Latin American economy is still operating in a context where international economic and financial relations prevail that condition both the present well-being and the future prospects of our peoples.

Our economies continue to be affected by the burden of servicing the external debt and by the impact of the low prices for our exports on the terms of trade, through which our capacity for growth is limited. A similar effect is produced by the subsidies for products that compete with those of this region, together with the protectionist practices applied by the industrial countries and the slow growth of the world economy. This notwithstanding the fact that some progress has been achieved within the framework of international cooperation in the quest for solutions to certain of the disequilibria that have built up in the world economy.

The combination of the adjustment efforts of the indebted countries and the impact of the above-mentioned exogenous factors results in a continual transfer of real resources from the indebted countries to the industrial nations.

In this unfavorable world context, Argentina is continuing to strive to achieve sustained growth of its economy. To this end we are tackling the cyclical problems while at the same time laying the foundations for implementing far-reaching reforms that will ensure the continuity of the efforts that are being put forth. In the short term, economic policy is aimed at finding solutions to the domestic and external disequilibria that generate inflationary pressures which complicate the growth process. The recent implementation of policies designed to reduce the public deficit falls into this category. Steps have also been taken to strengthen the external sector which, in 1987, suffered a significant deterioration on account of the fall in prices for our exports, the smaller grain harvests due to the floods and the rise in imports, particularly of capital goods.

However, the short-term efforts would be frustrated if no progress is made in the reform of the Argentine economy's productive structure.

This is the objective of the Argentine Government's policies on integration of the country's economy with the rest of the world and on structural reform of the State. The policies implemented will enable the Argentine economy to tie in with the rest of the world through growth of the country's exports. The search for new markets is

complemented by advances in the integration process with Brazil. As regards reform of the State, the government has made progress in the deregulation of the economy, the demonopolization of activities carried out by public enterprises and the privatization of public enterprises. With these measures the government is endeavoring to foster investment, which is currently limited by the fiscal situation and the scarcity of financing.

The Argentine Government will continue with this reform process. However, it must be understood that these reforms can only help bring about an acceleration of growth if, at the same time they are implemented, stable and lasting solutions to the external debt problem are devised.

Almost six years have passed since the debt crisis broke. During this period the debtors have made great efforts which have helped to avert a collapse of the international financial system. From that angle the results have been positive.

Today the true scale of the crisis is much better understood. It is also generally felt that the strategy followed was not capable of resolving the most pressing problems besetting debtors and creditors. To surmount these, measures are called for that will make it possible to bring about that which has so often been stated and acknowledged to be the sole means for resolving the external debt problem, namely growth of the indebted countries.

For this to be accomplished new approaches must be found through negotiation and coordination, in order to assure the success of the efforts currently being made by the debtor countries.

These approaches must, in the first place, drop the "short-leash" policy and extend the horizon of debt negotiation in order to drastically reduce the costs of the uncertainty directly associated with the procedures for implementing the negotiation processes. The present procedures of continuous negotiations produce brusque changes which shorten the horizon necessary for planning and carrying out investments.

Secondly, mechanisms must be put in place which, based on a realistic approach to the matter as already evinced in the secondary market, will bring about an easing of debt service payments.

We are convinced that these proposals form part of the right approach in view of the magnitude of the problem we have to deal with and that their application will prove beneficial to debtors and creditors alike.

The international agencies have a fundamental role to play in the search for and implementation of these solutions. It is therefore natural that the countries of the region should exercise their legitimate right to require these institutions to play an active and positive part, in particular those such as the IDB which have been created by us all.

When we take a look at the role played by the IDB recently and the immediate prospects, we have to conclude that it is not contributing to the solution of our problems and in fact forms part of them.

Loans authorized in 1987 total less than the amounts for the previous two years. If this trend continues, Argentina will have negative resource flows of the order of \$450 million in the next four-year period. However, Argentina is not an isolated case. In the same period, the negative transfer of Argentina, Brazil and Mexico together will exceed \$2 billion. We also note that the IDB has not been involved in the efforts our countries are making in the external negotiation process.

This situation must not and cannot be allowed to come about. It is not acceptable for Argentina, and I am sure that the other countries share this view. It is time for us to think about what is happening but also for us to act.

In this connection and bearing in mind that the chief purpose of the Bank is to

promote development, it is clear that if we want to move ahead from pronouncements to practice, the Bank's capital will have to be increased. Only if this is done will it be able to play an active role, through substantially increasing its lending programs and thereby providing a part of the external resources needed to bring about sustained growth of the countries of the region.

The pressing problems of our countries need temporary solutions until such time as agreement is reached on increasing the Bank's capital. Alternatives must be envisaged that will make it possible to significantly increase the Bank's lending program based on recycling of the considerable resources available to it. We must and can authorize their utilization without this impairing the financial and institutional strength of the IDB.

The parameters regarding the distribution of the loans and the present policy on cancellations must be maintained.

It is also necessary to introduce flexibility into the use of the concessional resources available to us, thereby eliminating the paradoxical situation of having resources on hand for the least developed borrower countries which they are unable to use.

This greater flexibility should also include raising of the so-called "matrix" to bring it up to the levels prevailing in other international agencies.

In this new stage the Bank will have to expand its operating methods, adapting them to the problems that the indebted countries presently have. To this end, the power to grant sector loans should be included. This is not to say that the Bank should move away from its fundamental activity, i.e. the financing of specific projects, but that it should also be possible for more program-oriented loans to be considered and for them to be converted into quicker disbursing operations.

This expansion of the Bank's operating methods must, of course, be based on priorities and combinations sovereignly determined by each of the borrower countries in accordance with their respective development strategies.

In addition, this new stage will also unquestionably have to include a commitment to strengthen the Bank, both in its organizational and operating structure and in its creditworthiness, so that it may carry out its function of supporting the financing and development of our countries.

The objective of the changes in its form and methods must be to enhance the efficiency of the use of its resources and to provide greater benefits for the member countries, while at the same time shaping a more solid and flexible bank capable of responding to the growing and changing needs that arise in the development process.

Finally, we reaffirm the importance of the integration efforts for the economic development of our countries. The IDB was intended to be the bank for the integration and development of Latin America. Throughout its 27 years of existence it has been providing support for the integration processes and, particularly, the mechanisms designed to implement them. We accordingly continue to resolutely support the consolidation of INTAL.

In conclusion, I would like to restate once again here a position that is fundamental for Argentina: the decision to grow is unrenounceable. We will continue to strive constructively and responsibly for an equitable international economic order in which development is genuinely a shared experience. I trust that under its new leadership the IDB will play an active role in this process.

**Address by Mr. Winston Dookeran, Alternate Governor for  
Trinidad and Tobago and Minister of Planning and Mobilization,  
on behalf of the English-Speaking Caribbean Countries**

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On behalf of the Delegations of the Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago, I am honored to address you on the occasion of the Twenty-Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Third Annual Meeting of the Inter-American Investment Corporation. We are grateful to the government and people of Venezuela for the excellent arrangements which have been made for these meetings, and for their warm hospitality.

I wish to place on record our sincere appreciation to our past President, Mr. Antonio Ortiz Mena, for his 17 years of dedicated service in the promotion of the social and economic well-being of the countries of Latin America and the Caribbean.

I would like, also, to express a special welcome to our incoming President, Mr. Enrique Iglesias. Mr. Iglesias brings to our Institution a wealth of international and development experience which we feel sure will contribute immeasurably to its operations. We have every confidence that under his leadership, the Inter-American Development Bank will further enhance its role as one of the pivotal forces in the development of the region.

During the past year, the global economy continued to demonstrate a number of structural weaknesses. Despite attempts by the authorities of the OECD countries to improve the coordination of their policies, serious macroeconomic imbalances persist in these economies which could lead to a renewed cycle of inflation. Thus, while the major OECD members have achieved a measure of stable growth, in the recent past, the transmission impulse of that growth has been weak, and has been insufficient to lift the economies of the developing world fully from the deep recession of the 1980s. In fact, in some quarters there is a renewed fear that recessionary conditions will emerge again in the not too distant future.

The recent tremors of the principal stock exchanges of the world, have provided further proof of the nervous anxiety which has characterized the international market place in the present decade. Such volatility in turn has significant repercussions on developments in countries such as those of our region and therefore on our ability to achieve resilient economic growth. In addition, mounting protectionism adversely affects the emergence of an open international trading system, and so poses real roadblocks for the resumption of growth and the correction of external imbalances in the economies of the developing world.

Although the burden of the external debt in the region has caused serious stress to the international financial system, the early fears have now given way to new approaches. In these approaches mere adherence to narrowly defined loan service financial obligations may deprive industrial countries of important markets in the Third World and so encourage an overall contraction in world trade, employment and income. The situation calls for new positive instruments that will support growth and the expansion of world trade, as the solution to the debt problem is closely linked to the dynamics of growing economies.

**Economic Performance in Latin America and the Caribbean**

During the past year, the countries of Latin America and the Caribbean continued to be affected by the severe economic situation which emerged at the beginning of this

decade. A general feature of the performance of these economies was the decline in their growth rates from the levels achieved in the previous year. Moreover, inflation which had fallen in 1986 began to accelerate once more. In addition, while there has been some improvement in the external accounts of the region, this was the result of the limited recovery in the international prices of petroleum, minerals, and other basic commodities, on the one hand, and the rapid growth of exports of manufactures on the other. Also, the overall external trade position of the region has been influenced to a significant degree by the performance of the largest countries, Brazil, Mexico, and Venezuela, where policies of export expansion have been complemented by conscious attempts to contain the growth of imports.

On an individual country basis, the economic performance of the past year reveals the marked diversity of the region. Success therefore in fashioning appropriate policy responses to the uncertainties of the external environment, against the reality of restricted domestic resource situation, continued to be varied. With respect to the Caribbean, which experienced modest growth during 1987, the performance of Jamaica in turning its economy around, after a long and difficult period of adjustment, is an encouraging sign.

In the case of my own country, Trinidad and Tobago, which has experienced a fall in real output since the decline of the oil sector, major economic measures have been adopted in order to stabilize the economy, diversify its base and set its recovery in motion.

However, the efforts of the Caribbean region to revitalize their economies could be severely frustrated by global economic developments. The continued softness in the international prices of products in our traditional export sector, despite the improved performance in tourism, places severe pressure on our foreign exchange earnings capacity.

As we have noted on previous occasions, the governments of the Caribbean Group are deeply committed to building modern and dynamic economies in their countries which would fulfill the development aspirations of their people. This task can be assisted if supported by appropriate levels of external financial and technical assistance. The curtailment of access to the resources of other multilateral institutions and the reduction in the levels of support from traditional bilateral donors have led to increasing resort to the Inter-American Development Bank as our major source of official development financing.

### **Performance of the Bank in 1987**

In 1987, the Bank, under its general lending program, processed loans to a value of approximately \$2.4 billion. However, this outcome fell far short of initial projections and was significantly below the \$3 billion figure achieved in 1986. The major constraint on the lending program for 1987 was the absence of agreement on a Seventh General Increase in the Bank's Resources. While the assured availability of new resources is vital to a sustained lending program, there are other factors in the operations of the Bank that appear to have inhibited a more expeditious processing of loans. At the moment, all loan applications are subject to the same processes notwithstanding the sums involved. We believe that there is need for greater flexibility by the Bank's Management in the processing of loans and that appropriate adjustments might be instituted for accelerating the approval process in respect to smaller loans.

We are also concerned that the Bank has been unable to respond effectively to the needs of those member countries that have suffered most severely from the impact of

international economic adjustments. During 1987, concessional lending to the Group C and D countries increased only marginally and total Bank lending to those countries declined. In fact the Caribbean countries in particular are concerned that they are not receiving a proportionate share of the lending resources of the Bank. Many countries within these groups received no new loans in 1987. It is not sufficient to advance the argument that the real problem here is weak pipelines. If this is so, then we must devise a strategy as quickly as possible to ensure that the situation will not prevail through 1988. In this regard, it is incumbent on both the borrower and the Bank to address in a co-ordinated fashion the existing institutional weaknesses in the recipient countries which to some extent gave rise to the problem and which, if not resolved, will continue to limit the absorptive capacity of the borrowing member countries.

An important factor warranting the urgent attention of the Bank relates to the level of the counterpart funding requirement of the Bank's loans to our countries, a component which also varies according to sector. In the face of the limited availability of foreign exchange earnings, after debt service repayments, the amount of project costs which the borrower may be required to finance may present a major constraint on implementation. The existence of this constraint only serves to diminish the capacity of the borrowing member country to access financing from the Bank, and in effect reduces its potential to resuscitate its economy. It is therefore my constituency's view that the matrix as provided by the Bank's current policy should be raised to a more accommodating and flexible level in respect to all sectors, as suggested in the proposals put forward by Management.

Another issue to which I wish to draw attention at this time relates to the use of the concessional resources of the Bank. It would be in our best interest if Management is supported in their efforts to create greater flexibility for Group C and D countries, to access these resources. During the course of the Sixth Replenishment, a decision was made to permit a greater degree of flexibility to the Group C and D members in their access to concessional resources of the Bank. However, the practical implementation of those proposals has been constrained by interpretations which limit the effective use of those resources by our countries. While there is substantial agreement that a more liberal interpretation of the expanded criteria for the use of concessional resources is required to enable member countries to benefit from this availability, a specific decision has to be made by our Governors on this matter. There is very good reason, therefore, to make such a determination in the absence of the conclusion of the Seventh Replenishment negotiations.

I turn now to the area of technical cooperation. I am particularly pleased with the Bank's efforts in 1987 to provide such cooperation in support of the development thrust of its member countries.

The Caribbean Group supports the early implementation of the proposals that have been made to permit a quicker response to requests from our countries for assistance under the technical cooperation program of the Bank. These proposals are of specific interest to our Group since they offer the possibility of correcting existing deficiencies and delays in the provision of technical cooperation which is intended to facilitate the process of project preparation.

Moreover, the Bank is to be commended also for its added focus on the enhancement of the role of women and the Small Projects Program. Under this Program, some 19 operations at a cost of \$8.5 million were financed. This figure while appearing quite small had a distribution impact that affected some 90,000 low-income farmers, small-scale entrepreneurs, craftpersons and similar groups within the region. My constituency recognizes the vast potential of these groups in respect of their ability to assist in

the transformation of the economies of the region and would support any acceptable measures geared to expanding this Program.

### **Outlook of the Bank in Light of the Failure of the Seventh Replenishment Negotiations**

World economic events over the last year have dealt a severe blow to the Bank's lending and borrowing capacity. The depreciation of the U.S. dollar completely eliminated the Bank's unused borrowing capacity. We have been informed also that even without further depreciation of the U.S. dollar, the Bank over the 1988-89 years will be in a position to attain a lending program of no more than \$5 billion in convertible currency. This does not augur well for the Bank since it is abundantly clear that this Institution must continue to be a major force in the economic and social development of Latin America and the Caribbean. For this reason, it is imperative that a new injection of capital be forthcoming in the near future. The negotiation for the Seventh Replenishment which began nearly two years ago unfortunately came to a premature halt in Guatemala City. We are still optimistic, however, that all parties concerned will return shortly to constructive and effective dialogue in a true spirit of compromise and we urge the early finalization of these negotiations, always mindful of the ideals for which this great Institution stands.

### **The Inter-American Investment Corporation**

It is of great concern to the countries of my constituency and I am sure it is the same with other member countries of the Bank, that the Inter-American Investment Corporation has not yet become operational, although it was formally established in 1986. This is an organization for which we have had very high hopes in regard to the possibilities that it can provide for enhancing the economic welfare and, by extension, the social well-being of the countries of the region. In fact, the governments of the Caribbean Group played a very active role in the establishment of that Corporation which reflects the extent of our commitment to the success of its operations. One of the principal objectives of this Institution is to assist in the promotion of small- and medium-sized businesses in the private sector which will contribute in no small way to a sustained revitalization of economic growth in the region. The absence of a fully functional Corporation will therefore prove to be a stumbling block in the path of such a recovery. In the circumstances, my constituency strongly recommends that every effort be exerted to ensure that the Inter-American Investment Corporation be provided with the opportunity to fulfil its mandate.

### **Conclusion**

The recurring crises of this decade have provided a most cogent demonstration of the interdependence of the members of our global economic system. It is nevertheless true that the developing economies, as its weaker and poorer members, have had to shoulder the major burden of the shocks to this system without receiving a proportionate share of the benefits of its recovery. As we approach the closing years of this decade, it is evident that the halting and uncertain progress of our economies has been insufficient to correct the massive reversals in economic and social well-being recorded between 1980 and 1983.

We can address this situation effectively, and put our economies back on the road to self-sustaining growth only by a renewal of our commitment to apply cooperative

efforts to resolve the critical problems of domestic growth, external debt and financing and the liberalization of international trade. Our domestic policies and development strategies, however, must be shaped within the context of contemporary economic and social realities. We will expect, therefore, that our efforts in this regard will be supported by the system of multilateral cooperation to whose principles we firmly adhere.

The countries of our constituency are convinced that our Bank can and must play a crucial role in this process of renewal. The road ahead, we admit, will not be easy. Therefore, we will have to devote all our energies over the next few years to meeting the imperatives that are before us as we enter into a new era of hope in the history of this Institution.

**Address by Mr. Mailson Ferreira da Nóbrega,  
Governor for Brazil and Minister of Finance**

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First, may I express my thanks and that of the Brazilian delegation to the Venezuelan people and government who have welcomed us with their customary warmth and friendship.

I also wish to congratulate the Chairman on his election to preside over our work.

The Inter-American Development Bank was led for the last 17 years by the distinguished Latin American figure, Mr. Antonio Ortiz Mena. His ability, dedication and expertise built up the Bank as a major agent for regional development. I take this occasion to reiterate our thanks for all that he has done for the Bank and for inter-American cooperation.

Last, I would like to congratulate Mr. Enrique Iglesias on his election as President of the Bank, and wish him every success as the head of our institution.

I will not linger over the topics on our agenda although I am fully aware of their relevance. We attach great importance to replenishing IDB resources, increasing the volume of loans, streamlining disbursements, consolidating the Inter-American Investment Corporation and invigorating the Institute for Latin American Integration.

However, we feel that after the election of a new President, a few general comments would be timely on the Bank's mission in the context of the great changes that the countries of the region are experiencing.

Mr. Enrique Iglesias takes over the Presidency of the IDB at a time when Latin America and the Caribbean are going through a very difficult period. As a general trend, two major transitions now coincide in our region: the path to democracy and the search for a new model to revive development.

The people of Latin America reject authoritarianism and desire democratic coexistence, political freedom and a state of law. But it is difficult for democracy to prosper and become consolidated when poverty is on the rise and social problems worsen.

The 1980s was a decade of renewed democratization in Latin America. However, from the viewpoint of development, it will be remembered as a decade of lost opportunities. The pace of economic activity slackened and per capita income dropped. Latin America and the Caribbean became poorer.

The 1990s should be a decade of economic recovery and a search for sustained development. This is the IDB's great challenge: to be ready to support renewed economic growth in the countries of Latin America; to cooperate in developing a new pattern for development that will no longer rely on massive transfers of external savings in the form of bank loans or on excessive and inefficient government participation; to become, therefore, an instrument for Latin American modernization.

To carry out its mission, the IDB must keep two matters in mind: the foreign debt and Latin American integration. In Latin America, it is impossible to speak of development without mentioning the foreign debt, which led to an unprecedented transfer of resources abroad, thus reducing the region's investment capacity. This situation is creating ever-increasing difficulties in the management of economic policy, especially with regard to control of the public deficit and inflation.

Latin American integration is no longer just the political dream of the great leaders of the region, such as Bolívar, whose memory I revere. As Latin America becomes independent, the political will to proceed with this project, so old and yet so new, has never been more apparent.

Nonetheless, cooperation is no longer a political project. It is also an economic imperative. Today, the region is experiencing analogous economic problems and is seeking similar solutions.

However, regional cooperation should not be understood as isolationism but as a mobilization of resources so that we can help each other more, above all the least developed Latin American countries. It should also be understood as an effort to make our economies more dynamic and more open to cooperation with our partners outside the continent.

The IDB must prepare itself to undertake new missions that its members will entrust to it. These tasks will require new methods of work.

Today, the IDB's mission is all the more important because the problems we are facing are more complex. By way of example, permit me to make reference to the present situation of the Brazilian economy.

Brazil is making a great effort to reduce the worrisome imbalances in its economy in the midst of the political difficulties inherent in the process of transition to democracy.

In addition to an enormous public deficit which is a reflection of disadjustments in public finances, in all spheres of government our country is facing another problem, which is perhaps even more serious: a drop in the savings level, currently on the order of 16.5 percent of the GDP, in contrast with nearly 25 percent a few years ago.

There are two reasons for the fall in savings: the public deficit and the foreign debt. Except for state corporations, in the last 15 years public sector savings capacity dropped to the equivalent of 7 percent of the GDP. In the foreign sector, we prematurely became exporters of capital. The balance of payments, favorable to the country prior to the foreign debt crisis, became unfavorable in 1983. From importers of capital on the order of from 2 to 3 percent of the GDP, we changed abruptly into exporters, on the same scale.

The two problem areas, the public deficit and the foreign debt, are closely linked and influence each other mutually. In Brazil, as in other debtor countries, the largest debtor is the public sector, while foreign exchange is basically generated by the private sector. Consequently to service the debt, resources must be transferred from the public sector to the private sector to acquire the foreign currency needed to pay the interest. Since the public sector is not able to generate the savings needed for this transfer, foreign debt service translates into an increase in the internal debt.

The problems created by the foreign debt therefore explain a major part of the recent increase in the internal debt.

Explosive growth in the internal debt, in turn, has been one of the main factors in the rise in current inflation levels, which create uncertainty and inhibit the revival of investment. As we saw, this growth is partially caused by problems in the external sector, but it also is due to internal factors such as the drop in net tax revenues as a result of the slowdown in the pace of economic activity, the increase in interest on the internal public debt, and unrestrained growth in government spending.

We find ourselves in a continuing vicious circle that causes monetary instability and hampers investment recovery, jeopardizing the country's economic and social development.

Nevertheless, Brazil has ample scope for overcoming these difficulties, as it has done on other occasions, and for once again achieving economic and social growth rates that are compatible with its potential. We are not lacking in natural resources, investment opportunities, a dynamic business class and an industrious working class.

The government is convinced that the way to overcome the economic crisis is

through a frontal attack on the two problem areas mentioned here: the public deficit and the foreign debt. But the government cannot solve these two problems all alone.

For our part, we are willing to make whatever realistic fiscal adjustments are necessary, i.e. without causing undesirable repercussions in the social field.

Recently we reduced expenditures such as subsidies and tax incentives; we placed strict restrictions on borrowing by states, municipalities and government corporations. At present, we are looking at measures to reduce federal government spending to bring it down to a level compatible with the capability of the national treasury, and with the need to avoid new currency issues or increasing the internal debt unduly.

As for revenues, we are making tax adjustments, especially in the area of income tax which will make for revenues from collectors in the order of 0.8 percent of the GDP. We are also valiantly revising tariffs and public prices. Despite its inflationary impact, this revision should help to permit the necessary investments in fields such as energy, petroleum, the iron and steel industry and telecommunications to be made without unbearable pressure on the public budget or on the debt of state corporations. These measures are aimed at a recovery of government savings levels and at helping in the overall effort to reduce the public deficit.

In the foreign area, the objective will be to normalize Brazil's relations with the international financial community. This will entail four stages. The first, already underway, will be to reach a multi-year agreement with the banks that is mutually satisfactory, and which will permit the country to regularize interest payments and reduce the charges on the foreign debt, in addition to extending the repayment and grace periods.

The second stage, which we hope to conclude by the middle of this year, will be to seek support from the International Monetary Fund for an economic program to ensure an upswing in economic growth and consequently in job creation. At the same time, we are bolstering our agreements with other multilateral institutions with a view to guaranteeing adequate flows of resources and avoiding situations that occurred in the recent past, such as when we repaid, in the form of interest and principal, substantially more than we received from these institutions.

The third step, planned for next July, will be to reopen negotiations with the Club of Paris, which should lead to the revival of financing for Brazilian imports, especially capital goods.

The fourth stage, planned to begin in the second half of this year, has various objectives, mainly a recovery of confidence by foreign investors in the Brazilian economy, obtention of new resources from industrialized countries, and preparation for the country's return to voluntary capital markets. Part of this stage is also related to the recent legislation of mechanisms for converting the foreign debt into capital.

All these strategies to combat internal and external problems will require a great deal of work, political will, negotiation, steadfastness and patience. They will also require a great deal of understanding, cooperation and support from our partners in the international community, especially the banks, the governments of the industrialized world and multilateral institutions.

If we succeed, as I expect, we will all come out winners in the contest: Brazil because of its return to economic growth, its capacity to import greater volumes of goods and services which are indispensable for reviving investments, its modern economy and its up-to-date technology; and our partners because of the business prospects that will be generated by a prosperous and dynamic economy.

In concluding my address, I wish to reiterate my confidence in the Inter-American Development Bank. Ongoing and constructive dialogue between the members of our

institution constitutes the basis for its renewal. Joint reflection on future directions will suggest new working methods for the Bank. I am certain that the objectives will justify the means and that the member countries will not shirk from cooperation in the light of the necessities of Latin America, and the need for agreement on the goals of the Bank.

These are the thoughts that I wished to contribute to this meeting. They are based on the presumption that the IDB has an important role to play in the critical times facing Latin America. They are based on the belief that the IDB is able to play such a role. Last, they are based on the conviction that in Mr. Enrique Iglesias we have a competent leader, an experienced expert and a skillful politician, able to direct our institution so that it will become a great instrument in the modernization of Latin America in the 1990s.

**Address by Mr. David C. Mulford, Temporary Alternate Governor  
for the United States of America and Assistant Secretary for  
International Affairs, Department of the Treasury**

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I want to take this opportunity to thank the people of Caracas for the warm welcome and the gracious hospitality they have extended to the members of the U.S. delegation. I also wish to congratulate President-elect Iglesias on his unanimous election to the Presidency of the Bank, and Governor Hurtado on his election as Chairman of the Board of Governors, and to wish them both well in their endeavors.

We have come to this bustling city of Caracas to participate in the Twenty-Ninth Annual Meeting of the Inter-American Development Bank (IDB) and the Third Annual Meeting of the Inter-American Investment Corporation (IIC). We meet at a time of great testing for the IDB. I have no doubt that the coming months will prove to be a watershed. President-elect Iglesias has posed the question: What kind of Bank do we want? Like President-elect Iglesias, the United States wants a bank that can be a major player in the resolution of the debt problem. This will be done by the IDB making a genuine and sustained contribution to growth in the countries of Latin America and the Caribbean. If this is the kind of Bank we want, we must work together to permit the IDB to play this role.

I will return to this theme in a few moments. First, I would like to touch on two broad areas that will have a major impact on prospects for growth in Latin America: One is the U.S. economy and the other is the global economic situation.

### **The U.S. and World Economy**

The U.S. economy is in the 64th month of an expansion, the longest peacetime expansion on record. The prospects are for continued solid growth with low inflation, as earlier fears about the impact of last year's stock market decline proved to be much exaggerated. Indeed, many private experts are revising their forecasts for growth upwards, so that today the Administration's projection of 2.4 percent growth in 1988 is viewed as increasingly solid. The 1989 year looks considerably better with growth projected at 3.5 percent.

Considerable progress has been made in reducing the federal budget deficit. In fiscal 1987, the budget deficit was reduced by \$71 billion to \$150 billion, or by 1.9 percent of GNP in a single fiscal year. Further reductions are anticipated this year and in the fiscal 1989 budget—as the provisions of the December budget agreement between the Administration and Congressional leaders are implemented. Thus, the fiscal 1989 budget deficit is projected to be about \$130 billion, or roughly 2.6 percent of GNP for the federal sector and 1.7 percent on a general government basis. This would represent for the U.S. a budget deficit, as a percentage of GNP, which is smaller than most of the major industrial countries.

The correction of U.S. trade and current account deficits is also underway. Since the third quarter of 1986, U.S. exports in volume terms have increased 21 percent while imports have risen only 6 percent. The improvement in the external sector is responsible for more than half of expected U.S. growth this year. At the same time, the U.S. market continues to be the most open market in the world, and the Administration remains firmly committed to resisting any movement towards protectionism.

Other major industrial countries are also implementing measures to strengthen

domestic economic activity and to facilitate the necessary reduction in external imbalances. Japan is achieving strong domestic demand growth as a consequence of the major stimulus package introduced last summer, and Japan's external surplus is declining. Germany has also taken measures to improve growth, including tax cuts, providing additional incentives to investment and reducing short-term interest rates. As a result, the major industrial countries which provide critically important markets for developing country products are expected to achieve another year of 2 to 3 percent real growth in 1988. Inflation in the OECD in 1986 and 1987 was at the lowest levels in more than 20 years, and should remain low, which argues well for keeping interest rates down.

The major industrial countries at the Tokyo/Venice Summits developed and implemented an economic policy coordination process aimed at achieving sustained growth with low inflation while reducing unsustainable external imbalances. That coordination process has become institutionalized and regular reviews of economic policies and performance, using objective indicators, are being conducted. This has improved substantially the quality and focus of economic consultations and has led to broad consensus on the directions that economic policies among the major industrial nations must take if we are to continue reducing the large external imbalances that persist today.

### **International Trade**

International trade is another key element in maintaining world growth and helping to resolve the debt problem. The United States is committed to achieving greater trade liberalization in all areas, and to expanding GATT coverage in new areas—such as investment, services, and intellectual property rights. All countries, however, are responsible for the ultimate success of the Uruguay Round. As part of our efforts to preserve the integrity of the GATT and the world trading system, we believe that developing countries should join in undertaking increased commitments and obligations in the GATT, in particular by binding tariffs on a much broader range of goods and by accepting discipline over their use of import restrictions to address balance-of-payments problems. We look forward to substantive progress in all negotiating groups in the upcoming Mid-Term Review.

Agricultural trade is an area of particular importance. Rigidities in the policies of major agricultural nations have made growth more difficult to achieve.

Interventionist and protectionist policies are distorting world agricultural markets and provoking more frequent confrontations. Developing countries are vulnerable because such protective trade practices undercut their efforts to develop commodity sectors where they have a comparative advantage. In addition, developing countries, like industrial nations that subsidize their farmers and consumers, are detracting from more productive use of resources.

The only lasting solution to these problems is multilateral agricultural reform. In the agricultural trade negotiations of the Uruguay Round, we called for a complete phase-out over 10 years of all agricultural subsidies and barriers to trade. The benefit of such comprehensive reform is a more competitive and open world trading environment that will contribute to an expanding world economy. Only by a shared multilateral solution can each of us overcome domestic political concerns about reform. I would especially encourage those nations whose export earnings depend heavily on agricultural commodities to participate actively in this broad international reform effort.

## **The Environment**

Before turning back to the IDB, I would like to comment on another area in which there is a need for greater international cooperation, namely our environment. Degradation of the environment is a matter of urgent concern. Last year, the United Nations Commission on Environment and Development stressed the importance of this issue in its report, "Our Common Future."

The impact of unwise and unsustainable development programs can be seen in all parts of the world—in desertification, deforestation, destruction of wetlands, atmospheric pollution and the pollution of waterways. The impact is also seen in increasing threats to the survival of indigenous people and their cultures and in the destruction of wildlife, particularly of endangered species that can never be replaced. Action is needed to mitigate or eliminate these adverse effects of our development efforts and to support national and regional programs to improve environmental management.

Development programs can be structured to encourage growth and to ameliorate poverty while still protecting and preserving our natural resource base. Environmental issues need to be more fully incorporated into all aspects of the work of the multilateral development banks.

In the Inter-American Development Bank, this means sensitizing top management to this issue, as well as hiring well-qualified environmental experts and training other staff in the environmental aspects of their work. Additional environmental expertise is especially important in project analysis, plans and programming, postevaluation and review, small projects and technical assistance, and in our legal work. The environmental function also needs a well-defined place in the Bank's organizational structure, probably based in project analysis.

The Bank has already begun the process of environmental reform. An Environmental Committee has been established. Task groups have been formed which will report to management later this year. Training of technical staff in environmental issues is also well underway. The first in a series of three-day seminars was held last December and others are scheduled for later this year. Attention is also being given to how non-governmental groups and indigenous people might be involved more effectively in the project cycle. In short, IDB treatment of environmental issues is another important area in which reform efforts must be focused.

## **International Debt Strategy**

A sound world economy also requires further progress in dealing with the debt problems of the developing countries. It is also important for the United States, which through lack of sustained growth in the debtor countries, has lost important markets. Secretary Baker's Program for Sustained Growth reflects an enhanced focus on growth as the basis for cooperative efforts by debtor and creditor country governments, the private sector, and the international financial institutions in addressing debt problems.

That strategy is based on several fundamental principles:

- First, the central importance of sustained economic growth in easing the debt burden.
- Second, the need for market-oriented reforms in debtor nations to achieve such growth.
- Third, new debt and equity financing, and the return of flight capital, to help support such reforms.
- And fourth, a case-by-case approach to address the individual needs of each debtor country.

The strategy itself is a dynamic one, providing a general framework for debtor/creditor cooperation which is evolutionary in nature. Moreover, it is accepted by all participants as the only effective basis for ultimately resolving this difficult problem.

And though we would all wish for more rapid progress, the results to date have been greater than generally realized. Many debtor nations have made major efforts to restructure their economies along more market oriented lines. As a result, for the 15 major debtors as a whole, GDP has improved substantially, increasing from a negative 3 percent in 1983 to a positive average of 2.5 to 3 percent during the 1986-87 period. While growth in a few countries faltered last year, adoption of appropriate policy reforms should enable stronger, sustained growth in the period ahead.

Export earnings for this group rose by 13 percent last year, while imports increased by some 7 percent. The aggregate current account deficit for these countries was cut in half. The adoption of debt/equity swap mechanisms in some countries, as well as broader policy reforms, has encouraged the return of flight capital. And thanks to a sharp reduction in interest rates during this period, interest-to-export ratios fell to 22 percent last year, compared to an average of 30 percent in the 1982-86 period.

Perhaps the most important change during the past two years has been in the attitudes towards macro and structural policy reforms in the debtor nations. There is an increasing focus on the importance of market led growth, and on impediments to trade and capital flows. Let me cite a few examples.

*Mexico* has liberalized its trade regime and continues its privatization of state enterprises. Through a market-based approach, the country has diversified its export base to the point where, for the past two years, non-oil exports have exceeded oil revenues. Its policies have been supported by the IMF and World Bank. Mexico's performance and its stance of constructive cooperation with its foreign creditors, has allowed it to experiment with an innovative market-based approach to reduce the stock of its outstanding debt. This is an important breakthrough in an area which holds real future potential.

*Chile*, through the implementation of a comprehensive and consistent stabilization program, has achieved strong growth. Its reliance on market mechanisms to allocate scarce resources has increased economic efficiency and kept inflationary pressures in check. A favorable business climate has attracted foreign direct investment and in the past two years Chile has swapped \$3.3 billion of its foreign debt into domestic equity investment. These numbers are not insignificant. They represent a reduction of 17 percent of Chile's total debt and 23 percent of its private bank debt.

*Uruguay* has managed to reverse the economic decline of the early 1980s through an export-based economic strategy and a competitive exchange rate policy. The current account of its balance of payments is expected to improve in 1988, and inflation is expected to continue its downward trend. Growth prospects have also improved. President Sanguinetti has shown how to reorient a statist economy, making it more competitive and productive for the benefit of all its people.

*Colombia* has been a successful adjuster in the past several years and has avoided the need for debt rescheduling or comprehensive IMF agreements. The government has carried out a program of broad structural reforms supported by the World Bank and an "enhanced surveillance" arrangement with the IMF. Increased coffee revenues have been effectively utilized to finance development while avoiding inflationary pressures.

Finally, *Bolivia*, which has arguably produced the greatest measure of internal reform. At the same time it is implementing an imaginative plan for accomplishing a substantial reduction in its stock of debt.

On a more general basis, the concentration of resources on the debt problem has been impressive. Since October 1985, the IMF and World Bank have provided \$17 billion in financial support for reform efforts in the major debtor nations. Official creditors have rescheduled some \$19 billion in outstanding debt, including interest payments. And commercial banks have committed nearly \$19 billion in new finance, while rescheduling approximately \$222 billion in outstanding debt, reducing spreads, and providing longer grace periods and maturities.

To help sustain these efforts and ensure adequate international support, Secretary Baker advanced several key proposals to reinforce the debt strategy at the annual meetings of the IMF and the World Bank last September.

First, he announced U.S. support for a major capital increase for the World Bank to assure that capital resources would not act as a constraint on the ability of the Bank to support continued reforms. Agreement on a \$74.8 billion General Capital Increase to be spread over six years was reached by the IBRD Board last month.

Second, Secretary Baker proposed the creation of a new IMF External Contingency Facility to help cushion the effect on IMF standby programs of unforeseen external developments, such as weaker commodity prices, natural disasters, or sustained higher interest rates. Our efforts to initiate these reforms resulted in large part from our many discussions with debtor nations, who advanced the view that longer programs with more structural reform and greater recognition of unforeseen contingencies are essential to the long term resolution of the debt problem. Discussions on such external contingency mechanisms are well underway within the IMF Board, and we hope for your support for this important policy innovation.

And third, Secretary Baker encouraged the further development of a "menu" of alternative financing options for commercial lenders. The menu approach emphasizes the diverse methods of participation by the banks in new money packages, particularly the development of voluntary, market-based instruments to help meet the respective needs of debtor nations and the banking community. It can help facilitate new financial flows and make each dollar of financing more productive than traditional methods of straight-forward syndicated financing of budget and balance-of-payments deficits.

Finally, the conversion of existing loan obligations into other instruments voluntarily and at mutually satisfactory prices, in an effort to reduce the level of outstanding debt, can make an important contribution—as we have seen with debt/equity swaps, debt/conservation swaps, and securitization of commercial bank debt.

This is where we stand today. Tomorrow there will be new ideas and other variations and refinements that offer hope to all of us with a stake in the ultimate resolution of the debt problem.

## **Role of the IDB**

This leads us back to the IDB and its future role in Latin America and the Caribbean. How does the IDB become a major player in addressing this hemisphere's debt problem? First, it needs an agreed mission—a vision for its future. Second, it needs the resources to carry out its mission. And third, it needs an organizational structure and skilled human resources to implement effectively its contribution to growth.

The United States believes in the potential of the IDB. The Bank is unique in its close relationship with the countries of Latin America and the Caribbean. The United States understands that relationship and has high hopes for the contribution the IDB can make to growth throughout the region. We do not want the IDB to be simply a clone of the World Bank. Our objective is to see the Bank's special relationship, its knowledge

and experience in the region used with full efficiency to develop a more productive role in promoting both development and growth.

This is why the U.S. sought consensus on a four-point package of changes that are essential to any replenishment agreement. These included:

1. The creation of individual country strategies/programs to guide IDB lending.
2. The adoption of policy conditionality in Bank lending and the development of a program of well-defined carefully-targeted policy-based loans that would amount over time to approximately 25 percent of total lending.
3. Restructuring operating departments to implement country programming and sector lending, and to improve the overall efficiency of Bank operations.
4. Changing the arrangements for decision-making to give greater weight to the views of countries which supply the Bank with the bulk of its usable resources.

We were prepared, had agreement been reached on this package of changes, to seek a significant replenishment of Bank resources that would have supported a lending program of more than \$20 billion during the 1987-90 period. This would have approximately doubled the exposure of the United States in the institution.

In the course of these negotiations, we found widespread consensus on the need to reorganize the Bank to improve its capacity for effective country programming. Unfortunately, this consensus has not been converted into operational reality because of the impasse over voting arrangements.

Now we have the opportunity to address these issues with a new President who in his speech yesterday gave a clear signal that he believes the IDB must grow, must reorganize itself, and must contribute significantly to the resolution of the debt problem. We realize that President-Elect Iglesias needs time to firmly grasp the reins of leadership, to appraise the Bank's operations, and to develop his vision for the IDB's future. We support this approach.

When Mr. Iglesias is ready to begin building the necessary consensus for a new and expanded IDB, the United States stands ready to resume constructive discussions once again on all aspects of the Bank's operations. This includes a substantial replenishment of the Bank, provided we can reach a consensus on the essential elements of reform.

We wish President-Elect Iglesias well in his endeavor and hope he is able to proceed with dispatch. We are anxious to begin.

**Address by Mr. Ian Buist, Alternate Governor for the  
United Kingdom and Undersecretary, International  
Division, Overseas Development Administration**

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It is written: "For everything there is a season, and a time for every matter under the sun . . . There is a time to keep silence, and a time to speak . . . There is a time to break down, and a time to build up . . ."

Latin America and the Caribbean continue to face very serious payments and debt management problems. Some countries have made real progress this last year, often against heavy odds. For others there is no end yet in sight to the discipline they must accept and lay upon their people. Commercial bank finance has largely dried up. International support for the painful process of adjustment continues, but it is spearheaded by the Bretton Woods institutions. A very large capital increase has just been agreed for the World Bank. This should allow it greatly to extend its role as the largest single source of net transfers to the region, providing several billion dollars a year.

By contrast, this Bank seems to have lost its way. Less than \$2 billion last year in disbursements—the lowest amount since 1983. Less than \$1 billion in net disbursements—the lowest amount since 1980. Even less than that in net transfers. The negotiations for the Seventh Replenishment appear to have got stuck in a quagmire of misunderstanding and narrow national interests. Without a capital increase, the Bank has no significant resources to lend, and exchange movements have left it with no capacity to borrow. The demand for conventional project finance has anyway shrunk, as borrowers have been forced to cut down their investment plans. The Bank stands on the sidelines, impotent to help. Fellow Governors: surely this is not what you intended when it was created. It is certainly not what we and other nonregional countries expected when we joined you as members.

The time has come for a new spirit: to build up, and not to break down. The time has come to speak out in truth, and not to keep silent in politeness. The truth is that only we, collectively, can set this institution back on a purposeful path. And I believe I can speak for all the small shareholders in the Bank in saying, with some force, that a special responsibility—a heavy responsibility—falls here upon the five largest shareholders. Four of these have spoken to us this morning, and I did not draw much encouragement from what they said about this crucial issue. Without their determination to agree and to act in common, the reality is that this Bank is hamstrung. Resistance to change on the one hand, and insistence on total transformation on the other, have to give way to a new sense of urgency and compromise. But in the balance that is struck the ultimate decisions must be weighted strongly towards change. Why? Because, as the President-Elect so clearly said, the Bank's role itself must change so as to help it confront more directly the economic and social challenges facing its borrowers. Let us be frank. The Bank cannot take up any of the ambitious ideas so many have proposed, yesterday and today, until there is an agreed basis for increasing its capital.

To guide the Bank in this enormously difficult task we have chosen a new leader. We have said goodbye, with very real affection and gratitude, to Don Antonio Ortiz Mena, whose extraordinary talents will now be of great service to his own country. But we shall have in his place a statesman whose vast experience, and unrivaled understanding of the social, economic and political problems of the region are truly unparalleled. I have no compunction, therefore, in setting out before him, in response

to the vision he has set before us, the agenda which we in Britain wish to see him pursue for the Bank over these coming years.

First, we want to see the Bank play its full part in providing support, alongside the IBRD and the IMF, for adjustment and recovery policies undertaken by its borrowers. That will mean internal reorganization, it will mean new staffing skills. It will mean much closer institutional cooperation with the Bretton Woods bodies. It must also mean a new capital increase, and soon.

Secondly, the Bank urgently needs to carry out a full review of its financial policies, so as to ensure that it retains the very high reputation it has acquired on the markets—not least as a result of the distinguished work of its Financial Manager, who is sadly to leave the Institution. The Bank's *raison d'être* is efficient and low-cost financial intermediation for development from the financial markets to all its borrowers. This should be the starting point for the review. We are particularly concerned that there should be an urgent and thorough review of net income projections, financial indicators, and liquidity. These should be based on a range of possibilities, and not merely on the most optimistic. A policy for provisioning for non-performing loans should be adopted now, before any serious problems arise. Portfolio distribution policy, and the scale and structure of lending charges, may well have to be reexamined.

Third, the Bank has the intellectual resources and experience to make a far more active analysis of solutions to the problems which are peculiar to the region, or which plague it in a particularly acute form. I will identify some which march with, or add to, those marked out by the President-Elect. First, I again highlight what the British Governor, Chris Patten, has called the “universal moral obligation upon mankind” to conserve our environment, through sustainable development. This means giving full weight to the costs and benefits of the longer-term changes brought about by our investments. The Bank has taken a welcome stand on this, but it will be important to get ahead with the program agreed to by the Board of Directors, and to encourage borrowing nations themselves to think through the issues more clearly. Then there are the problems created by the coexistence of *latifundia* and subsistence peasant holdings. There are the problems created by high population growth and demographic movements. There is the growing problem of the international drug trade and increasing domestic addiction. There is the problem of designing adjustment and reform programs to minimize their impact on the poor, and to enable them to take advantage of the economic opportunities which such programs create. There is the relative disregard for the role and rights of women in development within societies where machismo is still an instinctive philosophy of life. Above all, as Cervantes says, there is the one underlying problem: “*Dos linajes solos hay en el mundo, que son el tener y el no tener.*”

The Bank should be taking the lead not only in analysis, but in proposing to finance action in those borrowing members which are willing to tackle admittedly hard choices thrown up by these structural problems. Help in education and training needs to be part of such action, sometimes in much closer cooperation with non-governmental organizations. In the rural sector, including the advancement of women, the Bank should also be working far more closely with the International Fund for Agricultural Development (IFAD).

The fourth item we propose for action stems from the first three. The Bank needs not just a different and more active style, but a more thorough look by top management at the way it is organized, so as to ensure that it is shaped as effectively as possible for its new tasks. I was therefore delighted by what the President-Elect said about the need for reorganization. As part of this, a review of the role of the Bank's country offices and

their links with the different elements in headquarters seems long overdue. So, I suggest, does a look at the Bank's system—or systems—of evaluation. During this last year Britain has paid for and published an independent comparative survey of the evaluation systems of all the significant multilateral aid institutions, including this one. We think this survey has thrown up some lessons for this Bank, and we look forward to hearing and discussing the views of the new management upon its conclusions.

Finally, I assure President-Elect Iglesias of Britain's strong and unswerving confidence in his leadership, for which we have the highest expectations. And, in giving our host country and city our warmest and most heartfelt thanks for the superb generosity of their hospitality, I express my belief that our meeting in Caracas both can and should long be remembered as the turning point in the Bank's fortunes and influence.

## **Address by Mr. Gonzalo Sánchez de Lozada, Governor for Bolivia and Minister of Planning and Coordination**

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Since sincerity is the eloquence of the poor, we are going to refrain from some of the forms so carefully respected in these meetings, to express, under that spirit, some feelings and concerns.

We would like to start, however, by recalling the important work done by President Ortiz Mena and thanking him for the cooperation he provided to Bolivia. Don Antonio always made us feel like we were the Bank's most important member. We are certain that we will receive the same treatment from the President-Elect, Mr. Enrique Iglesias.

Many of you have probably heard something about what has happened in Bolivia in the last few years. The biblical Job of the region, with the weakest and most stricken economy, Bolivia has had to go through a calvary inconceivable in economic history. It had the highest inflation rate in the history of Latin America. In the 12 months preceding the new government, inflation reached 24,000 percent. It was felt that if radical measures were not adopted within the course of one more year, the German inflation experienced in the 1920s would be surpassed. In the last six years, to the end of 1986, the per capita income of the population declined by 30 percent. About 25 percent of the economically active population was unemployed. These figures are only comparable to the situation in the United States in the years 1929 to 1933.

In August 1985, three weeks after Mr. Víctor Paz Estenssoro assumed the office of the President, the most comprehensive stabilization plan in the history of Bolivia and probably of the world was implemented. Consequently, inflation dropped dramatically, reaching only 10.66 percent in 1987. Last year, for the first time in five years, gross domestic product was able to grow, by 2.3 percent. Although the situation is still critical and many dangers and concerns exist, we hope that this year the economy will have a growth rate of 4 to 5 percent and that the inflation rate will only be in the single-digit range.

What is important to note in the Bolivian experience is that the economic measures were adopted without affecting the full course of democracy and individual freedoms, with a view toward achieving consensus on the objective of national salvation. Preservation of this status prevented the eruption of a scene of violence, high crime rate and extreme social unrest.

The Bolivian experience could serve as an example. The lesson that it teaches us so accurately is that inflation is not a solution. We must be realistic and realize that inflation is an entirely futile illusion. At the same time we should realize that the social sacrifice from inflation is much greater than any restructuring and stabilization plan. The after-effects of inflation by widening the gap in the inequitable distribution of wealth and increasing the growth of the informal economy, thus affecting a large part of the population without protective mechanisms, constitute a moral problem the magnitude of which should not be taken lightly.

Another lesson that our country has learned on its own is that while politics is the art of the possible, survival is the art of the necessary. We cannot avoid the need to do what is necessary. The obligation of presiding over the fate of a country, under the current circumstances of crisis, demands that leadership be exercised and that there be a significant share of sacrifice, before assuming a groundless populist attitude, which can rapidly culminate in economic disaster, collapse and crisis.

In the context of the difficult process of stabilizing and liberalizing the economy, we must stress that Bolivia had the exceptionally valuable assistance of the Inter-American Development Bank. In the past few years the Bank has become the preferential source of funds to develop my country. The significance of this contribution is still greater when considering that my country is not creditworthy under the present circumstances.

It should also be pointed out that the Bank never alienated itself from the Bolivian reality, neither during the times of the darkest dictatorships, nor during the governments of the most irresponsible populism. The Bank was always there cooperating, orienting or supporting the entire development task. The continuity of this efficient assistance made it possible, when optimum conditions arose, to ably and efficiently meet the needs stemming from the structural changes that took place. It would be a shame if this permanent support and participation were lost or became weakened and if the Bank were no longer to be a shining light in the dark and already long night of crisis.

The fate of the Bank is of vital importance to countries such as Bolivia. The critical problem is that the Bank might suffer a still greater deterioration, a type of collapse. We who have begun to emerge from the inferno of the crisis and hyperinflation understand that this phenomenon is still not perceived in its proper magnitude, nor is the potential danger of its breaking loose and spreading to all of the countries taken into consideration. When we speak of the future of the Bank, the alternatives of a small bank or a large bank do not reflect the true present needs of Latin America and the Caribbean. In actuality, the economic problem is so great that what is needed is a super bank, endowed with resources, willingness and skills to cope with the crisis.

We do not believe in the future of a Bank with negative flows. We do not believe in the future of a Bank which remains at the traditional level of lending and technical cooperation, having to cope with the external debt crisis and the extraordinary social and political crisis.

Let us not forget that in countries such as Bolivia the technology that is transferred and accepted the most rapidly is the technology of violence. Its transfer involves a truly admirable comparative efficiency. We are concerned that this technology will be the first to be transferred, if we do not find bold imaginative and creative solutions.

A significant event for the Bank and our countries has been the election of President Iglesias. This decision by itself, however, is not enough. It will also be necessary to work with him, forging a collective will aimed at finding creative solutions to our problems.

Under this particularly complex and obscure framework and in view of the Bolivian experience, I would like to reiterate the message on the seriousness and danger of the crisis for our countries. If proper measures are not undertaken, the problems could take an extreme turn for the worse. Bolivia is a clear example of how the crisis can be met successfully, but at enormous cost in terms of social and political sacrifice. A necessary condition for success in this task is the salvation of the Bank, in the sense that the institution must be restructured to efficiently meet the needs of the region. The cost to and effort by the countries and the international financial community would not be greater than the effect of a generalized standstill or a higher level of violence in the hemisphere.

The fact that we are holding this meeting in the beautiful land of the Liberator, the source and radius of great currents of renovation and liberalization of the politics and economics of our hemisphere for the past few centuries, could serve as a symbol of hope announcing a new and better day for our institution and our peoples.

I have asked myself a question throughout this meeting. Is the sun that shines in the Bank's emblem a rising sun or a setting sun? I hope it stands for a rising sun, for the good of our peoples and of the hemisphere.

**Address by Mr. Marco A. Flores T.,  
Alternate Governor for Ecuador and  
General Manager of the Ecuadoran Development Bank**

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The fraternal spirit demonstrated by the Venezuelan people, true to its freedom-loving tradition and commitment to Latin American integration, provides the setting for the Twenty-Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank, the financial agency which, by definition, must join its efforts with those of all our countries to find new and surer ways to surmount the prevailing problems.

On behalf of the Ecuadoran people and the Constitutional Government that I represent, I would like to begin by conveying our greetings and gratitude to the Venezuelan people and their authorities for their kind hospitality.

Inspired by our common heritage and by the desire of all our Latin American countries to move ahead in a united way in present-day history, may I refer to the current situation, which is of profound concern to our governments and their peoples, to the leaders and power circles of the developed nations and, specifically and categorically, to the common aims and aspirations of humanity, which cannot escape the conflicts and extreme situations which can disrupt peace and security at any time.

Such is the precarious situation currently prevailing. There is not a country of Latin America and the Caribbean that is not feeling the devastating effects of the economic, political and social crisis. Not a country that does not feel the weight of the external debt and the attendant high interest rates, which bear on their domestic economies and adversely impact the right of their peoples to a minimum of well being and peace. Not a country that is not concerned about the constant erosion of the purchasing power of its currency and the continual increases in the prices of the goods and inputs we have to import, while the prices received for the few items we are able to export slide steadily downward. There is not a sister country that is not disturbed about the social and political conflicts present in various latitudes and imminent in many others, unless structural measures can be devised that will bring about and ensure the equilibrium desired by all and which are represented by the civic, political and economic efforts we have put forth to strengthen our rights and our democracies.

The fact is that the development of our peoples is a complex undertaking calling for synchronization of factors, elements and wills, without the harmonious application of which it would be unlikely that a minimum of the proposed goals would be attained, within the time frames set, without needless social sacrifices and without wasting resources.

Development is a complex, difficult and slow process. Despite the fact that everyone is agreed on the necessity for it, there will be differences of opinion over the process itself, in terms of what is actually achieved and the way to attain this goal. We accordingly believe that the planning of economic development should be fundamentally social in nature, within a context of effective participation by the largest possible number of organized forces with a genuine desire to work toward resolving the problems of each country.

This Meeting of the Governors of the IDB, the supreme authority of an international financial institution created precisely to cooperate on the best terms in the development of our countries through execution of their priority projects, is therefore of great importance.

We cannot fail to recognize the work that the Inter-American Development Bank has performed in our respective areas and in different spheres. Where my country is concerned, the facilities and infrastructure that have been constructed, are being constructed and will be constructed in the immediate future with IDB loan funds are of fundamental significance.

What is more, Ecuador has every reason to be sincerely grateful to the Inter-American Development Bank for the support it has provided to date, and especially to its former President, Antonio Ortiz Mena who, when he visited the country, was able to observe our unflagging efforts to implement various projects. Once again, we Ecuadorians wish to make a point of expressing our heartfelt gratitude for the Bank's invaluable assistance.

Notwithstanding the work that has been done and is currently under way, at the present time when we are caught up in a most distressing economic crisis, when many doors are closing and obstacles are mounting, Latin America is turning its eyes, with growing hope, to the Inter-American Development Bank as one of the options left to us.

I am not speaking for the Latin American countries as a group, but I think and am prepared to say that there can hardly be a nation which does not have hopes placed in the IDB, which does not have applications for new loans under consideration, which is not awaiting disbursements to start or continue the implementation of priority works, and which has not incorporated the assistance of this Institution into its basic development financing plans.

The preceding expressions of appreciation are right and due; however, on behalf of the Ecuadorian people and its government, I must point out here that the time has now come for reflection in the IDB, that we cannot leave for tomorrow the discussion and resolution of vital matters and that it is imperative to devise mechanisms that are more appropriate and more flexible so that the assistance furnished may be ample, but also timely. Herein lies the basic point that I wish to make on this occasion.

At this time, when the nations and peoples of Latin America are experiencing one of the most serious economic crises ever, we have heard some very frank and most sincere confessions regarding its extent and the need for an internal and external examination that will reorient the international financing agencies as to their role and the purposes they should be serving.

The objectives of the IDB must coincide with those of our countries. The work of a development bank cannot be effective and positive if it does not take into account the economic, political and social situation of its borrowers. If we are to be consistent, the policy of the IDB must be aligned on the actual circumstances of the region and be appropriate to the times in which we are living, with the interaction of internal and external factors. In other words, a development project at the expense of the development of those intended to be the beneficiaries of a particular project or of the facilities to be constructed is unthinkable.

The time has come for a review in real and practical terms of the contractual conditions that the IDB imposes for the granting and disbursement of its resources. These conditions commonly become real barriers to the actual utilization of the credits granted. Not infrequently, after protracted negotiations, it will prove impossible for a loan already granted to be used because the circumstances it has to grapple with render the beneficiary country unable to meet this or that requirement. It is sufficient to note that average loan utilization is significantly lower than the total amount of resources granted. For example, despite the fact that Ecuador has made a special effort to use these funds, it has not always been able to do so to best effect and in a timely fashion,

while paradoxically being obliged to pay large sums in fees and other financial costs. To this must be added the dizzying rise in prices that leads to projects being deferred or halted. What is worst of all are the despair and frustration of the communities concerned who see the meeting of their most immediate needs blocked.

This message which on behalf of my country I bring to the attention of the Twenty-Ninth Annual Meeting of the Board of Governors of the IDB, has to do with the very survival of this institution and with the impact that it can have on the future of our nations. It is a message that is intended to be emphatic and to sound a warning concerning social and economic situations that we all most certainly wish to avoid.

*In conclusion, to the congratulations that we extend to Enrique Iglesias on his recent appointment as President of the Inter-American Development Bank, we must add that it is on his Latin American spirit and on his way of viewing the hemisphere's problems and the anguish besetting our countries that we pin our hope that the IDB will expand, improve and deepen its lending policy in favor of the most noble and important causes of our peoples, especially, most especially those of the poorest among them. Ecuador trusts that, beyond the despair of the present moment, this Inter-American Development Bank will be the support for a new and more promising stage.*

Our country expects from financial agencies such as the IDB more sustained and lasting support, a greater capacity for understanding our particular problems, a greater openness and true collaboration, and a better understanding of the social stresses, political problems and economic reactions that can be engendered at a given moment.

## **INTER-AMERICAN INVESTMENT CORPORATION**

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### **FOURTH PLENARY SESSION**

**March 22, 1988**

The Fourth Plenary Session was devoted to the business of the Inter-American Investment Corporation, described on page 4 in the Official Record of the Meetings.

## **ADDRESSES**

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### **FIFTH PLENARY SESSION**

**March 23, 1988**

## **Address by Mr. S. C. Mungra, Governor for Suriname and Minister of Finance and Planning**

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Allow me on behalf of the newly elected Government of Suriname to express my sincere appreciation for the hospitality extended to us by the Government and the people of Venezuela. The excellent facilities made available to us and the inspiring environment of Caracas have certainly contributed to the results of this annual meeting.

Allow me furthermore to congratulate the newly elected President on behalf of the Government and the people of Suriname on his election as President of the most important development and financing institution for Latin America and the Caribbean. I would also like to thank the Management and staff of the Bank for their work and achievements in 1987, a year of transition for the Bank—a year, however, in which living conditions for the people of Latin America and the Caribbean have not improved and economic performance has not been satisfactory. We are confident, however, that during his presidency the Bank will again rise to the challenge and will play the vital role assigned to it as the major development and financing institution of our region.

It is an honor for me, as the first representative of the newly elected Democratic Government of Suriname to participate in an Annual Meeting of the IDB. As this provides an excellent opportunity to address the Annual Meeting of this august body and to exchange views with my fellow governors and the Management of the Bank, I would like to take this opportunity to inform you briefly about the major changes which have occurred in my country.

On September 30, 1987, the people of Suriname through a referendum approved our new Constitution. On November 25, 1987, general, free and secret elections for the National Assembly were held, whereby the Front for Democracy and Development won 40 of the 51 seats, representing more than 85 percent of the electorate. On January 12, the National Assembly elected the President unanimously and the new cabinet was subsequently installed on January 26, 1988.

Suriname has experienced declining socioeconomic development from 1982 through 1987 as a consequence of several external and internal factors. Investment levels, employment, export earnings, net capital inflow, inflation and international resources all developed negatively. It is clear that the people of Suriname have been living under hard pressure and experienced a sharp decline in their standard of living in these last years.

The new democratically elected government, in pursuing economic growth, social justice and the establishment of new democratic structures, has to cope with an inherited destroyed economy, rebellion in the eastern part of Suriname, but also has to meet the expectations of the people who have a strong desire for peace, stability and improvement of their living standards. Their confidence in democracy and the rule of law has been strongly demonstrated in the results of the November 25th elections.

The government is in a process of elaborating a comprehensive medium term, growth-oriented recovery program which has to be approved by the National Assembly before the end of September 1988. This program will be based upon the following principles:

- A policy of diversification of our economy whereby the national production sector outside the bauxite sector will be developed. These vital sectors include agriculture, forestry, fisheries, husbandry, mining, hydro-energy and related industries. The financial and the monetary imbalances will be restored within a

medium term time-frame whereby special minimum social conditions must be guaranteed to prevent social disruption and frustration of the process of democratization.

- A policy of greater involvement of the private sector in the process of socioeconomic development and transformation, and reduction of government involvement in the economy. The government welcomes foreign investment and participation in the economy. Foreign investment and participation will be based on an investment code which reflects the interests of the parties concerned.
- A policy on international economic cooperation which will be based on mutual benefits, consistency, stability, and continuity.

Underlying these principles will be a policy of regional integration, good neighborhood and good relations with all nations, including the Kingdom of the Netherlands, where many of our people are living.

The implementation of the development program will be framed in a 3-to-5 year time period during which financial and technical assistance must be assured to realize a successful socioeconomic transformation of our society and to safeguard yet fragile democratic structures and the principles of the rule of law.

Suriname has experienced encouraging relations with the Bank and has recently signed a loan agreement and two agreements on technical cooperation which are geared to the improvement of the public health sector and the strengthening of the agricultural and mining sector if investments prove to be feasible. We look forward to strengthening relations with the Bank and appeal to the Bank to assist us in developing and executing the multi-annual plan. We want to utilize the accumulated experience of the Bank in solving socioeconomic development problems of our region under divergent circumstances.

To conclude, I am confident that under the new presidency, the Bank will continue to play a vital and innovative role in this region as the major development and financial institution.

Allow me, furthermore, to thank the illustrious outgoing President, Mr. Antonio Ortiz Mena, for his achievements for this region.

**Address by Mr. Herbert Lust, Temporary Alternate Governor for  
Austria and Director, International Financial Institutions,  
Federal Ministry of Finance**

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Let me first of all express my sincere gratitude to the Venezuelan Government and people for their cordial welcome and the excellent facilities they have prepared.

This meeting is a historic one. It is taking place at the crossroads between two presidencies and will be the one founding the new IDB. Mr. Ortiz Mena's resignation took us by surprise. He has guided the Bank excellently through the 17 years of his presidency. We hope that Mr. Ortiz Mena will not leave the Bank for good, but make his experience available to the Bank and his successor. On behalf of my governor, Mr. Lacina, and also on behalf of the Prime Minister, Mr. Vranitzky, I wish him all the best for the future.

I welcome the President-Elect, Mr. Enrique Iglesias, whose vast experience gives him the best basis for his new responsibilities. He has chosen a challenging task. The support by all member countries in the election, for which I want to congratulate him, demonstrates the confidence we all put in Mr. Iglesias, and he will need the full support of all members if the Bank is to play a leading role in development financing of the region. In his speech, Mr. Iglesias indicated plans for the future role of the Bank, to which we all can subscribe.

Mr. Iglesias takes over at a critical time for the Bank. The *status quo* of no replenishment is not acceptable to us and seems wrong from borrowers' and non-borrowers' perspective. We have to go for the "big Bank" with lending levels of roughly \$25 billion for the replenishment period. To reach an agreement on the Seventh General Increase of Resources seems to me the most important task for the new President. I would therefore like to concentrate my remarks on this subject.

Before doing so, allow me one remark on adjustment. I associate myself with other speakers who have asked for further adjustment measures in the region. However, we all know how politically difficult it is to implement changes which require financial sacrifices from people. Therefore, I would like to congratulate those countries in the region who successfully implemented reforms.

It is hard to understand why lending to a region which has unsatisfactory access to commercial lending has to be further curtailed by a stagnation or declining level of lending by the regional development bank. A shift of development financing from IDB to World Bank lending does not work. Latin America and the Caribbean need a strong regional development bank. The IDB has to be able to offer increasing financial support to its borrowing members and, therefore, needs a Seventh Replenishment soon. I hope that the new top management will elaborate its proposal for the IDB's future role including organizational and procedural changes within the Bank during the next couple of months and that we will then soon reach agreement on a replenishment. The statement by Mr. Iglesias made me confident that he will provide us with such proposals in time. I would like to associate myself with his remark that in restructuring, he wants to aim at maintaining staff morale.

It is my firm belief that the so-called "small bank" is not an option at all. We cannot expect the IDB to be a project-financier with annually declining commitment levels at a time when investment levels in most countries are inadequate. The Bank has to play a role in the policy dialogue with the regional countries and like other MDBs needs program and project lending in its lending instruments. A shrinking bank is

neither acceptable for donor countries interested in the development of the region nor for borrowing countries, nor is it acceptable from the institutional point of view. An institution without growth can hardly keep its best people nor can it attract new qualified staff.

It also seems to be the very wrong time not to have the IDB grow. Policy changes in many sectors and countries are needed now and require the dialogue with the regional development bank; the IDB is perceived by borrowing countries more like a friend and partner than other institutions. In a time when all MDBs see their role changing from the mere project financier to that of an adviser in development, backing their advice with financing, the IDB has to follow the route to diversification too. A good climate for cooperation between borrower and financier seems very important in the case of the policy dialogue which is necessary to reform sectors or shape projects.

The policy dialogue between partners should not be hampered from the outset. We have to give the IDB the chance to develop its own concept of cooperation with borrowing countries and the World Bank. Many reform programs cannot be implemented because they appear to be designed elsewhere. The IDB is the international institution with sufficient domestic acceptance—and, of course, also understanding for domestic issues—to provide its services in the design of improvements in the policy framework.

I perceive a particular need to enhance the dialogue on ways to tackle the problems of the poor in the region. As these problems differ from country to country, it has to be a case-by-case approach. I see the fight against poverty closely linked to the population growth of low-income people. Full understanding of the problems of the people, including the role of women, is necessary to develop integrated concepts, which include activities in several areas besides the education and health sector, such as agriculture, industry, small business, forestry. The population problem is a pressing one in some countries. Nevertheless, it does not call for quick fixes but for long-run integrated strategies. Increasing living standards has proven to be the best way to reduce future population growth. In designing their development policies, borrowing member countries will increasingly have to think of investments which bring poor people from subsistence into the economic life. This will require careful design, advice and financing. I believe that the IDB with its detailed expertise, particularly in the social issues of specific countries, should become the specialist in this field.

I beg your pardon for touching on the population problem when speaking about the capital increase, but fast growth of low-income population appears to be a growing hindrance in achieving per capita economic growth and increasing living standards—education, jobs, health—for low-income people. With most industrial countries expecting a period of too low growth to reduce their unemployment, surplus countries hardly willing to expand imports and the U.S. facing the need for reduction of its twin deficits, there is the fear that export prices will remain low and that export demand will not be sufficient to provide the basis for an improvement of living standards for a quickly growing low-income population. Integrated measures to fight poverty and population growth of low-income people are urgently needed. For financing such programs, we have to replenish the FSO generously. I am very concerned that in periods of adjustment, investments in social sectors are low. Social sector investments, however, are needed continuously. We have to look for ways to increase the demand for social sector loans.

Although FSO lending rose in 1987, I believe that the fund should play a considerably larger role in financing projects in low-income countries of the region. It might also invest more funds in technical assistance.

Another area which I see closely related to poverty is environmental degradation. Environmental considerations surely have to be included into each project, but we also have to understand that poor people are primarily concerned with covering their basic needs. I, therefore, see a close link in the long range between all three elements: poverty alleviation, population growth and environmental concerns.

Before turning to the technical questions of the capital increase, I would also like to stress a financial aspect. The IDB lending rate is lower than that of comparable institutions and one might expect it to remain lower. This is mostly due to the fact that the Bank can be selective in its borrowing activities. Putting more emphasis on other multilateral institutions might cause them funding problems expressed in higher borrowing cost.

Let me turn now to the technical side of the capital increase. The long discussion of deferral mechanisms is well known to all of us. I have never accepted them as a wise way to manage a bank and I would therefore once more ask all parties involved to look for other mechanisms such as a change in voting power and capital subscription, increasing the share of nonregional countries. I believe that the major shareholders could accept the nonregional countries as partners using their voting power in a fair way to the benefit of the region's development. The Bank—and hopefully soon also the Corporation—should also increase its use of experts from these countries.

I take it from previous speakers that other nonregional countries are also prepared not only to increase their share of capital in the Bank but also contribute substantially more to the FSO. If the nonregional countries were given the role of a balancing power, this would be sufficient assurance to all parties that the IDB will be the impartial partner when it comes to addressing the region's issues.

Let us no longer delay a decision on the Seventh General Increase of Resources. As soon as Mr. Iglesias' detailed plans for the future IDB are available, let us get together and approve the capital increase. Meanwhile, the staff should build up a project and program pipeline.

Finally, a word on the IIC. I can only regret that there is still no decision on the General Manager and that therefore this institution has still not yet started actual operations. At a time when Latin America is in urgent need of assistance, this institution should take its share of responsibility and complement IDB activities. As Caracas is an important site for the IIC, I hope that discussions here will move us forward again.

**Address by Mr. Modesto Freites Piñate, Alternate Governor for Venezuela and Minister of State, Chief of the Central Coordination and Planning Office, Office of the President of the Republic**

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The importance of this meeting of the Inter-American Development Bank may be summed up in three ways: first, it marks our farewell to an outstanding Latin American leader who successfully guided the institution's destiny for 15 years; second, we are welcoming another distinguished figure from our hemisphere who will assuredly continue the splendid work of his two predecessors; and third, the gathering of an appreciable number of representatives from financial institutions the world over affords an opportunity to examine the problems that have the world economy paralyzed, are exerting a harmful effect on Latin American growth rates, and are blocking the generation of the funds needed for domestic expansion and the payment of international commitments.

In bidding farewell to Don Antonio Ortiz Mena, we join in the praise bestowed on him by the Chairman of the Meeting and by the Governors who preceded us at the podium. During his years as President of the IDB, Don Antonio was unquestionably successful in increasing the size of the Bank and its membership. He also introduced numerous borrowing and financing modalities for our organization's regular and special programs. Accordingly, this eminent Latin American leader should be highly gratified at his accomplishments, just as we can be proud of the regional character of the Bank and its efficiency that make it unique among the multinational development finance agencies, thanks to the leadership of Felipe Herrera and Antonio Ortiz Mena.

We welcome Enrique Iglesias, former President of his country's Central Bank, former Executive Secretary of ECLAC and past Foreign Minister of the Eastern Republic of Uruguay. We welcome him in full confidence that he will serve our hemisphere as efficiently and as creatively as he did at ECLAC and in the prominent positions he held in Uruguay.

The decision to establish the Inter-American Development Bank crowned a long search for a multilateral financing agency for the Latin American countries that could guarantee them borrowing based on a thorough understanding of actual conditions prevailing in the region, as a result of which the means would be fully matched to the nature of the problems and the true extent of the requirements of the borrowing countries. This idea of a cooperative-type bank headed by the borrowing countries was accepted by President Eisenhower's administration, enthusiastically supported by President Kennedy, and firmly upheld by subsequent administrations in the United States, and later by Canada and the nonregional member states of the Bank.

As a result, the Bank set out at its inception to launch highly innovative initiatives in its financing endeavors and areas of activity, placing special emphasis on the social nature of development.

In fact, the new organization was called on to create fresh ways of providing financial assistance in fields essential for the protection of the hemisphere's human resources—such as loans for health care and education, areas in which its efficacy has been justly lauded. It also fell to the IDB to help the countries of the region to set up their investment programs; prepare large-scale economic and social infrastructure projects; carry out programs for industrial and agricultural development; provide valuable technical assistance to the countries' various institutions, and assume obligations in the area of export promotion.

Thanks to this array of endeavors and the instruments it created, the IDB has come to represent a driving force for the economic and social development of Latin America. Given these accomplishments, prudence must prevail in the introduction of changes by seeking to ensure that those that are indispensable will safeguard our Bank's status as a prime mover for growth in the Latin American nations.

The projects financed by the Bank have been successful in every way. This Meeting of the Board of Governors should nevertheless take note that the IDB's credit assistance has dwindled. This was all too acutely evident in 1987, when the Bank's credit assistance amounted to only \$2.6 billion, representing a 13 percent decline from the level of loan approvals in the previous year.

In this regard, it would be advisable to study the possibility of revising the policy that governs the loan percentages normally financed in foreign exchange. The situation today is very different from what it was when these percentages were decided on. Prior to 1982, the economic situation of Latin America was such that in most cases, the foreign exchange quota not financed by the IDB could be covered. Today, however, the external financing constraints facing the region have meant that many priority projects have had to be adjusted or deferred.

I would not wish to let this opportunity go by without mentioning the Inter-American Investment Corporation, established in this very room in 1986. The Corporation is a response to the member countries' desire for an institution that could finance private sector projects in small- and medium-sized industry, promote capital investment in their economies, and arrange for the transfers of technologies appropriate for the region. It is also an example of how the acceptance of ideas originating in the member countries enriches the scope of the Bank's activities.

These programs are so important that there is now an urgent need for both member countries and the IDB Management to expedite the necessary procedures for the Corporation to step up its operations.

Furthermore, this assembly is of special importance because it brings together delegates from all of the Bank's member country governments and representatives of other multilateral organizations and financial institutions. We are thus able to examine the economic and social problems facing Latin America in a much broader context.

This is not the moment to postulate possible alternative solutions, but it is a good time to point out how serious the problem facing us is: economic stagnation in Latin America is costing our countries around \$30 billion a year in lost income. The industrialized countries have recorded a similar decline in their exports to our countries and a sharp cutback in returns on capital invested in the region.

Venezuela's current position with respect to the Inter-American Development Bank is the same position we have taken since the Bank was founded, and is rooted in our traditional policy of strengthening cooperation between and among the countries of Latin America. There have recently been a number of financial initiatives in which this policy has been put into practice. For example, a trust agreement was signed in December of last year between the Venezuelan Investment Fund (*FIV*) and the Central American Bank for Economic Integration, under which the *FIV* is providing \$20 million to finance high priority development projects in the region. When the Central American Bank opens its doors to non-regional capital subscriptions, these funds can be applied to Venezuela's contribution upon admission to the organization. In addition, Venezuela has made a third contribution to the Caribbean Development Bank's Special Development Fund, to strengthen that Bank's ability to provide its borrowing member countries with concessional financing.

In addition, Venezuela has been working within those international organizations

in which it is a major player, such as the OPEC Fund and the IFAD, in an effort to increase assistance for Latin America and especially for Central America and the Caribbean.

In concluding these remarks, I wish to congratulate Dr. Iglesias on his magnificent speech yesterday. It revealed a clear understanding of our problems and showed that he has the ability and wisdom to tackle them. His words fully corroborate the confidence we placed in him when we elected him.

And lastly, on behalf of my government, I should like to say to the Governors, to the members of their delegations, to the Management of the Bank, and to the special guests how pleased we have been to have you visit our country. During these past few days, we have tried to show you our warmest welcome, rooted in our spirit of unshakable solidarity with our brothers and sisters here in the Americas and our friends outside the hemisphere.

**Address by Mr. Luis António Gomes Moreno,  
Alternate Governor for Portugal and  
Director General of the Treasury, Ministry of Finance**

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It is an honor and a privilege for me to address this Twenty-Ninth Annual Meeting of the Board of Governors of the IDB, at a crucial moment in its life, when its President of long standing hands over the reins to his successor, in this city of Caracas, birthplace of that great Latin American hero, Simón Bolívar.

On behalf of my country and of myself, I greet all those present and thank the Government of Venezuela and the authorities and citizens of Caracas for the cordial welcome they have extended to us.

To the outgoing President, Antonio Ortiz Mena, I would like to express public recognition of my country's authorities for his hard work over all these years on behalf of the peoples of the borrowing countries, while to Enrique Iglesias who is succeeding him as President at this particularly critical moment in the Bank's history I would like to voice the conviction that with his exceptional qualities and special personal gifts, the Bank will be able to find ways out of the present uncertainties and stagnation and assert itself as an institution with an unparalleled role to play in the accelerated development process that the peoples of the region legitimately demand.

Despite the efforts made over recent years, the times are not easy for the Bank's borrower countries, with all the serious consequences thereby entailed, especially in the social sphere.

After five years of severe adjustment measures, the economies of the region are still subject to extreme constraints and disequilibria, the outcome, to a large degree, of the very slow growth of the economies of the more developed countries, who are themselves endeavoring to achieve stable and lasting equilibria.

This general economic situation, coupled with the lack of agreement on the replenishment of its resources, had a most pernicious impact on the IDB's activity in 1987, with the result that the most immediate prospects are deeply disturbing unless we are able to find ways to reverse the trend.

The figures say much. In 1987, the volume of disbursements contracted by 15 percent and that of loans by over 20 percent, while at the same time a paradoxical situation developed in which there was a net flow to the Bank, considering all its borrower countries as a whole, of nearly \$120 million. Eight of these countries alone transferred a net total of almost \$600 million to the Bank. In light of the region's enormous needs, the least that can be said is that something is definitely amiss.

It is vital and urgent to find ways of breaking out of this vicious circle, since otherwise, sooner or later, we will be faced with an unacceptable social situation. The IDB can and must play a key role in ensuring that past mistakes are not repeated.

May we, then, have the ingenuity and the skill to provide the Bank with financial, human and organizational resources that are suited to its purpose. In so doing, however, we must not fail to take certain immediate measures that are called for, since if the situation is allowed to deteriorate further we might find that we have built a "bank for the future" which by then may no longer have any *raison d'être*.

It is in this connection that I venture to systematize certain points that have been made, with greater or lesser emphasis, by some of the speakers who have preceded me:

- No country of the region is presently in a position in which it can, without doing itself a disservice, be a net contributor to the Bank.

- The exhaustion of the economies of many borrower countries renders prompt adoption of greater flexibility in resource use essential.
- The scale of the needs calls for a concentration of efforts in areas and projects of high priority, thus requiring strengthening of the Bank's capacity to analyze problems, identify projects and select alternatives.
- The experience, know-how and action capability of the IDB cannot be allowed to go to waste; rather, weaknesses must be remedied, the Institution must adapt to the new realities, its existing qualities must be strengthened and its specialized nature and purpose must be maintained.

As President-Elect Enrique Iglesias has rightly underscored, Latin America cannot continue indefinitely in a process of crisis, recession and drastic adjustments. Rather, it needs to swiftly find ways that will enable it to set out on the pathway to modernization and sustained growth, utilizing the enormous potential available to it and thus enabling its peoples to live a life of greater dignity and one that affords them more happiness.

And, as I have already said, the IDB has a key role to play in this process. May we all have the wisdom to build the consensus necessary for the Bank to be able to perform this role.

**Address by Mr. Alain Turnier,  
Governor for Haiti and  
Minister of Finance, Economic Affairs and Civil Service**

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I have the distinct honor of addressing this prestigious gathering as the head of the delegation from my country, which now has a new government after thirty years of dictatorship.

I take this opportunity of presenting cordial greetings to the Chairman of the Board of Governors, the President-elect, the Bank Management, and the distinguished delegations of the member countries from the President of the Republic, Professor Leslie F. Manigat, and the Prime Minister, Mr. Martial Celestin, and the Government of Haiti.

I should be remiss if I were to fail to congratulate the Venezuelan authorities, in the name of the Haitian delegation, on the flawless arrangements that will unquestionably contribute to the success of this meeting, and to thank the entire population of Venezuela for its warm welcome. History has already forged links of solidarity between the peoples of Venezuela and Haiti which a spirit of mutual understanding continues to strengthen.

Congratulations go also to Mr. Enrique V. Iglesias, President-elect of the Inter-American Development Bank. His wealth of experience in the Latin American and Caribbean economic and social domain and his brilliant career as an international civil servant assure us that he will make an exceptional contribution to the grandiose destiny of our multilateral institution for aid to development.

The Haitian delegation also welcomes this opportunity to pay well-deserved tribute to Don Antonio Ortiz Mena, whose 17 years at the head of the Bank have bequeathed us an extraordinarily rich legacy.

At this turning point in the history of the Haitian people, it is fitting to proclaim anew our firm resolve to build a society founded on respect for fundamental rights and the satisfaction of essential needs. The events that marked the transition from dictatorship to a return to democratic life in Haiti clearly reflect the will of its people to better their political, social and material circumstances.

And this is the arduous task to which the present government is bending its every effort: a formidable challenge, given the deterioration of the country's economy. The new team responsible for the work of reconstruction is fully aware of the immensity of its assignment, and firmly resolved to overcome the obstacles in its path.

Haiti's economy bears the scars of the 1980-82 world recession and continues to suffer from the many internal shortages. With a per capita gross domestic product of \$300 a year, Haiti is the least developed country in Latin America and the Caribbean. Rampant unemployment has now reached epidemic proportions within the country, affecting 40 percent of the economically active population.

The economic stabilization measures put into effect in the course of the past two years have made it possible to reduce the budget deficit, slow the demand for credit from the Central Bank, and reverse the downward spiral of net foreign exchange reserves. As a result, pressures on the gourde have been eased, which the stringency of the present economic situation—doubtless temporary—nevertheless seems to reactivate.

Our foreign public debt rose from about \$494 million at year end 1982 to \$760 million in 1987. Debt service, which represented 10.4 percent of our exports in 1982

doubled to 21.4 percent of exports in 1987, mainly due to amortization payments.

It should be noted that 60 percent of our public spending program is financed by external funding, and that any break in the flow of concessional loans has a serious impact on our investments.

Although two-thirds of our population is engaged in farming, this sector accounts for only one-third of the gross domestic product. That disproportion underscores the productivity problem that plagues our agriculture, and it is one of the reasons why Haiti is unable to feed its population.

The manufacturing industry, on the other hand, has made progress, especially in the assembly sector, to the point where manufactures top the list of our exports. Assembly work has been the most important source of jobs—50,000 of them in the last few years—but its vulnerability to changing conditions precludes any guarantee of its stability. Several thousand jobs in this sector disappeared, in fact, during the period of social and political unrest.

Need we cite here the troubles that afflict my country and mortgage its future? Illiteracy in 77 percent of the population, an infant mortality rate of 12 per 1,000, undernourishment, protein deficiency . . . all add up to a situation that has been unjustly perpetuated—and this is not exclusively Haiti's lot—by grave iniquities in the distribution of income and wealth.

The somber picture I have just sketched of Haiti's economy leaves no doubt as to the difficulty of building a viable economy in Haiti, one that is less dependent on aid from abroad. The government plans to accomplish that task by installing the requisite infrastructure for sustained national economic development. It also plans to undertake emergency programs featuring highly labor-intensive methods throughout the country. All of these activities are designed not only to promote growth and development, but to achieve the democratization set forth in the 1987 Constitution as well.

While the execution and success of the government's program depend on the nation's collective will, the spirit of understanding and international cooperation is equally necessary, since it can hasten the achievement of acceptable levels of well-being for all of the Haitians.

I speak for the Government of Haiti when I take the opportunity to assure this prestigious gathering of Haiti's faith in the solidarity of peoples.

My delegation is fully aware of the work that has gone into preparations for the Seventh General Increase in Resources. We subscribe wholeheartedly to the efforts deployed to encourage and support execution of sectoral projects for optimal utilization of such resources.

I should like to express our interest in pursuing the discussion favoring enhanced use of concessionary funds for the benefits of the poorest countries in the region. We believe that this means could allow accelerated growth, reducing the gap that separates us from the most advanced countries of the region as a result of investments.

The Republic of Haiti is entitled to look for greater understanding on the part of the Bank in the form of greater flexibility in the facilities granted to Haiti than in the past 20 years. The list of loans shows Haiti in last place among the beneficiaries of IDB assistance: this is a paradox, to say the least, when one considers that Haiti is the least developed country in the hemisphere.

If this is so, it is partly because the Bank's requirements for counterpart funding from the borrowing countries limit the eligibility of the most disadvantaged nations to take advantage of IDB funding to improve the quality of life for their populations. Consequently, the Haitian delegation requests an easing of the rules governing counterpart funds. As the Governor for the United Kingdom emphasized yesterday in

referring to a remark made by President-Elect Iglesias—whose dynamism we admire—changes must be made to allow the Bank to meet the economic and social challenges facing the borrowing countries.

The Government of Haiti itself is already launching reforms to ensure the better use of the resources that can be mobilized for national development.

The Haitian delegation thanks the Board of Governors for its attention and presents its most fervent wishes for the success of a great Inter-American Development Bank at the service of our various countries.

**Address by Mr. Pedro Pérez Fernández, Temporary Alternate Governor for Spain and Secretary General of Commerce, Ministry of Economic Affairs and Finance**

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It is an honor and distinct personal pleasure for me to be able to address this Twenty-Ninth Annual Meeting of the Inter-American Development Bank and Third Annual Meeting of the Inter-American Investment Corporation. On behalf of my government and of my delegation, I wish to express my sincere appreciation to the Government of Venezuela and to the officials and citizens of Caracas for their hospitality.

This annual meeting of the Board of Governors of the Bank and of the Corporation is being held at a critical time, which deserves reflection. The departure of President Ortiz Mena brings to a close a period in which the IDB has won high levels of international recognition for its development efforts in Latin America and the Caribbean. Nevertheless, it is also true that the profound economic crisis in every country inside and outside the region has deeply affected the economic, social and institutional context of the Bank's operations and, indirectly as well, the scope and effectiveness of its mission.

This situation coincides with the election by acclamation to the position of chief executive officer of the Bank of Mr. Enrique Iglesias, a person renowned for his efforts on behalf of international cooperation in general and his dedication to the economic and social development of the region in particular.

Under his leadership, the Inter-American Development Bank must relentlessly address the urgent task of tailoring itself to the new situation in such a way that it can once again perform its statutory mandates or do so more effectively than at other moments in its history. This realignment will likely entail the definition of a new strategy clearly outlining the short- and medium-term goals of the IDB as well as a search for new operational patterns and procedures.

I realize that change will not be easy. Resistance will have to be overcome and conflicting interests harmonized. The experience of my own country allows me to say that this is possible with a strong dose of optimism, understanding, imagination and political will, something I am sure is not lacking in either this Board of Governors or in the new President.

According to Article I of the Agreement Establishing the IDB, the purpose of the Bank is "to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively." Accomplishing this goal, the acknowledgement and acceptance of which must be the starting point for any new strategy, means that the present status of the countries of the region must first be examined, as well as the factors leading up to that situation, in order to define the role of the Bank accordingly.

I will not dwell on the first aspect, but I would like to mention a series of points that I believe are particularly important. The first one is a mere matter of record. Economic development in Latin America and the Caribbean has fallen in the 1980s after two long decades of substantial progress. Needless to say, this listlessness is closely tied to the external debt problem, on which only limited progress has been made.

The source of the problem is not to be found, as is so often claimed, in the irresponsibility of either the creditor countries or the debtor countries, but rather in a

dramatic change in economic conditions that affected both sides, however unequally. It is as meaningless to accuse the creditor countries of frivolity in placing their savings in countries with abundant potential for profitable investment, as it is to accuse the debtor countries of irresponsibility in implementing development policies, aimed at improving the living standards of their citizens and resorting to foreign lenders for that purpose. These were orthodox policies in the system we live in today and were proven to be viable in the past experience in the region and in the experience of major nations whose development was largely based on heavy borrowing abroad.

This being so, it is also true that the macroeconomic policies followed by the creditor countries in attempting to resolve their problems had strong repercussions on the countries in the region, not merely in the way of higher interest rates but also in reduced export earnings as a result of the dramatic cutback in demand for their products, deterioration in their real terms of trade, and the impact of growing protectionism. This forced them to implement stabilization and structural adjustment policies of unprecedented scale and duration. This has taken a high socio-economic toll.

A third point is that these effects are all the more distressing for the debtor countries of the region because they unfortunately coincided with a time when quite a few governments were making an earnest effort to restore high levels of democracy and freedom for their people. Based on my own country's experience, I might just mention how difficult it is to explain that more political freedom goes hand in hand with forestalling, if not curtailing, long-sought improvements in the levels of economic and social well-being because of outside factors that are usually difficult for the man in the street to grasp. Social and political tensions, and their dampening effect, are something that no democratic government can responsibly ignore.

The economic crisis prevalent in the region since the early 1980s failed to subside in 1987. The estimated economic growth rate for the year was lower than in the three preceding years and per capita GDP rose by only 0.5 percent. In real terms, the latter indicator moved downward in nine countries. If we measure the situation in terms of available income, the picture is even more compelling because of widening fiscal pressure caused by the growing demands of debt service. Moreover, stepped-up inflationary pressure in most countries in 1987 may soon force the governments to adopt recessionary policies. In this context, the improvements in the region's foreign accounts caused mainly by the recovery in petroleum prices, are too localized to be significant. In fact, the debtor countries are in a worse situation than in 1982, whether measured in terms of the debt-to-export ratio or the debt-to-GDP ratio.

The solution of this situation of stagnation necessarily entails improvements in the debt payment, structural adjustment, and growth policies of the countries of the region, a terrain where there is still much to be done. Nevertheless, it must also be recognized that this will require a much more favorable international environment. Although recent progress has indeed been made in coordinating the policies of the industrial countries, it is also true that there is still a lot of room for progress. It is not fair to suggest that the debtor nations adopt policies that are hard on society if they are denied sufficient market expansion because of the lack of growth and protectionism in the industrial countries. The debt service problem is unlikely to move back to manageable levels unless the imbalances standing in the way of a return to normal interest rate levels are corrected.

Such is the framework, as described in the preceding paragraphs in which an IDB strategy for improving its contribution to the socioeconomic development process in its regional member countries must be inscribed.

The operational activity of the IDB dwindled acutely in 1987, which is especially

evident in lending from the capital resources. My government regrets that this should occur at such a time as the one described earlier when there is an absolute need to provide additional funding to the region. The results are even gloomier if coupled with the reduction in disbursements. In 1987 the Bank became a net receiver of funds from the region. This is totally inconsistent with the objectives of the institution and with the plan formulated by Treasury Secretary Baker a little over two years ago. There are eight countries in the region, including the most highly indebted ones, from which the IDB absorbed a net figure of some \$600 million in the last fiscal year. This situation rather than being unique, is unfortunately repeated in other multilateral organizations.

Not much progress appears to have been made in 1987 either in implementing the policy under which around 50 percent of the lending authorized in each fiscal year should be targeted directly to benefit low-income groups.

My government is aware of the praiseworthy efforts that the Management of the Bank has made to find new projects and encourages it to continue moving in this direction. It also understands the budgetary and foreign exchange difficulties many countries in the region are coping with and which are undermining their ability to finance more projects and forcing a reduction in social spending priorities.

The possibility that the trend clearly visible in fiscal year 1987 may continue in the future is anything but negligible, considering the impact which the movement in dollar exchange rates has already had and might still have on the Bank's borrowing and lending capacity. Viewed from this angle, the Bank's basic problem in the near term lies in finding mechanisms that will enable it to make adequate positive transfer of resources to the region in order to avert further deterioration in this fiscal year in various countries where the situation is already serious. This does not appear to be feasible unless the criteria followed thus far in allocating the Bank's resources are temporarily relaxed.

My country still considers it vital for the Bank to act as a major source of medium- and long-term funds for the less developed countries of the region and therefore regrets the inability in 1987 to draw more intensively on the resources of the Fund for Special Operations.

Along with a solution to the two urgent problems just mentioned, the basic task for 1988, viewed from a medium-term perspective, is to agree on an expansion of the IDB capital on a scale large enough for the Bank to contribute to a rebound in the regional economies and to the modernization of the productive apparatus. The experience thus far in the negotiations of the Seventh Replenishment raises some questions about the suitability of the strategy being followed. Perhaps some issues are no longer very important, while others should be approached from a different perspective.

Nevertheless, the stock of resources available, while a necessary condition, is by no means sufficient for their effective allocation, which should be measured by the ability of Management to do the following:

*First.* Detect sufficiently in advance, acting in close contact with the borrowing countries and in terms of their specific problems, those sectors, policies or projects that have a greater capacity to contribute to economic and social development. In this respect, the need to reinforce the programming system is absolutely essential, subject to the avoidance of the potential risks of duplicating operations already undertaken by other multilateral organizations or of imposing criteria that are inconsistent with the sovereign economic and social policies responsibly designed by the states in the region. In this sense, we do not see that it is either necessary or appropriate for conditionality to be injected as Bank policy, at least as conceived in other multilateral agencies.

*Second.* Reduce the time it takes to elaborate the projects that are to be financed, which is still too long, as well as the administrative cost involved.

*Third.* Acting in close contact with the borrowing countries, monitor project execution, short of unnecessary interference, in a way that will guarantee a rapid pace of execution; this is the only way to hold the present-day imbalances between loan commitments and disbursements to a minimum and to avoid unduly long immobilization of financial resources.

*Fourth.* Use creative systems of coparticipation to mobilize additional resources for use in the region. This may be particularly important until the resources from the capital expansion become available. Here I would like to announce my country's willingness to contribute resources either under a cofinancing agreement or through our participation in establishing an *ad hoc* fund backed by any nonregional countries that may wish to participate in such a mechanism.

*Fifth.* Diversify the kind of eligible services available to the borrowing countries. I am thinking in particular of the Bank's ability, with its penetrating knowledge of the economic and social conditions in Latin America and the Caribbean to provide advice and encouragement to the economic integration processes under way in the region, and to build up the institutions of the most needy countries in a way that they can coordinate aid flowing in from bilateral and multilateral sources. This may call for a review of the functions carried out by the Bank's regional offices, with a view, in addition, to the Inter-American Investment Corporation.

Developing the approaches listed above may in all likelihood entail both administrative and institutional reforms. I feel certain that the former will be undertaken strictly on the basis of effectiveness; we believe the latter should be aimed at stimulating the need for dialogue and consensus in decision-making. Such reforms can only be beneficial, and my country is willing to take part in their discussion and back them along the lines of the criteria mentioned.

There is little that can be said about the Inter-American Investment Corporation. The expectations it awakened run the risk of dissipating unless it is implemented immediately. We believe the Corporation can and will perform a useful function in stimulating productive investment and creating a climate conducive to direct foreign investment.

Since my arrival in Caracas, I have sensed the need and hope for change everywhere: among the regional countries, the nonborrowing countries, and among Management itself. Such change will be possible to the extent the necessary institutional reforms are tackled, the multilateral character of the institution is respected, and it is not forgotten that this Bank was created to meet the legitimate needs of the Latin American and Caribbean countries. Consequently, it is absolutely essential to listen to their demands and aspirations in order to be sure we are moving in the right direction.

This is a challenge for us all and for you as well, President Iglesias. You may be certain of the enthusiastic support of my Government and of my country in the task that lies ahead.

## **Address by Mr. Luis Fernando Alarcón Mantilla, Governor for Colombia and Minister of Finance and Public Credit**

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It is an honor for me to address this, the Twenty-Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank, now entering on a new and important phase of its existence. Renewed support for the ideals which inspired the formation of the IDB brings to mind our Liberator Simón Bolívar and the enlightened vision of cooperation and integration that he pursued so tirelessly. We take this opportunity to pay homage to his memory, and are delighted that, once more, it is in Venezuela, his native land, that hope for a stronger Inter-American Development Bank has been reborn.

The IDB's history is inseparably linked with the contribution of its outgoing President, Mr. Antonio Ortiz Mena. On behalf of the Government and people of Colombia, I wish to express, once again, our most heartfelt thanks. As President, Don Antonio proved to be a skillful leader. He took the Bank ever further into the community of nations, and made it worthy of membership on the part of the non-regional countries, and deserving of the growing increases in its own resources and in those obtained from the international financial markets, while also ensuring competent management of the trust funds set up by the United States, Venezuela, Canada, Switzerland and Norway. More recently, a considerable number of Bank member countries also decided to support his idea of establishing the Inter-American Investment Corporation.

The IDB's resources have enabled it to provide financing to borrowing countries at a rate of \$2.5 billion a year, to a total of nearly \$40 billion. This has been the IDB's contribution to the financing of investment projects and programs aggregating \$115 billion. These funds, together with the technical and administrative cooperation included in the IDB's operations, form the most conclusive proof of the benefits that international financial cooperation brings, and of the need to continue strengthening the Inter-American Development Bank.

### **The Future of the Bank**

The change of Presidents, the substantive questions connected with the amount of capital the IDB should have, its multilateral identity and the changes in its organization—all questions that received painstaking attention in the inconclusive exercise of the negotiation of the Seventh Capital Increase—combined with the difficult economic situation prevailing in many of the borrowing countries and the relative scarcity of funds from other sources, render a new, fresh and visionary approach imperative to determine the type of bank that is required by the current economic and political circumstances of the member countries.

The ideas put forward by the President-Elect of the IDB, Mr. Enrique Iglesias, in his address at the Inaugural Session of this Meeting, are of the greatest significance for the future of the Bank. Very relevant today is his emphasis on cooperation and communication among member countries as the basis for strengthening the Bank, so that it will be in a position to contribute to the development and integration of the countries of Latin America and the Caribbean in a process of growing international economic interdependence. Dogmatism and inflexibility have no place in this style of cooperation, since they would only stand in the way of the understandings sought. We

also agree with President-Elect Iglesias in his assigning the Bank a leading role in solving the problem of member countries' external debt, and in the contribution it must make toward the modernization of their productive structures.

To help resolve the problems of underdevelopment and poverty, the Bank should not limit itself exclusively to project financing. There is also a need to channel adequate resources to the financing of programs geared to provide assistance on the macroeconomic level.

The IDB's contribution to the changes essential to provide the bases for sustained growth in the countries of Latin America clearly requires that the Bank should have sufficient resources available to it to make it a big and strong institution. It would be unrealistic to assign the Bank such tasks without at the same time providing it with the means to carry them out.

Among the resources that can help to enable the Bank to perform this function I want to emphasize those offered by Japan, to which the Governor for that country made reference at this Meeting. The activity of the Inter-American Investment Corporation can also be helpful for facilitating the transfer of resources seeking investment opportunities and which originate in a growing number of capital-exporting countries, for example Korea, Singapore and Taiwan.

Now that we have learned the view that President-Elect Enrique Iglesias has of what the Bank should be, his proposal to set up a high-level review committee to formulate, in consultation with the Governors and Executive Directors, recommendations on the future of the Bank is also relevant and appropriate.

### **Colombia's Economy and Its Need for External Financing**

Over the past three years Colombia's economy has posted a growth rate of around 5 percent per year in real terms, which has been reflected in a reduction of unemployment, an increase in per capita income and significant improvements in the social conditions of the country's population, which currently numbers 28 million and is growing at 1.9 percent annually. The balance of payments posted surpluses in 1985 and 1986 of \$285 million and \$1,465 million, respectively, and a modest deficit of \$25 million in the past year. Net international reserves currently stand at \$3,240 million, equivalent to 13 months' imports and eight months' balance of payments current account outflows.

The external debt stood at \$15,631 million as of the end of December 1987, 80 percent of which was accounted for by the public sector and 20 percent by the private. There were no significant changes in the total debt in the past year; if the dollar had not depreciated with respect to other reserve currencies the debt balance would have declined. As far as the public debt is concerned, 35 percent is owed to multilateral financing agencies, about a third of this being due to the IDB and the rest to the World Bank. In 1987, interest paid totaled \$1,427 million and amortization \$1,375 million; the service, interest and amortization of this debt represents 39 percent of current account revenues.

Colombia has been servicing its external debt punctually. In order to ensure that it will be able to continue meeting this commitment, indebtedness has been prudently managed. In this connection, the country's strategy, within the context of its macroeconomic policy, consists in seeking resources from commercial banks up to an amount equivalent to the amortization payments received by those banks. Colombia has in fact obtained the necessary resources from commercial banks over the past three years. While successful, this process has not been free of difficulties occasioned by the shocks

suffered by the international capital market and an incorrect perception of the mutual benefits to be derived from this approach. The financial institutions are aware that access to these resources is indispensable to ensure that the policy followed by Colombia can be continued without setbacks.

Positive net flows have been obtained from the other sources of financing, so that a moderate increase is expected in the debt balance, but one that will be less than gross domestic product growth, thus leading to a progressive improvement in the country's debt indicators.

The Colombian Government is fully convinced of the benefits to be derived from sound macroeconomic management. We have accordingly pursued such a policy and the results are already evident. For 1988 we will continue executing similar policies in the fiscal, exchange and monetary spheres and we accordingly anticipate results that will be as satisfactory as those of recent years. Economic growth of around 5 percent is expected, together with a stable inflation level and a slight increase in international reserves.

Colombia has received considerable support from the IDB for its economic and social development since the Bank's founding in 1959, and will continue participating through the Governors for the country and the Executive Directors in the decisions that have to be taken for the Bank to be made a really stronger institution which makes a decisive contribution to the economic growth of its member countries.

I would like to reiterate our support for the proposals put forward by the President-Elect of the IDB. On behalf of the Colombian Government I congratulate Mr. Enrique Iglesias, a distinguished Uruguayan and an economist with an extensive and well-deserved international reputation, whom we elected unanimously as President of the IDB. At the same time, I offer him our most wholehearted cooperation.

Finally, Mr. Chairman, I would like to thank the Government and people of Venezuela, and in particular you yourself as Minister of Finance and Governor of the IDB, for the excellent organizational arrangements for this meeting and for the open-handed hospitality you have extended to us.

**Address by Mr. Volkmar Köhler, Governor for the  
Federal Republic of Germany and Parliamentary State Secretary,  
Federal Ministry for Economic Cooperation**

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It is a pleasure and an honor for me to express my thanks to our host, the Government of Venezuela, for organizing so excellently the Twenty-Ninth Annual Meeting of the IDB and the Third Annual Meeting of the IIC. The cosmopolitan city of Caracas has welcomed us with open arms and offers us a harmonious setting for these annual meetings.

Despite continuing economic problems, 1987 witnessed further progress on the road to political stabilization in Latin America. Particularly in Central America, decisive steps were taken in the direction of political autonomy and democracy. The Esquipulas Plan has raised feelings of hope and confidence that there will be progress towards peace in Central America.

The San Jose IV Conference which was recently held in Hamburg under the German presidency of the European communities underlined that we continue to have faith in the peace process. Thus the European community will further expand its cooperation with the Central American region. We attach much hope in the re-establishment of the Central American common market and encourage the creation of the Central American Parliament.

The Federal Republic of Germany will continue to support Latin America and the Caribbean in their plans for reconstruction. The process of democratization in the region is not an easy one under the given unfavorable economic circumstances. This democratization is followed with lively interest by the people of our country. It can make successful progress only if every citizen shares in the benefits of economic development. People have a right to expect that life in a restored democracy will lead to an improvement in their living conditions and reduce economic and social imbalances. In our own experience, democracy was rebuilt in a very unfavorable economic environment, but then over time economic prosperity became an essential element of lasting democracy.

The economic development of the region has not lived up to expectations in recent years. As stated at the outset of the latest Annual Report of the IDB, in 1987 Latin America's economies grew by little more than 2 percent, and the average per capita income remained more or less unchanged. The debt crisis, which has dragged on through its sixth year, again led to net outflows of financial resources from the region.

Meanwhile, the mountain of debt has grown to about \$400 billion. Almost 40 percent of the world's debt is owed by Latin America. This high indebtedness puts considerable pressure on the Latin American countries to reform their national economies. Bolivia, for example, has been able to make unexpected gains in its efforts to bring down inflation but in other countries the rate of inflation has again accelerated. This is in part due to their often bloated public sector. In addition, capital flight is still rampant, an obvious consequence of insufficient political stability and inadequate economic policies.

The Latin American countries have made great efforts to tackle these problems. In 1987, exports from Latin America increased again after a sharp drop in 1986. By diversifying their exports, these countries have been able to reduce their dependence on traditional export goods. In addition, endeavors to bring about greater economic and political cooperation in the region were intensified. The meeting of the presidents in

Acapulco, the Treaty of Esquipulas and the integration agreements which were concluded in the south of the region seem to us to be a step in the right direction.

We are aware that the people of Latin America have already made great sacrifices and that the standard of living of the poorest people has fallen further in the last few years. Nonetheless, structural adjustment efforts are still necessary while taking into account its social consequences.

The Federal Republic of Germany is prepared to participate in a policy dialogue aiming at further structural reforms in order to assure a sound basis for sustainable economic growth and social development. In the last few years, the development cooperation between the Federal Republic of Germany and Latin America has gained in importance: the share of our official bilateral aid for Latin America has increased from 7.4 percent in 1982 to 15 percent in 1988. Our aim in providing more bilateral and multilateral contributions is to help the continent to solve its problems.

Moreover, the figures on trade between Latin America and the Federal Republic of Germany for 1987 show a substantial surplus in favor of Latin America. Additional earnings gained by increased exports are at least as relevant as the transfer of official development assistance.

On the multilateral stage, the IDB contributed only in a limited way last year to international efforts to alleviate the region's problems. In comparison with 1984, total lendings actually decreased by 47 percent. The prospects for a greater volume of loans in 1988 and 1989 remain cloudy.

The IDB has not been able to assume its proper role in assisting the highly indebted countries of the region. I am particularly concerned that it proved impossible to bring to a favorable conclusion the negotiations on the Seventh Capital Increase. Even though progress was made in many areas during the negotiations, members' willingness to compromise was not great enough to pave the road for a consensus.

The nonregional countries of the Bank were anxious to help as much as they could to bring about a successful conclusion of these negotiations. We are convinced that, now more than ever, the countries of Latin America and the Caribbean need a well-functioning IDB. Given the magnitude of the problem and the urgency for solutions, an early agreement on the issue of the capital increase is of the essence.

However, such a replenishment has to go hand in hand with a change in the Bank's lending policies and organization, as I stressed already last year. Furthermore, we believe that the Bank's structure should better reflect the various contributions of non-borrowing countries. This applies in particular for the nonregional members of the IDB, whose support of the Bank goes well beyond their actual capital shares. In this context I just want to mention the importance of our capital markets for the refinancing of the IDB and the relatively large contributions that the non-regional members make to the FSO. These factors should be taken into account when devising a new decision-making mechanism at the IDB, this even more so such a change would also strengthen the multilateral character of the Bank.

The Federal Republic of Germany stands ready to participate in a substantial capital increase. As I already mentioned, we would like to see this replenishment combined with the necessary reforms so as to ensure the highest degree of technical competence and effectiveness.

I take this opportunity to express our sincerest thanks for the distinguished service of former President Ortiz Mena. Under his leadership the Bank has considerably widened the scope of its activities. With our support, President Ortiz Mena gave a new momentum to the Bank's policy in the social sector, to projects for the poorest

population groups, to the importance of environmental aspects, and to the role of women in development.

It is now a pleasure to cordially welcome the newly elected President, Mr. Enrique Iglesias. His unanimous election augurs well for the future of the IDB. It is not only a recognition of his personal and professional qualifications for this high office, but constitutes also a moral obligation for all members to constructively assist him in charting a new course for the Bank.

We, therefore, should all support and encourage him to take the necessary initiatives in order to disperse the spirit of confrontation, to revitalize, as well as professionalize the Bank, and to promote a speedy and substantial replenishment in the interest of all the people in the region. This appeal includes the need to make the IIC operational and to elect a general manager, both of which are overdue.

The opening remarks of the President-Elect on Monday give us cause for confidence. We wish him a good start at the helm of the IDB and offer our fullest support and cooperation in his endeavors to bring new life into the Bank so that it can meet the challenges ahead.

In conclusion, I would like to reconfirm the invitation on behalf of my government to hold the Annual Meeting of the IDB in 1991 in the free city of Hamburg. Over centuries, this great city has maintained extensive trade relations with Latin America and the Caribbean. Its traditional friendship with this region and its cosmopolitan openness make Hamburg a uniquely qualified place to host such an important meeting.

**Address by Mr. Yehuda Drori, Alternate Governor for  
Israel and Commissioner, Capital Market,  
Insurance and Savings Department, Ministry of Finance**

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In taking the floor on behalf of the State of Israel, let me begin by congratulating Mr. Enrique Iglesias on having been elected President of the IDB. I extend to him my country's and my own wishes for success in this challenging office.

I would also like to take this opportunity to express the great esteem, shared by all of us, in which Mr. Antonio Ortiz Mena is held. In his 17 years in office Don Antonio has led the IDB from adolescence to maturity. By opening this institution to nonregional members he has not only expanded the scope of the Bank's activities, but also transformed it into an institution of international rank and influence. The role of the IDB today is no longer complementary to that of other international organizations; the IDB has become the main source of development financing in Latin America.

Recent economic developments in Latin America underline, if underlining is required, the great need for development financing in the region. In 1987 the net flow of capital from the region continued. Furthermore, Latin America's economies were confronted by rising rates of interest with their direct impact on the region's external debt burden. While the debt burden may be eased by international banks writing off some of the debt they are carrying, these banks are bound to reduce their share in development financing. The writing is on the wall; more than ever, it is the IDB in Latin America and other multilateral organizations elsewhere, to whom the economies of the Third World will have to turn.

When six years ago the international financial community realized that the external debt situation in Latin America was critical, the polemic that followed focused on the consequences, rather than the causes of the crisis. There has been a great deal of rhetoric concerning the need to correct external imbalances, to keep up interest payments in the name of rebuilding credit rating and so on. Too little has been said about the need to correct fiscal imbalances, which are at the root of the crisis. Perhaps now it will be realized that this is the true issue, for recent developments in the world financial centers have shown that the industrial countries are also not immune to the consequences of persistent fiscal deficits.

The year 1987 has also taught us a lesson in economic interdependence. The downturn in the U.S. stock market had immediate repercussions on all the financial centers of the world. London, Frankfurt, Tokyo, and Sydney—all were affected by the Wall Street plunge. It is unfortunate that the interdependence of the world economies should come to light in this way, but, at least, the message is clear. International economic cooperation has now taken on a new meaning and it becomes all the more important for multilateral organizations such as the IDB, to take the lead in fighting protectionism and promoting international and regional economic cooperation.

Let me now turn from global to local issues and from macroeconomic policies to microeconomic policies—I would like to address myself to the activities of the newly formed Inter-American Investment Corporation. By fostering small- and medium-scale private enterprise, the formation of the IIC will be a further step in the industrial development of the region. In Israel we have come to realize the growth potential of developing small- and medium-scale enterprises, particularly in the agro-industrial sector. In recent years most of Israel's collective and cooperative settlements (their output constitutes about 95 percent of total agricultural output) have embarked on the

creation of small, mainly export oriented enterprises. At the same time, a number of regional agro-industrial centers have been established, in order to process and market the region's agricultural produce. There are many developing economies where such enterprises and centers can relieve the pressure on overcrowded towns by helping to keep country to town migration within bounds and at the same time increase the value added of the rural sector. We believe that Israel's experience in agro-industrial development may well be of use to many Latin American and Caribbean countries and can be implemented within the framework of the IIC's projects.

In closing, I would like to welcome the general consensus to go to Amsterdam for the next Annual Meeting. However, I should also like to reiterate our invitation to host the 1991 meeting in Israel. Unlike other contenders to this privilege, Israel has never had the honor to host one of the international financial institutions' meetings. Since all nonregional meetings until now were held in Europe, Governors might welcome the opportunity to visit another part of the world; the history of which goes back thousands of years. I urge the Governors and their Governments to accept our invitation for 1991.

Finally, let me join previous speakers in expressing my sincere thanks to the Government of Venezuela and to the city of Caracas for the warm welcome extended to us and the excellent arrangements for this meeting.

## **Address by Mr. Hernán Büchi Buc, Governor for Chile and Minister of Finance**

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On behalf of the delegation of Chile I would like to convey to the authorities and people of Venezuela our gratitude for the hospitality they are extending to us on the occasion of the holding here, in Caracas, of the Twenty-Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Third Annual Meeting of the Board of Governors of the Inter-American Investment Corporation.

### **Recent Development of the Chilean Economy**

The Chilean Government's economic policy has been aimed at establishing the bases for the country's development in order to eliminate extreme poverty as early as possible and to create favorable conditions for maintaining a sound and stable rate of growth in incomes, employment and consumption. In furtherance of this aim our economic institutions have been modernized and the necessary measures have been taken to adapt the structure of the productive apparatus to the external and domestic conditions of our economy.

This program has been characterized by the integration of Chile's economy into the world economy. The elimination of barriers to foreign trade has spurred a marked development of the export sector, which has become one of the driving forces behind our economic growth.

A priority objective of our economic policy has been to create a context favorable to the development of savings and investment. A fundamental role in this respect has been played by a macroeconomic policy aimed at maintaining the basic equilibria of the economy through the fiscal, monetary and exchange rate instruments at its disposal.

### *Institutional Modernization*

Another important aspect of the economic policy applied over the past four years has been the consolidation of the modernizations previously implemented in our economic institutions, particularly as regards the social security system, labor legislation and enhancing the efficiency of the performance of public enterprises.

In this respect it must be stressed that the recovery of economic activity over recent years has been accompanied by a significant improvement in the resource situation of the financial system, following the severe crisis it went through at the beginning of the decade. At the same time, new banking legislation was promulgated which contains significant advances regarding supervision and adjustment of this sector in the event of possible future adverse cyclical situations that might affect the normal functioning of the enterprises engaged in this activity.

### *Global Performance of the Chilean Economy*

**GDP Growth.** In 1987, GDP growth surpassed 5.4 percent. Between 1984 and 1987, GDP grew at an average annual rate of 5.0 percent, thereby concluding the economy's recovery phase.

**Savings and Investment.** For the growth process to continue, the savings and investment effort must be intensified. In this light, the results for the year can be considered satisfactory since investment grew by 15 percent, to reach a rate of 16.9 percent of GDP, compared with 14.4 percent of GDP in 1986. In addition, national

savings rose by 40 percent, moving up from 8.0 percent of GDP in 1986 to 12.1 percent of GDP in 1987.

*The External Sector.* With regard to the behavior of the external accounts, a marked strengthening was observed in 1987 in the external payments position of the economy. The current account posted a deficit of \$811 million, which meant a level of external savings of only 4.5 percent of GDP; it is important to note that this indicator reached 10.7 percent of GDP in 1984. The trade balance has moved from a \$293-million surplus in 1984 to one of \$1,229.4 million in 1987.

The favorable trade balance achieved in 1987 was the result of exports of goods reaching \$5,233.7 million while imports totaled \$3,994.3 million. It should be stressed that the physical volume of non-copper exports grew significantly during the year, rising by 11.4 percent. In this way, between 1984 and 1987, the average annual growth rate of the physical volume of non-copper exports reached 13.0 percent, thus clearly demonstrating the effects of the policy of liberalizing foreign trade.

Regarding the external debt, the problem has been tackled realistically and with recognition of the importance of maintaining a harmonious relationship with the international financial community. In our negotiations with the creditor banks, we obtained the resources necessary to finance growth. At the same time, conversion mechanisms were created, which have made it possible for the debt to be gradually reduced. In 1987, the amount of the reduction achieved totaled \$1,997 million, and since these operations were first authorized in mid-1985 the aggregate reduction accomplished has reached approximately \$3,600 million. As a result of these operations the nominal value of the external debt declined in 1987, notwithstanding the contracting of new loans and the effect of the depreciation of the dollar on liabilities expressed in other currencies. External ratios have therefore improved significantly. While in 1984 the external debt represented around 4.2 times Chile's exports of goods and services, this ratio was down to 3.0 times in 1987. Interest payments, for their part, have come down from 43 percent of exports of goods and services in 1985 to 27 percent in 1987.

*Employment.* As regards employment, whereas exceptionally high unemployment rates were reached during the recession—above 20 percent—the current unemployment rate is some 7.7 percent. This noteworthy improvement is the result of a labor legislation that decentralizes wage negotiations to the firm level and of an economic policy designed to increase the investment rate as the chief tool for raising the number of productive jobs. As a result, the average annual growth rate of productive employment between 1983 and 1987 was 5.9 percent, which appropriately reflects the merits of this policy.

*Social Policy.* The implementation of a major domestic expenditure adjustment program together with measures to increase savings, investment, exports and employment have definitely called for a substantial effort on the part of the community and also for discipline on the part of the authorities. On the one hand, execution of a responsible economic policy makes it necessary to promote conditions favorable for the achievement of sustained progress, so that attention must be paid to avoid temporary and unsustainable booms. On the other, a basic feature of the economic policy is the preferential channeling of efforts to benefit the lowest-income groups. In accordance with these criteria, over recent years the steps begun more than ten years ago to rationalize public expenditure to ensure that it focuses fundamentally on purposes of a social nature have been refined. The fiscal policy has accordingly structured a level and composition of expenditure which, while not affecting the incentives for productive effort on the part of individuals, favors primarily the lowest-income groups rather than

the sectors with greater organizational capability and influence.

As a result of the above, Chile has continued to observe objective advances in the results of its social policy, placing it in a position of leadership in this respect among the countries of the region, according to statistics and data prepared by international agencies. Thus, the indexes of life expectancy at birth, infant mortality and school attendance, etc., have displayed continued improvements, which have enabled Chile to post performances similar to those of developed countries in these areas. Moreover, these achievements have been accomplished notwithstanding the severity of the crisis to which the Chilean economy has been subjected in the present decade owing to the adverse developments that have occurred in the world economy.

#### *External Financing Needs*

The external financing picture is clear for 1988, thanks to the renegotiation of the external debt completed in 1987. In addition, the interest rate to be paid in the context of debt service was established early in the year, thereby eliminating a source of uncertainty for the economy.

In order to thoroughly evaluate the different possible financing alternatives, Chilean economic authorities have sought to initiate early discussions with the creditor banks with the aim of introducing flexibility into the external debt contracts, so as to facilitate the quest for new formulas for obtaining resources needed by the country in the years ahead.

#### **The Inter-American Development Bank and the Inter-American Investment Corporation**

The solution to the debt problem calls for creativity and dynamism, not only on the part of the governments but also on that of the multilateral institutions, so that they can react effectively to the new conditions that might develop in the international financial markets. The Inter-American Development Bank has an important role to play in the present situation: while in past years the Bank has contributed significantly to the financing of (mainly public) investment projects, in the future it will need new formulas to enable it to respond promptly to the new realities and adapt itself to the new orientations these realities dictate.

Within the same conceptual framework, we want to indicate that it is very important that the necessary steps be taken to ensure that the start-up of the Inter-American Investment Corporation is not delayed any longer.

I would like to conclude by noting that today more than ever an active and efficient operation of the multilateral agencies is essential so that they can contribute to resolving the serious difficulties besetting our economies.

However, it is also a fact that any strategy to deal with these difficulties can only be successful if it is recognized that sound economic policies must be encouraged.

On April 1, Dr. Enrique Iglesias, an economist with an international reputation based on his vast experience and knowledge of the problems of our developing countries, will assume the presidency of the Bank. I would like to offer him our congratulations, and also express our confidence that under his direction, the Bank will make the necessary adjustments and will increase its resources in order to be able to continue effectively carrying out its objectives of providing support for the economic and social development of the region.

**Address by Mr. Pedro Antonio Blandón, Alternate Governor for  
Nicaragua and First Vice Minister for External Cooperation**

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The current situation facing the Inter-American Development Bank is particularly difficult, but at the same time it offers the Bank and its member countries a challenge and the hope of returning to its true place and assuming its true role in the Latin American and Caribbean development process that inspired the founders of the IDB.

The year 1987 marked a deterioration in almost all Bank operations: an especially troubling situation since this was the third consecutive year of cutbacks in all main areas of activity. The Governors who spoke before me have already dealt with this matter in detail and therefore it is not necessary to repeat at length what has already been said. Suffice it to simply recall that the loans approved in 1987 were the smallest in this decade, except for 1980, representing a decline for the third consecutive year. As for distribution, it is worth stressing that eight developing member countries received no loans last year. That group includes my own country, Nicaragua, which has not received a loan in five years.

In terms of resources, it stands out that in 1987 Bank loan disbursements were barely equivalent to 84 percent of the previous year's level, which also represents a drop for the third consecutive year. All this has led to an extremely limited flow of resources for the needs of borrowing countries, and even to a significant negative net transfer of resources to them.

No one is ignorant of the fact that a situation like this cannot continue without threatening the institution itself, since it negates the Bank's very essence. As set forth in the Agreement Establishing the Bank, the main objective of the IDB is to help speed up the individual and collective process of economic and social development in the region's developing member countries. This can only be achieved by the Bank through significant and growing transfers of resources to borrowing countries under suitable terms and conditions, thereby supplementing domestic savings efforts. The IDB was conceived as an instrument to provide resources and not as a vehicle to transfer resources from the poorest countries to the most developed ones.

With this essential role in mind, the institution's need to increase its resources quickly and by a significant amount is obvious. A closer analysis of the Bank indicates that, if its current resources are maintained, the Bank will continue draining resources from its borrower countries at an increasing pace. Any supplementary resources that the Bank might obtain through loans on the financial markets to halt the negative transfer of resources are exhausted as a result of the sharp drop in the Bank's borrowing ability triggered by the devaluation of the dollar, the current system of using that currency as a valuation unit, and the lack of a mechanism to support the value of the United States dollar.

The true and effective alternative that the Bank possesses to solve this general problem is a significant increase in its capital. This would permit it to obtain sufficient additional funds of its own as well as borrowed resources, which could be transferred to the developing member countries, thereby helping to speed up their economic and social development processes. The negotiations for the Seventh Replenishment of Resources, however, are paralyzed, and the most formidable and immediate challenge that must be met by our new President, Mr. Enrique Iglesias, is to see to their early reactivation and effective completion, thus safeguarding the essentially multilateral and Latin American character of the IDB. We are convinced that his acknowledged

professional ability, extensive experience and profound Latin American sentiments will permit him to find a suitable consensus.

Everyone knows the reasons why the negotiations for the Seventh Replenishment have stalled. Surely some common ground can be established to find a way around this *impasse*. However, there are certain principles and concepts that cannot and must not be compromised. In addition to an economic problem, the Bank has a problem with basic concepts. This Bank was consistently conceived, created, developed, and built up as a cooperative, multilateral, Latin American and apolitical institution that would serve as a financial instrument for the countries of the region. The incorporation of nonregional members was viewed as a way of strengthening it financially, but always within the spirit of multilateral cooperation, respecting the originally envisaged identity of the Bank. We must not alter this concept because of financial or political circumstances, because in the long run, such changes contain the seed of the Bank's dissolution.

At the three last meetings, Nicaragua pointed out the danger of assailing the multilateral and apolitical nature of the Bank. We did not do this just to apprise the Governors of our problems in the country's relations with the Bank, but, rather, to utilize our example to illustrate the real dangers entailed by any compromise in the Bank's multilateral and apolitical nature. For five years, my country has received no loans from the Bank. For over seven years, no programming mission has visited it. This is not because my country has failed to apply for technically justifiable loans or because we have not requested programming missions. The situation is simply due to political interference by the Bank's largest partner to prevent financial assistance for my country, for reasons that are strictly political and unprecedented in this institution. As we pointed out on earlier occasions, no member can be denied the right to oppose a loan, through its Executive Director by virtue of his prerogative to do so although strictly speaking, only technical reasons should be admissible. What is unjustifiable and inadmissible—and what we reject absolutely—is for any country to oppose the processing of IDB operations with another country, stopping them from reaching the Board for consideration and decision by continual threats to hold back contributions, intimidation of the Bank's staff, and interference from political authorities such as that country's foreign policy officials. In the case of the Bank's largest contributor, that situation is exacerbated, and can only lead to a transformation of the Bank into a simple financial agency for that country, moved by purely political motives. The things that have happened to my country can all too quickly spread to others for a variety of reasons—albeit consistently political ones—and this, in fact, seems to be occurring already. In the specific instance of my country, this goes to the extreme of questioning any IDB operation involving Nicaragua, no matter how routine. And such operations are even used as an excuse for delaying or stopping negotiations that were brought to a standstill long before the operating phase.

Nicaragua considers it proper and expedient for the Bank to provide mechanisms that *safeguard minority rights and interests*. Because of its multilateral and cooperation-oriented nature, the need to defend the rights of a minority contributor of funds is even more justified in the case of our Bank. This should not, however, take the form of bestowing effective veto power, directly or through other mechanisms that confer such power, on a single member or a limited few. The safeguards should be for all of those minorities, or for the group that can be identified as such. Placing the veto power in the hands of a single country can only transform the Bank into one more financial agency of that country. Prudent use of that veto cannot simply be taken for granted. The case of Nicaragua attests to the lack of the judicious use that one might expect of the country

entrusted with veto power over the Bank's operations. The very paralysis of negotiations for the Seventh Replenishment—making the capital increase hinge upon the acceptance of clearly unacceptable demands—is another instance of the intolerable use of the veto power granted to a single country.

Insofar as other IDB activities are concerned, we fully concur with the ideas presented by the spokesman for Central America in his address on Monday. We must provide for more flexible use of the FSO; strengthen the IFF; actively reinforce project preparation and execution procedures; speed up disbursements, and find imaginative solutions for projects that have problems stemming from factors over which the authorities have no control.

My country believes that we must also find ways of freeing the Bank from its dependence on fluctuations in the value of a given currency, no matter which, when it comes to obtaining credits and granting loans. What worries my country is that variables as important as borrowing and lending capacity should be so closely tied to an exogenous factor as unpredictable as the value of that currency. This is why we urge that possible changes in the present system be studied, including the feasibility of adopting Special Drawing Rights (SDR) as a unit of value, or perhaps some other basket of currencies specifically designed and put together for this purpose. Likewise, a study should be made of the need to pin the dollar to the maintenance of value principle to which all other currencies are subject.

As mentioned by the spokesman for Central America in his speech, to achieve development we need peace. In Central America we are doing everything possible to this end. Nicaragua is making special efforts on this front, as was attested to in the report of the International Commission for Verification and Follow-up, and there is hope that peace will prevail in the region, and especially in my country. Peace alone is not enough to produce development, however. Peace without development and social justice does not last. We need the immediate support of the international community, and particularly the support of the multilateral organizations, to achieve a lasting peace. Mention has already been made of some international efforts, and my country gives them its full support. Here, it is worth saying how very pleased we are at the Mexican Program for Economic Cooperation with Central America for which an accord was signed yesterday. Once more Mexico has shown the important role it accords to cooperation, particularly cooperation with Central America, in its international economic policy. We urge other countries to follow this commendable lead.

Just as international support is needed in order to achieve peace and development, so, obviously are our own efforts. My country recently implemented a complete adjustment and economic stabilization plan geared toward correcting both internal and external imbalances in our economy, particularly in the area of prices, which prevent us from laying the foundations of future development. Because of the hostilities, our economy faces serious problems which have made existing imbalances and inflation more acute. Our determined efforts, with a high political and social cost, to reduce these imbalances have not received proper international financial support. It is for this reason that here we state, yet again, that we are entitled to receive financial support from the IDB, to which we have belonged since its beginnings. We have not renounced that right, nor will we renounce it, and if the Bank's true multilateral and essentially Latin American nature is restored, we do not doubt that financial support for our country will once again be forthcoming.

At the start of this speech, I pointed out that the Bank's present situation is both challenging and hopeful. Challenging, as we have described at length. Hopeful that the new, imaginative, dynamic and Latin American leadership of Enrique Iglesias, with

his talent, integrity and experience, will enable the Bank to recover its true role in the development of our region. My country is ready to give all the support that our President-elect needs to this end, and we are sure that other countries will join with us to ensure that this hope becomes a reality.

In closing, I would like to extend warm fraternal greetings from the Government and people of Nicaragua to the Government and people of Venezuela, where the Latin American vision of the Liberator, Simón Bolívar, will once again be made manifest, because this historic gathering in Caracas—as President Lusinchi stated—represents a resounding recommitment to our unity and a clear sign that our most sacred principles of Latin American independence and sovereignty are being preserved. The people of Nicaragua opens its arms to you, from the Río Bravo to Central America and Panama to Tierra del Fuego, in a manifestation of unswerving Latin American unity. No one, however powerful, can impose decisions on us when our own peoples alone have the sovereign right to decide. Let this be the guiding principle and the sole aim of our quest for peace and development for our family of nations.

## **ADDRESSES**

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### **SIXTH PLENARY SESSION**

**March 23, 1988**  
**Closing Session**

**Remarks by Mr. Enrique V. Iglesias, President-Elect of the  
Inter-American Development Bank and Chairman-Designate  
of the Inter-American Investment Corporation**

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As gatherings such as this one draw to a close, it is customary for the President of the Bank to deliver a closing statement which touches upon all of the key issues that have been brought before the meeting and discussed by the Governors. This is a truly formidable task. It would be exceedingly difficult, in the limited time at our disposal, to refer to each and every one of these issues, with their enormous breadth and depth, and more than one matter of substance that had been deliberated upon by the Governors could well go unmentioned.

As President-Elect, I have been afforded a firsthand view of the realities of the Bank from the perspective of its member governments. I have had the opportunity to speak in private with virtually all the Governors, and have met with representatives of a number of international agencies and private sector organizations.

What I will do here is to refer briefly to a dozen issues, in an attempt to recapitulate the central conclusions of this meeting, which has been such a significant one for the Bank and for me personally.

First, Mr. Chairman, I should like to express my appreciation to you and, through you, to the Government of Venezuela, for your warm welcome and gracious hospitality. And, if you would allow me to add a slightly subjective note, I would thank you as well for the opportunity of holding this meeting—which is destined to be remembered as a historic gathering, as many among you have pointed out—in this room, which bears the name of that illustrious Venezuelan and illustrious Latin American, Manuel Pérez Guerrero, who stands as a shining example of a life consecrated precisely to the objectives of Latin American cooperation and Latin American solidarity, and whose memory echoes here today within these walls.

I am grateful to you as well, Mr. Chairman, for having so ably guided the course of our work at this meeting, which marks the beginning of your term of office. We hope and trust that we may count upon your assistance in our endeavors throughout the year, for it is my intention to seek your good counsel and rely upon your continuing cooperation as I discharge my responsibilities as President of the Bank.

I should like to pay tribute as well to the Venezuelan support teams who have assisted us so diligently and so ably to make this meeting run smoothly, and to the representatives of the international and local press, who have rendered such an important service by taking to the public at large the problems and issues that we have been discussing here and the aspirations that have been voiced here with respect to the future of the Bank. I am grateful to all of the media for their invaluable cooperation here in Venezuela and in relaying this information to the rest of the world. It is through their efforts that we have been able to communicate our activities and concerns to the people in all of our member countries and worldwide.

My second observation, Mr. Chairman, is that I am convinced this meeting has been a success. Perhaps the most telling evidence of this is the sheer size of the gathering, which is a tribute to the Bank's ability to draw people together. More than 2,000 people have gathered here, with the enriching presence of prime ministers, ministers, and senior government officials who have headed delegations to the meeting. We thus have been afforded the opportunity of conversing with representatives from the very highest government circles.

We have also confirmed again that this type of gathering can serve as a forum for dialogue with the private sector banking community and international organizations. This is a source of great satisfaction to me, because I consider this to be a very valuable function of such meetings. I am pleased too that the Government of Mexico has taken advantage of this opportunity to sign accords and reaffirm an extensive program of cooperation with the Central American Bank for Economic Integration and other institutions that have pledged support for the economic development of the nations of Central America. With actions such as these, the boundaries of this forum have been widened to include the consideration of concrete intra-regional cooperation initiatives between our member countries.

The third point I should like to touch upon concerns the view of Latin America's present economic and financial situation that has been portrayed to us by the Governors. A predominant theme in the addresses of the Governors has been the crisis of the 1980s, and one inescapable element of that crisis is the external debt problem. This continues to be one of the most serious obstacles facing the region, and if a way around it is not found it will be difficult indeed to embark confidently on the new decade that awaits us, as we hope the 1990s will be a period of development and modernization.

In this same context, a number of very troubling social realities have been cited here, and a number of successes as well. The successes, which have been achieved with great difficulty and at great cost in these past years, are an indication to us that Latin America is advancing on a number of economic and financial fronts, despite the stubborn problems it is facing.

I am pleased to note that all of the addresses have pointed up the decisive action that is being taken to bring about change in our countries. The times when we in Latin America could focus exclusively on the external facets of our problems are long past. I believe it is very important for us to assess our situations objectively, acknowledge our own responsibilities, and understand that those responsibilities must be translated into concrete initiatives and structural changes on every front.

We cannot forget that ours is an interdependent world, and that the need for international cooperation has never been greater than it is now. Latin America is doing its part, and it is very important that the international community recognize that, by virtue of our mutual dependence, it too has responsibilities. External financial support is vital at the present juncture, not only to bolster the region's ability to deal with the debt problem, but also to address what is now a pressing and singular concern in Latin America, to which I referred in my address at the inaugural session: the dramatic decline in internal investment capacity in the region. We in Latin America can pool our efforts to seek a solution to this problem, and we shall look to the international community for a strong measure of support. In this process, the Bank—which, as its name proclaims, is Latin America's financial institution—will be called upon to play a pre-eminent role.

In a related area, it has been very gratifying for me to see the meeting address the subject of trade and GATT's Uruguay Round of talks, with which I have been so closely involved in recent years. While it is true that the region's financial plight will have to be resolved without delay if our nations are to develop and realize their full potential, there also is a pressing need to liberalize trade and establish a new trade order, which can serve as a solid foundation for the international economy that all of us would like to see brought into being, an economy in which equal opportunity is the rule rather than the exception. Such a new order, in which trade flows are free of intervention and distortions and which operates on principles of fair competition, is an imperative for Latin America and the rest of the world.

In these past few days, mention has also been made of regional cooperation, of the ideas that are coming out of Latin America and the renewed efforts being made in the region to advance this common cause. Before I came to this meeting, I was at the Latin American Free Trade Association, and I have also spoken with eminent Central Americans and representatives of the Caribbean nations. In every quarter I can discern a pragmatic, realistic approach to the current problems of integration, in which regional cooperation is viewed, and must continue to be viewed, as a fundamental pursuit of the member governments, in an effort to generate trade opportunities and encourage initiatives that will make all of us partners in the growth of the region.

A fourth central issue that has received attention during this meeting is the Bank's institutional character, now and in the future. If there are concerns about the Bank's situation at present, there also is a meeting of minds with regard to its future. The reasons for our present concern are obvious, and they have been cited repeatedly at this meeting: neither the governments nor Management can happily accept the idea of a smaller Bank, of a Bank that is shrinking rather than expanding. The present situation can be viewed, at most, as a transitional phase, as a starting point from which we can advance toward our ultimate objective, on which there is universal agreement: that the Bank of the future must be a large Bank, an active Bank, and an efficient Bank. On these aims I have perceived widespread agreement among the Governors.

Fifth, I should like to refer to the need, described to us so eloquently in the Governors' addresses, for a reformulation of the Bank's policies and modes of operation with its member countries. It is evident that this will entail an increase in the Bank's resources, a question that I shall return to later. However, the Governors also have alluded frequently to problems having to do with inflexibility in operational matters, delays in processing operations, and a number of other difficulties and constraints. This set of problems is one that we have to address without delay.

An associated question is the matter of strengthening the Bank's capacity to work together with its member governments in the process of evaluating and programming its activities. This calls for a constructive dialogue in which attention no doubt will be directed toward the Bank's own policies and their relationship to the policies of its member countries. We must, then, open the way for such a constructive exchange of ideas, to seek means of expanding the Bank's operational capacity, broadening its modes of action with its member countries, and expediting disbursements of its loans.

I must confess that while I, too, have been concerned with the question of the increase in the Bank's resources, which has absorbed much of your energies over these past two years, another matter that has come to concern me equally is how we can arrive at agreements with the governments of our member countries on lending policies that will enable us to lend well, to lend fast, and to lend more.

The sixth point I should like to mention concerns a group of fundamental issues and concerns whose importance has been reaffirmed here by the Governors. For instance, I am immensely pleased to have heard it suggested that the Bank join more actively in the search for a solution to Latin America's external debt problem. I share that concern wholeheartedly. The Bank's contributions to this process must cover the full range from the purely intellectual to the financial. We must make the commitment to play a leading role, as has been said here, in the quest to resolve this problem.

There have also been many references in the past few days to our role in the area of integration, and to recent Latin American initiatives in this regard. Another element that has been reaffirmed is the Bank's longstanding involvement with social concerns, which has given the organization its unique identity and distinctive nature, one that it cannot and must not forsake.

Attention also has been drawn to the Bank's contribution at specific levels of the social edifice, in the form of efforts to promote private enterprise and offer support for small producers, both individually and in associations. This is a modest undertaking, and one that requires steady, patient work. Its aim is to assist the informal sectors of Latin America's economy, whose present and future importance we cannot underestimate. In my view, this is an area that should be explored more closely, inasmuch as the Bank may well be uniquely qualified to help expand and develop such activities, and can increase its presence in Latin America in the process.

There have been emphatic references in these past days as well to the priority that must be accorded to environmental matters and to efforts to ensure that women are full partners in development. The Bank has already addressed these concerns in its policies and operations, and they will be kept very much in mind in our future endeavors.

The seventh item I should like to mention is that I have received a very clear message to the effect that the Bank needs to strengthen its own identity. I believe that such is indeed the case. Our organization is the Inter-American Development Bank, and it must continue to be an inter-American bank. Our Bank is, first and foremost, a bold cooperative venture undertaken by all of its member countries, and all of those countries have a commitment to the organization and an active part to play. I would call upon all of them to lend us their fullest support in the difficult years that lie ahead.

In their addresses, the Governors have underscored the multilateral character of the Bank, which is one of its strongest assets. One point that has not been made and that I would like to emphasize—not so much for the benefit of the governments of our member countries, who already are fully aware of it, but for the information of the international public at large—is that since the day it was founded the Bank has stood as an example of solidarity among the borrowing countries. This principle of solidarity and mutual understanding of the problems of each country, of each group of countries, must be built upon in the years ahead as a symbol of the maturity that has been achieved in relations between and among the Bank's borrowing member countries.

The eighth point I shall mention has to do with the internal reform process to which a number of the Governors' addresses have referred. The *aggiornamento* of our nations' institutions has always been an imperative, and this is even more the case now as we approach a turning point in history and a whole era in the story of mankind draws to a close.

I am pleased that the reference to the need for great care when embarking upon such internal changes in the context of the Bank has been understood, because it is my belief that, important as such changes are, it is equally essential that staff morale not be allowed to falter. My concern is that we find a means of bringing about needed change decisively, but also cautiously and objectively, to ensure that the morale and esprit de corps of the staff are maintained. The enthusiastic participation of each and every employee is indispensable if the processes of change we are envisaging are to be successful.

The ninth issue I wish to mention that has occupied our attention these past few days is the Inter-American Investment Corporation. It has been asserted that there is an urgent need to set the Corporation in motion and furnish it with the leadership it needs to operate. There is a clear appreciation of the commitment and the valuable asset that the Corporation represents for Latin America, as a means of mobilizing and cooperating with the private sector. We hope to see these expectations realized without delay.

The matter of the replenishment of the Bank's resources, the tenth item I shall mention here, has been referred to in all the addresses we have heard. This is not the time or the place to recite the problems associated with this issue over the past two

years. I have discerned a note of urgency with respect to the need to augment the Bank's capital resources, and have also received the impression that the path leading towards this objective is not without obstacles. As to the objectives themselves, however, there are no differences of opinion, for if there is any one idea that emerges clearly from our sessions, it is that not a single government disagrees about what it is we are striving for. The first step towards resolving this problem is to reopen dialogue. We must continue to talk, and herein lies my mission. It is a mission to which I will devote all my energies; in concert and in contact with the Board of Executive Directors and the governments of the member countries.

My eleventh point has to do directly with my own role. I am deeply grateful for the kind expressions of confidence that all of you have conveyed to me. At the same time, I must confess that the hopes generated by your words at this meeting leave me somewhat uneasy, and somewhat fearful that I may be unable to live up to these expectations. While I pledge to spare no effort personally, I must emphasize something that I consider to be crucial: this is not a task for the President of the Bank alone; it is a task for the governments and for the Board of Executive Directors. It has been very gratifying to observe that the idea that all of us must work together has been voiced more than once these past few days. I can assure you that the team approach is the only approach I know. We must work as a team with our member governments, with the Governors, with the Board of Executive Directors, with the Vice President's office, with the Bank's departmental managers, and with the Bank's staff. This is the style I hope to imprint during my tenure, and I shall endeavor to work in this way, to reap the maximum possible benefit from the support that I hope and trust will be forthcoming from all of you.

The twelfth and final point I wish to make is that we came to this meeting to seek a solution to our problems. We came here to air our difficulties, to lay our concerns on the table and to search for answers in an atmosphere of mutual trust. It is with this same spirit that I look to the future. We did not come here to look back; we came here, as I pointed out on the first day of the meeting, to look ahead. I would invite all of you—governments, Executive Directors, and staff alike—to share in that spirit, in the conviction that this meeting has been a great success because it has accomplished precisely what it set out to accomplish: it has been a meeting of hope, opening the way to the future.

**Remarks by Mr. Héctor Hurtado,  
Chairman of the Boards of Governors of the  
Inter-American Development Bank and the Inter-American  
Investment Corporation, Governor for Venezuela  
and Minister of Finance**

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After these days of intense work, both in formal deliberations and informal conversations, we have reached the end of this Twenty-Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank. In that time, I feel we have made encouraging progress towards solving the problems that have beset the institution in recent years.

We note with satisfaction the expressions of appreciation and gratitude to our founding President, Mr. Felipe Herrera, and his successor, Mr. Antonio Ortiz Mena, for their excellent management of the Bank during its 28 years of existence. Amidst the changes that occurred in the state of the international community and the ups and downs in the concept and practice of international cooperation, the two Presidents who have led the Bank were able to consolidate it as a Latin American institution at the service of the Latin American countries. Interpreting the sentiments of the Assembly, I have taken the liberty of sending telexes to Felipe Herrera and don Antonio to convey to them the testimonials of thanks expressed here for the work they have done.

The Governors of the Latin American countries have coincided in mentioning the adjustment mechanisms they have been compelled to apply to confront the crisis in the external sector caused by the drop in export revenues, paralyzation of financial flows from abroad, and the heavy burden that servicing the foreign debt has become, as a result of these two factors.

They also mentioned the unprecedented importance that the Inter-American Development Bank has assumed in this context as a source of financial resources for the region. They stressed, also, that due to the constraints that the institution is encountering, many countries now have a negative balance with the Bank.

We heard with satisfaction the statements made by the Governor for Japan about the program that his country has announced to recycle over \$30 billion into public and private funds to finance programs in developing countries. The program provides for cofinancing operations with the Inter-American Development Bank, and the first operation of this kind corresponds to Venezuela for the purpose of financing a bauxite mining project on the banks of the Orinoco River.

The cooperation program announced by the Governor for Mexico is also commendable. It includes support for the Central American Bank for Economic Integration, support in which Argentina and Venezuela also participate, as mentioned by the Governor for Honduras acting as spokesman for the countries of the Central American isthmus.

It is gratifying to note that the unanimity achieved in the election of our new President at the meeting held in Washington last February was also apparent at this meeting of the Board in the expressions of support for the President-elect in the difficult task that awaits him as head of our Bank. All the Governors, from their particular viewpoints, have reacted favorably to the request made by our President in the conclusion of his speech to the inaugural session of this meeting:

“ . . . In this spirit, the President of the Bank needs rather more than the good intentions and good wishes of the member countries. I need the counsel of all and

a broad spirit of compromise focused on a common objective: consolidation of the Bank as a development institution of the greatest significance for all its member countries . . . .”

“ . . . . However, right from the start we also know that we will not have the Bank that we need without the support of its non-borrowing members. I also call on these to examine, without preconceived ideas, how we can strengthen the Bank, reconsidering the links that they maintain with it and what they expect from it in order to use it as a special instrument of their cooperation with Latin America.”

The Governors have coincided on the central underlying topic of this meeting, which is the state of the negotiations to conclude the Seventh Replenishment of the institution's resources.

I will not at this time repeat the analysis of the causes that have led to the stagnation of these negotiations. I too take the words “to look ahead,” uttered by my friend President-Elect Enrique Iglesias in his memorable statement to the Inaugural Session, as my motto. From this vantage point, little by little I have been able to perceive the existence of a common denominator in the statements of most of the delegations. This common aspect is linked to the need for a radical change in the negotiating techniques used in recent months, while also taking maximum advantage of what has come to be called “the new asset of the Inter-American Development Bank,” i.e., the negotiating skills and the will to build a consensus of the institution's new President.

Along this line of thinking, there was unanimous agreement on the need to initiate a dialogue among all the member countries, borrowers and non-borrowers, to surmount the difficulties that have arisen with regard to the Seventh Replenishment of Bank resources.

Governor Mulford expressed the idea in his address yesterday, stressing that when President Iglesias is ready to begin building the necessary consensus for a new and expanded IDB, the United States stands ready to resume constructive discussions on all aspects of the Bank's operations, including a substantial replenishment of resources.

On listening to the different addresses by the Governors, we note that the best concrete, specific and direct result of this meeting of the Bank's Governors was to call upon the new President to conduct a process of consultation among all the member countries of the Bank, aimed at exploring new paths that will ultimately lead to the agreement that has eluded us during the last 24 months. I believe that I am interpreting the sentiments of the delegations when I ask Enrique Iglesias to begin a round of consultations with the member countries, for the purpose of obtaining, once again, what he has already shown in the past that he is capable of achieving, i.e. an original formula that will permit us to surmount the situation affecting us today.

I do not consider it advisable to immediately convoke formal meetings of the bodies of the Board, since this would only serve to harden positions and crystalize disagreements. The Governors have tacitly acquiesced to this by not setting a date or place for the next meeting of the Committee of the Board of Governors. I believe that the new President of the Bank should be given time to develop his plan of action and to complete in the near future the work begun at this “Meeting of Hope,” at a “Meeting of Achievement.”

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**Report on the Activities of the Committee of the Board of  
Governors of the Bank Since the Last Annual Meeting**

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## **Report on the Activities of the Committee of the Board of Governors of the Bank Since the Last Annual Meeting**

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During the period that has elapsed since the Twenty-Eighth Annual Meeting of the Board of Governors, held in Miami, Florida, the Committee of the Board of Governors held its Forty-Ninth Meeting, which began in Washington, D.C., on June 23 and 24, 1987, and ended in Guatemala City on October 6 and 7, 1987. Its Fiftieth Meeting took place in Caracas, Venezuela, on March 19, 1988. At these meetings, the Committee considered the topic of the status of Bank resources for the period 1987 to 1990 and the Seventh General Increase in Resources.

### *A. Forty-Ninth Meeting (Washington, D.C., June 23 and 24, 1987)*

1.01 On this occasion the Committee had before it document CA-300 distributed by request of the Governor for the United States of America, containing document FN-365-6 on the use of resources available for 1987, prepared by Management for consideration by the Board of Executive Directors. The Committee also had before it document CA-300-1 entitled "Status and Use of Bank Resources, 1987-1990," distributed by request of the Governor for the United States. In addition, the Committee had before it document CA-300-2 distributed by request of the Governor for Mexico, containing the text of a letter sent by that Governor to the Governor for the United States concerning the negotiations on the Seventh Replenishment of Resources.

1.02 The Chairman of the Committee made the following statement: "For the past year and a half we have been discussing alternatives for the future of the Inter-American Development Bank and a possible Seventh Replenishment of Resources. The United States delegation believes that an alternative was selected and Secretary Baker has asked me to convey to you how that decision was reached.

"As you know, the most difficult issue under discussion is our proposal to change voting in the Inter-American Development Bank. During the meeting of this Committee in February it became clear that we had reached an impasse on this issue. We believe that a mechanism based on 35 percent of the voting power is appropriate, while others cannot accept less than 40 percent.

"In an effort to bridge this difference Secretary Baker offered a compromise voting proposal to Ministers of the Group A countries during the Annual Meeting in Miami. The compromise proposal was a mechanism under which an item could be referred back to Management for up to 18 months if so requested by Directors representing at least 35 percent of the Bank's voting power. Any further deferral would require a decision by Directors representing at least 40 percent of the voting power. The Group A Ministers neither accepted nor rejected the Secretary's compromise proposal. They indicated that more time was needed to consult with their governments and suggested that the Secretary and the Group A Ministers meet during the Interim and Development Committee meetings in April.

"Secretary Baker and the Group A Ministers met on April 9. The position of the

Group A Ministers at that meeting was that any change in voting would require an amendment to the Bank's Charter and that it would not be possible to secure such an amendment.

"At that point, Secretary Baker reiterated that for the United States a change in voting was an integral part of the large replenishment alternative and without it we would be able to support only a much more modest lending program for the 1987 through 1990 period. The Group A Ministers indicated that they understood the Secretary's position.

"Since the April meeting we have had no indication of any change in the position of the Group A countries except that some modified form of a 40 percent mechanism is now apparently acceptable again, to some of them. This acceptable mechanism, however, does not appear to go as far as what we had been led to believe was acceptable prior to the Miami meeting.

"It is unfortunate that we have not been able to reach an agreement. However, since the beginning of these replenishment negotiations we have made clear that there was a choice concerning the future of the Inter-American Development Bank. It appears that choice has now been made.

"Now that the choice has indeed been made, it is time to move forward to ensure that the IDB makes the most of that decision. Our task is to make sure that the IDB program for the next four years is as constructive and effective as possible. With that objective in mind, the United States has distributed to Governors a paper which outlines the parameters of the 1987-90 program that is in our opinion reasonable, equitable and viable given the resources the Bank will have available.

"We hope Governors will analyze our proposal carefully and thoughtfully and provide us with your view. We look forward to working with other Governors to develop in a cooperative spirit a plan for the next four years in the IDB."

- 1.03 Following statements by the Governors for Mexico, Argentina, Brazil, the Federal Republic of Germany, the United States, Mexico (bis), Canada, Guatemala, the United States (bis), and the Chairman of the Committee,<sup>1</sup> the Committee adjourned so that meetings and consultations could be held among the various groups of countries.
- 1.04 When the meeting reconvened, statements were made by the Governors for Venezuela, on behalf of the Group A countries, the United States, Argentina, Mexico, Brazil, Canada, and Guatemala, and by the Chairman of the Committee.<sup>2</sup>
- 1.05 At this point the Governor for Canada made the following remarks: "I am somewhat disappointed by the turn of the discussion because I am really not totally convinced that this is a time for legal opinions but rather time to try and get down to the business of running our Institution. There is no doubt that there is a role in this question for the Executive Board and that role seems to be underlined by the Legal Counsel and the opinion which he provided to the

<sup>1</sup>See respectively paragraphs 4.04, 4.05, 4.06, 4.07, 4.08, 4.09, 4.10, 4.11, 4.12, and 4.13 in document CA-304.

<sup>2</sup>See respectively paragraphs 4.16, 4.17, 4.18, 4.19, 4.20, 4.21, 4.22, and 4.23 in document CA-304. See also paragraphs 4.24, 4.25, 4.26, 4.27, and 4.28 and Annex III in document CA-304.

Board. On the other hand, the Committee of Governors has been dealing with a lending program for the 7th GRI period that entails not only new resources but reflows and carryovers. It would therefore appear that as a matter of common sense there is a linkage between the two and that prudent management and a prudent approach by Governors would seem to require that they review some of the issues involved at this point or as soon as possible.

"I am not exactly sure where that leaves us, Mr. Chairman, given the fact that there appears to be a clear differentiation of views here, but I wonder if one way out might not be to ask the Executive Board to try to prepare a proposal which it might submit to us at the next meeting of the Committee for review in the light of the broader progress on the GRI negotiations."

- 1.06 The Chairman of the Committee made the following statement: "May I be so presumptuous as to assume we have a consensus amongst the Governors that we would follow up on the Canadian suggestion? As I see no objections, we will proceed on that course.

"Fellow Governors, ladies and gentlemen, before moving to our last agenda item, I would like to make a very brief and obviously a very personal summary statement as the Chairman of these discussions. This is an extremely difficult negotiation, as we all know, and I have oftentimes thought of the phrase that goes with an old American movie that what we have here is a failure to communicate, and sometimes I hope that that really is all the problem is: a problem of communication between ourselves. If that is in fact the case, with goodwill and good intentions all of us can see this replenishment exercise through. We probably can and should be able to achieve a consensus that is in the best interest of all of us.

"As I have expressed to you on several occasions already, my instincts have told me that it is more than just a problem of communication, that it is a problem of real substance. I find it very difficult to believe that we will be able to bridge those differences but I do believe that if there is a sense out there among the Governors that we should continue to try, that we should continue to make efforts to see if we can, we would do just that.

"I think it is fair to say that while this meeting has not produced a resolution, it certainly has produced greater clarification of views on a couple of very, very important issues. It is my hope that through that discussion and through the continued work of all of us, that we may indeed find a solution to this rather difficult problem that we have before us.

"Let me now, if I might, move to the last item on our agenda, which concerns the place and date of the next meeting.

"In keeping with past practice, this Meeting of the Committee will continue immediately after the Annual Meeting of the Governors of the World Bank and the International Monetary Fund. Consequently, this Meeting of the Committee will continue no later than October 15, 1987, and following the kind invitation of the Governor for Guatemala, will be held in Guatemala City.

"The Governors will be furnished with organizational details regarding this meeting in due course by the Secretariat. I would also suggest that with regard to those informal discussions that have been mentioned, that probably the best location would be Washington, D.C., here at the Bank's Headquarters. I would hope that could be worked out between delegations. As there are no further items to be taken up, I declare this Forty-Ninth Meeting of the Committee of the Board of Governors to be in recess until no later than October 15, 1987."

B. *Forty-Ninth Meeting (Guatemala City, October 6 and 7, 1987)*

- 1.01 The Committee continued its consideration of the item relating to the status of Bank resources for the period 1987 to 1990 and the Seventh General Increase in Resources. On this occasion the Committee had before it documents CA-300, CA-300-1, and CA-300-2, which are described in Section A, paragraph 1.01, of this report. It also had before it document CA-300-3 in which it was stated that, as requested by the Committee of the Board of Governors at its meeting of June 24, 1987, the Executive Directors, meeting as the Committee of the Whole, had considered submitting a report on a proposed lending program for 1987 but had not reached agreement. Consequently, the Board of Executive Directors had decided to transmit to the Committee of the Board of Governors the proposals formally submitted to the Committee of the Whole subsequent to June 24, 1987:
- (i) Use of resources available for 1987, presented by the Executive Directors for Latin America and the Caribbean, which appears as Annex I to document CA-300-3, and
  - (ii) Use of resources in 1987, presented by the Executive Director for Belgium, Denmark, Finland, Germany, Italy, the Netherlands, Norway, Sweden, and the United Kingdom. This document was supported by the Executive Director for Canada (Annex II to document CA-300-3).
- 1.02 It was also clarified that prior to June 24, 1987, by request of the Governor for the United States of America, document CA-300-1 had been sent to the Committee of the Board of Governors and distributed to the Board of Executive Directors. This proposal was also taken into account by the Executive Directors during the consideration of this matter subsequent to June 24, 1987.
- 1.03 The Committee also had before it document CA-300-5, distributed during the course of the present meeting, to which was attached, by request of the Governors for the Latin American and Caribbean countries, a set of recommendations to the Board of Executive Directors on the use of resources in 1987.<sup>1</sup>
- 1.04 When the meeting reconvened following the recess declared at the end of the first part of the meeting in Washington, statements were made by the Governor for Guatemala, the President of the Bank, the Governor for Canada, and the Governor for the Federal Republic of Germany.<sup>2</sup>
- 1.05 The meeting then adjourned at the initiative of the Chairman to allow time for meetings and consultations among the different groups of countries. When it reconvened, statements were made by the Governors for France, Uruguay, and the United States.<sup>3</sup>
- 1.06 Finally, the Chairman made the following statement: "The second item of the agenda, concerning the place and date of the next meeting, is now under consideration.

"In this connection, I do not consider appropriate at this time to adopt a decision on this matter, in view of the results of the discussions held during the last two

<sup>1</sup>See Annex VI to document CA-304.

<sup>2</sup>See respectively paragraphs 3.05, 3.06, 3.07, and 3.08 in document CA-304.

<sup>3</sup>See respectively paragraphs 3.10, 3.11, and 3.12 in document CA-304.

days. Consequently, after holding the necessary consultations, I will notify the Bank's member countries of the place and date of the forthcoming meeting of the Committee of the Board of Governors through the Secretariat.

"As there are no further items to be taken up, I declare this Forty-Ninth Meeting of the Committee of the Board of Governors to be closed."

C. *Fiftieth Meeting (Caracas, Venezuela, March 19, 1988)*

- 1.01 The Executive Vice President, Mr. Michael E. Curtin, Acting President of the Bank, thanked the Venezuelan authorities for their hospitality and their excellent arrangements for the meeting, and welcomed the delegations of all the member countries.
- 1.02 The Chairman of the Committee informed the participants that, as instructed by the Board of Governors in its meeting in March 1986 in San José, Costa Rica, the item regarding the status of Bank resources for 1987-90 and of the Seventh General Increase in Resources would remain on the Agenda of the next meeting of the Committee of the Board of Governors.
- 1.03 In regard to the place and date of the next meeting, the Chairman considered it appropriate, once the necessary consultations had been made, to notify the Bank's member countries of the place and date of the next meeting of the Committee of the Board of Governors.
- 1.04 This notice would be communicated at some future time, through the Secretariat.

**REPORT ON THE SIGNATURE AND ACCEPTANCE OR  
RATIFICATION OF THE AGREEMENT ESTABLISHING THE  
INTER-AMERICAN INVESTMENT CORPORATION**

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**TO:** The Board of Governors

**FROM:** Chairman of the Board of Executive Directors  
of the Inter-American Investment Corporation

**SUBJECT:** Report on the signature and acceptance or ratification  
of the Agreement Establishing the Inter-American Investment  
Corporation. Updated information

Document CII/AB-5-2, dated March 20, 1987, was distributed with a table showing the list of countries which had signed the Agreement Establishing the Corporation, as well as the list of the countries which had accepted or ratified the Agreement up to that date.

The attached table serves the purpose of updating said information. At the present time, 32 countries whose shares represent 96.40% of the total have signed the Agreement and 31 countries whose shares represent 95.93% of the total shares have deposited the instrument of acceptance or ratification.

## Inter-American Investment Corporation

Countries that have signed and accepted or ratified the Agreement  
Establishing the Inter-American Investment Corporation as of March 8, 1988.

<u>Country</u>	<u>Date of Deposit of the Instrument of Acceptance</u>	<u>Shares</u>	<u>Date of Signature of Ratification</u>	<u>% of Total Country Shares</u>
Argentina	6 December 1985	11.636	6 December 1985	11.636
Austria	5 September 1986	0.500	5 September 1986	0.500
Bahamas	23 March 1986	0.215	23 March 1986	0.215
Barbados	19 March 1985	0.150	19 March 1985	0.150
Bolivia	31 May 1985	0.935	31 May 1985	0.935
Brazil	9 July 1985	11.636	11 August 1986	11.636
Chile	23 December 1985	3.450	23 March 1986	3.450
Colombia	13 March 1986	3.450	13 March 1986	3.450
Costa Rica	23 March 1985	0.470*		
Dominican Republic	27 March 1985	0.630	11 September 1986	0.630
Ecuador	8 April 1985	0.630	14 January 1986	0.630
El Salvador	23 March 1986	0.470	11 September 1986	0.470
France	23 March 1985	3.130	25 February 1986	3.130
Germany, Federal Republic of	11 September 1986	3.130	11 September 1986	3.130
Guatemala	23 March 1985	0.630	9 December 1985	0.630
Guyana	27 March 1985	0.180	27 March 1985	0.180
Honduras	23 March 1985	0.470	23 March 1986	0.470
Israel	11 June 1987	0.250	2 October 1987	0.250
Jamaica	24 March 1985	0.630	24 March 1985	0.630
Japan	26 November 1985	3.130	26 November 1985	3.130
Mexico	23 March 1986	7.490	10 September 1986	7.490
Netherlands	12 March 1987	1.550	12 March 1987	1.550
Nicaragua	24 March 1985	0.470	5 March 1986	0.470
Panama	9 August 1985	0.470	20 February 1986	0.470
Paraguay	23 March 1986	0.470	23 March 1986	0.470
Peru	26 March 1985	2.100	26 March 1985	2.100
Spain	5 June 1986	3.130	5 June 1986	3.130
Switzerland	28 October 1985	1.550	28 October 1985	1.550
Trinidad and Tobago	27 March 1985	0.470	3 July 1985	0.470
United States of America	12 September 1985	25.500	12 September 1985	25.500
Uruguay	23 March 1986	1.240	23 March 1986	1.240
Venezuela	23 March 1985	6.238	17 January 1986	6.238
(32 countries)		96.400	(31 countries)	95.930

\* Subject to ratification.

## **PARTICIPANTS**

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CHAIRMAN OF THE BOARDS OF GOVERNORS

Héctor Hurtado

Governor for Venezuela

PRESIDENT-ELECT OF THE INTER-AMERICAN DEVELOPMENT BANK AND  
CHAIRMAN-DESIGNATE OF THE BOARD OF EXECUTIVE DIRECTORS OF  
THE INTER-AMERICAN INVESTMENT CORPORATION

Enrique V. Iglesias

EXECUTIVE VICE PRESIDENT AND ACTING PRESIDENT  
OF THE INTER-AMERICAN DEVELOPMENT BANK

Michael E. Curtin

SECRETARY

Jorge C. Elena

**INTER-AMERICAN DEVELOPMENT BANK  
OFFICIAL DELEGATIONS**

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**Argentina**

*Temporary Alternate Governors*

Juan Sommer

Under Secretary for Economic Policy  
Ministry of Economic Affairs

Daniel Marx

Director

Banco Central de la República Argentina

Ramón Da Bouza

National Director of External Economic and  
Financial Policy  
Ministry of Economic Affairs

*Advisors*

Eduardo Amadeo

President

Banco de la Provincia de  
Buenos Aires

Hugo Avellaneda

President

Banco Nacional de Desarrollo

Roberto Lisandro Barry

Vice President

Banco de la Provincia de  
Buenos Aires

Francis Chiara

Assistant to the Financial  
Representative in the  
United States of America

Luis José Demarfa

Director

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Mónica Fahrion

Technical Assistant

Office of the Executive Director  
Inter-American Development Bank

José Luis Fernández

Chief, Department of International  
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Banco Central de la República Argentina

Liliana Gurdulich de Correa

Senator

Argentine Senate

Oscar Lamberto

Deputy

Chamber of Deputies

Jorge Matzkin

Deputy

Chamber of Deputies

Raúl Milano

Deputy

Chamber of Deputies

Osvaldo Adolfo Moreira  
Deputy Manager, International  
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Banco de la Nación Argentina  
Luis Palacios  
Vice President  
Banco de la Nación Argentina

Ariel Puebla  
Deputy  
Chamber of Deputies

Bernardo Rudoj  
Second Vice President  
Banco Nacional de Desarrollo

Jorge Sakamoto  
Executive Director  
Inter-American Development Bank

Juan Trilla  
Senator  
Argentine Senate

## **Austria**

### *Temporary Alternate Governor*

Herbert Lust  
Director  
International Finance Institutions  
Federal Ministry of Finance

## **Bahamas**

### *Temporary Alternate Governor*

Darrell E. Rolle  
Minister of Works and Utilities

### *Alternate Governor*

Ethlyn C. Isaacs  
Financial Secretary  
Ministry of Finance

### *Advisor*

Edgard Hall  
Chief Finances and Revenue Officer  
Ministry of Finance

## **Barbados**

### *Governor*

L. Erskine Sandiford  
Prime Minister and  
Minister of Finance and  
Economic Affairs

### *Alternate Governor*

Winston Cox  
Director of Finance and Planning  
Ministry of Finance and Economic  
Affairs

### *Advisor*

John A. Connell  
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Caracas

## **Belgium**

### *Temporary Alternate Governor*

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Ministry of Finance

### *Advisor*

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Inter-American Development Bank

## **Bolivia**

### *Governor*

Gonzalo Sánchez de Lozada  
Minister of Planning and Coordination

### *Alternate Governor*

Javier Nogales Iturri  
President  
Banco Central de Bolivia

### *Temporary Alternate Governors*

Fernando A. Cossio  
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Ministry of Planning and Coordination

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### *Advisors*

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## **Brazil**

### *Governor*

Mailson Ferreira da Nóbrega  
Minister of State for Finance

### *Temporary Alternate Governors*

Mario Jorge Gusmão Berard  
President  
Banco do Brasil S.A.

Narciso da Fonseca Carvalho  
Vice President for International Operations  
Banco do Brasil S.A.

Arnim Lore  
Director, External Operations  
Banco Central do Brasil

Antonio de Pádua Seixas  
Director, External Debt Affairs  
Banco Central do Brasil

Clodoaldo Huguency Filho  
Secretary of International Affairs  
Planning Secretariat

Sérgio Silva do Amaral  
Secretary of International Affairs  
Ministry of Finance

José Sousa Santos  
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Carlos Alberto Amorim, Jr.  
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#### *Advisors*

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Antonio Hugo Castelo Branco Sampaio  
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Rosa Maria Dalcin  
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## **Canada**

### *Temporary Alternate Governors*

Jack Murta  
Member of Parliament  
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Noble E. C. Power  
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#### *Advisors*

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## **Chile**

### *Governor*

Hernán Büchi Buc  
Minister of Finance

### *Temporary Alternate Governors*

Enrique Seguel Morel  
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Alfonso Serrano  
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## **Colombia**

### *Governor*

Luis Fernando Alarcón Mantilla  
Minister of Finance and Public Credit

### *Alternate Governor*

Francisco J. Ortega  
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### *Temporary Alternate Governors*

Pedro Gómez Barrero  
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## **Costa Rica**

### *Governor*

Fernando E. Narango V.  
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### *Temporary Alternate Governors*

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### *Advisors*

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## **Denmark**

### *Governor*

Bjørn Olsen  
Ambassador, Under-Secretary of State  
Ministry of Foreign Affairs

### *Temporary Alternate Governors*

Henrik R. Iversen  
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## **Dominican Republic**

### *Governor*

Roberto B. Saladín Selín  
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### *Temporary Alternate Governor*

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### *Advisors*

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## **Ecuador**

### *Alternate Governor*

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### *Temporary Alternate Governor*

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### *Advisors*

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## **El Salvador**

### *Governor*

Remo Bardi Cevallos  
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### *Temporary Alternate Governor*

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### *Advisors*

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## **Finland**

### *Governor*

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### *Alternate Governor*

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### *Temporary Alternate Governors*

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### *Advisors*

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### *Temporary Alternate Governors*

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## **Germany, Federal Republic of**

### *Governor*

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Parliamentary State Secretary  
Federal Ministry for Economic  
Cooperation

### *Temporary Alternate Governors*

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### *Advisors*

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Federal Ministry for Economic  
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## **Guatemala**

### *Governor*

Rodolfo Paiz Andrade  
Minister of Public Finance

### *Alternate Governor*

José Miguel Gaitán Alvarez  
President  
Banco de Guatemala

### *Temporary Alternate Governor*

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### *Advisors*

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## **Guyana**

### *Temporary Alternate Governors*

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C. Miles  
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### *Advisors*

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## **Haiti**

### *Governor*

Alain Turnier  
Minister of Finance, Economic Affairs and Civil Service

### *Temporary Alternate Governors*

Claude Grand-Pierre  
Commissioner General for National Promotion

Fritz Viala  
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## **Honduras**

### *Governor*

Reginaldo Panting  
Minister of Economic Affairs and Trade

### *Alternate Governor*

Gonzalo Carias Pineda  
President  
Banco Central de Honduras

### *Temporary Alternate Governors*

Efraín Bu Girón  
Minister of Finance and Public Credit

Dante Gabriel Ramírez  
President  
Central American Bank for Economic Integration

León Paredes Lardizabal  
Ambassador of Honduras to Venezuela

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### *Advisors*

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Rigoberto Pineda  
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Paul Vinelli  
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Banco Atlántida S.A.

## **Israel**

### *Alternate Governor*

Yehuda Drori  
Commissioner  
Capital Market, Insurance and Savings Department  
Ministry of Finance

### *Temporary Alternate Governor*

Miki Eran  
Adviser to the Governor  
Bank of Israel

### *Advisor*

Ehud Keinan  
First Secretary  
Embassy of Israel in Venezuela

## **Italy**

### *Alternate Governor*

Lamberto Dini  
Director General  
Banca d'Italia

### *Temporary Alternate Governor*

Giuseppe Maresca  
First Director  
Ministry of the Treasury

### *Advisors*

Fernando Carpentieri  
Technical Assistant  
Office of the Executive Director  
Inter-American Development Bank

Giovanni Montagna  
Officer  
Ministry of the Treasury

Livio Tornetta  
Officer  
Research Department  
Banca d'Italia

## **Jamaica**

### *Governor*

Edward P. G. Seaga  
Prime Minister

### *Alternate Governor*

Headley Brown  
Governor  
Central Bank of Jamaica

### *Advisors*

Merle Henry  
Director of Administration  
Planning Institute of Jamaica

Stafford Neil  
Ambassador of Jamaica to Venezuela

Locksley Smith  
Director  
Economic Policy and Programming

Carla Vendryes  
Office of the Prime Minister

Lorraine A. Wilkin  
Administrative Assistant to the Governor  
Central Bank of Jamaica

Karen Zacca  
Personal Assistant to the Prime Minister

## **Japan**

### *Temporary Alternate Governors*

Toyou Gyohten  
Vice Minister of Finance for International Affairs

Koji Kashiwaya  
Deputy Director-General  
International Finance Bureau  
Ministry of Finance

### *Advisors*

Keiji Fukumoto  
Official, Multilateral Cooperation Division  
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Junichi Hatano  
First Secretary  
Embassy of Japan in Venezuela

Nobumitsu Hayashi  
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Tadashi Iwashita  
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Tomoyasu Komuyama  
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International Finance Bureau  
Ministry of Finance

Zenbei Mizoguchi  
Alternate Executive Director  
Inter-American Investment Corporation

Akira Nagashima  
Chief Representative  
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Akio Takahashi  
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## **Mexico**

### *Governor*

Gustavo Petricoli  
Secretary of Finance and Public Credit

### *Alternate Governor*

Ernesto Marcos Giacomani  
Director General  
Nacional Financiera, S.N.C.

### *Temporary Alternate Governors*

José Angel Gurria  
Director General of Public Credit  
Department of Finance and Public Credit

Carlos Sales Gutiérrez  
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### *Advisors*

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## **Netherlands**

### *Governor*

H. O. Ruding  
Minister of Finance

### *Alternate Governor*

P. Bukman  
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### *Temporary Alternate Governors*

R. J. Treffers  
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## **Nicaragua**

### *Alternate Governor*

Pedro Antonio Blandón  
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### *Temporary Alternate Governors*

Julio López Miranda  
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## **Norway**

### *Alternate Governor*

Bernt H. Lund  
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### *Temporary Alternate Governors*

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## **Panama**

### *Governor*

Ricaurte Vásquez  
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### *Temporary Alternate Governor*

Marcel Salamín  
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## **Paraguay**

### *Alternate Governor*

César Romeo Acosta  
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Banco Central del Paraguay

### *Temporary Alternate Governor*

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## **Peru**

### *Governor*

César G. Atala  
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### *Alternate Governor*

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## **Portugal**

### *Alternate Governor*

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### *Advisor*

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## **Spain**

### *Temporary Alternate Governors*

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## **Suriname**

### *Governor*

S. C. Mungra  
Minister of Finance and Planning

### *Advisor*

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## **Sweden**

### *Alternate Governor*

Carl-Johan Groth  
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### *Temporary Alternate Governor*

Jan Kronholm  
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### *Advisors*

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Anders Henriksson  
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## **Switzerland**

### *Governor*

David de Pury  
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### *Temporary Alternate Governors*

Pietro Veglio  
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## **Trinidad and Tobago**

### *Alternate Governor*

Winston Dookeran  
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### *Advisors*

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## **United Kingdom**

### *Alternate Governor*

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### *Temporary Alternate Governor*

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## **United States of America**

### *Alternate Governor*

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### *Temporary Alternate Governors*

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## **Uruguay**

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### *Governor*

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### *Alternate Governor*

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Heberto Urdaneta  
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Public Finance Sector  
Ministry of Finance

Aquiles Viloria  
Manager  
International Financial Cooperation  
Fondo de Inversiones de Venezuela

### *Advisors*

Julio César Alvarez  
Advisor  
Ministry of Finance

Leonor Filardo  
Alternate Executive Director  
International Monetary Fund

Eduardo Mayobre  
President  
Instituto de Comercio Exterior

Nelson Ortiz  
Director General  
Short-range Planning Sector  
CORDIPLAN

Felipe Pazos  
Advisor  
Banco Central

Sonia Pérez R.  
Executive Director  
Inter-American Development Bank

Juan Carlos Pérez-Segnini  
Superintendent of Foreign Investment

Guillermo Pimentel  
Advisor  
Ministry of Finance

Rafael Quevedo  
Chief  
Division of International Financial Affairs  
Ministry of External Relations

Jesús Eduardo Rodríguez  
Advisor to the Executive Director  
World Bank

Pedro Rosas  
Manager of Studies  
Banco Central de Venezuela

Liliana Schilling de Lara  
Director  
Office of International Technical Cooperation  
CORDIPLAN

Antonio Juan Sosa  
Technical Assistant  
Office of the Executive Director  
Inter-American Development Bank

Félix Soubllette  
Chief Advisor  
CORDIPLAN

## **Yugoslavia**

### *Alternate Governor*

Boris Skapin  
Assistant Federal Secretary for Finance  
Department for International Financial Relations  
Federal Secretariat for Finance

### *Temporary Alternate Governor*

Joze Kunić  
Executive Vice President  
Yugoslav Bank for International Economic Cooperation

### *Advisors*

Danica Ostojić  
Senior Advisor  
Department for International Financial Relations  
Federal Secretariat for Finance

Ivan Stambolić  
President  
Yugoslav Bank for International Economic Cooperation

Predrag Vucković  
Director  
Yugoslav Bank for International Economic Cooperation

## EXECUTIVE DIRECTORS AND ALTERNATE EXECUTIVE DIRECTORS OF THE INTER-AMERICAN DEVELOPMENT BANK

---

Luiz Barbosa  
Jacinto Vélez

*Brazil, Ecuador and Suriname*

Alberto Benítez Bonilla  
Marta Julia Cox

*Costa Rica, El Salvador, Guatemala, Haiti,  
Honduras and Nicaragua*

José Manuel Casanova  
Larry K. Mellinger  
*United States of America*

Tulio De Andrea  
Manuel José Cárdenas  
*Peru and Colombia*

José Luis Flores H.  
Bienvenido Brito  
*Dominican Republic and Mexico*

Calvin B. Knowles  
George L. Reid  
*The Bahamas, Barbados, Guyana, Jamaica  
and Trinidad and Tobago*

Guido P. Osterhaus  
Bo Jerlström

*Belgium, Denmark, Finland, Germany, Italy,  
the Netherlands, Norway, Sweden and the  
United Kingdom*

Sonia Pérez  
Reinaldo Decerega  
*Panama and Venezuela*

Sidney Rubinoff  
Jean S. Quesnel  
*Canada*

Jorge Sakamoto  
Benjamín Mira Montt  
*Argentina and Chile*

Julio Viñuela Díaz  
José I. C. Toscano  
*Austria, France, Israel, Japan, Portugal,  
Spain, Switzerland and Yugoslavia*

Juan Felipe Yriart  
Juan José Díaz Pérez  
*Bolivia, Paraguay and Uruguay*

## INTER-AMERICAN DEVELOPMENT BANK OBSERVERS FROM NONMEMBER COUNTRIES

---

### KOREA

Won Ku Paik  
Director General  
Finance Bureau  
Ministry of Finance

Byung Hae Lee  
Minister  
Embassy of the Republic of Korea in Venezuela  
Caracas

Yong Sup Kim  
Financial Attaché  
Embassy of the Republic of Korea in the  
United States of America  
Washington, DC

Seung Beom Koh  
Deputy Director  
International Organizations Division  
Ministry of Finance

Si Dam Kim  
Director  
Bank of Korea

**INTER-AMERICAN DEVELOPMENT BANK  
INTER-AMERICAN INVESTMENT CORPORATION  
OBSERVERS FROM INTERNATIONAL ORGANIZATIONS**

---

**African Development Bank**

W. M. Girma  
Director

E. M. Dogbe  
Deputy Director  
Accounts Department

**Andean Development Corporation**

Galo Montaña  
Executive President

Víctor Manuel Hoyos  
Vice President for Finance

Alvaro Flores Paz Campero  
Vice President for Operations

Pedro de las Casas  
Vice President for Administration and Systems

**Andean Reserve Fund**

Guillermo Castañeda Mungi  
Executive President

**Asian Development Bank**

A. B. Adarkar  
Secretary

**Bank for International Settlements**

Kurt Spinnler  
Assistant Manager  
Banking Department

**Caribbean Community Secretariat**

Roderick George Rainford  
Secretary-General

**Caribbean Development Bank**

Neville V. Nicholls  
Acting President

**Cartagena Agreement Board**

Pedro Luis Echeverría  
Member of the Board

**Center for Latin American  
Monetary Studies**

José Manuel Gil Padilla

Jorge González del Valle  
Director

Roberto Ibarra Benítez  
Professor and Research Officer

**Central American Bank for  
Economic Integration**

Víctor Manuel Cuellar Ortiz  
Director for El Salvador

Hugo Argueta Figueroa  
Director for Guatemala

Félix Martínez Dacosta  
Legal Advisor

Jorge Alberto Papadopolu Wirtz  
Finance Manager

José de la Cruz Cáceres

Sofía Castillo  
Assistant to the Executive President

Fernando García  
Executive Assistant  
Office of the President

**Commission of the European  
Communities**

Pierre Defraigne  
Director for North South Relations  
Directorate-General for External Relations

Erwan Fouere  
Deputy Head of Delegation of the  
European Community for Latin America

**Development Committee  
IBRD/IMF**

Yves L. Fortin  
Executive Secretary

**European Investment Bank**

Miguel A. Arnedo Orbañanos  
Vice President

**Financial Fund for the  
Development of the River  
Plate Basin**

René Carlos Delgado Vertiz  
Executive Director

Carlos González  
President

Eloy Greco  
Executive Secretary

**International Confederation of  
Free Trade Unions**

Michael Frohlich  
Inter-American Regional Organization of Workers

## **International Fund for Agricultural Development**

Enrique Ter Horst  
Assistant President

Theodore Van der Pluijm  
Director  
Latin America Division

## **International Investment Bank**

Otto Kiltz  
Deputy Chairman

## **International Monetary Fund**

Sté debate  
Director  
Western Hemisphere

Hernán Puentes  
Senior Information Officer  
External Relations

## **Latin American Association of Development Finance Institutions**

Carlos Garatea Yori  
Secretary General

José Salaverry Llosa  
Chairman  
Executive Committee

Frederich E. Berges  
Executive Vice President  
Banco de Desarrollo Nacional

José Tiacchi Kirsten  
Director

Roberto Inui

## **Latin American Banking Federation**

Leonidas Ortega Trujillo (\*)  
President

Gloria Duque de Robayo  
Advisor

Oscar Alberto Trinchinetti  
Advisor for International Organizations

## **Latin American Economic System**

Carlos Pérez del Castillo  
Permanent Secretary

Henry Gill  
Assistant Permanent Secretary

Jayr Dezolt  
Director of Regional Cooperation

## **Latin American Energy Organization**

Gabriel Sánchez Sierra  
Executive Secretary

## **Latin American Export Bank**

Willem de Marez Oyens  
Executive Vice President

Julio F. Lastres  
First Vice President  
Treasury

Hernando A. Arias G.  
Vice President assigned to the  
Office of the Executive Vice President

María Isabel Olaso  
Chief Economist  
Economic Advisory Office

## **Latin American Integration Association**

Norberto Bertaina  
Secretary General

## **Nordic Investment Bank**

Harro Pitkanen  
Vice President  
International Lending

## **OPEC Fund for International Development**

Said Aissi  
Assistant Director-General

Luis González Rojas  
Operations Officer

## **Organization of American States**

Jesús Alberto Fernández  
Executive Secretary for Economic Affairs

Manlio Martínez  
Director  
Department of Economic Affairs

## **Organization of American States Inter-American Institute for Cooperation on Agriculture**

Jorge Werthein  
Director  
External Relations

Mariano Segura  
Representative in Venezuela

## **Pan American Health Organization**

José M. Salazar Bucheli  
Chief  
Office of External Relations Coordination

(\*) Also representing Banco Continental S.A.

## **Permanent Secretariat of the General Treaty for Central American Economic Integration**

Edgar J. Chamorro Marín  
Director  
Integration and Development

## **United Nations Children's Fund**

Teresa Albañez  
Regional Director for Latin America

## **United Nations Development Programme**

Augusto Ramírez Ocampo  
Assistant Administrator and Regional Director  
Regional Bureau for Latin America  
and the Caribbean

Elena Martínez  
Resident Representative  
Venezuela

## **United Nations - Economic Commission for Latin America**

Isaac Cohen  
Director  
Washington Office

## **United Nations Educational, Scientific And Cultural Organization**

Yves de Menorval  
Liaison Officer

Antonio Pasquali  
Regional Coordinator

## **United Nations Industrial Development Organization**

Peter H. Kruck  
Senior Technical Field Advisor for  
Ecuador, Panama and Venezuela

## **World Bank Group (IBRD/IDA/IFC)**

S. Shahid Husain  
Vice President  
Latin America and the Caribbean Region

Carlos N. Quijano  
Special Advisor to the Vice President  
Latin America and the Caribbean Region

Armeane Choski  
Director  
Country Programs Department I  
Latin America and the Caribbean Region

Katherine Marshall  
Division Chief  
Latin America and the Caribbean Region

Helmut Paul  
Director  
Department of Investments  
Latin America and Caribbean I  
International Finance Corporation

Guillermo Schultz  
Director  
Department of Investments  
Latin America and Caribbean II  
International Finance Corporation

Francis de C. Hamilton  
Divisional Manager  
Corporate Promotion and Syndications  
International Finance Corporation

Pho Ba Quan  
Divisional Manager  
Department of Investments  
Latin America and Caribbean I  
International Finance Corporation

Everett Santos  
Divisional Manager  
Department of Investments  
Latin America and Caribbean II  
International Finance Corporation

Vivek Talvadkar  
Divisional Manager  
Department of Investments  
Latin America and Caribbean II  
International Finance Corporation

Antonio M. Pimenta-Neves  
Senior Public Affairs Specialist

Arturo Hernández  
Investment Officer  
Department of Investments  
Latin America and Caribbean I  
International Finance Corporation

Francisco Javier Alejo  
Advisor  
Department of Investments  
Latin America and Caribbean I  
International Finance Corporation

## **SPECIAL GUESTS**

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A total of 986 special guests from 38 countries attended the Twenty-ninth Annual Meeting of the Bank and Third Annual Meeting of the Corporation.

# INTER-AMERICAN INVESTMENT CORPORATION

## OFFICIAL DELEGATIONS

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### **Argentina**

#### *Temporary Alternate Governors*

Juan Sommer

Under Secretary for Economic Policy  
Ministry of Economic Affairs

Daniel Marx

Director  
Banco Central de la República Argentina

Ramón Da Bouza

National Director of External Economic and  
Financial Policy  
Ministry of Economic Affairs

#### *Advisors*

Eduardo Amadeo

President  
Banco de la Provincia de  
Buenos Aires

Hugo Avellaneda

President  
Banco Nacional de Desarrollo

Roberto Lisandro Barry

Vice President  
Banco de la Provincia de  
Buenos Aires

Francis Chiara

Assistant to the Financial  
Representative in the  
United States of America

Luis José Demaria

Director  
Banco de la Nación Argentina

Mónica Fahrion

Technical Assistant  
Office of the Executive Director  
Inter-American Development Bank

José Luis Fernández

Chief, Department of International  
Agreements and Organizations  
Banco Central de la República Argentina

Liliana Gurdulich de Correa

Senator  
Argentine Senate

Oscar Lamberto

Deputy  
Chamber of Deputies

Jorge Matzkin

Deputy  
Chamber of Deputies

Raúl Milano

Deputy  
Chamber of Deputies

Osvaldo Adolfo Moreira

Deputy Manager, International Banking Relations  
Banco Central de la Nación Argentina

Luis Palacios

Vice President  
Banco de la Nación Argentina

Ariel Puebla

Deputy  
Chamber of Deputies

Bernardo Rudoy

Second Vice President  
Banco Nacional de Desarrollo

Jorge Sakamoto

Executive Director  
Inter-American Development Bank

Juan Trilla

Senator  
Argentine Senate

### **Austria**

#### *Temporary Alternate Governor*

Herbert Lust

Director  
International Finance Institutions  
Federal Ministry of Finance

### **Bahamas**

#### *Temporary Alternate Governor*

Darrell E. Rolle

Minister of Works and Utilities

#### *Alternate Governor*

Ethlyn C. Isaacs

Financial Secretary  
Ministry of Finance

#### *Advisor*

Edgard Hall

Chief Finances and Revenue Officer  
Ministry of Finance

### **Barbados**

#### *Governor*

L. Erskine Sandiford

Prime Minister and  
Minister of Finance and  
Economic Affairs

#### *Alternate Governor*

Winston Cox

Director of Finance and Planning  
Ministry of Finance and Economic  
Affairs

### *Advisor*

John A. Connell  
Ambassador of Barbados to Venezuela  
Caracas

### **Bolivia**

#### *Governor*

Gonzalo Sánchez de Lozada  
Minister of Planning and Coordination

#### *Alternate Governor*

Javier Nogales Iturri  
President  
Banco Central de Bolivia

#### *Temporary Alternate Governors*

Fernando A. Cossio  
Under Secretary for Public Investment  
Ministry of Planning and Coordination

Edil Sandoval M.  
Ambassador of Bolivia to Venezuela

#### *Advisors*

Carmelo Caballero Contreras  
President  
Corporación Regional de Desarrollo  
de Santa Cruz

Luis Fernando González  
Technical Assistant  
Office of the Executive Director  
Inter-American Development Bank

José Justiniano  
Advisor  
Banco Central de Bolivia

Fernando Kempff  
General Manager  
Banco Central de Bolivia

Jorge Valdez  
Ambassador of Bolivia to Argentina

### **Brazil**

#### *Governor*

Mailson Ferreira da Nóbrega  
Minister of State for Finance

#### *Temporary Alternate Governors*

Mario Jorge Gusmão Berard  
President  
Banco do Brasil S.A.

Narciso da Fonseca Carvalho  
Vice President for International Operations  
Banco do Brasil S.A.

Amim Lore  
Director, External Operations  
Banco Central do Brasil

Antonio de Pádua Seixas  
Director, External Debt Affairs  
Banco Central do Brasil

Clodoaldo Huguency Filho  
Secretary of International Affairs  
Planning Secretariat

Sérgio Silva do Amaral  
Secretary of International Affairs  
Ministry of Finance

José Sousa Santos  
Director of External Operations  
Banco do Brasil S.A.

Carlos Alberto Amorim, Jr.  
Chief, Department of International  
Organizations and Agreements  
Banco Central do Brasil

#### *Advisors*

Luiz Barbosa  
Executive Director  
Inter-American Development Bank

Antonio Hugo Castelo Branco Sampaio  
Representative in Lima  
Banco do Brasil S.A.

Rosa Maria Dalcin  
Secretary of Media Services and  
External Relations  
Ministry of Finance

José Carlos de Carvalho Tinoco  
Manager  
Banco do Brasil S.A.  
Caracas

Whitney Debevoise  
Advisor  
Arnold and Porter

Dalmir Sérgio Louzada  
Assistant to the Executive Director  
Inter-American Development Bank

Pedro S. Malan  
Executive Director  
World Bank

Antonio José Resende de Castro  
Economic Counselor  
Embassy of Brazil in Venezuela

Dimas Luis Rodrigues da Costa  
Coordinator, Department of  
International Organizations and  
Agreements

Banco Central do Brasil

Luiz Carlos Sturzeneger  
Chief, Legal Department  
Banco Central do Brasil

Waldyr Viegas de Oliveira  
Chief, Office of Multilateral  
Development Organizations  
Ministry of Finance

### **Chile**

#### *Governor*

Hernán Büchi Buc  
Minister of Finance

#### *Temporary Alternate Governors*

Enrique Seguel Morel  
President  
Banco Central de Chile

Alfonso Serrano  
Vice President  
Banco Central de Chile

Francisco Garcés  
International Director  
Banco Central de Chile

*Advisors*

José Luis Daza  
Technical Assistant  
Office of the Executive Director  
Inter-American Development Bank

Alvaro Donoso  
Executive Director  
International Monetary Fund

Benjamín Mira Montt  
Alternate Executive Director  
Inter-American Development Bank

Claudio A. Pardo  
Alternate Executive Director  
World Bank

Hernán Sommerville  
Coordinating Director for the  
External Debt  
Banco Central de Chile

Italo Traverso  
Coordinating Manager for the  
External Debt  
Banco Central de Chile

**Colombia**

*Governor*

Luis Fernando Alarcón Mantilla  
Minister of Finance and Public Credit

*Alternate Governor*

Francisco J. Ortega  
General Manager  
Banco de la República

*Temporary Alternate Governors*

Pedro Gómez Barrero  
Ambassador of Colombia to Venezuela

María Mercedes de Martínez  
Chief  
National Planning Department

Luis Alvaro Sánchez  
Director of Public Credit  
Ministry of Finance and Public Credit

Hernán Mejía J.  
Deputy Manager, International Operations  
Banco de la República

Carlos Sanclemente  
Alternate Executive Director  
World Bank

**Dominican Republic**

*Governor*

Roberto B. Saladín Selín  
Governor  
Banco Central de la República Dominicana

*Temporary Alternate Governor*

Francisco Guerrero Prats  
Director, External Debt Department  
Banco Central de la República Dominicana

*Advisors*

Bienvenido Brito  
Alternate Executive Director  
Inter-American Development Bank

Celeste Silie de Castellanos  
Deputy Director  
International Agreements  
Banco Central de la República Dominicana

**Ecuador**

*Alternate Governor*

Marco A. Flores T.  
General Manager  
Banco de Desarrollo del Ecuador

*Temporary Alternate Governor*

Rómulo Reyes  
Administrative Manager  
Banco de Desarrollo del Ecuador

*Advisors*

Antonio Parra Gil  
Ambassador of Ecuador to Venezuela

Adrián Ribadeneira  
Manager  
Banco de Desarrollo del Ecuador  
Guayaquil

Jacinto Vélez  
Alternate Executive Director  
Inter-American Development Bank

**El Salvador**

*Governor*

Remo Bardi Cevallos  
Minister of Planning and Coordination  
of Economic and Social Development

*Temporary Alternate Governor*

Mauricio Antonio Gallardo  
Vice President  
Banco Central de Reserva de El Salvador

*Advisors*

María Luisa Calderón de Castro  
Advisor to the Minister of Planning  
and Coordination of Economic and  
Social Development

Pedro Abelardo Delgado  
President  
Corporación Financiera de la Nueva Generación

Jorge Alberto Escobar  
Chief of Technical Personnel  
Monetary Board  
Banco Central de Reserva de El Salvador

Mario Rubio  
Technical Advisor to the Minister of  
Planning and Coordination of  
Economic and Social Development

## **France**

### *Temporary Alternate Governors*

Jean de Rosen

Deputy Assistant Secretary  
Treasury

Henri Pezant

Finance Advisor for Latin America  
Ministry of Economic Affairs, Finance  
and Privatization

Pierre Pissaloux

Chief, Office of Development Aid and  
Multilateral Institutions  
Treasury Directorate

### *Advisors*

Pascale Berracha

Economic Affairs Directorate  
Ministry of Foreign Affairs

Jacques Fabregoule

Technical Assistant  
Office of the Executive Director  
Inter-American Development Bank

Robert Granet

Director  
Department of International Services  
Banque de France

## **Germany, Federal Republic of**

### *Governor*

Volkmar Köhler

Parliamentary State Secretary  
Federal Ministry for Economic  
Cooperation

### *Temporary Alternate Governors*

Fritz Fischer

Deputy Director General  
Federal Ministry for Economic  
Cooperation

Wolfgang Rieke

Head of Department  
International Department  
Deutsche Bundesbank

### *Advisors*

Dorothea Groth

Senior Officer  
International Financing Organizations  
Federal Ministry for Economic  
Cooperation

Detlev Hammann

Senior Officer  
Federal Ministry of Finance

Peter Kreutzberger

Senior Officer  
Federal Ministry for Foreign  
Affairs

Peter Rösgen

Personal Assistant to Parliamentary  
State Secretary Dr. Köhler  
Federal Ministry for Economic  
Cooperation

## **Guatemala**

### *Governor*

Rodolfo Paiz Andrade

Minister of Public Finance

### *Alternate Governor*

José Miguel Gaitán Alvarez

President  
Banco de Guatemala

### *Temporary Alternate Governor*

Carlos Echeverría

Director, International Department  
Banco de Guatemala

### *Advisors*

Gustavo Ayestas Escobar

Superintendent of Banks  
Banco de Guatemala

Miriam Cabrera Passarelli

Ambassador of Guatemala to Venezuela

Alexey De Synegub

Advisor to the President  
Banco de Guatemala

Fernando Figueroa Amado

Manager  
Banco de Guatemala

Rosa María Florido de Izaguirre

Representative  
Fundación para el Desarrollo de la Mujer

Carolina Roca

Advisor to the Minister of Finance  
Ministry of Finance

José Guillermo Salazar Santizo

Director  
External Financing and Trusts  
Ministry of Public Finance

María Aída Toledo de González

Representative  
Fundación para el Desarrollo de la Mujer

Edin Velázquez

Director of Economic Studies  
Banco de Guatemala

## **Guyana**

### *Temporary Alternate Governors*

Joseph A. Tyndall

Minister  
Embassy of Guyana in the United States

C. Miles

Ambassador of Guyana to Venezuela

Kenrick Hunte

General Manager  
Guyana Central Bank

### *Advisors*

Lawrence Houston

Second Secretary  
Embassy of Guyana in Venezuela

Bibi N. Khan

Senior Economist  
Ministry of Finance

## **Honduras**

### *Governor*

Reginaldo Panting  
Minister of Economic Affairs and Trade

### *Alternate Governor*

Gonzalo Carias Pineda  
President  
Banco Central de Honduras

### *Temporary Alternate Governors*

Efraín Bu Girón  
Minister of Finance and Public Credit  
Dante Gabriel Ramírez  
President  
Central American Bank for Economic Integration

León Paredes Lardizabal  
Ambassador of Honduras to Venezuela

Mario Rietti Matheu  
Finance Advisor  
National Congress

### *Advisors*

Juan Agurcia  
President  
Aseguradora Hondureña S.A.

Guillermo Bueso  
Vice President and General Manager  
Banco Atlántida S.A.

César F. Carranza  
Director of Public Credit  
Ministry of Finance and Public Credit

Daniel Figueroa  
Deputy Chief  
Economic Studies Department  
Banco Central de Honduras

Mario Galeano  
Manager  
Fincas San Bernardo

Analía Napky  
Assistant  
Office of the President  
Banco Central de Honduras

Rigoberto Pineda  
Manager  
Banco Central de Honduras

Paul Vinelli  
President  
Banco Atlántida S.A.

## **Israel**

### *Alternate Governor*

Yehuda Drori  
Commissioner  
Capital Market, Insurance and Savings Department  
Ministry of Finance

### *Temporary Alternate Governor*

Miki Eran  
Adviser to the Governor  
Bank of Israel

### *Advisor*

Ehud Keinan  
First Secretary  
Embassy of Israel in Venezuela

## **Jamaica**

### *Governor*

Edward P. G. Seaga  
Prime Minister

### *Alternate Governor*

Headley Brown  
Governor  
Central Bank of Jamaica

### *Advisors*

Merle Henry  
Director of Administration  
Planning Institute of Jamaica

Stafford Neil  
Ambassador of Jamaica to Venezuela

Locksley Smith  
Director  
Economic Policy and Programming

Carla Vendryes  
Office of the Prime Minister

Lorraine A. Wilkin  
Administrative Assistant to the Governor  
Central Bank of Jamaica

Karen Zacca  
Personal Assistant to the Prime Minister

## **Japan**

### *Temporary Alternate Governors*

Toyoo Gyohten  
Vice Minister of Finance for International Affairs

Koji Kashiwaya  
Deputy Director-General  
International Finance Bureau  
Ministry of Finance

### *Advisors*

Keiji Fukumoto  
Official, Multilateral Cooperation Division  
Economic Cooperation Bureau  
Ministry of Foreign Affairs

Junichi Hatano  
First Secretary  
Embassy of Japan in Venezuela

Nobumitsu Hayashi  
Deputy Director  
Office of the Vice Minister for  
International Financial Affairs

Tadashi Iwashita  
Counselor  
Embassy of Japan in the United States of America

Tomoyasu Komuyama  
Deputy Director  
International Organizations Division  
International Finance Bureau  
Ministry of Finance

Zenbei Mizoguchi  
Alternate Executive Director  
Inter-American Investment Corporation

Akira Nagashima  
Chief Representative  
New York Office  
Bank of Japan

Akio Takahashi  
Director  
Financial Division  
Tokai Regional Bureau of Finance

## **Mexico**

### *Governor*

Gustavo Petricoli  
Secretary of Finance and Public Credit

### *Alternate Governor*

Ernesto Marcos Giacomani  
Director General  
Nacional Financiera, S.N.C.

### *Temporary Alternate Governors*

José Angel Gurria  
Director General of Public Credit  
Department of Finance and Public Credit

Carlos Sales Gutiérrez  
Director General  
Banco Nacional de Obras y Servicios Públicos,  
S.N.C.

Salvador Arriola  
Director General of International Financial Affairs  
Department of Finance and Public Credit

### *Advisors*

Antonio Cervera  
Director of International Financial Institutions  
Department of Finance and Public Credit

Roberto Contreras  
Director General of Media and External Relations  
Department of Finance and Public Credit

José Luis Flores H.  
Executive Director  
Inter-American Development Bank

Javier Guzmán  
Manager  
Banco de México

Roberto Martínez  
Deputy Director of Studies and Evaluations  
Office of International Financial Institutions  
Department of Finance and Public Credit

Hildegard Rohen  
Private Secretary to the  
Secretary of Finance and Public Credit

María Teresa Straffon  
Technical Assistant  
Office of the Executive Director  
Inter-American Development Bank

## **Netherlands**

### *Governor*

H. O. Ruding  
Minister of Finance

### *Alternate Governor*

P. Bukman  
Minister for Development Cooperation

### *Temporary Alternate Governors*

R. J. Treffers  
Director  
Multilateral Development Cooperation and  
Special Programs  
Ministry of Foreign Affairs

J. P. W. Kloppe  
Head  
Multilateral Banks Division  
Ministry of Finance

### *Advisors*

G. A. Hofenk  
Advisor  
Multilateral Banks Division  
Ministry of Finance

J. S. Kramer  
Private Secretary to Mr. Bukman  
Ministry for Development Cooperation

Van Asperen de Boer  
Director of the Laman Trip  
QLT Convention Services

O. Ruhl  
Advisor  
International Banks Division  
Ministry of Foreign Affairs

J. H. Weeda  
Advisor  
Public Relations Division  
Ministry of Finance

J. H. M. Wolfs  
Head  
Development Cooperation for Latin America  
Ministry for Development Cooperation

## **Nicaragua**

### *Alternate Governor*

Pedro Antonio Blandón  
First Vice Minister  
Ministry of External Cooperation

### *Temporary Alternate Governors*

Julio López Miranda  
Ambassador of Nicaragua to Venezuela

Jaime A. Valdivia  
Executive Director  
CABEI

José Evenor Taboada  
Director  
Legal Department  
Ministry of External Cooperation

### *Advisors*

Silvio E. Conrado  
Technical Assistant  
Office of the Executive Director  
Inter-American Development Bank

Enrique Saenz  
Project Advisor  
Latin American Economic System

Francisco Vannini  
Alternate Executive Director  
World Bank

### **Panama**

#### *Governor*

Ricaurte Vásquez  
Minister of Planning and Economic Policy

#### *Temporary Alternate Governor*

Marcel Salamin  
Ambassador of Panama to Venezuela

### **Paraguay**

#### *Alternate Governor*

César Romeo Acosta  
President  
Banco Central del Paraguay

#### *Temporary Alternate Governor*

Oscar Jacinto Obelar  
Under Secretary of State for Finance  
Ministry of Finance

#### *Advisors*

Carlos A. Knapps  
Member of the Board  
Banco Central del Paraguay

Julio M. Rejis Sanguina  
President  
Banco Nacional de Fomento

César Tellechea G.  
Director, Fiscal Benefits  
Ministry of Finance

### **Peru**

#### *Governor*

César G. Atala  
Ambassador of Peru to the United States of America

#### *Alternate Governor*

Walter Reinafarje Bazán  
Deputy Minister of Finance  
Ministry of Economic Affairs and Finance

#### *Advisors*

Sara Atala-Seoane  
Technical Assistant  
Office of the Executive Director  
Inter-American Development Bank

Héctor Tapia Cano  
Chairman of the Board of Directors  
Banco Industrial del Perú

### **Spain**

#### *Temporary Alternate Governors*

Pedro Pérez Fernández  
Secretary General of Commerce

Valentín Laiseca y Fernández de la Puente  
Deputy Director General for Multilateral  
Financial Institutions

Department of the Secretary of State for Commerce

#### *Advisors*

Rafael Conde de Saro  
Deputy Director General for International  
Economic Relations  
Department of the Secretary of State for Commerce

Emilio de la Fuente  
Director General  
ICEX

Antonio Gómez López  
Commercial Counselor  
Embassy of Spain in Venezuela

José Luis Oterino Navales  
Advisor, Commercial and Financial Institutions  
Department of the Secretary of State for Commerce

Mercedes Rubio  
Executive Director  
World Bank

Julio Viñuela Díaz  
Executive Director  
Inter-American Development Bank

### **Switzerland**

#### *Governor*

David de Pury  
Ambassador, Delegate of the Swiss Federal Council  
for Trade Agreements

#### *Temporary Alternate Governors*

Pietro Veglio  
Alternate Head  
Latin America Section  
Directorate for Development Cooperation

Wilhelm B. Jaggi  
Head of Development Policy Service  
Federal Office for Foreign Economic Affairs

Hugo Bruggmann  
Development Policy Service  
Federal Office for Foreign Economic Affairs

Dante Martinelli  
First Secretary  
Embassy of Switzerland in the  
United States of America

### **Trinidad and Tobago**

#### *Alternate Governor*

Winston Dookeran  
Minister of Planning and Mobilisation

#### *Advisors*

Winston Connell  
Director of Economics and Research  
Ministry of Planning and Mobilisation

Arthur A. Gray  
Counsellor  
Embassy of Trinidad and Tobago

Christopher R. Thomas  
Ambassador of Trinidad and Tobago to Venezuela

## **United States of America**

### *Alternate Governor*

W. Allen Wallis  
Under Secretary of State for Economic Affairs

### *Temporary Alternate Governors*

David C. Mulford  
Assistant Secretary for International Affairs  
Department of the Treasury

Frank Vukmanic  
Director  
Office of Multilateral Development Banks  
Department of the Treasury

Larry Cohen  
Office of Development Finance  
Bureau of Economic and Business Affairs  
Department of State

Robert Free  
Office of Multilateral Development Banks  
Department of the Treasury

David Malpass  
Legislative Manager  
Department of the Treasury

Barbara Upton  
Director  
Office of Multilateral Financial Institutions  
Agency for International Development

### *Advisors*

William Binzel  
Office of Representative McCandless  
U.S. House of Representatives

James Bond  
Committee on Appropriations  
U.S. Senate

Robert Browne  
Committee on Banking, Finance and Urban Affairs  
U.S. House of Representatives

José Manuel Casanova  
Executive Director  
Inter-American Development Bank

Terrence Checkt  
Vice President, Foreign Relations Department  
Federal Reserve Bank of New York

Richard Collins  
Committee on Appropriations  
U.S. Senate

Thomas Connors  
Chief  
International Development Section  
Board of Governors of the Federal Reserve System

Mark Constantine  
Committee on Banking, Finance and Urban Affairs  
U.S. House of Representatives

Walter Fauntroy  
Committee on Banking, Finance and Urban Affairs  
U.S. House of Representatives

Peter Field  
Director for South America  
Department of Commerce

Judith Graham  
Office of the Assistant Secretary for  
International Affairs  
Department of the Treasury

Oscar Guarderas  
Assistant  
Office of the Executive Director  
Inter-American Development Bank

Barry Hager  
Office of Representative Morrison  
U.S. House of Representatives

Caroline Haynes  
Legislative Manager  
Department of the Treasury

Alfred McCandless  
Committee on Banking, Finance and Urban Affairs  
United States House of Representatives

Larry K. Mellinger  
Alternate Executive Director  
Inter-American Development Bank

Otto Reich  
Ambassador of the United States to Venezuela

Clark Sand  
Technical Assistant  
Office of the Executive Director  
Inter-American Development Bank

Stanley H. Specht  
Finance Officer  
Embassy of the United States in Venezuela

Thomas Timlen  
First Vice President and Chief Administrative Officer  
Federal Reserve Bank of New York

Peter Whitney  
Director  
Office of Regional Economic Policy  
(Latin America & the Caribbean)  
Department of State

## **Uruguay**

### *Temporary Alternate Governors*

César Rodríguez Batlle  
Second Vice President  
Banco de la República Oriental del Uruguay

Juan Ignacio García Pelufo  
Advisor  
Ministry of Economic Affairs and Finance

### *Advisors*

Angel Bertolotti Neumann  
Director of Regional Development Projects  
Office of the President of the Republic

Diego Cardoso  
Advisor  
Ministry of Economic Affairs and Finance

## **Venezuela**

### *Governor*

Héctor Hurtado  
Minister of Finance

### *Alternate Governor*

Modesto Freites Piñate  
Minister of State  
Chief, Central Coordination and Planning Office  
Office of the President of the Republic

### *Temporary Alternate Governors*

Mauricio García Araujo  
President  
Banco Central de Venezuela

Heberto Urdaneta  
President  
Fondo de Inversiones de Venezuela

Francisco García Palacios  
Director General  
Ministry of Development

Ana Drossos Mangos  
Director General  
Public Finance Sector  
Ministry of Finance

Aquiles Viloria  
Manager  
International Financial Cooperation  
Fondo de Inversiones de Venezuela

### *Advisors*

Julio César Alvarez  
Advisor  
Ministry of Finance

Leonor Filardo  
Alternate Executive Director  
International Monetary Fund

Eduardo Mayobre  
President  
Instituto de Comercio Exterior

Nelson Ortiz  
Director General  
Short-range Planning Sector  
CORDIPLAN

Felipe Pazos  
Advisor  
Banco Central

Sonia Pérez R.  
Executive Director  
Inter-American Development Bank

Juan Carlos Pérez-Segnini  
Superintendent of Foreign Investment

Guillermo Pimentel  
Advisor  
Ministry of Finance

Rafael Quevedo  
Chief  
Division of International Financial Affairs  
Ministry of External Relations

Jesús Eduardo Rodríguez  
Advisor to the Executive Director  
World Bank

Pedro Rosas  
Manager of Studies  
Banco Central de Venezuela

Liliana Schilling de Lara  
Director  
Office of International Technical Cooperation  
CORDIPLAN

Antonio Juan Sosa  
Technical Assistant  
Office of the Executive Director  
Inter-American Development Bank

Félix Soubllette  
Chief Advisor  
CORDIPLAN

# EXECUTIVE DIRECTORS AND ALTERNATE EXECUTIVE DIRECTORS OF THE INTER-AMERICAN INVESTMENT CORPORATION

Luiz Barbosa  
Jacinto Vélez

*Brazil and Ecuador*

Alberto Benítez Bonilla  
Marta Julia Cox

*El Salvador, Guatemala, Honduras and Nicaragua*

Manuel José Cárdenas  
Tulio De Andrea

*Colombia and Peru*

José Manuel Casanova  
Larry K. Mellinger

*United States of America*

Ian M. de Jong  
Heiner Luschin

*Austria and the Netherlands*

José Luis Flores H.  
Bienvenido Brito

*Dominican Republic and Mexico*

Calvin B. Knowles  
George L. Reid

*The Bahamas, Barbados, Guyana, Jamaica and  
Trinidad and Tobago*

Benjamín Mira Montt

*Chile*

Guido P. Osterhaus  
Philippe Adhémar

*France, Germany and Switzerland*

Sonia Pérez  
Reinaldo Decerega

*Panama and Venezuela*

Jorge Sakamoto

*Argentina*

Julio Viñuela Díaz  
Zenbei Mizoguchi

*Israel, Japan and Spain*

Juan Felipe Yriart  
Juan José Díaz Pérez

*Bolivia, Paraguay and Uruguay*

## INTER-AMERICAN INVESTMENT CORPORATION OBSERVERS FROM NONMEMBER COUNTRIES

### Costa Rica

Fernando E. Naranjo V.  
Minister of Finance

Carlos Hernández R.  
General Manager  
Banco Central de Costa Rica

Gerardo W. Jaspers  
Director of External Financing  
Ministry of Finance

Oscar Román Hernández Pacheco  
Ambassador of Costa Rica to Venezuela

Roberto Picado H.  
Advisor, Office of the Executive  
President  
Banco Central de Costa Rica

Silvia Charpentier  
Advisor to the Minister of Finance

Iris Alvarez  
Minister-Counselor  
Embassy of Costa Rica in Venezuela

Olivier Castro Pérez  
Executive Secretary  
Central American Monetary Council

### Haiti

Alain Turnier  
Minister of Finance, Economic Affairs  
and Civil Service

Claude Grand-Pierre  
Commissioner General for National Promotion

Fritz Viala  
Advisor  
Ministry of Finance

**Italy**

Lamberto Dini  
Director General  
Banca d'Italia

Giuseppe Maresca  
First Director  
Ministry of the Treasury

Giovanni Montagna  
Officer  
Ministry of the Treasury

Livio Tornetta  
Officer  
Research Department  
Banca d'Italia

Fernando Carpentieri  
Technical Assistant  
Office of the Executive Director  
Inter-American Development Bank

**SPECIAL GUESTS**

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A total of 986 special guests from 38 countries attended the Twenty-ninth Annual Meeting of the Bank and Third Annual Meeting of the Corporation.



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GO-Meeting, Annual Proceedings  
GO - 29th Meeting Board of 1988 -1988  
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