INTER-AMERICAN DEVELOPMENT BANK
INTER-AMERICAN INVESTMENT CORPORATION

PROCEEDINGS

Forty-fourth Annual Meeting of the
Board of Governors of the Bank

Eighteenth Annual Meeting of the
Board of Governors of the Corporation

Milan, Italy
March 2003

This publication contains the official record of and additional information on the Forty-fourth Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Eighteenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation, held jointly in Milan, Italy, from March 24–26, 2003. It includes the resolutions approved between the Forty-third and Forty-fourth Annual Meetings of the Bank and those approved during the latter of these meetings, as well as the resolutions approved during the Eighteenth Annual Meeting of the Corporation. It also contains the addresses delivered at the meetings and the list of participants, which includes the official delegations, Senior Management and Boards of Executive Directors of the Bank and the Corporation, and observers.

The Forty-fourth Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Eighteenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation were held in Milan, Italy, from March 24–26, 2003.

The Inaugural Session opened under the chairmanship of the Governor for Brazil, Mr. Guido Mantega. The agendas of the meeting of the Bank and the meeting of the Corporation (see page 3) were then approved. The Governor for Brazil, in his capacity as outgoing Chairman of the Boards of Governors, reported on work performed since the previous annual meeting and on the economic situation in the region in 2002. Subsequently, Mr. Giulio Tremonti, Governor for Italy, was elected Chairman of the Boards of Governors.

The Inaugural Session was attended by Mr. Pier Ferdinando Casini, President of the Italian Chamber of Deputies, Mr. Roberto Formigoni, President of the Lombardy region, Mr. Mario Baccini, Deputy Secretary of State of the Italian Ministry of Foreign Affairs, Mr. César Gaviria, Secretary General of the Organization of American States (OAS), Mr. José Antonio Ocampo Gaviria, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC), and Mr. Carlos A. Magariños, Director-General of the United Nations Industrial Development Organization (UNIDO).

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

1. Report of the Chairman of the Board of Governors and Chairman of the Committee of the Board of Governors on work performed since the previous Annual Meeting

   At the Inaugural Session, the Board of Governors took note of the report of the Chairman of the Committee of the Board of Governors of the Bank on work performed since the previous Annual Meeting. The report appears on page 151.

2. Annual Report of the Bank and financial statements for 2002

   During the Second Plenary Session, the Board of Governors adopted Resolutions AG-2/03, AG-3/03, and AG-4/03, approving the financial statements of the Ordinary Capital resources, the Fund for Special Operations, and the Intermediate Financing Facility account, respectively, for the fiscal year ending December 31, 2002.

   In addition, 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$75.2 million in convertible currencies from the General Reserve of the Fund for Special Operations, as set forth in Resolution AG-3/03.

3. Selection of the outside auditors of the Bank for 2003

   At the Second Plenary Session, the Board of Governors adopted Resolution AG-5/03, approving the selection of Ernst & Young LLP as outside auditors of the Bank.

4. Sites and dates of future annual meetings of the Boards of Governors of the Bank and of the Corporation

During the Fourth Plenary Session, the Board of Governors adopted Resolution AG-6/03 whereby it was resolved to hold the Forty-fifth Annual Meeting of the Board of Governors in Lima, Peru, from March 29–31, 2004, and the Forty-sixth Annual Meeting of the Board of Governors in Okinawa, Japan, from April 10–12, 2005.

During the Fourth Plenary Session, the Board of Governors also adopted Resolution AG-7/03, whereby appreciation was expressed for the invitations extended by the Governors for The Bahamas, Panama, Belgium, Costa Rica, and Mexico. The Board of Executive Directors was asked, in accordance with the procedure for determining the site of the Annual Meeting appearing in Resolution AG-1/76, to submit its recommendations in due course to the Board of Governors, 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. Report of the Chairman of the Board of Governors and Chairman of the Committee of the Board of Governors on work performed since the previous Annual Meeting

At the Inaugural Session, the Board of Governors took note of the report of the Chairman of the Committee of the Board of Governors of the Corporation on work performed since the previous Annual Meeting. The report appears on page 155.

2. Annual Report of the Corporation and financial statements for 2002

During the Third Plenary Session, the Governors adopted Resolution CII/AG-1/03, approving the financial statements of the Inter-American Investment Corporation for the financial year ending December 31, 2002, in accordance with Article IV, Section 2(c), of the Agreement Establishing the Corporation.

Carlos Ferdinand
Secretary of the Bank and of the Corporation

AGENDA OF THE FORTY-FOURTH ANNUAL MEETING OF THE BOARD OF GOVERNORS OF THE INTER-AMERICAN DEVELOPMENT BANK

1. Report of the Chairman of the Board of Governors and of the Committee of the Board of Governors on the work performed since the last Annual Meeting (document AB-2223)

2. Election of the Chairman of the Board of Governors

3. Annual Report of the Bank. Financial statements for 2002:

   - Ordinary Capital
   - Fund for Special Operations
   - Intermediate Financing Facility Account

4. Selection of outside auditors for 2003

5. Sites and dates of the Forty-fifth and the Forty-sixth Annual Meetings of the Board of Governors

6. Sites and dates of future annual meetings of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation

AGENDA OF THE EIGHTEENTH ANNUAL MEETING OF THE BOARD OF GOVERNORS OF THE INTER-AMERICAN INVESTMENT CORPORATION

1. Report of the Chairman of the Board of Governors and of the Committee of the Board of Governors on the work performed since the last Annual Meeting (document CII/AB-851)

2. Election of the Chairman of the Board of Governors

3. Annual Report of the Corporation. Financial statements for 2002

RESOLUTIONS ADOPTED BETWEEN THE FORTY-THIRD AND THE FORTY-FOURTH ANNUAL MEETINGS OF THE BANK

RESOLUTION AG-7/02

REMUNERATION OF THE PRESIDENT OF THE BANK

WHEREAS:

The Committee of Governors designated pursuant to Resolution AG-7/91 has examined the situation with respect to the remuneration of the President of the Bank and made recommendations in that regard;

The Board of Governors

RESOLVES:

To accept the recommendation set forth in paragraph 3.2(i) of the Report of the Special Committee of Governors contained in document AB-2208 and, pursuant to Article VIII, Section 2(b)(iii), of the Agreement Establishing the Bank, to increase by 4.3 percent the remuneration paid to the President of the Bank, effective July 1, 2001.

(Adopted on June 17, 2002)

RESOLUTION AG-8/02

REMUNERATION OF THE EXECUTIVE DIRECTORS

WHEREAS:

The Committee of Governors designated pursuant to Resolution AG-8/91 has examined the situation with respect to the remuneration of the Executive Directors and made recommendations in that regard;

The Board of Governors

RESOLVES:

To accept the recommendation set forth in paragraph 3.2(ii) of the Report of the Special Committee of Governors contained in document AB-2208 and, pursuant to Article VIII, Section 2(b)(v), of the Agreement Establishing the Bank, to increase by 4.3 percent the remuneration paid to the Executive Directors and the Alternate Executive Directors, effective July 1, 2001.

(Adopted on June 27, 2002)

RESOLUTION AG-9/02

SELECTION OF OUTSIDE AUDITORS

WHEREAS pursuant to Article VIII, Section 2(b)(x) of the Agreement Establishing the Bank, the Board of Governors has authority to select outside auditors of the Bank and to terminate the appointment of outside auditors of the Bank;

WHEREAS in September 2000, the Board of Governors selected the firm of Andersen (formerly Arthur Andersen LLP) to serve as outside auditors of the Bank with respect to each of the fiscal years 2000 through 2004;

WHEREAS in April 2002, Bank Management learned that the Andersen firm would shortly not be capable of providing audit and related services to the Bank due to the breakup of that firm subsequent to its criminal indictment by the U.S. Department of Justice;

WHEREAS in May 2002, the Board of Executive Directors approved Bank Management's recommendation to: (i) notify the Andersen firm of the Bank's suspension of their services as of June 17, 2002 and intention to terminate the agreement with such firm, and (ii) commence an international competitive bidding process as the basis for making a recommendation to the Board of Governors for the selection of new outside auditors;

WHEREAS Bank Management conducted an international competitive bidding process for audit and related services for the fiscal year 2002 with the Bank's option to renew the contract on a yearly basis through the fiscal year 2006;

WHEREAS the firm of Ernst & Young LLP was identified as a result of the international competitive bidding process to provide external audit and related services to the Bank for one year with the Bank's option to renew the contract on a yearly basis through the fiscal year 2006; and

WHEREAS the Board of Executive Directors has recommended to the Board of Governors that the appointment of the Andersen firm as outside auditors of the Bank and the existing agreement for audit and related services with such firm be terminated, and that the firm of Ernst & Young LLP be selected to serve as outside auditors of the Bank with respect to the fiscal year 2002;

The Board of Governors

RESOLVES:

That, pursuant to Article VIII, Section 2(b)(x) of the Agreement Establishing the Bank, the appointment of the Andersen firm as outside auditors of the Bank and the existing agreement for audit and related services with the Andersen firm are terminated, and that the firm of Ernst & Young LLP is selected to serve as outside auditors to certify to the general balance sheet and the statement of profit and loss of the Bank with respect to the fiscal year 2002, in accordance with Section 10 of the By-Laws.

(Adopted September 13, 2002)

RESOLUTION AG-10/02

ELECTION OF THE PRESIDENT OF THE BANK

WHEREAS:

The term of office of the President of the Inter-American Development Bank, Mr. Enrique V. Iglesias, ends on March 31, 2003;

Accordingly, pursuant to the Regulations for the Election of the President of the Bank, the period for presentation of nominations was opened on September 10, 2002;

Within the period established, 46 Governors have nominated or seconded the nomination of Mr. Enrique V. Iglesias; and

Mr. Enrique V. Iglesias, as President of the Bank, has demonstrated that he possesses all the ability and experience required for the performance of the duties and responsibilities entrusted to him, contributing with his talent and dedication to the attainment of the basic objectives of the Bank and consequently to economic and social progress in Latin America and the Caribbean,

The Board of Governors

RESOLVES:

1. To reelect Mr. Enrique V. Iglesias as President of the Inter-American Development Bank for a term of five years beginning April 1, 2003, pursuant to Article VIII, Sections 2(b)(iii) and 5(a), of the Agreement Establishing the Bank.

2. To authorize the Chairman of the Board of Governors, on behalf of the Bank, to sign with Mr. Enrique V. Iglesias a contract of employment taking into consideration, among other factors, the terms of Resolution AG-7/91 of the Board of Governors, adopted on August 2, 1991.

(Adopted November 8, 2002)

RESOLUTION AG-001/03

INTERNATIONAL TRADE FINANCE REACTIVATION
PROGRAM FOR THE PRIVATE SECTOR

WHEREAS, by Resolution AG-6/94 of August 12, 1994, the Board of Governors approved the report entitled "Report on the Eighth General Increase in the Resources of the Inter-American Development Bank" issued as Document AB-1704;

WHEREAS Document AB-1704 contemplates lending to the private sector without sovereign guarantee by means of support "... targeted exclusively towards the financing of investment in infrastructure and public utility projects providing services generally performed by the public sector;"

WHEREAS Document AB-1704 also contemplates that: "For any individual project, the Bank's share should not, as a rule, exceed 25 percent of total costs or US$75 million, whichever is less;"

WHEREAS, by Resolution AG-1/99 of February 22, 1999, the Board of Governors approved additional guidelines relating to private sector lending without sovereign guarantee, as contained in Document CS-3170-14, providing a per project limit on direct loan participation of 40 percent or US$75 million, whichever is lower, in the countries of Group C and D, and in the case of partial risk guarantees, a per project limit of US$150 million or 50 percent of total cost, whichever is lower;

WHEREAS Document AB-1704 further contemplates that "... the Bank will work with borrowing member countries to develop a market-based export financing mechanism, tailored to the needs of individual member countries of the region to finance intra- and extra-regional trade;" and

WHEREAS the Board of Executive Directors, by Document GN-2239-1, has forwarded to the Board of Governors the report of Management recommending that the Board of Governors authorize private sector financing without sovereign guarantee for trade finance;

The Board of Governors

RESOLVES:

1. To include international trade finance, including trade-related working capital, as eligible for private sector loans and guarantees, as contemplated in Document GN-2239-1.

2. For the purpose of the financing provided for in paragraph 1 above:

   (a) for any individual project, the Bank's per project limit shall be determined by the Board of Executive Directors;

   (b) such financing shall be included in the 10-percent ceiling established by Resolution AG-9/01 of December 12, 2001; and

   (c) such financing shall not exceed US$1 billion during the two-year term of the financing program set forth below.

3. The Board of Executive Directors is authorized to approve such financing for a period of two years from the date of this resolution.

(Adopted February 5, 2003)

RESOLUTIONS ADOPTED AT THE FORTY-FOURTH ANNUAL MEETING OF THE BANK

RESOLUTION AG-2/03

FINANCIAL STATEMENTS 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 issued an unqualified opinion on the financial statements of the Bank;

The Board of Governors

RESOLVES:

That the financial statements of the Bank with respect to the Ordinary Capital resources for the fiscal year ended December 31, 2002, containing the general balance sheet and the statement of profit and loss, are approved.

(Adopted March 24, 2003)

RESOLUTION AG-3/03

FINANCIAL STATEMENTS 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 issued an unqualified opinion on the financial statements of the Bank; and

Resolutions AG-12/83, AG-3/90 and AG-9/95, and the mandate of the Board of Governors in connection with the funding of the Bank's participation in the HIPC Initiative, prescribe that the Board of Governors shall annually allocate amounts in convertible currencies of the General Reserve of the Fund for Special Operations to the Intermediate Financing Facility Account;

The Board of Governors

RESOLVES:

1. That the financial statements of the Fund for Special Operations for the fiscal year ended December 31, 2002, containing the general balance sheet and the statement of profit and loss, are approved.

2. To allocate to the Intermediate Financing Facility Account an aggregate amount equivalent to US$75,200,000 in convertible currencies of the General Reserve of the Fund for Special Operations.

(Adopted March 24, 2003)

RESOLUTION AG-4/03

FINANCIAL STATEMENTS 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 issued an unqualified opinion on the financial statements of the Bank;

The Board of Governors

RESOLVES:

That the financial statements of the Intermediate Financing Facility Account for the fiscal year ended December 31, 2002, containing the general balance sheet and the statement of changes in fund balance, are approved.

(Adopted March 24, 2003)

RESOLUTION AG-5/03

SELECTION OF OUTSIDE AUDITORS

WHEREAS:

Pursuant to Article VIII, Section 2(b)(x) of the Agreement Establishing the Bank, the Board of Governors has the authority to select outside auditors of the Bank;

Pursuant to Resolution AG-09/02, the Board of Governors selected Ernst & Young LLP to serve as outside auditors of the Bank with respect to the fiscal year 2002;

Pursuant to an agreement between the Bank and Ernst & Young LLP, dated June 17, 2002, and a letter from the Bank to Ernst & Young LLP, dated September 23, 2002, the parties may extend, on a yearly basis through and including the fiscal year 2006, the existing appointment of Ernst & Young LLP as outside auditors of the Bank; and

The Board of Executive Directors has recommended to the Board of Governors that Ernst & Young LLP be selected to serve as outside auditors of the Bank with respect to the fiscal year 2003;

The Board of Governors

RESOLVES:

That, pursuant to Article VIII, Section 2(b)(x) of the Agreement Establishing the Bank, Ernst & Young LLP is selected to serve as outside auditors to certify to the general balance sheet and the statement of profit and loss of the Bank with respect to the fiscal year 2003, in accordance with Section 10 of the By-Laws of the Bank.

(Adopted March 24, 2003)

RESOLUTION AG-6/03

SITES AND DATES OF THE FORTY-FIFTH AND FORTY-SIXTH ANNUAL MEETINGS OF THE BOARD OF GOVERNORS

The Board of Governors

RESOLVES:

To hold the Forty-fifth Annual Meeting of the Board of Governors in Lima, Peru, from March 29–31, 2004, and the Forty-sixth Annual Meeting in Okinawa, Japan, from April 10–12, 2005.

(Adopted March 26, 2003)

RESOLUTION AG-7/03

SITES AND DATES OF FUTURE ANNUAL MEETINGS OF THE BOARDS OF GOVERNORS OF THE INTER-AMERICAN DEVELOPMENT BANK AND THE INTER-AMERICAN INVESTMENT CORPORATION

WHEREAS:

Prior to the Forty-fourth Annual Meeting of the Board of Governors, the Governors for the following countries offered to host annual meetings of the Boards of Governors of the Bank and the Corporation in the years listed in parentheses: Peru (2004), Japan (2005), The Bahamas (2006), Panama (2007), Belgium (2008), Costa Rica and Mexico;

The Board of Executive Directors, pursuant to Resolutions AG-1/76 and AG-5/00, decided to submit a proposed resolution to the Board of Governors during the Forty-fourth Annual Meeting, recommending that the Forty-fifth and Forty-sixth Annual Meetings of the Board of Governors be held in Lima, Peru, and Okinawa, Japan, respectively;

The Board of Governors

RESOLVES:

1. To express its appreciation for the invitations extended by the Governors for The Bahamas, Panama, Belgium, Costa Rica, and Mexico, as well as such other invitations as may be extended during the course of the Forty-fourth Annual Meeting of the Board of Governors.

2. To instruct the Board of Executive Directors, following the procedure approved by means of Resolution AG-1/76 and pursuant to Resolution AG-5/00, to present its recommendations concerning the site and dates of future annual meetings of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation in due course, in accordance with the terms of reference set forth in document AB-476-2.

(Adopted March 26, 2003)

RESOLUTION ADOPTED AT THE EIGHTEENTH ANNUAL MEETING OF THE CORPORATION

RESOLUTION CII/AG-1/03

FINANCIAL STATEMENTS OF THE
INTER-AMERICAN INVESTMENT CORPORATION

WHEREAS:

The external auditors of the Corporation, selected in accordance with Article IV, Section 2(c)(vii), of the Agreement Establishing the Corporation, have issued an unqualified opinion on the financial statements of the Corporation;

The Board of Governors

RESOLVES:

That the financial statements of the Corporation with respect to the fiscal year ended December 31, 2002, containing the balance sheet and the statements of income and retained earnings and of cash flow, are approved.

(Adopted March 25, 2003)

Wednesday, March 19

9:00 a.m. to 6:30 p.m.	Registration of participants

Thursday, March 20

8:00 a.m. to 6:30 p.m.	Registration of participants
9:00 a.m. to 5:30 p.m.	Seminar: "Financing Private Sector Development: An Integral Approach. Field Trip"

Friday, March 21

8:00 a.m. to 6:30 p.m.	Registration of participants
9:00 a.m. to 5:30 p.m.	Seminar: "E-Governance: Towards a New Approach to International Cooperation in the Knowledge Economy"
10:00 a.m. to 6:30 p.m.	Seminar: "Financing Private Sector Development: An Integral Approach"
3:30 p.m. to 6:30 p.m.	Seminar: "Good Practices in Social Inclusion: A Dialogue between Europe and Latin America and the Caribbean"
6:00 p.m. to 7:00 p.m.	Conference/Discussion: "The Future of the Press and the Written Word in the Internet Age"

Saturday, March 22

8:00 a.m. to 6:30 p.m.	Registration of participants
9:00 a.m. to 6:30 p.m.	Seminar: "Global and Local: Confronting the Challenges of Regional Development in Latin America and the Caribbean"
9:15 a.m. to 5:30 p.m.	Seminar: "Financing Private Sector Development: An Integral Approach"
9:15 a.m. to 6:00 p.m.	Seminar: "Good Practices in Social Inclusion: A Dialogue between Europe and Latin America and the Caribbean"
3:00 p.m. to 6:00 p.m.	Preliminary Session of Heads of Delegation to the Annual Meeting of the Boards of Governors of the IDB and IIC, followed by Meetings of the Committees of the Boards of Governors of the IDB and the IIC

Sunday, March 23

8:00 a.m. to 6:30 p.m.	Registration of participants
9:30 a.m. to 2:00 p.m.	Seminar: "Dealing with Risk: Implementing Employment Policies under Fiscal Constraints"
12:00 p.m. to 1:00 p.m.	Meeting on the Multilateral Investment Fund
3:00 p.m. to 5:00 p.m.	Special Governors' Meeting
5:00 p.m. to 6:30 p.m.	Roundtable European Union and Latin America and the Caribbean

Monday, March 24

8:00 a.m. to 5:30 p.m.	Registration of participants
9:30 a.m. to 12:30 p.m.	Inaugural Session (First Plenary Session)
3:00 p.m. to 6:30 p.m.	Second Plenary Session

Tuesday, March 25

9:30 a.m. to 1:00 p.m.	Third Plenary Session
3:30 p.m. to 6:45 p.m.	Seminar: "After the Washington Consensus: Restarting Growth and Reforms in Latin America"

Wednesday, March 26

9:30 a.m. to 1:00 p.m.	Fourth Plenary Session and Closing Session

ADDRESSES

FIRST PLENARY SESSION

MARCH 24, 2003

INAUGURAL SESSION

Milan and Lombardy are proud to host such a prestigious international event, for which the institutions and most active members of civil society have made every effort to ensure its success.

The many seminars, conferences and round tables held since last Wednesday, with high-level participants of extraordinary quality, augur well for the organizational, political, and cultural outcome of the event. High-caliber concepts are being discussed, ideas are circulating, and we are all learning from one another.

The international situation is dramatic, but this very urgency, although it causes despair, makes us more keenly aware of the full extent of our responsibility towards a new start for international cooperation and reviving integration processes among multilateral agencies.

To find peace, as Cardinal Dionigi Tettamanzi, Archbishop of Milan stated with such insightfulness, it is necessary to become builders of peace. The Annual Meeting of the IDB, a leader in funding projects that are crucial to development in Latin America and the Caribbean, is one of those arenas where all participants, whether they represent institutions or civil society, can make a major contribution to the actual building of peace, whose modern name, as we were reminded by another member of the Church, originally from Lombardy, His Holiness Pope Paul VI, is "development."

We hope—and for this reason championed Milan's candidacy to host the quadrennial Annual Meeting of the IDB in Europe—that the work undertaken in the coming days helps to attain a three-fold objective: significantly intensify relations and initiatives for cooperation between Lombardy and Latin America, between Italy and Latin America, and between Europe and Latin America.

I am absolutely convinced that a preferential relationship between the two Atlantic shores, not confined to the shores of the Northern Hemisphere, will prove highly strategic.

Undoubtedly, this is a strategic relationship for a dynamic and evolved subnational government such as Lombardy that has maintained and advanced its areas of global excellence purely by establishing new relations, and political and economic exchanges with other parts of the world. Lombardy's economic and productive excellence, and its socially balanced development owe much to its constant capacity to innovate and open up to other countries. This is not so much an economic strategy decision, as the reflection of cultural traits specific to the identity of Lombards.

However, economic reasons are not the only ones that bring us together and compel us to confer: there is another distinctly political factor at play.

The Lombardy region sends institutional missions overseas, executes memorandums of understanding, carries out cooperation projects, facilitates international contacts for its small and large enterprises to not only export goods, but for many other things. In addition to our goods, we want to export our solidarity, the expression of civil society, our model of social capitalism focused on small and medium-sized enterprises, our governance model, based on the principle of subsidies and respecting the citizens of the territory. We wish to export these "products" because they are sought by our international partners, because they are appreciated, and because we are convinced that they contribute greatly to peace and development, two assets for international coexistence sorely lacking in the recently ended 2002.

The root cause of the crisis that 2003 inherited from 2002 is not the shortage of material, scientific and technical resources. Although this shortage cannot be overcome in the short term, it is temporary. Instead, it is the cultural incapacity and the political indifference of the major powers to confront the key issues of our time.

There is no doubt the world has enjoyed abundant resources in all spheres, including economics and finance.

However, at all crucial crossroads, the major powers continue to follow policies reminiscent of the recipes and organizational formulas of 50 years ago. To a great extent, the international economic crisis is due to the persistent underdevelopment of the Southern Hemisphere. In the more-advanced countries, jobs are lost because market saturation makes it difficult to sell products; in the less-advanced ones, with so many unmet needs, the productivity index is never high enough to ensure a constant presence on the global market, either as seller or buyer.

Breaking this vicious circle is not one of the many current problems worldwide: it is *the* problem. It is the only way to overcome the international crisis once and for all.

Given these circumstances, reactivating and developing peaceful and fruitful economic relations between Latin America and the European Union has a clearly strategic role to play. The competitiveness challenge in a globalized market is proof of the importance of sharing and exchanging experiences and know-how to build models in which economics, productive and commercial elements are intricately bound to those pertaining to culture, traditions, social cohesion, human development and the quality of life. What we are now discovering, at both the national and regional levels, is that there is no contradiction between globalization and identity. Identity is not the opposite of globalization or integration, but the best way to gain access to both. Those able to build a system that is coherent in terms of social, cultural, economic, regional, and infrastructural development will benefit the most from the current integration processes. Subnational governments such as Lombardy, Bavaria, Baden Württenberg, Catalonia, etc., are gaining great advantages from economic globalization not only through the economic efficiency and infrastructure facilities offered by the system, but more importantly, from social cohesion and solidarity that translate into lower investment risk and greater reliability of human resources.

What holds true individually for regional and central governments, holds true for networks of relations woven and reinforced between regions of a continent or between continents: indeed, the rationale behind globalization is to connect diverse and distant entities, but more importantly, globalization generates another movement: it groups related and similar entities, thus strengthening their competitiveness and international scope.

What happened within Europe, where the process of political and economic integration between national governments intensified as the contours of globalization became more apparent, can and must happen between Europe and Latin America.

Italy and Lombardy can and must be in the forefront of this process.

I believe that many Latin American countries will find common traits and shared roots in the makeup of Italy and Lombardy. We share the same culture, temperament and linguistic family. Many millions of inhabitants in Central and South America trace their origins back to Italy, and retain strong ties with the old country. The web of family and social relations at the heart of civil coexistence and the economic system evolved from the same source.

Therefore, integration between Europe and Latin America is not, and will never be, a purely economic matter. It is a truly historical and fitting mission of great cultural and political import.

Integration between Europe and Latin America is essential to mend the Western world, this civilization common to Europeans, North Americans and Latin Americans.

The lack of political understanding between Europe and North America and the economic inequity between the two and Latin America should not cloud a common identity, the result of a thousand years of history. This is specifically true right now, when the threat of international terrorism lends greater urgency to Western soli-darity and the reaffirmation of its universal values. Constructive action is all the more essential since those who share an affinity based on civilized values also discover a political, economic and institutional unity.

The destiny not only of our respective countries, but of world peace and development, depend on it.

ADDRESS BY MR. GUIDO MANTEGA, OUTGOING CHAIRMAN OF THE BOARDS OF GOVERNORS OF THE INTER-AMERICAN DEVELOPMENT BANK AND INTER-AMERICAN INVESTMENT CORPORATION, AND GOVERNOR FOR BRAZIL

It is a double honor for me to address participants at this inaugural session of the Forty-fourth Annual Meeting of the Board of Governors of the Inter-American Development Bank and Eighteenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation. Firstly because I am proud to stand here as Chairman of the Board of Governors, a position which allows me to comment on the accomplishments of the region, and of the Bank in particular, during the term now coming to a close. Secondly, because I represent a government that has made the economic and social development of its people its priority; a government that aspires to sustainable growth in our continent and sees Latin American integration as one of the main instruments for achieving this. More than a choice, Latin America is a historic necessity—our Brazilian destiny, which sometimes seems to recede but always returns with renewed vitality, confounding skeptics and conservatives alike.

I should like to offer my sincere thanks to the Italian authorities and to Minister Giulio Tremonti, who give renewed evidence of the Italian people's generosity and hospitality by welcoming us to this city of Milan—as ever, a extraordinarily beautiful blend of tradition and modernity.

On behalf of President Luiz Inácio Lula da Silva, I should like once again to express thanks for the invitation extended to him to participate in this event, but which unfortunately he was unable to accept owing to prior commitments.

The Shrinking of Capital Flows to Latin America

Today it is not difficult to paint a gloomy picture for Latin America, given the serious and complex problems that afflicted us during 2002. Pessimism seems to be virtually *de rigueur* among economic, political and social analysts in the region, rather than focusing on the new horizon of growth with social inclusion that beckons.

The external scenario was certainly negative for Latin America in 2002. Accounting scandals among large corporations in developed countries heightened the perceptions of global risk that had taken hold since September 11, 2001. The war in Iraq, more than a financial problem, represents a political problem of major proportions. It threatens the very multilateralism that has underpinned international understanding since the post-war period. Accordingly, it is now essential to rethink the role of the United Nations and all multilateral organizations, including the IDB.

The international financial system remains incapable of stabilizing capital flows so as to avoid herd behavior and self-fulfilling prophecies. Evaluations by risk-rating agencies do not always offer transparent assessments of the economic and financial situation in different economies. An eloquent example of this was last week's approval for the end of waivers in IDB financing. The soundness of the Bank and the widespread acceptance of its paper precludes any speculation on its own rating.

Such circumstances affect our region both directly and indirectly. Directly, because our economies do not issue internationally traded currencies, so they are more vulnerable to turbulence emanating from the world's financial centers. At the slightest hint of trouble, markets move to divest themselves of emerging economy securities, leaving the governments of those countries to foot most of the bill. International financial instability benefits no one, nor are its costs shared equally. According to ECLAC, in 2002 net capital inflows into the region were the lowest since 1989 at just US$13.4 billion.

This adverse external panorama also had indirect negative consequences. OECD countries grew just 1.5 percent in 2002, and the result would have been even worse were it not for decisive fiscal and monetary stimuli provided by their economic policymakers. Against this backdrop of weak performance, commodity exports become problematic. The terms of trade deteriorated for nearly all Latin American countries, especially for net oil importers. Exports of Latin American goods and services were flat in 2002; the region's exceptional trade surplus was due essentially to a widespread contraction of imports.

The Impasses of Multilateral Trade

Nonetheless, it was not only the recessionary international climate that caused balance-of-payments difficulties in the region's countries. There was also an institutional factor in the slowing of exports, namely protectionism by developed countries. On this point also, pessimism could dampen our spirits.

In 2002, any hopes of a more flexible trade policy among the leading economies were postponed for the indefinite future. The proposals they submitted in the World Trade Organization were unduly timid, and failed to address the key problems of export subsidies and domestic support for agriculture. It is widely known that the developed countries are currently spending around US$1 billion per day on agricultural incentives. Nor was there any significant progress on improvements to anti-dumping rules and the problems of tariff peaks and escalation.

The rigidity of trade policy in developed countries is at the root of the vicious circle of sluggish exports and import contraction, which leads to a widespread narrowing of trade, to the detriment of efficient specialization and productivity rises. This was only offset during the 1990s by the explosion of international lending and new credit instruments, which financed unbalanced trade positions that in a different context would have been unsustainable. But the exhaustion, or at least cooling down of that "irrational exuberance" now forces us to confront the truth: today we risk entering a disastrous spiral of protectionism, which would be damaging for everyone. Latin America opened its markets and accepted the challenge of competition, but this attitude will be to no avail unless matched by significant progress in the world's most important markets. The new WTO negotiating round really must be the "development round," as proclaimed.

While the foundations of the edifice of worldwide free trade are unsound, it is unwise to climb to the higher levels of international regulation of normative aspects of economic activity. The negotiation of such rules could restrict our autonomy for implementing technological, environmental, industrial and social policies. If barriers are likely to remain to international trade in agricultural products, textiles, steel and other semi-manufactured goods, which are the sectors of greatest interest for developing countries, then export promotion alternatives should be sought from other sectors. This does not mean reverting to antiquated practices of public favors and irrational subsidies, but rather promoting creative and intelligent actions to increase exports of high value-added and technological content.

Foreign Direct Investment Flows Also Slackened

Our pessimism is also unlikely to be overcome by an analysis of trends in foreign direct investment. In the second half of the 1990s, FDI drove business cycles in several countries of the region and made it possible to finance external imbalances in many others. Since then, following the global contraction, Latin America has not managed to sustain business flows into the region. In 2002, total FDI for Latin America (US$39 billion) was below the level jointly absorbed by Brazil and Mexico alone in any of the four previous years. In 1999, the region as a whole received twice that amount.

The Return of the Specter of Recession

Given the unfavorable external climate, we should not be surprised by the weakness of economic indicators. In 2002, Latin American GDP fell by 0.5 percent compared to the previous year—drop in absolute size not seen for many years. In per capita terms, the decline was nearly 2 percent, repeating the negative results of 1999 and 2001. These figures were enough for ECLAC to have no hesitation in calling the 1998–2002 period the "lost half-decade": per capita output today is below its level of the mid-1990s.

Just as serious as the weak performance of output has been its volatility. At no point in the last 10 years has the region achieved four consecutive years of growth above 2 percent. Income expansion, when it occurs, has proven unsustainable. Recession seems to have an irresistible attraction, which takes us by surprise at the slightest sign of inattention; it is as if the earlier unequivocal growth trend, fueled by the youth of our economy and the wealth of our natural resources, had silently yielded to stagnation.

The Importance of the Work of the IDB

That the outcome was not worse was only due to lending by multilateral financial institutions—including the IDB, which, despite essentially being a development bank, ultimately plays a parallel role as a countercyclical foreign currency lender to countries with balance-of-payments difficulties. By approving over US$4.5 billion in new lending operations in 2002, the Bank was able to cushion the regional effects of the international recession, without impairing the soundness of its portfolio. Far from inhibiting the work of the Bank, the financial difficulties facing the region should stimulate its creativity, both in using undisbursed resources from earlier years and in formulating methodologies to underwrite its accounting and financial position. It is precisely at such times of turbulence that the Bank needs to act flexibly but with determination.

It is essential for the Bank to have a wide variety of instruments and facilities available to it, in order to respond appropriately to the many different countries and situations facing it. Above all it needs to stimulate debate aimed at creating other countercyclical instruments. The approval given at the Fortaleza meeting for the Bank to make emergency or policy-based loans (PBLs) represented a major step forward. Similarly, Trade Finance is a new facility that could prove indispensable at this difficult time for the external sector of Latin American countries.

I would also like to mention that, at the Special Meeting called by President Iglesias yesterday, the Governors expressed their concern for the economic situation in the region. They underscored the fundamental role played by the Bank in promoting sustained development and reducing poverty in the countries. Accordingly, a majority of the Governors considered it necessary to review existing instruments and adopt new countercyclical instruments and other measures to strengthen the Bank's work with the private sector. Other Governors did not support, at this time, opening the question of flexibility for recently created instruments. To facilitate this work, the Governors assigned responsibility to the Board of Executive Directors to discuss the matter and put forward solutions. As Chairman of the Board of Governors, I would propose that those solutions be presented at next year's Annual Meeting. There was agreement that development effectiveness must be a Bank priority, although it was necessary to relate results and costs, both for the Bank and for the borrowing countries. With respect to the Inter-American Investment Corporation, the Committee of the Board took note of the preliminary presentation by the Chair of the External Review Group appointed by request of the Board of Governors, who will take the Governors' comments into account in its final report.

Support for the private sector has been consolidated as one of the major contributions made by the Bank towards development in the region. Private enterprise is, without a doubt, the engine of economic growth, and it should be stimulated to operate within the planning strategies of the public sector. The projects and initiatives of the Inter-American Investment Corporation warrant our full attention, given the importance of small and medium-sized businesses for employment and incomes in the region. The Multilateral Investment Fund, which has already approved over 500 projects for a value of US$800 million, is the largest source of technical assistance grants for the development of our microenterprises and small businesses.

The Initiative for the Integration of South American Regional Infrastructure (IIRSA) should be recognized as one of the key pillars of trade integration in the region. The physical integration of South America needs to be treated as a priority. Of total Brazilian exports in 2002, only 12 percent went to South American markets; and only 16 percent of our imports came from our neighbors. These figures represent about half of Brazil's external trade with the European Union or even the United States. The low level of Brazil's trade with neighboring countries cannot be blamed on a supposed lack of complementarity between our economies. Most international trade takes place between developed countries, which do not display any clear complementarity relationship. No, the problem lies elsewhere—in the region's inadequate transport, communications and financing network. Last year, in Fortaleza, my predecessor lauded the Bank's role in making the physical integration of Latin America viable. The wish of the Brazilian government is to intensify this initiative, stimulate it, and engage private enterprise to make it financially viable. I note with satisfaction that institutions such as the

Andean Development Corporation (ADC) and the Financial Fund for the Development of the River Plate Basin (FONPLATA) are contributing to regional financing initiatives, which could be the platform for the future launch of a common regional currency.

South American integration should not be restricted to trade issues, however. In the next few years Brazil will launch regional initiatives in the social sphere, seeking to exploit complementarities that exist in food, health and housing. Technical and scientific cooperation and exchange of experiences, both governmental and private, and also in the third sector, could open up new paths for public policies.

A New Look at Development

Since this Board of Governors last met, economic and social indices have deteriorated generally. This picture tends to produce great uncertainty; but, as public servants, we would be of little use if were to confine ourselves to lamenting past events. It would be more useful to recall the words of Antonio Gramsci, who lived in this city, when he said "We must fight the pessimism of ideas with the optimism of determination." Certainly determination is one of the ingredients of objective change.

The Brazilian government believes in change with stability and has been moving decisively in this direction. Today our development is no longer pursued with fiscal irresponsibility or monetary chaos. We have learned the importance of building on sound foundations. But this is not enough. Development depends on creative social policies, flexible public administration and, above all, on the distribution of income and opportunities. Equity should be the main pillar of the new development, and education its instrument *par excellence*. As President Lula has declared, the new Brazilian development will be from the bottom up and from the inside outwards.

A New Consensus?

Could it be that the approach to development with equity, based on economic and trade integration, represents the new consensus that we are witnessing? Unfortunately, certain expressions tend to get bandied about indiscriminately without due caution in the use of language. This seems to be true of the expression "consensus."

In the universe of our political beliefs, some values must—or ought to—be a matter of "consensus." Human life, equality of opportunities, sustainable development—are universal and unconditional values that are normally included among a people's ultimate objectives.

Nonetheless, it is common to find "consensus" being sought not only in values, but also in more concrete and specific public policies. This search for a "consensus of instruments," if one may call it that, should be the subject of critical reflection. Take the macroeconomy at the end of the last century, for example. At that time there was an attempt, which can now be more clearly discerned, to forge a global consensus on certain tools of economic policy: opening up to external trade rapidly and indiscriminately, liberalizing the capital account of the balance of payments, downsizing the State. Such tools can be defended, and there are certainly theoretical arguments to sustain them. But they are not "consensual"—nor were they 10 years ago. As was to be expected, their application around the world produced different outcomes, because the social, economic and political realities of the individual countries exhibited huge disparities. The search for a "consensus" that rapidly turns into a set of prescriptions or ideology is worse than mistaken; it is reckless. Policy instruments emerge from theoretical debate, but they need to be applied flexibly so as to respond to the variations of local peculiarities and idiosyncrasies.

Moreover, "consensus" should be spontaneous; it should yield to differences of thinking when these exist. President Lula has tended to use the expression "contract" rather than "consensus." The contract does not expunge differences, nor does it deny diversity; it is merely the recognition that collective life—and above all, sustainable development—depend on certain basic understandings which, while they may conflict with our immediate interests, will form the foundations of a fairer and more prosperous society. Unlike consensus, the contract does not have a predetermined and inflexible direction; it is more form than substance, it is the willingness to compromise and find secure paths for a just society. It is from just such a standpoint that the government of Brazil has recently created an Economic and Social Development Council, that brings together entrepreneurs, labor unions, civil society, parliamentarians and other sectors, in order to promote negotiated and uniform responses to the challenges facing the country.

Thus, what is emerging today—and I speak of Brazil—is not a consensus; it is the willingness to tread the road of globalization with flexibility and in a democratic spirit, allowing room for debate and reflection. To some extent it is a further manifestation of the "double historical movement," to use Karl Polanyi's felicitous expression—the reaction of politics and society against economy, against the harmful belief that self-regulating markets are sufficient for social harmony and the stability of institutions. That reaction is proof that not everything we understood as globalization was an irreversible phenomenon. Perhaps the British philosopher John Gray was enduringly correct when he emphatically distinguished "global free market" from "globalization," defining the latter as the trend towards increased contacts between peoples, the unceasing and secular evolution of communications technology. "Globalization" in this sense would not only be irreversible, but also irresistible. But "global free market," i.e., the liberalization and integration of markets for goods, services and currencies, is not an old phenomenon—and neither irresistible nor irreversible. It is a policy, with good and bad results; it is localized and dated just like any other. Today Brazil invites everyone to share in the experience of a new policy.

ADDRESS BY MR. GIULIO TREMONTI, CHAIRMAN OF THE BOARDS OF GOVERNORS OF THE INTER-AMERICAN DEVELOPMENT BANK AND INTER-AMERICAN INVESTMENT CORPORATION, AND GOVERNOR FOR ITALY

On behalf of the government of the Italian Republic and personally, I welcome you to this Annual Meeting of Governors of the Inter-American Development Bank and Inter-American Investment Corporation. I would also like to thank you for electing me Chairman of the Board of Governors, and express my sincere gratitude to the Governor for Brazil for the work carried out during his term of office.

This meeting provides a unique opportunity for Italy to evince its strong and growing commitment to international financial agencies in general, and to the Inter-American Development Bank and Inter-American Investment Corporation in particular.

Given Italy's historical, cultural and economic ties to both Latin America and the Caribbean, it has a special interest in the inter-American sphere, the countries of the region, and the Inter-American Development Bank and Inter-American Investment Corporation.

It is both an honor and a responsibility to stand before you as Chairman of the Board of Governors to review and discuss the work of the Bank, specifically its activities to reduce poverty and foster social equity and economic growth in the region.

Over the past months, geopolitical risks have eroded the climate of trust among our economies, with an ensuing adverse impact on the level of economic activity and the outlook for growth.

The general slowdown in growth and dwindling foreign investment have been the main factors affecting the economies of Latin America.

The year 2002 was one of the most difficult years in recent decades, especially in the social sphere.

The number of people living in poverty has grown, and many countries have witnessed the emergence of a new class of poor.

There are some glimmers of hope, however, that we should keep before us.

One noteworthy development is that agreement was finally reached between the Argentinian government and the International Monetary Fund, thus paving the way for international agencies such as the Bank to resume activities with Argentina.

We are confident that this agreement will help to shore up—with the necessary consensus or social "contract"—the return to macroeconomic equilibrium in the region.

It will be important to rebuild and strengthen investor confidence in the region.

The Bank's activity in 2002 was ineludibly affected by the depressed economic situation. Given the more optimistic outlook for the future, in 2003 the Bank should be able to make better use of its lending capacity while safeguarding its financial integrity.

The Monterrey Conference on Financing for Development relaunched the commitment and redefined the responsibilities of stakeholders in the challenge to achieve the Millennium Development Goals.

An increase in the Bank's lending volume cannot and should not be divorced from efficient use of its financial resources.

The process set in motion last year to enhance the quality of the Bank's action can be strengthened. A system of indicators needs to be devised that ensures specific and timely monitoring, and proper evaluation of outcomes.

Improvements in the effectiveness of development aid will depend principally on the capacity of recipient countries to identify necessary reforms and their subsequent commitment to implementing those reforms.

Coordination among multilateral development banks was one of the priority points of the reform agenda pursued during Italy's presidency of the G-7 Group in 2001. I am pleased to report that progress has been made on this front.

In February 2003, Italy hosted in Rome an international conference on the harmonization of procedures for aid delivery to developing countries.

The forum, sponsored by the World Bank, the IDB and the other regional development banks, stands as one of the best examples of inter-agency collaboration. The important outcomes achieved will contribute to better utilization of available resources.

If the regional development banks are to enhance the efficiency of their interventions, they will have to continue to focus on sectors in which the respective comparative advantages are clearest.

Reducing inequality presupposes, among other things, boosting investment in human capital. The progress made towards increasing access to basic education is still insufficient, and there continue to be serious disparities in access to higher-level education. As a result, income levels also display strong inequalities, and these in turn pose an obstacle to higher productivity and growth.

Equally important is the need to support capital market development and strengthen oversight and regulatory systems.

These are crucial elements in terms of protecting and promoting saving.

Domestic saving in and of itself, however, is not sufficient. It needs to be accompanied by a growing inflow of capital from abroad, and therein lies the problem.

Domestic savings has to be promoted; external capital has to be attracted.

Beginning in the second half of the 1990s, economics textbooks all seemed set on finding the Holy Grail of development, defined alternately as efficient use of natural resources, exogenous inflows of capital, or opening of borders to international free trade. Development formulas were either "soft" or "hard"; the former too often proved to be ineffective, while the latter were often impossible to implement.

Debate on the issue of development seems at times to follow the path described by one of your—that is, our—great writers, Octavio Paz: "...the line traced by this trajectory is neither straight nor round, but spiral, moving continuously and without interruption ever farther from the starting point. This means there is no turning back, but there is also no arrival point."

We want, indeed we must, free ourselves from this spiral.

We can do so by focusing our action around two positive points:

- We know there needs to be a balance between finance and politics, and I use the term "politics" in its classical sense, that is to say, a body of social and legal rules. Indeed, we have seen what happens when the futuristic world of Wall Street finance is transplanted into political (social and legal) systems that are not quite that "modern"!

- The sprawling "informal" economy needs to be mainstreamed. The poorest, most disenfranchised segments of the population need to be able to invest in their own future, building on what they have—even if what they have is very little. People should not have to live in the shadow between illegality and the hope for a social miracle. Nor should they have to live in the nearly always vain hope that the State will settle all their problems once and for all. Let me be clear about this: I feel, personally and as a politician, that the program unveiled by the President of Brazil to grant millions of citizens ownership of their homes on the basis of de facto possession is a good thing. In my opinion, the process should be extended to include small landholdings as well. This measure has been labeled as "populist" or "leftist", but that label is wrong. I do not believe in any difference between ideas of the right or the left. I only believe in the difference between right and wrong ideas. And the idea to grant ownership in this case is the right thing to do.

The politician will now give the floor back to the Governor.

We are confident that, under the leadership of Mr. Iglesias—whom I congratulate on his reelection—the Bank will rise successfully to the challenges of the coming years. I thank you again for the honor you have bestowed upon me and I extend my sincere wishes for a productive meeting.

ADDRESS BY MR. ENRIQUE V. IGLESIAS, PRESIDENT OF THE INTER-AMERICAN DEVELOPMENT BANK AND CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS OF THE INTER-AMERICAN INVESTMENT CORPORATION

Introduction

Let me begin by conveying my sincere appreciation to the government of Italy for having graciously offered to host this year's Annual Meeting of the Boards of Governors of the Inter-American Development Bank and Inter-American Investment Corporation in this beautiful country.

There could be no more fitting setting for our gathering than the lovely, vibrant, and creative Lombardy region and its dynamic capital of long and noble tradition, Milan. We are deeply grateful to this region, this city, and the Italian government for their enthusiastic support and dedicated efforts to stage our meeting.

The mutual affection and admiration that are a fixture of relations between Italy and Latin America and the Caribbean date back to the first glimmers of what would become our region's melting pot of races and cultures. Cultural, economic, social, and family ties have been forged and fortified in the intervening centuries. In troubled times like the present era our region has continually looked toward Italy, the birthplace of so many European and world figures, for inspiration, encouragement, and reassurance.

For all of us—be we Italian, Latin American, Caribbean, or citizens of any other member country of the Bank—history is, as Benedetto Croce put it, the history of freedom, and we all worship at the altar of freedom. All of us believe, with Croce, that "history is not an idyll, but nor is it a litany of horrors. Rather it is a play in which all the action, all the characters, all the members of the chorus are, in the Aristotelian sense, 'mediocre', guilty/not guilty, composites of good and evil in which good is the driving force and evil, in the end, serves as a stimulus; the plot is about freedom that always seeks to reinstate—and always does reinstate—social and political conditions for a more intense freedom."

Unsettled Times and Hard Questions

This Annual Meeting is unfolding against a backdrop of heightened uncertainty and searching questions in Latin America and the Caribbean and the world over.

The international panorama is extremely worrisome, as the specter of international geopolitical conflict looms over faltering economies. Concerns over the risks that new threats to world peace could entail are darkening what was already a troubled economic picture. As the industrial economies lose momentum and consumers and investors become warier, today's dwindling investment flows could continue to shrink, further dampening prospects for economic growth.

In the midst of these concerns we can make out some encouraging voices, assuring us that this episode of uncertainty will pass, that a world recession will be averted, and that the stage is being set for a return to sustained economic growth. We are hopeful that this vision will be borne out, not least in the Latin American and Caribbean region which is so reliant on the stability and growth of the world's economic hubs.

On the regional front, two decades of sluggish growth and high unemployment in Latin American and Caribbean countries have driven up poverty levels across many segments of society. Statistical averages for these trends mask some dramatic country differences in the face of poverty and in the intensity of the surge in numbers of the poor, which have reached truly alarming proportions in some countries.

There are a number of reasons for the region's poor overall economic showing. One factor, certainly, is low domestic saving and investment rates that have left economies acutely vulnerable to the international economic cycle. One particularly stiff impediment to country efforts to progress beyond underdevelopment has been the lack of defenses against the extreme volatility of capital inflows, a feature of the regional economy since the mid-1990s.

The net decline in portfolio investment since mid-1998 when the Russian crisis spilled over into the region is larger, in real terms, than the cumulative capital exodus of the 1983–89 period. That financial hemorrhage, as we well know, was one of the triggers of the upheaval that marked the 1980s, an era that we came to refer to as the "lost decade."

The region knows all too well what it costs to keep economies stable in times of massive capital outflows. In the 1980s, Latin America and the Caribbean saw consumption, investment, and growth rates plummet as inflation climbed, poverty worsened, and income and wealth gaps widened. In only three countries in the region were 1990 real per capita income figures an improvement over 1980 levels, and the gains were marginal. Countries moved into the 1990s on a more optimistic note, confident that sweeping reforms which heralded a more active role for the marketplace and private investment, unfettered economies, and tighter fiscal and monetary discipline would help them make up the ground they lost over the course of the preceding decade, particularly since the international economic outlook appeared to be promising.

The early results were heartening: by the mid-1990s, prices had stabilized and the region's economies were back on the path of growth. Volatility had eased and there were signs that anticipated improvements in poverty rates would indeed be achieved. In 1994 the region's economies grew by 5 percent, on average, up from the 3 to 4 percent growth rate of the previous three years. Real per capita income climbed 1.3 percent between 1990 and 1994, an improvement over the 1 percent annual decline posted in the 1980s.

Though the political capital these nations invested to stabilize prices and carry through structural reforms seemed enormous when compared to the early results, it made sense for the population to wait to see greater benefits down the road.

The spillover from the "tequila crisis" and successive episodes of financial turmoil pointed up just how fragile these recovery processes were. Financial contagion and the volatility of global capital flows came to top the list of deterrents to stable economic growth in the majority of countries.

What these events taught us is that sound policies are necessary but they are not enough to keep countries firmly on the path of progress in volatile global financial environments with their ever-present threat of contagion. Looking at matters from that perspective, it was only to be expected that our economies, excessively reliant on external capital, would be vulnerable in a world of globalizing financial markets and rapid capital account liberalization. These events illustrated yet again the dangers of replacing domestic savings with short-term external savings that tend to be highly speculative.

Admittedly, not all the reforms were duly tailored to local circumstances or implemented consistently, nor did all the countries have sound supervision and regulatory frameworks in place. Corruption and poor practices in privatized enterprises did much to undermine the sustainability prospects of new markets born of the reforms, and eroded consumer and user support.

From 1998 onward, intensified volatility and unfinished reforms pushed down overall growth rates in the region, triggering a 0.3 percent annual decline in per capita income. Though some countries did post positive growth rates last year, others saw their output plummet, in some instances by more than 10 percent. Gross regional output slipped for the first time during that decade.

Not surprisingly, this lackluster growth, if not outright recession, worsened poverty, unemployment, and social conditions generally. In light of this unhappy picture, the U.N. Economic Commission on Latin America and the Caribbean (ECLAC) has termed the current period a "lost half-decade."

According to ECLAC estimates, the poverty rate in Latin America and the Caribbean, which had fallen from 48 percent of the total population to 42 percent over the course of the 1990s, climbed back up to 44 percent in 2002. Last year alone, seven million people slipped into poverty, and six million of them can be considered indigent, that is, struggling to survive on less than one dollar a day. Unemployment levels topped 15 percent in some countries, with particularly high rates among young people, breeding deep social frustration.

The near-term prospects for the global economy and for the region are great uncertainty and searching questions, which are being heightened by the complicated Middle East situation.

Nevertheless, some Latin American and Caribbean economies are showing signs of an improvement over the situation at the start of 2002. Assuming no escalation of global conflicts, the region's economy can be expected to grow by perhaps 1.5 to 2 percent in 2003. If the trend holds, the region could post 4-percent growth in 2004. With the near-zero per capita growth forecast for this year, there will continue to be strains in the social fabric. Were this state of affairs to persist, the region would be hard pressed to halve poverty by 2015—this being one of the Millennium Development Goals. To attain that target, growth in gross regional product would have to average at least 2.7 percent annually in the coming years. Countries with the worst poverty rates would need growth rates of close to 7 percent a year.

The real challenge for our countries is to craft and follow through on a sustained growth agenda. This will mean devising a socially responsible roadmap to share the fruits of progress more widely, creating employment opportunities and participation avenues for the marginalized and the excluded and thereby reducing poverty.

The starting point as we pursue these objectives should be a recognition of the multiple gains achieved in recent years. We need to rise to the challenges of the current international and regional situation, working to advance the region's economies and better the lives of its people with a long-range view enriched by the lessons of experience from recent decades.

Recognizing Gains

The prevailing pessimism across the region about the current economic picture has prompted harsh judgments on the policies and reforms of recent years. With all due allowance for country differences, this social malaise is entirely understandable, particularly after five years of falling per capita income.

However, I think there is a danger in focusing so closely on the roots of this pessimism that we fail to appreciate the region's many gains since the early 1990s. Without a clear appreciation of what has been accomplished thus far, it would be hard to know what the next steps should be to bring about recovery.

First and foremost, and beyond considerations of the current state of economies, democratic systems of government are becoming more and more deeply entrenched in the region. As former President Cardoso recently said, "People today are more aware of their rights, they take more responsibility for their own decisions, and the freedom they have gained is the engine of social progress." Elected officials are becoming increasingly sensitive to the needs of society's most vulnerable. Witness, for instance, the support being provided for opportunity programs like Mexico's *Progresa* initiative or the *Bolsa-Escola* program in Brazil, in which countries are targeting public funding to break the vicious circle that sees poverty bequeathed from one generation to the next.

Latin American and Caribbean governments are devoting a growing volume of public spending to education, health, nutrition and, in particular, to social safety nets. Despite its economic hardships in recent years, notably severe fiscal constraints, Argentina has been allotting additional emergency funding to major social safety net programs.

Recognizing the State's responsibility for ensuring that services continue to be available even during episodes of tight finances is an important step in propelling economic and social development in the region and helping vast sectors of society out of the dire straits in which they now find themselves.

It is important that social emergency policymakers not lose sight of the need for public spending to be more effective generally and in the social sectors in particular—this being an essential condition always if the resources available for welfare improvements are to make a real difference.

In the 1990s, Latin America and the Caribbean opted for a strategic alternative: open their economies to the rest of the world. Unilateral tariff reductions brought tariff rates down from 40 percent in the mid-1980s to around 12 percent today.

The 1990s also saw the revitalization of subregional integration schemes, MERCOSUR being a stellar example. The growth in intraregional trade became a driver of overall economic growth in the partner countries.

Some countries began to forge trade partnerships with developed nations or groups of nations—Mexico and Chile with the United States and Europe, for instance—and with Asian countries as well, opening the door to unprecedented trade ties with the rest of the world.

Yet another positive legacy of the 1990s is physical infrastructure integration. Electric power grid projects in Central America and Panama, gas and oil pipelines in South America, new integration highways, are among the tangible examples of the impetus being created by initiatives like the Puebla-Panama Plan and the Initiative for Integration of South American Regional Infrastructure (IIRSA).

Countries have set out to modernize the State at every level of government—central, subnational, and local. The administrative and political decentralization processes pioneered in some countries have had a marked impact not just on economic development but on the exercise of democracy as well.

I could list any number of other gains achieved in the region over these past few years, but perhaps what matters most is this: even in times as troubled as these, and whatever criticism may have been leveled at the reforms by those who have found their expectations frustrated, the region's governments are taking an eminently responsible approach. They understand that prudent macroeconomic management is the only way to achieve orderly growth and secure their overarching social objectives in the process. This, perhaps, is the best legacy of a disputable decade. Armed with this new political maturity, the region can look confidently toward its future.

The Challenges of the Present International and Regional Situation

The current international climate is indeed a troubled one, but individual country situations differ too widely to lend themselves to generalization. How a given country is faring depends on the place it has carved out for itself in global trade, how heavily it relies on financial markets, and the size of its debt. Nevertheless, we might posit some policy guidelines that could be valid for the region at large, today and with an eye to the future.

1. **Macroeconomic equilibrium is an imperative**. Inflation, we know, is the enemy of the poor and a scourge on the economy.

2. **Target social public spending**, fostering social safety nets to lighten the burden on the most vulnerable members of society.

3. **Boost external trade**, that fundamental driver of economic growth. A preeminent consideration here is the recovery and continuing operation of trade finance facilities to help revive economies.

4. **Trade negotiations in the World Trade Organization, Free Trade Area of the Americas, and European Union** require a huge preparatory effort on the part of the region's countries. Over the next two to three years these talks will be defining market access and the rules regulating private sector dealings with global markets, including agendas on structural reforms in public finances and financial markets, infrastructure, rules of competition, and labor market adjustments.

   The developing nations, and Latin American and Caribbean countries in particular, are awaiting substantive progress on the removal of restrictions on agricultural products and commodities. The equivalent of US$300 billion in annual subsidies exerts heavy weight on the prices of farm commodities which are the economic mainstay of millions of producers, many of whom live in abject poverty.

One item that is regrettably missing from the negotiating agenda is the question of labor mobility, to go hand in hand with capital movement liberalization policies. The US$32 billion that Latin American and Caribbean workers abroad sent home last year to their families and communities comes close to the total for foreign direct investment.

5. **Moves to advance subregional integration** can play an invaluable role in the current global climate, so the region should make the most of this opportunity. Trade flows are but one facet of this interaction. Integration arrangements facilitate cross-border cooperation on peace-building, security, and joint international negotiations and help safeguard democracy. Moreover, when the interests at play are viewed in the broader context, subregional economic cooperation also can help ease the integration partners' economic difficulties.

6. **Bolster the Bank's participation in the supply of regional public goods,** to help resolve the region's common social and economic problems and strengthen cooperation between countries.

7. **Improve productivity in microenterprises and small and medium-sized businesses.** In Latin America and the Caribbean, this sector of the economy gives employment to close to 40 percent of the workforce and generates nearly 20 percent of gross regional output, but the sector's low productivity is seriously impeding poverty reduction efforts. As it happens, that business segment also is one of the economic mainstays of the Italian region that is hosting our Annual Meeting this year. Let us spotlight here, then, the potential of these enterprises to enhance their productivity and become engines of economic and social progress and modernization in their countries.

8. **Create environments that will attract capital and retain private investment, particularly foreign investment.** International capital markets are becoming increasingly risk-averse in the midst of worries about global stability and also because of factors at work within country borders.

9. **Foster smart public/private sector partnerships to spur private investment.** Though every country must mark out its own path, we ought to look carefully at experiences in China and East Asian countries in which governments have taken on a prominent adjunct role, partnering with private enterprise.

Long-range Strategic Visions

Latin American and Caribbean countries are now facing a truly monumental challenge: construct modern nations with egalitarian societies. As the history of most of the post-industrialized nations illustrates, this is a very long-range quest. There is a tendency in our times to assume that the 20th-century technological advances that forever altered lifestyles, work styles and communications in the more advanced countries have also made it possible to transform a developing nation's economy and society much more quickly.

When we look at what other, more advanced, nations have accomplished and then at our own experience, we can conjure up the society we want for our children and ourselves. But as often as not we downplay the complexity of the roadblocks and problems that lie in wait, sit in harsh judgment on past missteps, and undervalue what has already been accomplished. Every country should examine these experiences carefully as it fashions medium- and long-range strategies, to put the lessons learned to use in deliberations on policy options.

Complex though the development agenda may be, it can be tackled if countries have overarching policy guidelines embedded within a vision of what they want their future to be. To that end a country must be able to break down its long-range vision into stages, setting interim targets that are realistic given the current state of our knowledge and resource availabilities. Such targets will only be meaningful if they form part of a social contract between different sectors, between those who govern and the governed, and lay the foundations for society to assess what government does.

Any long-range strategic vision that confines itself to economic considerations or is put together without input from every quarter of society is doomed to failure. Social, political, cultural, and security dimensions are a sine qua non in any comprehensive vision of the future society we want to build.

We could posit as our countries' objectives and aspirations, embodied in a shared long-range vision, strong, sustainable growth, substantial reductions in poverty and in opportunity and income gaps, robust democratic institutions, and a respect for fundamental human rights.

In sum, Latin America and the Caribbean are now at a critical juncture. They need to continue to build on the foundations put into place with such travail during the 1990s while continuing their efforts to give ordinary men and women the better life of their dreams.

The State needs to be strengthened, operate more efficiently and transparently so it can better serve the citizenry, and create an enabling environment for the growth of a modern private sector. This will mean working with a long-range perspective, setting carefully sequenced, realistic interim targets to earn trust, minimize the risk of reform fatigue and avoid frustration. Above all, it means ensuring consistency of targets and objectives.

The Bank can be a valuable partner in this enterprise, drawing on its history as a cooperative institution and also equipping itself to adapt to its borrowers' evolving needs.

The Bank's Adaptability

To gain legitimacy, institutions such as ours must show that they are able to rise to the circumstances and help remedy problems that are concerns to governments and society in stressful times like the ones we are living through today.

The Bank's success in upholding this principle since it was founded over 40 years ago can be attributed in no small measure to its institutional orientation, featuring a combination of elements: a clear strategic direction, guided by the objectives set out in its Charter; its ability to rethink and periodically update its priorities during successive resource replenishment exercises, and decisions taken day to day by its Board of Executive Directors. All of these have enabled the Bank to effectively perform its mission.

Though the Bank's core mandates and institutional mission have not wavered, there have been profound changes in its member countries' regional and international environments. It therefore is incumbent upon the Bank to constantly review its institutional policies, procedures, and products and their performance to make sure they continue to be what the region needs and wants. Since countries must be able to react swiftly to changes in their environment, the Bank has to adapt its forms of support delivery, at costs that the countries can afford.

I would now like to outline for the Governors several issues that I consider to be of particular importance today.

Financial Soundness

The string of financial crises with which the region has grappled has had a significant impact on the Bank's balance sheet as well, by virtue of our institution's involvement in the funding of programs to keep social gains from being eroded during episodes of severe recession. This has pointed up the importance of the Bank's asset risk management, by way of careful monitoring of its capital adequacy. To that end we have begun to revamp our asset and liability management systems.

In order to better manage the risks associated specifically with the gradual increase in direct lending to the private sector, plans are taking shape for an independent unit that would conduct systematic, detailed risk assessments for that portfolio.

We believe that the Bank needs to adopt a modern system to assess risk-weighted capital adequacy. The Board of Executive Directors has been considering a specific proposal from Management to that effect, which would create a new capital adequacy framework for the Bank, capable of taking into account the credit quality of the loan portfolio and able to dynamically adjust the institution's equity and provisioning requirements. This will make it possible to determine the Bank's risk absorption capacity in keeping with best practices in the markets and in our comparators. The Board will continue to examine this issue and associated methodology options.

Development Effectiveness of Bank Activities

At a time when borrowing member country needs are both increasing and changing, the Bank has fewer and fewer resources to offer them. However, we know that its capacity to influence the allocation of spending and public investment is more than proportional to the volume of resources it can furnish directly. This is why we so often underscore the importance of continuing quality improvements in Bank interventions and enhancement of its own and its borrowers' capacity to achieve results and show what their pooled efforts have accomplished.

The Bank is committed to advancing a development effectiveness agenda and has taken concrete steps in that direction. The first was to begin systematically implementing the new framework for country strategy preparation and programming of Bank activities. Last year four country strategies were produced following the new format. Measures have been taken to improve project and program design and implementation, and a senior officer will be appointed shortly to head up the development effectiveness agenda in the Bank.

Strategic programming at the sectoral, regional, or national level is the compass for the Bank's work and the chief conduit through which the IDB Group's cooperation with each country is organized and agreed upon. These programming exercises are underpinned by analytical work and country assessments; their tangible result is the level and makeup of the lending and nonlending assistance program proposed to help the respective countries tackle priority development challenges.

Within this programming framework, the Bank and its borrowing member countries engage in a continuing candid, free-ranging dialogue to identify national development priorities and decide in which areas the Bank can do the most given its comparative advantages and the experience it has amassed in decades of work with each country.

One feature being built into the new IDB Group country strategies is a monitoring and evaluation framework that will be refined as more experience is gained. This emphasis on country programming results will instill the discipline of indicator-setting and output and outcome measurement for all activities that the Bank funds or otherwise supports. These two activities and the findings of Bank analyses and of country program evaluations by the independent Office of Evaluation and Oversight will together help build evaluation capacity in the member countries and within the Bank and come up with better ways to measure the quality of what the Bank does.

A central concern for the Bank if its operations are to truly serve the member countries' development needs and make optimum use of its resources is how to improve operational effectiveness. We must continually review the procedures we use to program, approve and supervise the implementation of lending and other Bank activities, with the twofold purpose of removing bureaucratic hurdles that make our projects onerous for countries while doing nothing to enhance their quality, and making sure that operations processing procedures are flexible enough and able to draw distinctions between countries and executing agencies that are at different stages of institutional maturity.

The Bank's effort to expand its menu of products and services ties in directly to its determination to remain relevant, gearing methods and procedures to institutional objectives. We need to look at the Bank's current products and facilities to see if they fit with the institutional objectives in its country and sector strategies. A review is now under way of the Bank's operations policies to bring them into line with the institution's own goals and priorities, the emergence of new development players in the wake of public sector reforms, new concepts of expenditure and investment, and the shift in public administration models from public expenditure management and control to the output- and results-based management approaches being adopted by our member countries.

The Bank's Increasing Interaction with the Private Sector

A fundamental requirement to create conditions for sustainable reductions in poverty and inequality and improve standards of living across Latin America and the Caribbean is a dynamic private sector to drive growth and create employment. The IDB Group has a role to play in this sphere by facilitating private investment in the region. A succession of financial crises have brought home the need for this catalytic, countercyclical function of the Bank. The IDB Group's two-part role here is to help recreate an enabling economic environment with policies and institutions that can mobilize private investment, and to add value through direct lending operations of its own.

There is much to be gained by coordinating all the IDB Group's private sector instruments, to ensure that activities and operations funded through the Bank's public and private sector windows, the Inter-American Investment Corporation (IIC), and the Multilateral Investment Fund (MIF) are mutually reinforcing. To date, thanks to such coordination efforts, we have identified new investment opportunities in infrastructure and in small and medium-sized enterprises (SMEs), heightening development impacts by bringing all these instruments to bear in a given region or sector.

The Bank should intensify its support for private sector development on many fronts, from moves to establish regulatory and legal frameworks governing private infrastructure investment to local and regional capital market development to improving opportunities for the vast ranks of the unemployed and underemployed by giving SMEs readier access to a wider variety of financial services.

The IDB Group organizations—the Bank, the IIC, and the MIF—all offer valuable instruments in this area. Last year the Board of Executive Directors and the Governors received a group of experts' recommendations on the role of the IDB Group in the region in light of the new international economic trends at work, and systems for managing the risks inherent in such a climate.

To help us decide on the best way to coordinate our private sector activities and rethink the role of the IIC and its strategic directions in light of the impact of the recent regional situation on its performance, a group of eminent persons was commissioned to conduct an evaluation, currently under way, with a view to preserving the IIC's important contribution to the development of small and mid-sized enterprises.

We likewise would ask the Governors to offer firm support to bolster the action of the MIF, increasing its resources and encouraging all the Bank's member countries to participate in the MIF, whose work is so vital in new approaches for fostering private enterprise and promoting microfinance institutions.

Enhancing Transparency in the Bank and Externally

Corruption is a concern in the public and private sectors alike, distorting economies and finances and creating incentives that impact every level of society. It puts democratic institutions in peril, holds up countries' socioeconomic advancement and, if allowed to take root, can undermine the credibility of democratic institutions and systems.

It is important that the Bank support transparency programs and oversight measures proposed by the member country governments. This is the objective being pursued in a number of activities that the Bank has been funding pursuant to the Governors' mandates for the institution, in support of justice system reform, improvements in tax system efficiency, in government procurement and contracting, and in oversight and supervisory agencies, as well as initiatives to strengthen good governance.

This same transparency objective should prevail in the Bank's relations with its member countries. We are instituting zero-tolerance policies for purposes of the Bank's projects and programs, prompted by the need to ensure that our activities are free from fraud and corruption and taking appropriate disciplinary measures in the event of confirmed instances of unethical conduct.

In that same connection, recent financial scandals have seriously eroded the public's trust in private corporations and public institutions. The Bank reaffirms its pledge to adhere, in its internal governance practices and procedures and in accounting for the results of its work with the countries, to the highest standards of individual and institutional probity.

In order to tackle problems of corruption, in 2001 the Board of Executive Directors adopted an institutional anti-corruption framework that addresses three distinct but interrelated issues: to ensure that Bank employees act ethically and with absolute integrity, ensure that there are effective controls and oversight arrangements in place, and equip the Bank to support the member countries' anti-corruption efforts.

To that end we have launched a review of internal controls and procedures, with a view to bolstering transparency rules and requirements already in place in the Bank. Among other significant measures we are adopting are a new information disclosure policy on which public input is currently being elicited; a review of our tendering policies and procedures to make them more transparent; new codes of ethics both for staff and for Senior Management and the Board; protection for those who report wrongdoing; new and more stringent audit procedures to prevent and sanction irregularities and investigate allegations of misuse of funds by Bank employees or any party that administers funds under Bank operations. It is my intention to see this set of measures become effective without delay, and to make certain they are applied and enforced.

In recent months, in the wake of serious irregularities uncovered in the Enron case and other widely publicized developments, governments have adopted stringent provisions, such as the Sarbanes-Oxley Act passed in the United States and similar measures in other countries. Within the next six months I propose to arrange for a study, with assistance from expert advisors, to see whether applicable facets of comparable standards would be relevant in our institution. The recommendations of that study will be placed before the Board of Executive Directors for consideration and, by intermediary of the Executive Directors, the Governors will be kept informed.

Closing Thoughts

If Latin America and the Caribbean are to adapt successfully to the new international environment and narrow the economic, social, and technology gaps that are keeping them in the shadow of other, more prosperous regions and nations, they have no choice but to persevere with their sweeping structural reforms and modernization programs. The Bank, for its part, should build on its tradition of service and adaptability to deliver truly relevant, effective cooperation assistance to help advance the economies and societies of its borrowing member countries as their circumstances and needs shift. These twin transformation and modernization processes—in the region and within the Bank—are equally important and very closely intertwined.

As both a partner in and diligent observer of the dizzying pace of changes unfolding in the region, the IDB Group is aware of the need to adapt its resources, operational policies, and activities. This entails a continual self-evaluation of how well our institution is working and continual improvements, in close concert with all the member country governments.

At this time of challenging international economic and political climates and deteriorating economic and social conditions in Latin America and the Caribbean, I would like to make a special appeal to the Governors that we conduct a comprehensive assessment of what we ought to be doing and how best to go about it, looking to their governments for political will and a pledge to bolster multilateral cooperation ties via the Bank. The magnitude and complexity of the problems facing the borrowing member countries point up now, more than ever, the importance of the collective and cooperative effort that is the Bank's hallmark.

ADDRESS BY MR. CARLOS A. MAGARIÑOS, DIRECTOR-GENERAL OF THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO)

First of all, I would like to express my appreciation for the invitation to make this presentation at such a singular time for our region.

Many believe that much of the effort at market reform during the 1990s has not brought the expected results, particularly in terms of improving living standards for the population.

The policies put in place to promote macroeconomic stability, fiscal balance and openness to trade were clearly inspired, although problems with their design and implementation have meant that the results have not lived up to expectations in some cases. In any case, those policies have not been sufficient.

This is clearly not exclusively an economic problem. The countries of the region are facing a wide array of challenges in the social, environmental and educational spheres, in health and nutrition, science and technology, institutions and public management, and the IDB has made significant contributions in many of these fields.

We know that economic and social development requires consistent progress on all these fronts. Today, it is hard to believe that the process of 'catching up', called for by conventional wisdom, is automatic. We are facing real barriers to development, and those barriers are many and interrelated.

To ensure the success and sustainability of the efforts made on all these fronts, in the past we rightly concentrated on fighting inflation and supporting economic stability and fiscal balance. Today we are called upon not only to continue those efforts but also to focus more closely on issues of productivity and the creation of wealth.

Appropriate frameworks offer opportunities to create wealth but cannot create it themselves. Just as we have yardsticks for measuring macroeconomic performance, such as sustained fiscal balance and low inflation, I would suggest that productivity indicators should play a similar role in the creation of wealth by productive agents. Although it is not difficult to obtain a consensus in this regard, it is a fact that our region and the developing countries in general lag seriously behind in their capacity to evaluate and underpin their productive performance. Nonetheless, that performance is crucial for consolidating the success of the macroeconomic and fiscal reforms and economic openness.

Has the region acquired the discipline to measure progress in reform programs from the standpoint of productivity, as the advanced countries do? Let us agree on this: that productivity is, in the end, the true yardstick for judging the success of those programs and their potential for translating into development with equity.

The efforts of the 1990s to reform our economies have not brought the expected improvement in living standards for most of the population. When wages are very low and close to subsistence levels, the workings of the political system and the behavior of the electorate are affected. It is therefore essential to pay closer attention to measuring, monitoring and improving standards of productive performance.

One of the subjects that the region still needs to address is how to achieve sustained increases in productivity. The continuity of the reform processes under way hinges on this. The reason is clear. In the absence of high productivity, it is impossible to raise the standard of living and, hence, to maintain a public consensus on the need for reform programs. Even worse, under such conditions, a consensus tends to form against reform out of frustration.

During the 1990s, the region saw an improvement in labor productivity compared to the 1980s. Our estimates suggest that annual average growth rose from –1.5 percent in the 1980s to 0.6 percent in the 1990s. However, differences among the countries were wide and growing wider.

The improvement was the result, first, of the performance of multifactor productivity (whose annual average rose from –1.3 percent to 0.6 percent between the two periods) and, second, a slight increase in the rate of capital growth per employed person (from 0.2 to 0.4).

However, with rare exceptions, over the two decades the region's productive performance remained well below the norm in the OECD countries, to say nothing of the Asian tigers. Here too, differences between countries with regard to labor productivity and multifactor productivity are much wider in Latin America than in the other two regions.

In this brief presentation, I will limit myself to underscoring the fundamental role placed by the relative pace of technological change in explaining the contrasts I have mentioned. That pace is in turn highly dependent on the system of incentives, the availability of public goods provided by social, educational and technological infrastructure, local adaptive innovation, foreign investment and export performance. In particular, productivity performance is closely correlated with export performance, especially in high technology products, where the gap between Latin America and the Caribbean (excluding Mexico) and the East Asian countries widened considerably between the 1980s and the 1990s. The performance of Latin America and the Caribbean in this field resembles that of sub-Saharan Africa and southern Asia.

In response to the panorama I have just described, in the past five years we have undertaken a major shift in the approach taken by the United Nations Industrial Development Organization. Our intention was to increase the impact of UNIDO's contribution to reform programs in the developing countries, based on the real sector of the economy.

UNIDO has traditionally helped to create industrial development capacity through measures such as raising technical standards in manufacturing, assisting industry in making more rational use of natural resources, and promoting clusters of specialized small and medium-sized companies.

During my time at the helm of the organization, we have made a major effort to ensure the convergence of these and other related areas of activity toward achieving a concrete impact that translates into a sustained increase in factor productivity over time. We are convinced that this is a key requisite for achieving the objective of more equitable development that is also environmentally sustainable.

UNIDO's contribution is modest but significant. We help industries overcome technical barriers to trade; protect or, better still, restore the environment; counteract the asymmetries that affect small and medium-sized enterprises to boost their efficiency and contribution to job creation, technological innovation and exports; and raise production standards by accelerating the international dissemination of technologies in general and clean technologies in particular. In short, within the bounds of its mandate, UNIDO contributes to the continuity of reform programs by helping to lay the groundwork for productivity gains that are sustainable over time.

ADDRESS BY MR. JOSÉ ANTONIO OCAMPO GAVIRIA, EXECUTIVE SECRETARY OF THE ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN (ECLAC)

First of all, I would like to thank the President of the Inter-American Development Bank, Mr. Enrique Iglesias, for the invitation to address this meeting of the IDB's Board of Governors, as well as the Italian and Milanese authorities for their hospitality as hosts in this beautiful city, which is a testimony to the cultural and economic vigor of the Italian people.

This meeting is being held at a particularly difficult time, when political and military events with far-reaching implications combine with uncertainty regarding the immediate future of the world economy. In other spheres, the WTO's Development Round is virtually paralyzed and little progress has been made on international financial reform, despite the extensive discussions that have taken place over several years.

In Latin America and the Caribbean, the drop of 0.6 percent in GDP during 2002 has taken place in an adverse economic climate that has lasted for five years, particularly in South America. In this "lost half-decade," as ECLAC has called it, per capita output has been 2 percent lower than in 1997. Half the countries of the region have seen this indicator shrink over the last five years, and the rapid growth of individual economies has ground to a halt. In social terms, the progress made in poverty reduction between 1990 and 1997 has come to a standstill. Since then, poverty has stayed at about 44 percent of the population, which is higher than in 1980 and means that close to 20 million more people have fallen into poverty in the last five years.

Certain external factors have caused this situation, but its impact has been worse on account of the weaknesses of our economies. Financial flows changed direction abruptly after the Asian crisis, moving from abundance to scarcity, which will continue in the near future. In 2002, this coincided with a drop of 35 percent in foreign direct investment. The consequence has been a net outflow of resources from Latin America to the rest of the world of US$41 billion in 2002, or equivalent to 2.5 percent of the region's GDP. The situation is compounded by lower prices for many raw materials since the Asian crisis, with a cumulative deterioration in the terms of trade in a number of non-petroleum countries, in some cases by more than 20 percent.

However, the outlook is not entirely gloomy. The ability to cope with our economic and social difficulties within a democratic framework is a major achievement. On the economic front, growth turned positive in 2002, and a moderate rise of 2 percent is expected in 2003. The gradual extension of the floating exchange rate among the region's medium-sized and large economies also represents progress, since it allows for the timely adjustment of exchange rates during crises and, when properly administered, it means that money can be managed in function of the internal needs of the economy. Continued low inflation and its limited impact on exchange adjustments are also important gains.

The support given to the countries of the region by multilateral development banks, under the decisive leadership of the IDB and its President, should be included as one of the most positive elements in the regional situation in recent years. The multilateral development banks have been true to one of their essential roles—that of acting as a counterweight to the volatility of private financing. The IMF has also been a decisive player in these circumstances, but its actions have been subject to greater controversy and suggest that much remains to be learned in this field. In its defense, it should be said that the IMF is far from having the resources needed to cope with modern financial crises.

The events over the last five years have reopened the economic debate, which was dominated until recently by doctrines whose validity has not been borne out in practice. This new debate should therefore be seen as another positive development, and also responds to a demand for change that has been voiced clearly in the political world. Our ability to respond to these new demands will depend on the region's capacity to embark on a new stage of economic growth, with equity and social cohesion. Accordingly, let me outline four essential elements that ECLAC has been highlighting in recent years, that could contribute to this outcome.

The first is the need for national and international mechanisms to broaden the scope of countercyclical macroeconomic policies, avoiding the procyclical tendency those policies have had over the last decade. Fiscal policies with time frames that cover a full economic cycle, with objectives that are defined in function of structural goals, the establishment of stabilization funds, pragmatic management of flexible exchange rates, and bank regulations that attenuate the tendency toward overexpansion of credit during booms are all part of the necessary arsenal. One of the functions of international financial institutions should be to promote the development of institutions of this kind and facilitate funds clearly earmarked for the support of countercyclical policies.

The second is the need to completely rethink productive development. Recent experience suggests that apart from stabilization problems, there are difficulties linked to the slow pace of economic growth. The expectation that market reforms would be enough to generate dynamism has not generally been borne out. One clear indication is the fact that greater dynamism in exports and the capacity to attract foreign direct investment to the region have not translated into rapid economic growth, which has slackened in the 1990s to half the rate that applied in Latin America between 1945 and 1980. This is why it is important to complement the processes of openness with appropriate policies for productive development. Those policies should be aimed at strengthening national innovation systems, spurring emerging productive activities and firms, supporting productive chains that link internationalized sectors and companies to the rest of the productive apparatus, and improving the mechanisms for financing productive investment.

Better focus on equity and, in particular, on poverty reduction, is a third element that has achieved a broad consensus today. However, there is a failure to recognize the fact that an ambitious social strategy inevitably requires greater fiscal capacity on the part of governments. It will be difficult to achieve ambitious social goals with tax systems that have been eroded and bring in 4 to 6 percent of GDP, which is less than should be expected in countries with our level of development. Also, social progress cannot rely exclusively on social policy. Sweeping measures are required to improve the income-generating capacity of the poor, not just in the future through investments in education for the younger generations, but in the here and now. The need to improve the linkage between economic and social policies is one of the main institutional deficits of our region, to which little attention has been paid in the recent debates.

Last, a new impetus is needed in regional integration. Integration was a powerful engine of economic growth between 1990 and 1997, but since then it has added to the crises. Therefore, fresh political will is needed that translates into progress in coordinating macroeconomic policies in a far-reaching effort to develop infrastructure for integration, into production and technology agreements, and into progress in at least some areas of social integration. This effort will complement the new opportunities that may arise under agreements with the more industrialized countries, such as the FTAA and pacts with the European Union, which must necessarily include appropriate provisions to address the imbalances in the size and degree of development of the different economies.

Times of crisis are harsh but they also provide opportunities for reflection, for righting the course and moving forward. Regional institutions such as the IDB and ECLAC have a manifest destiny that ties us to those regional goals and calls for our contribution.

ADDRESS BY MR. PIER FERDINANDO CASINI, PRESIDENT OF THE ITALIAN CHAMBER OF DEPUTIES

Allow me to begin by thanking the Board of Governors of the Inter-American Development Bank for having selected Milan, Italy, as the site for its Forty-fourth Annual Meeting.

The gathering of such a distinguished group offers an ideal occasion to underscore Italy's interest in the development of Latin America and the Caribbean, and to renew—in the city that stands as Italy's economic capital—the commitment of the public and private sectors to that objective.

For Italy, Latin America is not just a component of the world market: it is first and foremost a human reality that embodies a shared culture and society to which many, many Italians have contributed over the past two centuries.

That is why Italy will attach priority, during its upcoming term as president of the European Union, to fostering bilateral and multilateral political, economic, commercial and cultural ties. Europe and Latin America are already sharing experience at many different levels in the area of regional integration and its progression from the economic to the political sphere.

Intent upon furthering relations with many countries in Latin America and the Caribbean, for instance through contacts with the region's numerous lawmakers of Italian heritage, the Chamber of Deputies has already taken steps in this direction. On September 25, 2002 a resolution was adopted—signed by representatives of all the political parties—whereby the government undertook to relaunch its Latin American relations policy.

Italy's participation in the Bank's capital for over 25 years has been a fundamental element in this regard. The IDB is not only the largest and longest standing regional development agency, but it is also the leading source of multilateral credit, having granted over US$270 billion for the economic and social development of Latin America and the Caribbean.

Italy is proud to have contributed, through the Bank, towards attenuating the persistent problem of economic stagnation that has beset the Latin American region.

Nevertheless, it is on the political plane that we see the most encouraging new signs from Latin America, above and beyond the restoration of democratic systems in many countries that previously were under dictatorial regimes.

Today we are witnessing the emergence of a new political class that draws its legitimacy from elections. Civil society, too, has taken on new vitality, participating on an informed basis in all spheres of public life.

In the course of the official visits I have made to various Latin American and Caribbean countries since the beginning of this legislative period, I have seen first-hand the progress made at the local government level, that is to say, at the institutional level that is closest to the people and their concerns.

The reassurance that this brings suggests that Latin America also may be able to work towards a solution to the single most important problem facing the modern world: the yawning gap between the multitudes of poor and the wealthy few. The issue is of equal interest to developing and developed nations, inasmuch as the gap continues to widen and more and more people are slipping below the poverty threshold.

A political response must be found that strikes a balance between freedom and solidarity and, above all, reaffirms that the social function of the State is to redistribute, not simply to provide aid.

Now more than ever, Latin America is in need of a policy to ensure that its young people, who account for roughly 50 percent of the region's half billion inhabitants, will have a different future than the one held out by the current state of affairs: one citizen in three is living in poverty and annual per capita GDP is less than US$4,000.

These notorious social inequalities are now compounded by a technological gap: despite the astronomical increase in the number of Internet users, the illiteracy rate has yet to dip below the 10-percent mark.

The young people of Latin America and the Caribbean are, nevertheless, the hope of the region, and they can truly become its lifeblood if properly supported from the standpoint of global development.

As the curtain goes up on the twenty-first century, political democracy, market economies and social solidarity will be the building blocks for such development.

This makes it all the more appropriate that the Bank's total annual lending be divided into three categories: funding for infrastructure and productive initiatives, social development, and modernization of the State.

If this approach were adopted while coordinating each country's resources with assistance from the international community, especially in the form of investments, Latin America could become a sort of laboratory for poverty reduction and the end of underdevelopment.

Against such a backdrop, Italy's experience could be useful to the extent that some features of its development model could be applied in Latin America, thanks to the existence of shared historical and cultural roots.

I am thinking in particular of small and medium-sized businesses, which have displayed remarkable vitality in recent decades in bringing less-developed areas of our country to the center stage of the world economy. That is why we have firmly supported the Bank's initiatives to replicate this phenomenon in Latin America.

President Iglesias has defined small business as the "sleeping giant" of the region. This sector of the economy not only generates income and employment, but it brings hope and opportunity to families, which are the backbone of society.

I am also thinking of investments in social capital, which today is considered a factor of production on a par with natural and financial resources. This comes from civic awareness, collective trust, associative and cooperative spirit, confidence in the rule of law, and the respect and efficiency of the public sector.

The workshop on mobilization of social capital and volunteerism in Latin America that the IDB will hold in Chile this May should shed important light in this regard.

Reform of the State is another promising area for synergic cooperation and exchange. Public sector modernization is of particular interest to Italy, especially e-government initiatives aimed at enhancing the efficiency and transparency of government.

There is also an external dimension to Latin American development: international trade, an area in which Italy can make a significant contribution. I refer in particular to tariff schedules between the European Union and MERCOSUR, bearing in mind that Latin America has been affected by the impact of the Common Agricultural Policy to the point that the region's exports have fallen by one half over the past decade.

We are well aware of the scope and magnitude of the interests involved, as well as the fact that, from the European standpoint, it is a matter of safeguarding a situation that is a blend of production-related, social and cultural issues.

Even so, I maintain that there is room to maneuver—and this applies not just to Latin America and the Caribbean but to the entire Southern Hemisphere—in order to return to an equilibrium that benefits nations whose economies are built primarily on labor-intensive production methods with low added value. If an all-out war is to be waged against the drug trade, then rural communities must be offered concrete alternatives.

Another unique opportunity open to Latin America is that of combining full integration in the Free Trade Area of the Americas with reciprocal market openings with Europe.

This opportunity could yield positive results that would increase in direct proportion with stakeholders' commitment to work through multilateral frameworks and dialogue.

In this way, economic integration could become the means for securing outcomes that could create tremendous momentum in many areas, such as political and social cohesion at the global level and consolidation of peace and global stability.

SECOND PLENARY SESSION

MARCH 24, 2003

It is a great honor for me to address this meeting of the Board of Governors of the Inter-American Development Bank. I should like to convey warm greetings to all the authorities, delegations and invited guests present here today, and express our thanks to the government of Italy and its kind people. The organization of this meeting in the lovely, historic city of Milan brings us to a part of the world with which we Argentinians feel a very close affinity through ties of culture, tradition and values.

We are all aware of the complex circumstances in which this meeting is being held, but I believe we all agree that it is our duty to press ahead with the program of work, and thus fulfill our obligations.

Grave circumstances currently surround the international situation in lands beyond our region, the consequences of which we must monitor closely. This comes on top of already existing worries, such as:

- stagnation in major economies;
- marginal progress in trade negotiations;
- turmoil on financial markets, marking the end of a period of high liquidity and great mobility that gradually took on the characteristics of a financial bubble; and
- the market impact of eroded credibility in the way large firms present their financial statements, and in the opinions issued on them by auditors and risk raters.

Developments on these fronts are determining the external climate of the economic and social situation of Latin America and the Caribbean. Although predictions should always be treated with caution, it is comforting to know that most of the region's economies are expected to experience growth in 2003. Even so, the forecast growth rate of 1.5 percent is insufficient to keep pace with population growth, let alone make up for the decline that occurred in 2002.

Data on poverty and social exclusion in our hemisphere remind us of the overriding need to expand production and employment much more convincingly than in recent years. We are all aware that social progress, equity and poverty reduction are issues that have long been put off, and where answers are urgently needed.

Within this regional panorama, which is somewhat more promising than in the immediate past, Argentina is making good progress. The economy started to emerge from a four-year recession in the middle of last year. By the end of this month, indicators of industrial output and GDP will have posted four positive growth quarters.

We expect economic activity to expand by more than 4 percent this year, in sharp contrast to the long downswing that began in late 1998 and became headlong in 2001; this led output to contract by 10.9 percent the following year as a result of a 15-percent drop in the first semester, followed by a slight recovery in the second. The recent positive trends in output have begun to feed through into employment, although we still have very high levels of joblessness by our own historical standards.

Despite the sharp nominal devaluation of the peso in 2002, the monetary control and fiscal austerity policies launched in May 2002 at the national and provincial levels have helped to restore stability. Since last September, average monthly retail and wholesale prices have hovered at 0.5 percent, compared with the spikes of 19.9 percent in wholesale prices and 10.4 percent in retail prices recorded in April 2002.

We expect retail prices to rise by about 14 percent during the period from December 2002 to December 2003. In recent months we have gradually returned the domestic financial system to normal and recapitalized it; an adviser has been appointed for external debt negotiations with the private sector; and we have fully resolved our international payments situation with multilateral organizations.

In short, we are pursuing a sustainable macroeconomic program that, nine months after it was launched, was endorsed by an agreement with the International Monetary Fund. The fiscal and monetary targets that we set for the first review under that agreement have been comfortably met.

The lengthy negotiations did not make it easy for the government to carry out necessary tasks in very difficult circumstances, but the experience served to build trust in our society's ability to solve its own problems, pointing up the critical importance of "ownership" in macroeconomic policies.

The agreement that was finally reached, which is both realistic and achievable, is now helping to underpin the recovery and stabilization launched under the government's program in mid-2002.

The Argentine economy is currently consolidating the process of recovery of activity and employment. This will be the most effective approach for handing over the best possible transition framework to the new administration that will take office on May 25.

The macroeconomic difficulties experienced by Argentina have put the concept of preferred creditor to the test, and there are several lessons that can be drawn from our experience.

The first is that the countries' concern and interest are absolutely clear: to defend credit from multilateral sources because we know how volatile markets can be. This point is not open to discussion or negotiation. Nonetheless, honoring commitments assumed is a two-way street, one in which the countries and the multilateral financial community both have a responsibility to fulfill.

Countries and their governments obviously have the undelegable responsibility of designing and implementing macroeconomic policy. But multilateral organizations have an equally important responsibility: they must accompany this process and help create the circumstances and alternatives for such efforts to bear fruit. Multilateral organizations clearly cannot play a procyclical role, as happened recently in the Argentine case and in Latin America generally.

Concern about safeguarding the preferred creditor status of multilateral banks must be accompanied by an equivalent concern for the economic recovery of our countries. This was the main conviction motivating us in our negotiations in the Argentine case. Honoring our international financial obligations required getting the Argentine people back to productive work. One indicator of the effort made is that for the first time in over 10 years, and in the midst of the steepest drop in GDP in its modern history, Argentina paid back a total of US$4.5 billion in debt to multilateral and bilateral agencies.

Once the international scenario and financial markets improve, we will need to be more attentive than ever before. That is another conclusion to be drawn from the recent experience of my country. Abundant liquidity in the 1990s encouraged borrowers and lenders—public and private, local and international—to take unnecessary risks and, frankly, to invest irresponsibly.

This brings me to the crucial role of the IDB in the region's financing. Inasmuch as it is highly likely that capital flows will remain scarce for a while longer, the Bank must redouble its countercyclical efforts. In this context, we welcome the decisions taken by the Governors just over a year ago, as a result of which we now have a financing framework with various windows in place; and we applaud the efforts of the Board of Executive Directors and Management to design instruments and credit lines that have streamlined the process of channeling resources. Action to expedite processes is always possible.

We are united in our desire for a results-based organization. Although this issue seems to have been on the agenda for some time, the IDB does not yet have a financial instrument in which disbursement is tied to targets and results. Nor do we have operational modalities suited to the expenses of sector reform.

Our desire for innovation is not restricted to the incorporation of new instruments. We are also concerned about the situation of the Bank's traditional product: investment lending. We would suggest that Management and the Board of Executive Directors step up efforts in this area.

The IDB is not simply a provider of financing; it is first and foremost a development agency. Argentina is fully convinced of the need for the Bank to prioritize its core action, namely the impact and contribution of its projects to improving the living conditions of our people. Accordingly, we give our full support for the institution to increasingly include the measurement and evaluation of the results of its operations. This should not only be made explicit in the design of new programs and projects, but should also be harnessed to improve the effectiveness of the existing portfolio, which provides potentially the most tangible and relatively immediate results.

There are some obvious constraints and considerations to bear in mind in this reform task:

- economy in the institution's budget;

- adjustment of the organization, harnessing Country Office capacity, stepping up rotations, and adopting flexible contracting modes for technical personnel; and

- equally important, the Bank's clients should not perceive that the reforms raise the cost of doing business with the Bank.

Another key dimension of the work of the Board of Executive Directors and Management has been, and will continue to be, focused on concerted efforts to preserve the financial solvency of the institution.

Argentina has been and will continue to be well disposed towards contributing to the Bank's financial soundness. In the immediate term, we realize that in a period of heightened uncertainty extra caution is needed, in the form of a contribution in excess of that required by current financial parameters.

For the medium term, we agree on the need to examine principles that will ensure a solid capital structure for the Bank. We also share the basic premise on which work has begun, namely the need to incorporate the risk factor in capital determination. We would like to point out, however, that the IDB is a multilateral institution with objectives and operating procedures that are inherently different from those of a private bank.

In particular, the capital model ultimately adopted needs to safeguard the institution's objectives, promote financial solvency and avert procyclical bias in the use of loan resources.

This issue is closely linked to the Bank's private window. Earlier decisions have made it possible to enhance the operational capacity of this arm of our institution. In this regard, it is essential to facilitate credit for export financing, at a time when private banks in the region face severe constraints operating on this front; and to identify projects, especially ones aimed at building the infrastructure that is essential for all our countries. The search for local sponsors is crucial.

We also believe it is possible to develop and apply instruments to mobilize domestic saving capacity, at a time when international investors are showing scant interest in our financial assets.

As regards the Inter-American Investment Corporation, we fully support the roadmap agreed on by the Board of Executive Directors and Management for the next two years. We realize the economic results of the 2002 fiscal year are not good, but we are confident that a gradual turnaround will occur once the regional panorama improves. The Corporation requires further restructuring, both in organizational terms and in the search for business.

With regard to the Multilateral Investment Fund, we note that, following several years of activity, the Fund has performed satisfactorily and its projects have been addressing unmet demand.

Looking to the future, it is essential to identify relevant areas and topics, and to prioritize project sustainability. In this regard, consolidation of the institutional capacities of participants in MIF projects is crucial.

The points discussed above show that we have come a long way, but we have a full and challenging agenda before us. I have full confidence that our institution, its staff, senior management and Board of Executive Directors will be able to tackle this task.

I should like to bring my remarks to a close by explicitly acknowledging and expressing the gratitude of our government, and of Argentina as a whole, for the support we have received from the Bank's member countries, and in particular from Mr. Iglesias.

At the most difficult moments in our international negotiations, in circumstances when the collective spirit of the Argentine people was not at its best, Mr. Iglesias was ever at our side, conveying his support and conviction in the search for a solution.

Our term of office will shortly be at an end, and it will be time to embark on a new phase. A successful outcome will be assured if we rely on principles similar to those that have guided us thus far, namely:

- responsible economic and social policies designed in the country;
- constructive effort in time and substance from all actors; and
- financial commitments based on productive recovery.

Argentina has no doubt but that the IDB will be a partner in this task.

Introduction

It is a great pleasure for me to address the Forty-fourth Annual Meeting of the Inter-American Development Bank and the Eighteenth Annual Meeting of the Inter-American Investment Corporation in Milan. On behalf of the government of Japan, I would like to express our gratitude to our hosts, the government of Italy and the people of Milan, for their warm hospitality.

Japan's economy is still facing a difficult situation with a continued price decline. Our government, together with the Bank of Japan, is determined to contain deflation and achieve sustainable economic growth by strongly and comprehensively mobilizing such policies as tax and budget rationalization, reducing nonperforming loans, and promoting deregulation.

State of the Regional Economy and Reelected President

Now to the countries in Latin America and the Caribbean region. In 2002, some countries were affected by serious economic crises; some faced continued political turmoil. Thus, a number of countries seemed preoccupied with dealing with these situations. However, we mustn't forget that steady economic management was witnessed in certain countries, and strong commitments to fiscal and economic reforms were pledged in the countries with new administrations.

Against these diverse political and economic backgrounds, the IDB faces enormous challenges. At this juncture, the reelection of President Iglesias, a man with rich experience and great leadership, is most reassuring. Japan will continue to support him.

The IDB's Roles and Current Tasks

For the past year, among various IDB operations, much attention was focused on emergency loans. To support financial and economic crisis countries, the IDB has also proposed the Trade Finance Reactivation Program and a new framework for the Guarantee Disbursement Loan Program. I recognize the need for such new schemes.

However, I must emphasize that emergency loans are nothing but short-term measures of an urgent nature, and that a fundamental solution must be to increase capital inflows by implementing structural reform over the medium term.

After all, the fundamental role of the IDB is to provide long-term development financing and not to help regional countries address their balance-of-payment difficulties, like the IMF would do. The bulk of capital inflows to Latin America and the Caribbean in the 1990s was direct foreign investments, particularly in natural resources and for privatization. However, in order to attract such capital inflow, the regional economy has to address medium- to long-term structural issues and one should recognize that countercyclical measures have a certain limit as to what can be achieved.

The role the IDB should play instead is to restore medium- to long-term investments and capital inflows, by promoting public sector reform in the region and increasing its efficiency as well as transparency, while implementing comprehensive measures to address financial sector reform and other structural problems.

Also, allow me to point out another major issue. While many countries in this region enjoy higher income levels than Asia, the region has not made noticeable progress in its fight against poverty. To help accomplish the Millennium Development Goals, I believe that the Bank should play its part in bringing political and economic stability to the region, by securing a social safety net, supporting SMEs, and helping increase the efficiency of social service delivery, in addition to providing support in such basic areas as education and health.

Good governance is also required to underpin these activities. In this context, we strongly support the policies the IDB is now implementing to promote modernization of the State and decentralization. We trust that these policies will contribute to redistribution of income and poverty reduction.

Furthermore, with regard to expansion of the private sector program, highlighted in the report of the External Advisory Group last year, we believe it is essential to first review the role of the Private Sector Department of the IDB, IIC, and MIF, and then to explore an efficient and effective framework of coordination. In this regard, Japan welcomes the fact that such discussion was initiated in this meeting in the context of the IIC reform.

Greater Development Effectiveness and Results-focused Operations

After Monterrey and Johannesburg, effective and efficient use of ODA funds has become a greater focus of attention than ever for not only taxpayers in donor countries but also people in recipient countries.

For multilateral development banks to increase the development impact of their operations, it is important for them to further enhance coordination with other development partners, while improving their own governance and transparency. As for the IDB, it is essential to increase the development impact awareness of its Management and staff, thus creating a results-focused culture. This can be done, for example, by setting appropriate development effectiveness indicators even from the project design phase, strengthening monitoring and ex post evaluation, and enhancing the independent evaluation function.

For objective assessment of development impact, it is indispensable to set country-specific development goals that take into account the circumstances of each country and to establish appropriate monitoring indicators. For efficient management of this goal-setting process, the IDB needs to define common development goals/indicators by coordinating with the government of each country and the World Bank. I hope active discussions on this point will continue among the relevant parties.

New Capital Adequacy Framework

When we look at the financial profile of the IDB, we notice that its lending is concentrated in a limited number of countries whose country risk profile has increased dramatically in the past year, thus exposing the entire portfolio to a heightened credit risk, a situation not fully recognized before. Yet the current financial management policy is not designed to reflect such a risk in an accurate and timely manner. Thus, we urge the Bank to introduce a new capital adequacy model that will determine appropriate level of loan loss provisioning.

To maintain the highest rating by the international capital market, appropriate credit risk management is mandatory. For that, the IDB must consider various measures to allow for more efficient distribution of funds, such as establishing a risk management system for tighter control of exposure risks. I hope that the IDB will implement appropriate financial policies at the earliest possible time, based on a new capital adequacy model designed to ensure the financial soundness of the Bank.

Antiterrorism Measures

Ever since September 11, 2001, the international community has implemented various initiatives to fight against international terrorism. As for Japan, we have taken an active part in the global efforts by enacting domestic laws in June last year, which were essential to implement the International Convention for the Suppression of the Financing of Terrorism, as well as by revising our Foreign Exchange and Foreign Trade Control Law.

The counterterrorism actions the IDB has taken since September 11 are highly commendable. Japan also welcomes the latest financing by the MIF to combat money laundering. It represents a progress in the fight against money laundering as a means to cut off funds from terrorists. I hope that the IDB Group will continue to implement these measures, in close consultation with other relevant institutions in the international framework.

Japan's Contribution to the IDB and Okinawa as a Candidate for the Host of the Meetings

Despite a 5.8 percent cut in our total ODA budget for fiscal 2003, we are hopeful that we could secure a 13-percent increase in our contribution to the Japan Special Fund, which our government created in the IDB. This demonstrates Japan's unchanged commitment to contribute to the growth of Latin American and the Caribbean economies through the IDB, and to continue to serve as a bridge between this region and Asia.

In this context, we would like to host the 2005 Annual Meetings in Okinawa. As we seek the adoption of our bid by the Board of Governors, we would appreciate your support and endorsement.

It is an honor for me to be back, after some years, as a governor at this meeting. In contrast to the 1980s, our economies today are more interdependent, and organizations like the IDB are taking on greater relevance, not only as the major source of financing for Latin America, but as entities responsible for supporting economic policy in our region.

Colombia has suffered adverse impacts on its social and economic development through terrorist activities. To come to grips with this problem, President Uribe has made democratic security a national priority. This, together with protecting the most vulnerable population groups, ensuring macroeconomic stability, and modernizing and renewing the public administration, are the key themes of his administration.

On the economic front, in the second half of 2002 the National Congress approved a series of structural reforms of great significance. Among these we may point to pension reform, tax reform, and the granting of special powers to reform the State. Taken together, these reforms will help generate a permanent primary surplus of some 3 percent of GDP, as required to stabilize the national public debt.

A labor reform was also approved, laying the groundwork for reducing unemployment through the use of more flexible instruments, and providing greater incentives for further new hiring.

Moreover, we are in the process of holding a referendum to consult the people on reforms to the political system and on the need to contribute to reducing the fiscal deficit through greater control over public spending.

These initiatives will be backed by the financial and technical support of the Inter-American Development Bank. With yesterday's signature of the Social Emergency operation for $1.25 billion, we are ensuring protection for the most vulnerable groups in our population.

In addition to this operation, and its policy-based lending (PBL), the IDB is now, through its investment loans, working in the areas of housing strategy, health, foreign trade, combating corruption, basic sanitation, science and technology programs, and environmental investment.

The IDB has not only reaffirmed its support for Colombia through financial instruments, but is currently helping us convene a roundtable of donors so that we can work with the international community to mitigate the social, economic and environmental impacts of drugs.

With the help of friendly countries, we expect to implement programs of reforestation, support to microenterprises, and social expenditure in the areas affected by violence, so we can gradually wean our compatriots from the drug business. We are confident that with these programs, and the assistance of the international community in dealing with money laundering, arms trafficking and chemical precursors, we can cut off the principal source of funding for terrorism.

Colombia and Latin America have found in the IDB an institution properly concerned with confronting the problems that threaten economic and social stability. At times of crisis in the region, the IDB has always been a pillar of support. Last year, in the midst of market volatility and international financial turbulence, the institution adopted a lending framework designed to facilitate a response to the crisis.

The special Emergency Lending Facility created constitutes a useful mechanism for our region. Yet experience shows the wisdom of extending its maturity terms, so that the repayment period does not accentuate the economic cycle.

We would also like to highlight the IDB contribution of $4.5 billion in loans associated with sector policies over a period of three years, and the credit line of $1 billion for reviving foreign trade in the private sector.

Despite the progress that has been made in its lending policy, we must continue to seek greater flexibility in the IDB. The Bank needs new lending facilities that will strengthen the countercyclical role that its financing should play.

Management's proposal to adopt a new capital adequacy model that establishes risk-based provisioning should not be implemented too hastily. If such a model is approved, it would make no sense to continue setting limits by type of loan. It would be illogical to adopt a new model that sets the level of provisions to guarantee the Bank's financial soundness, while at the same time insisting on restricting loan approvals for the same purpose.

In any case, the Bank needs a capital increase, and this should be covered not only by borrowing countries, through higher interest rates, but should involve non-borrowing countries, through a new capital replenishment or greater contributions of paid-in capital.

Grants are an important element for development, but they must come, above all, from the more industrialized economies.

The Bank should support the development of political institutions in Latin America. Most countries in the region, for example, need in-depth judicial reform, and they must involve their legislative bodies more closely in debating economic policy issues and the need for structural reforms.

The economic dialogue and debate over institutional reforms should also be accompanied by efforts to improve the exchange of information and to foster regional coordination within a globalized world. Initiatives such as the regional policy dialogues and the Network of Central Banks and Finance Ministries, led by the Office of the Chief Economist, show how important the harmonization of policies and actions can be for development.

Promoting greater dialogue and support for the region's private sector is an essential task of the IDB group, for which the recovery of private investment in the region must be a standing objective. Experiments such as those achieved with the Multilateral Investment Fund should be replicated.

The Inter-American Investment Corporation must reinforce its support for small and medium-scale enterprises, and it should join with the Private Sector Department, in developing local capital markets.

Fellow Governors, we are faced with great challenges. Our region needs an IDB that is modern, dynamic, flexible and decentralized, and one that, far from being fragmented, operates with a strengthened spirit of cooperation.

The IDB must continue to be a pillar for the development process in Latin America, and to this end it will require our full commitment. Let us persevere, in the words of President Enrique Iglesias, in making the IDB "more than a bank."

It is a pleasure to be here today in Milan. This city has extended a hospitable welcome to all participants at the Annual Meeting of the Board of Governors of the Inter-American Development Bank. I would like to convey my thanks and congratulations to the Italian authorities for the organization of this event; and I also take this opportunity to publicly congratulate Dennis Flannery, who is participating in the Annual Meeting for the first time as Executive Vice-President of the IDB.

The Economic Situation in Latin America and the Caribbean

At last year's meeting, we discussed the difficult situation the region was experiencing. In 2002, Ibero-America suffered a contraction of about 0.5 percent, and these last two years have been the worst since the early 1980s. Several factors have contributed to the recessionary phase the countries of the region are currently going through.

Externally, sluggish growth in the developed economies has made it difficult to take full advantage of improved competitiveness in the region resulting from exchange rate depreciation.

In addition, an even more acute contraction of capital flows to the region, and private flows in particular, left many of the region's countries cut off from international capital markets.

Nonetheless, the crisis cannot be blamed exclusively on external shocks. Domestic factors have also helped to make Ibero-America vulnerable to external disturbances. In general, the narrow margin available for fiscal and monetary policy to act as countercyclical tools, underlines the need to implement fiscal stabilization and consolidation measures during boom periods, so as to create room for maneuver to use them as stabilizers in the downswing.

There are also a number of structural weaknesses that are reducing the volume of external investment, in particular the following: legal uncertainty in several countries; the degree of trade openness in some cases; the weakness of tax systems in a number of countries; the high degree of dollarization of liabilities; and the level of foreign borrowing.

Prospects for the Future

Despite the current backdrop of widespread uncertainty, prospects for this year are more encouraging. GDP is expected to grow by over 1.5 percent; and financial indicators have improved somewhat in recent months, thanks mainly to the Brazilian economy.

Despite the difficulties faced by the region, I want to send out a message of optimism. Difficult experiences must be drawn on to provide lessons for the future. If responsible macroeconomic policies are applied, and legal and institutional stability assured; if political leadership remains stable and acts responsibly; then conditions will emerge for Ibero-America to enter a new durable growth cycle. For the improvements to be truly lasting, however, a major effort is needed to apply measures that help reduce poverty, to ensure growth, and social and economic stability.

I would like to draw attention to the example of Brazil. The continuing economic stability achieved in recent months clearly shows it is on the right path; and this stability is proving to be compatible with the structural and social reforms undertaken by the government.

The investment grade status achieved by Mexico and Chile undoubtedly brings an additional element of stability to the region, that will contribute to future growth.

However, I must also mention the three economies that are currently enduring the hardest times in the region.

In the case of Argentina, its society has made a huge effort; and for that reason we are confident that the positive trends seen in recent months will persist over the years to come.

We applaud the efforts that the government of Uruguay is making to ensure its financial stability.

And, we decisively support Bolivia's determination to rejoin international financial markets.

The Inter-American Development Bank in 2002

Total lending by the Bank has been less than expected—just US$4.5 billion, well below its lending capacity. Furthermore, the Inter-American Investment Corporation has posted losses for the second year running, as a result of provisions to deal with the effects of the crises affecting business projects in a number of countries.

In this context, we believe the IDB and the IIC need to act as countercyclical instruments by increasing their financing to countries when private funding dries up and extending additional funds to the private sector when other financing sources are unavailable.

Given the situation of uncertainty and risk currently affecting the region's economy, the Bank needs flexibility to rapidly adapt its supply of financial products to new demands from borrowing countries.

We share with other member countries a concern for the Bank's effectiveness; the need for systems to evaluate results and identify development impact; and especially to measure its contribution to achieving the millennium goals on poverty reduction. This concern to enhance the Bank's effectiveness should motivate us to persevere with work to improve the organization and its procedures.

The Bank in the Near Future

It is in times of difficulty that institutions need to demonstrate their response capacity and creativity. The IDB's comparative advantage as a regional development agency has always been recognized. The added value implied by representing a region's common interests should be developed more deeply still if possible. Today more than ever the IDB is called upon to act as the region's interlocutor, channeling the concerns and proposals of its member countries. Apart from being the region's main source of external financing, we would like to proclaim the role of the IDB as an agent of consensus and opinion leader. The Bank has a major part to play in cultivating greater confidence in the region, in order to increase foreign direct investment and capital flows.

But it is not only the IDB as an institution that is called upon to show leadership at the present time. The whole international community should be ready to show signs of support to the Bank and to the region as proof of its commitment to a region with a bright future and expectations of stable and sustained economic growth.

We invite the Bank as a whole to undertake a detailed and constructive analysis of the possibility of changing its structural model for supporting the private sector. Private sector development, stimulus to domestic private investment, and the capacity to attract foreign direct investment are decisive for achieving sustainable economic development in the region. Under no circumstances should we allow small and medium-sized businesses to become the victims of a model that has proven truly vulnerable at times of crisis.

In addition, the MIF fund replenishment exercise should serve as an occasion for a wide-ranging debate on the lessons to be drawn from past experiences that could lead to the emergence of new modalities for supporting private sector development in the region. The commitment of donors towards the MIF should be seen as signs of the unequivocal support and confidence in the region mentioned earlier. Spain here and now declares its commitment to continued support for this instrument.

To conclude, I should like once again to reiterate the Spanish government's commitment towards the region, as shown by the decisive institutional and financial support it has continued to provide in 2002, including: the promotion of trade integration processes in the region; support for subregional institutions, exemplified by Spain's recent admission to the Andean Development Corporation, which is a great honor for us; support for debt relief in the framework of the Heavily Indebted Poor Country (HIPC) Initiative, which affects Nicaragua and Bolivia in particular; debt-equity swap arrangements with a large and growing number of countries in the region; concessional credit extended to public bodies; and technical assistance provided to key development sectors, in the amount of about 275 million euros.

And in our commitment to the Bank itself, we hope that, now in particular, it will act as a catalyst for creative and ambitious initiatives to help us enhance the road to sustained growth and poverty reduction.

The international community undoubtedly faces these challenges regarding Ibero-America: raising investor confidence; opening markets further; improving ways to fight poverty; and guaranteeing the financial needs of the region's countries—in which the IDB must take the lead. The other international financial institutions, particularly the IMF, must also continue to play an active role in the region.

ADDRESS BY MR. JAMES H. SMITH, GOVERNOR FOR THE BAHAMAS, ON BEHALF OF THE ENGLISH-SPEAKING MEMBER COUNTRIES OF THE CARIBBEAN

It is a privilege for me to address this joint Annual Meeting on behalf of the five Caribbean nations that are members of the Caribbean Constituency, that is, Barbados, Guyana, Jamaica, Trinidad and Tobago and my own country, The Bahamas. And a pleasure it is to convey our delegations' appreciation to the government of Italy and the city of Milan for hosting this year's meeting, and for the hospitality extended to us in this historic city. As usual the Management and Staff of the Bank have spared no effort to facilitate this event.

We congratulate you, Mr. Chairman, on your election and on your assumption of responsibility for the Bank over the next year—one that could prove to be especially difficult. Our Constituency also thanks the Governor for Brazil for solid accomplishments during his chairmanship, and in particular for the innovations put in place over the past year, and the emphasis placed on the issue of development effectiveness.

The Caribbean Constituency welcomes these annual events as they provide us with an opportunity to evaluate the options we face in tackling the challenges ahead of us as a region and as individual countries. The Bank's contribution to this process is invaluable. In particular, the year ahead could bring new, and immense, problems for all of us, especially those heavily dependent on tourism and imports of petroleum. These circumstances now threaten to undo all the progress made over the past decade, and to create an environment hostile to growth and development, perhaps for a long time into the future.

The countries of the Caribbean have, like others in this region, been victims of these circumstances, even as there was a glimmer of hope that the impact of the 9/11 events might eventually be overcome. The year ended with stagnation in real income growth in The Bahamas and Barbados, while in Guyana and Trinidad and Tobago real growth—though positive—decelerated. In the case of Jamaica, while registering positive trends, the fiscal situation remains a cause for concern.

In these circumstances, policy responses have been mainly a mixture of defensive strategies, such as restrictive monetary and budgetary policies, and the concentration of investments on export-earning activity, like tourism and energy, and on poverty reduction. Caribbean governments will continue to strive in the period ahead to protect and advance the gains made in the traditional sectors, to institute transitional and emergency adjustment mechanisms, and to embark on ambitious programs of structural diversification. However, the near-term future is also one of unprecedented uncertainty for the Caribbean, therefore continued access to the Bank's facilities is important at this time. This uncertainty also presents a major challenge to the Bank, in cooperation with our stronger member States, to work out timely contingency measures.

Barbados was successful last year in securing funding for a coastal infrastructure program. The objective of this project is to ensure a healthy environment and continued sustainable economic development of Barbados through improved management and conservation of the coastal zone.

Guyana continued to utilize FSO resources, and during 2002 three new projects were added to its portfolio. These projects are the Unserved Areas Electrification Program which is aimed at improving the quality of life of the rural population; the Basic Education, Access and Management Support Program which is geared to attaining improved quality in literacy and numeracy in the basic education cycle; and the Basic Nutrition Program which is intended to reduce malnutrition among women and young children in poor communities.

Jamaica, which was hit hard by the May and June floods and tropical storms Isidore and Lily, secured an emergency loan in the amount of US$16 million to support rehabilitation of basic infrastructure in five parishes. There was also a loan of US$17 million for information and communications technology that will contribute to that country's e-readiness.

After having no loan approvals since 1999, Trinidad and Tobago secured funding for the eagerly anticipated Second Stage Settlements Program. This project's main objective is to improve housing conditions for lower-income groups and to make public expenditure for housing more efficient and equitable.

In the case of my own country, The Bahamas, which had no loan approvals in 2002, we look forward to the completion of the new country strategy, which will pave the way for a new round of investments.

The Bank has been affected by the economic downturn in the region. In 2002 the volume of lending to its borrowing members decreased significantly. While approvals to the Caribbean Constituency also decreased in 2002, there is some satisfaction in the fact that there was an increase in disbursements that allowed the negative net flow position of the previous year to be reversed. We believe that this was due primarily to the closer monitoring of the portfolio and the increased effort by the Bank to remedy implementation difficulties being experienced.

The sluggish economic performance of the region and the corresponding decrease in international trade has especially affected the private sector's ability to access traditional sources of trade finance. To cope with this situation our Board recently approved an International Trade Finance Reactivation Program. This will blend traditional tools with new instruments to allow for a number of options that may be used to alleviate the export credit shortage, including the use of guarantees and multisectoral credits. We encourage the Bank to vigorously implement these innovations, and in these difficult times, to continue to seek new ways to improve the Bank's responsiveness to its borrowing member countries.

Last year, our Board approved a number of measures that should have a positive effect on this responsiveness, such as modification to the financing matrix for investment loans, a new framework for policy-based lending and the reintroduction of an Emergency Lending Program. In approving this package of measures, however, the Board was very clear that the Bank must also be accountable to its shareholders regarding the efficient use of the resources provided.

We are encouraged that new lending instruments are being developed and that action is being taken to implement the measures approved. We support the direction in which the Bank is currently moving in terms of ensuring that its products are developmentally effective. We assure you that the governments of the Caribbean Constituency are fully committed to the concept of development effectiveness for we too are accountable to our populations for the productive use of our countries' resources. Member countries must ensure that they can demonstrate that the funds that have been entrusted to them have been used in the best possible way for the benefits of all their citizens.

We are pleased that progress has been made in accessing resources from the Private Sector Department by C&D countries, as the majority of PRI projects approved in 2002 were for this group of countries. This indicates that some effort is being made to overcome the perceived constraints of doing business in the smaller economies, and is a cause for some optimism on our part that some time, in the near future, our Constituency will at last be able to benefit from the operations of the Bank's Private Sector Department.

Similarly, we remain keenly interested in accessing finance from the Inter-American Investment Corporation for small and medium-sized enterprises in our subregion. We recognize the difficulties faced in recent years by the Corporation and urge it to pursue more actively diversification into the smaller economies, which in many cases offer good opportunities. In this connection, the External Review Group is expected to provide some strategic direction for the future of the Corporation, and we look forward to their recommendations in this respect.

Again we express our appreciation for the continuing efforts being made by the Multilateral Investment Fund to assist our Constituency. Of all the windows available within the IDB Group, the MIF has been the most responsive to members of our Constituency. It has, since its establishment in 1993, been involved in promoting macroeconomic reforms and, more generally, strengthening the environment for business in a variety of ways in all of our countries. It has been an effective private sector development tool. We strongly urge its replenishment and look forward to the forthcoming deliberations of the Review Committee.

The member countries of the Caribbean Constituency, while alert to the setbacks that may lie ahead in these trying times, are positive in their outlook for the future. We are prepared to meet the challenges in cooperation with the IDB Group and to go forward together in advancing the region's development agenda.

ADDRESS BY MR. RANDAL K. QUARLES, TEMPORARY ALTERNATE GOVERNOR FOR THE UNITED STATES

President Iglesias, fellow Governors, ladies and gentlemen: I would like to begin by thanking Italy and Minister of Economy and Finance Giulio Tremonti for hosting our meeting in this extraordinary city. I am here today because President Bush places great importance on our political and economic relations with Latin America and the Caribbean and because he values the work of the Inter-American Development Bank.

The Bush administration is committed to building on our broad and deep relations with Latin America. We will continue to build relations and engage closely, even as we pursue global security interests. We are working hard to implement a hemispheric strategy capable of addressing the diverse challenges confronting Latin America.

We are optimistic about future prospects because the region has enormous economic potential and many factors in its favor—dynamic population, strong and energetic leadership, continued efforts to improve the effectiveness and responsiveness of political institutions, a rich endowment of human capital and natural resources and a deepening belief that sustained economic growth remains the most effective means for addressing the region's social needs.

Regional Developments

Since last year, countries in the region have experienced difficulties with GDP falling by nearly a full percentage point. More recent developments show regional GDP on a positive path. Most notable is the improvement in Argentina, where, following a steep contraction, GDP is now expected to grow by at least 3 percent. In several other countries, growth rates and exchange rates have increased or strengthened, while bond and equity market performance has improved.

The current recovery will need to be reinforced by the implementation of sound and sustainable policies. We must remain focused and disciplined in our pursuit of customized and internally consistent fiscal, monetary, and exchange rate policies.

Our policies toward the region are guided by three basic principles—crisis prevention, stabilization, and economic growth. Crisis prevention requires increased efforts to detect warning signs and to encourage preemptive action. Last year, stabilization was critical. With our active engagement, the IMF negotiated programs with Brazil and Uruguay. More recently, the IMF approved agreements for Argentina, Colombia, and Ecuador with others such as Bolivia expected.

United States Development Assistance Agenda and the IDB

We must focus now on promoting economic growth and eliminating poverty. President Bush consistently has made clear his goal to spur growth and reduce poverty throughout the world. To this end, the President put forward a number of initiatives that fundamentally reorient how we approach foreign assistance. A focus on productivity aimed at improving living standards guides our agenda for the multilateral development banks. Productivity enhancement includes greater emphasis on private sector development, measurable results and country performance for resource allocation, more grants for the poorest, and a focus on continued improvements in country and institutional governance.

Productivity

Productivity growth based on increased capital per worker and technological improvement underlies sustainable poverty reduction. Low or stagnant productivity and income growth indicate significant impediments to investment and technology adoption. These include: poor governance, weak health and education systems, and too many restrictions on economic transactions. The development banks need to focus on projects that eliminate impediments to accumulation of capital and technology.

The United States is committed to comprehensive regional trade liberalization as a means of enhancing economic growth and has outlined an ambitious agenda of initiatives. We applaud the IDB contribution in support of making the FTAA a reality through a broad range of programs covering education, institution-building, good governance and access to trade finance.

Private Sector Development

In Latin America, small business, a particularly important source of employment creation and income growth, often has difficulty accessing credit through the financial system. In Africa, the International Financial Corporation (IFC) and the International Development Association (IDA) have begun to promote the development of financial sector institutions to serve small and medium enterprises by planning and delivering an integrated package of financial and technical assistance to financial intermediaries.

The IDB has the resources and know-how to do the same for small and medium enterprises (SMEs) in Latin America. We call on the Multilateral Investment Fund (MIF) and the Inter-American Investment Corporation (IIC) to collaborate on improving financial intermediation for SMEs. We believe that MIF grants for technical assistance and training, combined with IIC on-lending facilities can create stronger, more sustainable local financial institutions to serve SMEs in the region.

More broadly, we believe that the disparate private sector arms of the IDB must improve cooperation and collaboration to increase their effectiveness. Institutional structures should facilitate the IDB's work, not restrict it.

Measuring Results

We have urged all MDBs to develop results measurement systems at the project, country and institutional levels in order to enhance aid effectiveness. We support development of a consistent set of basic development indicators. In this regard, we strongly support the recommendations in the recent "Evaluability Assessment" from the IDB Office of Evaluation and Oversight. This and other development effectiveness efforts need to be embraced by the Board and management.

Moreover, the Bank needs to maintain appropriate risk management to be effective. We look forward to receiving the capital adequacy framework paper in the near future.

Role of Grants

President Bush has placed high priority on increasing the use of grants in the poorest countries. Grants avoid saddling these countries with ever-larger debt burdens. We urge that steps be taken in the Fund for Special Operations to mitigate the burden of repayment as has been done in IDA, the African Development Fund (ADF) and the International Fund for Agricultural Development (IFAD).

Strengthening Governance

Finally, improving governance procedures both within the region and the institution is critical. Poor governance and corruption create disincentives for private sector investment and undermine the ability of the Bank to implement its development agenda.

We acknowledge the progress the Bank is making in the area of governance, including development of an anti-corruption strategy, steps to increase transparency and accountability, establishment of a code of conduct for the Board, efforts to improve the Bank's procurement guidelines and procedures, and work under way to review and reform the Bank's independent investigation mechanism. These and related issues need continued and vigorous pursuit by the Board and Management in order to maintain the Bank's reputation.

Conclusion

By working together, we can create and maintain the policy and institutional environment that underpins lasting development and makes assistance truly effective. One year ago, President Bush visited the Inter-American Development Bank to announce his proposal for the Millennium Challenge Account. This initiative recognizes that sound policies improve aid effectiveness, catalyze private investment and alleviate poverty. It will provide additional incentives for countries to govern justly, invest in their people and encourage economic freedom. We support the inclusion of these principles in all development programs.

I am optimistic about Latin America's prospects. There is enormous scope for higher and sustained productivity-led growth. We see many new leaders who are committed to the right policies and growing consensus on what those policies are. The United States is intent upon seizing this moment of opportunity and engaging even more closely with countries that are ever more important to our own economic success.

ADDRESS BY MR. ISAAC ALFIE, ALTERNATE GOVERNOR FOR URUGUAY

It is a privilege and satisfaction to attend another Annual Meeting of our Inter-American Development Bank, held this year in Italy, which is so dear to the heart of the people of the Rio de la Plata. The authorities and the citizens of the historical city of Milan in beautiful Lombardy have extended us a truly friendly and warm welcome.

We come to the meeting this year having weathered 2002. It was a difficult year for the region, marked by a generalized slowdown, but particularly bad for Uruguay. Our GDP fell by almost 11 percent, unemployment rose to 18 percent, and private consumption contracted by more than 15 percent. A single figure summarizes our efforts and the extent of the shock. The current account of our balance of payments recovered from a deficit of 3 percent of GDP in 2001, to a 1.4 percent surplus in 2002, despite a continued public sector deficit of 4 percent of GDP. Neither the fiscal adjustments of February and May, nor the 15 percent real terms reduction in expenditures were able to lower the government deficit from the aforementioned 4 percent of GDP. There were many other adversities in addition to the regional problems: internal problems, a world economy going through bad times, and a still greatly distorted global trade, coupled with extremely depressed prices for raw materials other than oil.

Since we have no control over most of these elements, many of which are market phenomena, our only option is to confront the problems.

Following three years of recession, with a weakened Treasury, we would not have managed to confront the worst financial crisis of the past 30 years without the valuable assistance of the international organizations. Yet again, it has been proven that one can never do too much to strengthen fiscal solvency, and there is never too little merit to prudent macroeconomic management. The virtual cessation of capital inflows into the region, revealed again our dependence on external savings.

It is our duty to forestall such dependence. This will require strong treasuries, credible long-term policies, structural reforms to free up supply-side resources, and open trade practices. The first two are decisive to develop and consolidate sound domestic financial markets, where most operations are transacted in local currency, whereas structural reform and trade liberalization are essential to economic competitiveness and diversification of export destinations.

However, that does not mean we should neglect the social safety nets, especially education, as these are nontransferable responsibilities of any administration. The real challenge is to find ways to be efficient and implement the right incentives.

Reconstruction must begin; it will not be easy, but we are sure it is the only way to improve the living conditions of our people. For those of us in public service, that, after all, is the ultimate objective.

I would like to take a moment to refer to the issue of debt. As you know, my country faces an exposure risk in 2003. If not eliminated, it may evolve into a risk of insolvency. To address this problem, we are conducting a serious and open consultation with the private creditor community. We hope to put forward a proposal in the near term, based on:

- Equal treatment for all creditors, not only between domestic and foreign creditors, but also between holders of different bond offerings;

- Unconditional respect for the original currency in which the debt was contracted.

We realize that once the problem is resolved, the horizon will be cleared of uncertainties, establishing the basic conditions for the incipient economic recovery to gather speed.

In this context, and turning now to the IDB, the Bank's volume of operations was just over US$4.5 billion in 2002. This loan volume—one of the lowest in recent years—reflects, as President Iglesias stated so clearly yesterday, the proliferation of adjustment and austerity policies adopted by many borrowing countries due to the generalized economic and financial difficulties, aggravated by the prevailing uncertainty in the global context.

This does not mean we should charge the Bank with inertia or failure to innovate. Quite the contrary. One of the major achievements at the Annual Meeting in Fortaleza last year was undoubtedly the creation of an emergency line of credit as an instrument to increase the institution's responsiveness to exceptionally adverse scenarios that were then emerging in some borrowing countries. Management proved both flexible and dynamic as it proposed mechanisms that we believe are extremely useful, such as the foreign trade funding facilities and the new guarantees mechanism. The former is already countering the scarcity of export financing, and the latter will help offset the lack of opportunities to gain access to voluntary markets. We encourage the Bank to developing innovative and flexible instruments, and streamlining administrative procedures. Nor should we forget the "private sector window" momentum as it traced the path ahead.

Uruguay was duly able to access that emergency line of credit, obtaining speedy and timely Bank support when facing serious budgetary problems, mitigating the effect of the economic crisis on the most vulnerable sectors of the population, protecting prioritized spending on health, education and food, preventing further cutbacks in social programs. Exceptional attitudes were needed to manage the prevailing crisis. The role of the IDB, its Board and its staff was decisive in designing, approving and disbursing the support in exceptionally short time periods.

To cope with the emergency, the government was compelled to enforce fiscal policies that impose greater austerity on expenditures and investments to limit the fiscal deficit. These obviously impacted the IDB project portfolio, especially in that they restricted counterpart funds required for project execution. We must remember, however, that in the aftermath of sudden devaluations, it is possible to meet project targets with fewer resources than originally budgeted.

I would now like to refer to some specific Bank topics. These past few days, our countries clearly reaffirmed their commitment to maintaining the financial soundness of the institution in times of uncertainty and latent risk in the region. As a result, the Board waived existing policy in order to allow the Bank to increase the finance charges that we borrowing countries pay.

This will require an additional and extraordinary effort on the part of our countries, which we accept with conviction, but would like to see it serve as food for thought at the Bank, to develop—with creativity, in the near future—a policy that does not undermine country risk when things are at their worst. In other words, let us move towards some form of policy that is fully countercyclical to the private sector's behavior, where our Bank has the capacity to respond proactively at the most trying times. In this framework, the Bank must devise preventive measures to avoid the deep crises, while using its strength to leverage sovereign issues in the private sector, when markets are reluctant, but still open. In other words, the recently approved guarantees are of vital importance as we would join forces with the private sector, so as to not divert an important portion of the Bank's capital resources from developmental goals. After all, we are a Development Bank.

Another aspect we need to reflect on—also as a consequence of this crisis—is the need for mechanisms that work to reduce the risk for countries in the region facing exceptional circumstances. Specifically, we should assess whether it is possible to reconsider repayment terms and conditions exclusively in the case of emergency loans. Namely, it is not only with direct cash support that we help countries; sometimes, objectives may be attained in what we could call a "natural" way with fewer direct resources, but more signals and incentives pointing in the right direction.

I wish to emphasize that although the return on the Inter-American Investment Corporation (IIC)'s liquidity portfolio has declined, the downturn occurred at a time when all institutions similar to the Corporation have had difficulties. Our appreciation for the Corporation's work remains unchanged, especially its value added in areas such as creating jobs, generating foreign currency, and improving private business competitiveness.

Lastly, the Multilateral Investment Fund deserves a very special mention. This instrument is very helpful for private sector development, in particular for small and medium-sized enterprises in our countries. During its lifetime, the MIF has approved grants and reimbursable loans amounting to US$800 million and, as evidenced by the just-concluded evaluation process, has had a major innovative and demonstrative impact. We reiterate our firm commitment to strengthen this instrument and broaden its range of activities.

In summary, we commend the Bank's Management and responsiveness in times of crisis, and hope it continues along the same path.

ADDRESS BY MR. AMBROISE FAYOLLE, TEMPORARY ALTERNATE GOVERNOR FOR FRANCE

It is a great pleasure to be here again in Milan, for the annual meetings of the Inter-American Development Bank Group. This is also an excellent opportunity to reaffirm my country's support for our institution and for the countries of Latin America, Central America and the Caribbean.

I would like to indicate briefly for you today what my country expects of the IDB over the coming months, in the wake of 2002, a year that was particularly challenging for the region on the economic front. This difficult context has led to France's strong involvement in supporting countries of the region, particularly through the international financial institutions. Fortunately, the economic outlook for 2003 is on the whole better for the South American continent.

In this difficult context, the IDB has a key role to play in mobilizing the international community's support for the region.

We must help the region restore confidence, not only among its own countries, but also abroad, and particularly among investors.

In the countries of the region, our institution must, first of all, pursue a resolute course of action, under the leadership of President Iglesias, to reduce the impact that these economic difficulties are having on the poorest segments of the population, and in particular to reduce inequalities within countries. We must mobilize resources and target them to the poorest, because combating poverty is an integral part of the quest for more sustainable development.

The Bank can and must help to ensure sound economic policies that will enhance the outside world's confidence and allow international investment to grow. Encouraging foreign direct investment, which is so necessary for financing growth in countries of the region, means that we must concentrate on legal stability and assurances for investors, who make their plans on a long-term basis.

In working with the region's countries along this path towards sustainable development and the reduction of inequalities, the Bank must redouble its efforts in the sense of providing responsive, effective, lasting and comprehensive assistance.

The Inter-American Development Bank must continue to be as responsive as possible to member countries' needs. This calls for flexibility, consistency and financial soundness on the part of our institution.

Let me talk first about flexibility. We spoke at length yesterday about flexibility, following the address by President Iglesias, and I believe that the instruments with which the Bank has recently equipped itself, such as emergency lending and program lending, have proven their usefulness. We can see this in the cases of the emergency loans to Uruguay, Argentina and Colombia, and the trade finance loan to Brazil.

Emergency loans and program loans must be designed to deal with the social consequences of economic crises, by directing resources to the people most in need.

It is essential for the Bank to have financial mechanisms that can respond appropriately to the threats now weighing upon countries in the region. I would therefore encourage the Bank to be innovative in terms of designing suitable, stable and useful instruments in this field.

Next, there is a need for consistency. I want to congratulate the Bank's Management for its success in drafting a series of strategies that are consistent both among themselves and with the Institutional Strategy. I would also encourage the Bank to go further, and to adopt an action plan for efficiently allocating the required resources to priority objectives.

Yet I should point out that a private sector strategy is essential to visualize the efforts of the Inter-American Bank Group. The new instruments that the Bank will be proposing in this area should be an integral part of that strategy. At the very least, the activities of the Bank group's different departments and entities need to be made more consistent. I know that the Bank's Vice-President attaches great importance to this internal consistency, and he can count on our support.

Finally, there is the issue of the Bank's financial soundness. This is a fundamental issue for my country. I want to congratulate the Bank's Management and departments for their work in improving the Bank's capital situation, and I can confirm that France will give its full support to the new capital adequacy model, which should be implemented without delay. I consider this essential not only in terms of the Bank's ability to deal effectively and promptly with future crises, but also in terms of our institution's need to retain the full confidence of international financial markets, and in that way secure the best financing conditions for its borrowing countries.

My country very much hopes that the Bank will pursue and expand its efforts to make public development assistance more effective. Aid effectiveness is increasingly viewed as a key factor in development financing overall. As we see it, the best way to achieve this objective is through strategies for reducing poverty and inequality. Development effectiveness must be assessed over the short, medium and long terms:

In the short term, the emphasis must be on sound management and results. We need to stress good governance and financial accountability on the part of states. More specifically, the Bank should continue to help borrowing states in their efforts to combat corruption, money laundering, and the financing of terrorism.

At the same time, the Bank needs to set a good example of sound management and transparency—transparency in terms of both financing and results. By monitoring and assessing the results of development projects, our institution will be able to draw lessons from previous projects and help disseminate sound practices.

In the medium term, it is coordination and efficiency that are important. There are many players active in development. The high-level meeting on aid harmonization that was held in Rome last month showed the extent to which the collective effectiveness of our efforts depends on the quality of coordination among development players. That coordination must be achieved in close relationship with the priorities established by the beneficiary countries themselves. We must assess the complementarity of public financial assistance for development, and the value added by international financial institutions in their fields of operation. If we are to achieve long-term results, the assistance offered by international financial institutions must be coherent and accessible. Harmonizing the procedures of these institutions will be an important step for beneficiary countries, and I can only encourage the Bank to pursue the efforts that it has taken in this direction over the last few months with other development banks.

In the long term, what counts is the impact and sustainability of our efforts. For donor countries, aid effectiveness is closely bound up with the commitment to sustainable development. The President of France and the French government have given a commitment to increase French official development assistance by 50 percent, primarily by strengthening our bilateral assistance. This means that we will achieve a level of 0.50 percent of GDP in 2007, with a view to attaining the 0.7 percent target in 2012. The reasons for this strong commitment are clear and are justified by the scope of the needs identified, particularly in the Millennium Declaration, which is to guide the overall efforts of development partners towards securing more sustainable development for our planet.

We must be able to meet such essential needs as access to safe drinking water and sanitation, as noted recently in the recommendations of the panel chaired by Michel Camdessus, discussed at the Kyoto forum just concluded. Although there has been a worrying withdrawal by the Bank from the water sector in the recent past, we expect that the IDB will play an important role in the region's efforts, and that it will come forward with further proposals, particularly in the area of public-private partnerships.

Other sectors are also deserving of priority, particularly education and health. On this point, I would like to add a special note about the AIDS disaster. It is impossible to ignore the impact of this universal disease on so many sectors. The Bank must continue to work with member countries to combat AIDS, and it should establish an effective partnership with the AIDS Fund and provide complementary support.

Finally, given the instability of the international situation, the Bank must continue to encourage regional integration, which is already well launched in the region. Integration is in fact one of the key mandates from the Eighth Replenishment. The impetus to integration can come from regional markets and infrastructure, and from regional cooperation, but also from the financing of the regional public goods.

The concept of global public goods is important to the French authorities, who have undertaken an in-depth examination of this subject. At the regional level, public goods should make it possible to offer global responses to regional problems, to perfect and humanize regional integration, and to open new avenues for regional development. The working group on global public goods established with our Swedish friends and co-chaired by President Zedillo and Minister Thiam should draw inspiration from the IDB's efforts in the area of sustainable development and regional integration.

To conclude, I want to pay tribute to the remarkable and diligent work accomplished by Enrique Iglesias and his teams, in what has been a very difficult period. In particular, I want to congratulate President Iglesias on his reelection as president of our institution. You have been outstanding, Mr. President, in guiding our institution in its mission and in making the Bank more responsive, and we have full confidence in your ability to lead the institution in these difficult times. Mr. President, in selecting the theme of development effectiveness for these meetings, I know that you have wanted to underscore the IDB's commitment in terms of the responsiveness and accountability that are so necessary, not only for the development of member countries, but also for the most disadvantaged groups. I thank you most heartily, and you can count on the full support of my country's authorities.

It is a great pleasure to address this distinguished audience today on behalf of my government. As you know, Italy and Slovenia are neighbors. Due to historical reasons, the Slovenian and Italian ethnic minorities have lived on both sides of the border linking rather than dividing both countries. With Slovenia becoming a full member of the European Union in May next year, the border between the two countries will become rather unimportant and the chances to establish even closer ties will increase. It is certainly the future to which we look forward. In so saying I too would like to join my fellow Governors and express sincere appreciation to the government of "Italia" and the vibrant city of Milan for hosting this meeting.

Developments over the past few years have again exposed Latin America to economic shocks and are threatening to undermine the achievements of the structural reforms implemented in the 1990s. There is no need to repeat how difficult the year 2002 was for many countries of the region and consequently for the Bank, which ended up with the smallest overall amount of lending approvals over the past decade. However, we are not disappointed with the results, since they show that most of the IDB-8 targets were met. It is worth noting that the lending for poverty reduction and social equity even exceeded the projected amount.

Allow me now to offer a few comments on some of the main issues of the Bank that are of particular importance to us.

To remain relevant the Bank must continue to be a flexible institution capable of adequately responding on a timely basis to the emergencies and vital needs of its member countries. Given the economic slowdown and worrying financial situation in the great part of the region, we are aware that the Bank must introduce anticyclical measures that would help to restore and corroborate its growth. In this regard we find the development and revamping of policies such as export trade financing and the guarantee disbursement loans program a timely and adequate solution.

However, in view of the short-term priorities we should not lose sight of the long-term objectives to which the Bank has committed itself in its basic documents and by endorsing the Millennium Development Goals. Sustainable development, leading to a better standard of living of the peoples of Latin America and the Caribbean through reduction of poverty and inequality, is the ultimate one. And that is what the Bank is all about. Talking about the strategic issues, we would like to commend the Management for the work done in the crucial areas of the Institutional Strategy. Now that the comprehensive set of 2+4+1 strategies has been in place, we should focus on its effective implementation. From this perspective we welcome the Management's undertaking to present the implementation plan as early as April this year and are awaiting it with great interest. Bearing in mind that the action plan is not an end itself, we would like to see it adequately applied to the 2004 budget.

Last Saturday we heard the report on the progress made in the past year regarding strengthening of the Bank's development effectiveness in a way that the results of its operations could be measured and evaluated. We were pleased to learn from the Executive Vice-President that a Chief Development Effectiveness Officer for coordination of activities in this area would be appointed by the end of May and that the time-bound short and mid-term action plans would be carried out to help the Bank to move closer to this vital target. We wish, however, that more would have been achieved to date. In the course of transforming the Bank's culture into a result-oriented one, a lot is still to be done. In this connection, we would like to acknowledge the Management's commitment in stepping up its efforts to address challenges such as quality at entry or performance-based lending instruments. Being convinced that the Bank should further strengthen and enhance its monitoring and evaluation systems to truly internalize the process of development effectiveness, we would also like to encourage the Management to introduce a comprehensive system of self-evaluation sooner rather than later.

Being the most important provider of development financing to Latin America and the Caribbean, the IDB must be able to offer to its borrowing members the optimal support in the long run. To this end, the Bank must continuously revamp and develop its tools while maintaining its financial soundness. In so saying we would like to urge the Management to move expeditiously towards the approval of a new capital adequacy framework and preparation of the derived policies. In the same vein we will carefully follow the Bank's efforts to rearrange its private arms in support of the development of the private sector especially to enable inclusive growth.

The Bank must enhance its cooperation with sister institutions, especially with the World Bank, to be able to fully utilize its comparative advantages. We find it particularly important that preparation of country programming and country strategies is well coordinated, enabling borrowing countries to benefit from such synergies.

Finally, I should like to reaffirm that the Republic of Slovenia remains committed to the Bank. Let me conclude by expressing our appreciation to the staff, the Management of the Bank, and especially to you, President Iglesias, for the work done since the last Annual Meeting.

ADDRESS BY MR. FRANCISCO GIL DÍAZ, GOVERNOR FOR MEXICO

I am pleased to be taking part in this Annual Meeting of the Boards of Governors of the Inter-American Development Bank and Inter-American Investment Corporation here in the beautiful and vibrant city of Milan. I wish to join the expressions of thanks to the authorities of the Italian Republic, who opened the doors to us to hold what I trust will be a highly productive exchange of ideas and views on the future of the IDB.

I would add that it is particularly meaningful for me that this meeting is being held in Italy, as it was specifically a visionary Mexican, Antonio Ortiz Mena—one of the architects of the IDB the way Enrique Iglesias is today—who is responsible for the so-called "multilateral leap" and opened the Bank's doors to nonregional countries. With this decision, he was able to tap the enthusiasm and energy of 18 new members, who accepted the challenge of participating in the development of Latin America and the Caribbean.

This Annual Meeting is taking place in a particularly difficult climate. It should be recalled that the gross domestic product of Latin America and the Caribbean declined by 1.1 percent during 2002, the worst performance since the 1980s.

The slowdown in the world economy and the volatility and uncertainty characterizing international capital markets have had a serious impact on the region. These circumstances compounded the internal problems of some countries, and taken together produced an environment characterized by a lack of growth, unemployment, and in general a deterioration in the people's well-being.

Despite the unfavorable external climate, in 2002 the Mexican economy maintained macroeconomic stability sustained by a responsible fiscal and monetary policy. However, and in large measure owing to the high correlation between the behavior of our economy and the economic cycle of the United States, our growth, though positive, was below expectations.

Clearly, establishing policies to regain the path of accelerated growth with stability is the responsibility of each and every country in the region. But the IDB can be an extremely important ally in this process.

Today, more than ever, the Bank must endeavor to increase its response capacity for addressing the demands of its members. This requires a process of ongoing renewal at the IDB, that will consolidate its position as the major source of multilateral financing for Latin America and the Caribbean.

In this sense, the current global economic situation and the pronounced differences among the economies of the region oblige the Bank to constantly revise its financial and nonfinancial products in order to ensure that it has adequate instruments for meeting the demand for financing and technical assistance.

The decrease in the number and volume of loans, in comparison with 2001, highlights the difficulties that governments are experiencing with allocating counterpart funding in the context of severe fiscal constraints, but also confirms the need for greater flexibility in the Bank's loan windows.

To ensure the effectiveness of its operations, the Bank must adopt a results-based approach and improve the design, monitoring, and appraisal of the projects it finances. Bank operations must pursue clear goals that make it possible to measure the effectiveness of the institution's management. In this latter respect, I would like to make a few observations.

First, the IDB budget should reflect the difficult economic circumstances prevailing in the region. Accordingly, a budget exercise should be conducted with the key objective of streamlining Bank expenditure.

Second, it is important for the Bank to continue with its prudent financing policy, to maintain its high credit rating and its access to capital markets. This must be the guiding principle for the Board's discussions on the financial management of the institution. Only in this way will the IDB be able to continue being a relevant actor for financing development in the region and a key component in supporting the economic and social transformations in our countries.

Looking ahead to build an agenda for Mexico's relationship with the IDB, I would like to mention the importance of investments in human capital.

The greatest challenges facing my country continue to be eradicating poverty, reducing income disparities, and promoting sustainable economic growth. These challenges are particularly pressing in the rural areas of Mexico, which historically have been the poorest and most marginalized.

In order to deal with this situation, the government of Mexico has concentrated its efforts on programs designed to improve human capital, convinced that nutrition, housing, health, and education are essential means of raising living standards for Mexican families. In this context, we have met with a sufficiently open attitude to ensure that our national development priorities are adequately reflected in the lending program with the Bank, constantly seeking synergies within the IDB Group and with other multilateral financial institutions.

I would like to refer now to the other institutions in the IDB Group, and specifically the Inter-American Investment Corporation and Multilateral Investment Fund.

While the Corporation was not immune to the problems confronting the private sector in the region during 2002, prudent administrative management enabled it to make progress on its operational goals and maintain its credit rating. We are pleased that new strategies have been adopted with a view to reducing risk and maximizing revenue.

In addition, we are following with interest the work of the External Review Group which, under the leadership of Pedro Pablo Kuczynski, is analyzing the strategic orientation and future priorities of the Corporation. This review exercise should lead to a new model for the institution which will enable it to achieve its objectives for financing small and medium-sized enterprises in the region.

In turn, the Multilateral Investment Fund has been consolidating its standing as a key instrument for promoting inclusive private sector development in our countries, introducing new concepts and facilitating reform processes which could not otherwise be carried out.

In 2002, the MIF contributed to strengthening the savings and loan sector in Mexico, supported the formation of state-level and sectoral investment funds aimed at small and medium-sized enterprises, and provided resources for the modernization of the drinking water system in Veracruz, with private sector participation. More recently, the MIF approved nonreimbursable technical cooperation for strengthening property rights, one of several measures taken by the government with a view to improving access to credit. All this support has proven invaluable.

More than 43 years after its founding, the Bank is a mature institution with the characteristic enthusiasm and vigor that we see each year at our Annual Meeting.

By moving forward on internal reform, the Bank is ensuring its relevance on the basis of a privileged relationship with the countries of the region and confirming its validity as a key player in the search for strategies whereby social and institutional development can be combined with the promotion of equity and regional integration. Mexico reiterates its commitment to the IDB, its institutional objectives and the efforts it carries out day after day in favor of development in the region, under the renewed leadership of its President, Enrique Iglesias.

Achievement of the goals referred to in my address should be a task shared by the Board of Governors, the Board of Executive Directors, and Management: in short, all those committed to the ideals governing the creation of our Bank.

Many countries of the region have come a long way in the past dozen years, in terms of poverty reduction, democracy, economic reform, and respect for human rights. And Canada knows that the Inter-American Development Bank has played a key role in supporting and sustaining that progress.

However, Latin America and the Caribbean are now facing a difficult time of slow or no economic growth, record unemployment, and social unrest. No one wants to go back to the past. But many people throughout the region are wondering: Why hasn't life got better? And the question for us is: in the present situation, what should our Bank be doing for the region?

Canada believes that the answer is: the IDB must stay on course ... must continue its work, which is essential, and must keep on getting better at it.

Whatever the impact of external forces, there's a long list of things that still need to be done within the region, and within the Bank itself.

Let me start with the unfinished agenda in the region. Canada continues to support the Bank as the largest source of public development funding for the region's countries, and a unique forum for policy dialogue. The Bank's dual mandate—economic and social development, and regional integration—was reinforced in the Institutional Strategy, and continues to have our strong support. We must maintain this focus, as pressures continue to mount for the Bank to act simply as a financial intermediary.

In the context of the Bank's very important role in the hemisphere, follow-up to the Summit of the Americas remains a priority, with its emphasis on development in the hemisphere, reinforcing cooperation and integration, strengthening democracy, creating prosperity, and realizing human potential.

The Summit Plan of Action must be implemented. Countries of the hemisphere have committed to this Plan of Action. Canada is confident that the IDB will continue to help the international community as it works towards the objectives articulated by the hemispheric leaders. This will help the world achieve the key Millennium Development Goal of cutting poverty in half by 2015.

Now I would like to address strengthening the Bank's capacity to respond to these challenges: We believe the Bank should build on its strengths; for example, furthering its pursuit of greater development effectiveness, a major challenge to all institutions. Last year, Governors made it clear that results were required and that efforts to achieve and track results needed to be redoubled. Senior management's commitment to move ahead in this challenging area is essential, and its efforts to develop a results culture for the institution has our full support. We were pleased by the Action Plan set forth by Management and look forward to a report on progress, promised by January 2004.

Borrowing and nonborrowing members alike are converging on the necessity to enhance development effectiveness. Canada hopes to see proof of progress on the right kind of incentive structures to spark better performance and on a working system of self-evaluation for the IDB, with benchmarking against other multilateral development banks. We are encouraged by the reports from the Office of Evaluation (their frankness and the dialogue they inspire are signs of institutional health). We believe the lessons learned must be incorporated into planning.

In the face of continuing uncertainty and economic crises, the Bank has been forced to move once again into emergency lending, and to increase lending to the private sector. In this more volatile environment, preservation of one of the Bank's key assets—its financial strength and stability—is paramount. We therefore support the Bank's initiative to modernize its capital adequacy framework, and to develop loan pricing tools that give Management even greater ability to control and adequately price the changing nature of its portfolio. We believe this can be achieved without placing an undue burden on member countries, while preserving loan operations in support of poverty reduction.

We also continue to support greater harmonization of private sector support activities among the various instruments of the IDB group, including a new MIF. As the full membership of the Bank Group examines all possible options to do this, we must also ensure that the capital of IDB member countries is preserved.

I would like to comment on two broader themes that go beyond the Bank itself, but where the Bank nevertheless has a useful role, and a stake in success. They are: coordination, and country ownership.

Multilateral institutions are well placed to assist in the coordination and consultation that can enable us to avoid duplication, achieve the efficient use of limited resources, and ensure local, sustained ownership of development initiatives.

We believe that creating and strengthening strategic partnerships between donors, and with other multilateral agencies, is key to greater development impact. Thus we find the enhanced cooperation among the hemisphere's regional institutions to be very encouraging—notably, the leadership shown by the IDB on the Tripartite Committee of the Free Trade Area of the Americas. The joint OECD-WTO-TRTA database represents another important step in coordination of both bilateral and multilateral activities. We encourage all donors to participate.

There is general agreement that integration in the global economy can help reduce poverty—and that developing countries need assistance in implementing trade obligations, so they can benefit from the global system. The IDB plays an important role in supporting the trade adjustment needs of the region's countries, and Canada welcomes its contributions.

To gain the benefits of true coordination—rather than following the well-trodden path of ad-hoc interventions with no lasting systemic impact—will, clearly, demand real self-discipline from all of us, whether bilateral or multilateral.

If donors need to coordinate, developing countries need to take ownership, in the sense of assuming responsibility for their own development. The Monterrey Consensus recognizes the importance of development assistance—but also focuses on the responsibilities of both sides. It thus creates a basis for a real partnership, in which developing countries recognize that they must establish suitable domestic conditions, and developed countries realize that they must support those who do so.

Needless to say, such a partnership can only work effectively if all parties operate in an open and transparent manner. In this connection, we appreciate the Bank's ongoing efforts to ensure the appropriateness of its own procedures, and look forward to further progress regarding fraud and corruption, information disclosure, and the review of the Independent Investigation Mechanism.

Over the decades, the IDB has made a vital contribution to economic development and social progress in Latin America and the Caribbean. Despite the challenges of this time of uncertainty, the Bank can achieve even more—by helping to carry out the Summit Plan of Action—including work in the area of Corporate Social Responsibility; by strengthening its own development effectiveness and evaluation capacity; by focusing on its mandate for poverty reduction, and by supporting donor coordination as well as countries' ownership of their own development. It can help hundreds of millions of people throughout the region move toward a brighter future.

On the occasion of these important deliberations of the Board of Governors, we would like to assure you of Canada's continuing commitment to supporting development in the hemisphere of the Americas, in Latin America and the Caribbean. Our support will naturally be given in cooperation with the Inter-American Development Bank, through its active participation in underpinning economic, social and democratic development in the Americas.

ADDRESS BY MR. NICOLÁS EYZAGUIRRE GUZMÁN, GOVERNOR FOR CHILE

I would like to begin by thanking the Italian government, the President of the Lombardy region, the Mayor of this beautiful city, and the people of Milan for their hospitality and generous welcome.

As we gather here in Milan, the world is going through difficult times, which, if they continue, could have an adverse effect on the world economy and on the economies of the countries of our region. However, the markets appear to have reacted optimistically to the most recent events, and we sincerely hope for a quick end to the armed conflict and for lasting peace in Iraq, for the good of its people and the harmonious development of international political and economic relations.

If you will allow me to set aside for a moment the political and military situation currently facing the world, I would like to focus my comments to this meeting on the economic aspects of the international situation.

Chile perceives some encouraging, although incipient, developments in the regional and world economies. Unlike the period 2001–2002, investors have a growing appetite for risk, particularly for fixed-income instruments with high returns; this has translated into a reduction in spreads and appreciation of exchange rates in the region's largest economies, thus lowering the cost of servicing the foreign debt. The market appears to expect a short war, which will reduce the cost of oil and improve the terms of trade for oil-importing countries, with a positive impact on world growth. The preliminary indicators for Argentina, Brazil, Chile and Mexico in the last quarter are promising. If, however, the war is lengthy and investors lose their appetite or consumption in the United States weakens, this recovery could be interrupted.

Despite this and perhaps precisely because we can glimpse a window of opportunity for cyclical recovery, we must not forget about the more structural tasks demanded by globalization. Globalization entails a process of integration of the world's economies which holds great potential since it will enable our countries to make the most of the benefits of the world economy. However, for this potential to materialize, we should all understand that the ground rules in the world economy must be the same for all and must be perceived to be fair. Without fairness, internal political pressure to withdraw our countries from globalization could become overwhelming.

As the saying goes, we require a level playing field. In different forums and discussion bodies we are asked to open up our markets to competition in goods and services, including financial services, from the industrialized countries. In Chile, we have included openness as part of our economic development strategy because we believe that if our economy is to grow, we must be competitive and export goods and services. The counterpart, of course, is for the more industrialized countries to open up their markets to our exports of goods, where we have comparative advantages, and to allow for more fluid migratory movements. In turn, we are willing to open up our economies more widely to capital flows, to the extent that we can strengthen our domestic financial markets.

The current situation can be broadly described as one in which we have a fairly fluid international market for capital and two restricted markets, which are the markets for goods and labor. Accordingly, when faced by an imbalance in the world economy, the only flexible market—the capital market—necessarily overadjusts, both when the economic cycle is positive and when it is in a stage of contraction, which results in a perverse dynamic.

Recent studies have shown that the high volatility in the region's growth rates is more closely linked to volatility in capital flows into and out of the region than to variations in the terms of trade, as the traditional argument went.

This discovery forces us to reconsider our policies and their sequencing, in order to fortify our economies to withstand exogenous variations in capital movements.

In our opinion, successful policies for stabilizing economic growth rates should include a series of macroeconomic elements, which are becoming more frequent in the region every day. I am referring to the adoption of floating exchange rates, fiscal positions that are sustainable in the long term, and greater efficiency in the use and allocation of resources, particularly in the public sector, which includes openness to privatization under an adequate regulatory framework.

Apart from cushioning external shocks, floating exchange rates facilitate growth in exports and allow for greater flexibility in monetary policy so as to preserve liquidity in times of adverse shocks.

It is unnecessary for me to point out to this audience the importance of fiscal policies that are sustainable over time. Given the volatility of capital flows, what is sustainable in the peak period of the cycle ceases to be so when capital flows contract. That is why rules for fiscal behavior are important. They should accommodate some degree of debt in periods of shrinkage and undertake to reduce obligations during booms when our governments are in a better position to fulfill their social obligations, using their own tax revenues.

Macroeconomic policies should go hand in hand with structural reforms to improve the potential rates of growth of our economies. The problem is that these reforms are expensive in the short term and their benefits are only felt in the medium term. In the short term, the cost of compensating those who lose out initially must be covered, since structural changes generally involve cutbacks in personnel, compensation for dismissals, opportunities for retraining and the absorption of capital losses. In many cases, the medium-term fiscal cost can also be significant, making it necessary to generate surpluses for long periods.

All these costs can be paid for and tolerated by society more easily in periods of boom than in periods of economic contraction. Also, the sense of ownership of reforms is greater when the government undertakes them from a position of strength than when they are imposed by potential creditors as a condition to obtain financing in the midst of a fiscal or balance-of-payments crisis.

The combination of sustainable macroeconomic policies and structural reforms that are consistent with each other contains the core elements of a strategy to minimize the domestic impact of volatile capital flows, and therefore reduces variations in growth and employment rates which, as we have all seen, create tremendous political and social tension.

The importance of consistency needs to be stressed. Implementing policies such as the ones I have described requires the investment of political capital, and political capital can only be invested with positive returns if the policies are successful. The benefits of a successful economic strategy extend beyond national borders and therefore, it is reasonable to expect that the international environment should be conducive to supporting those strategies.

Strong, rapidly growing economies benefit all countries, which is why we have the right to demand that the industrialized countries level the playing field and adopt policies for themselves like the ones they demand that developing countries adopt. As has been reiterated in this and other forums, what developing countries need is not aid but market access for the goods we can export competitively. The position of some developed countries at the WTO negotiations makes it very difficult to reach consensuses, and the measures proposed thus far to reduce the volatility of capital flows place the entire cost on the shoulders of emerging debtors. If the benefits of successful strategies are shared, the short-term costs of implementing them should be shared as well.

To be sure, we should try to prevent adverse economic shocks—which can be exacerbated by macroeconomic policies—from reversing the progress made in structural reform efforts. Undoubtedly, adverse cycles jeopardize those efforts and the costs that have been incurred in implementing a broad spectrum of economic reforms in the region. The IDB should play a prominent role in supporting governments to prevent scenarios of political and institutional deterioration.

On these foundations, I would like to make a few comments on the challenges facing our institution.

At our previous meeting at Fortaleza, we approved the creation of a new financing framework for the Bank. It contained a precise definition of the amounts and conditions under which the IDB can provide funds to the region. As a complement to the financial resources, a series of criteria were established to obtain increasingly precise measurements of the results of the Bank's action in the region.

From our standpoint, this new financing framework has lent the Bank enough flexibility to respond to the difficulties facing the region's larger countries without neglecting demand for the Bank's traditional instruments.

The new demands of the international financial context and the changes that the process of globalization imposes on countries and their economies have meant that the criteria governing markets also influence the work of the multilateral development institutions. This is not a new phenomenon; it is part of a trend from which the IDB cannot stand aloof without jeopardizing its important role in the region. This means that operations through its private and public windows should step up their efforts to develop instruments that improve the operation of our capital markets and more effectively cushion the negative consequences of external shocks. The foregoing implies making greater use of analysis when designing lending operations, suitably complemented with non-financial products.

There is also a need to compile and disseminate a body of internationally accepted best practices and codes to improve the quality of our governments and markets, as a necessary task that will bring sizeable positive externalities. The concept of regional public goods needs to include the dissemination of codes on fiscal and financial transparency, recommendations to combat corruption in the public and private spheres, and the fine-tuning of legal systems to adequately regulate the functioning of our economies.

If the above challenges are to be successfully met, all of the Bank's human and technical resources need to be brought into step with the objectives established by the new financing framework.

The need to evaluate the impact of the Bank's actions in the region poses the challenge of how this can be done without unnecessarily increasing transaction costs for borrowing member countries. It is therefore urgent to design suitable incentives that encourage borrowing countries to establish their own evaluation systems, making them compatible with the Bank's actions, to the benefit of the countries and limiting the costs to them.

Another challenge posed by the new financing framework relates to the necessary flexibility that the Bank must enjoy to be able to adapt to the region's growing needs. Accordingly, the analytical capacity of its human resources needs to be strengthened, and mechanisms for results-based management need to be established. In this context, the discussion on the quantity and quality of the Bank's staff and results-based budgets are key to obtaining the necessary flexibility in the Bank, as established in its Institutional Strategy.

In short, the Inter-American Development Bank should draw on all its human and technical capacity to respond continuously to the region's needs, always keeping in mind that its own financial stability is the point of departure for its actions.

Before concluding, I cannot allow this opportunity to pass without congratulating the new Chairman of the Board, Mr. Giulio Tremonti, and wishing him every success during his term.

It is a distinct pleasure for me to have this opportunity to thank the government of Italy and, in particular, our hosts here in Milan, for the warm welcome they have extended to us, and to share with you the most salient aspects marking changes in the area of economic and social development policy in the Republic of Panama.

The prognoses and prospects that we have been announcing since early last year have evolved almost at the same pace as the region's economy, with the effects of the global economic slowdown that have impacted so many countries, from first world nations to newly emerging economies.

Panama has been resolutely strengthening its fiscal policy in an economic environment marked by many challenges, with a domestic climate of slow recovery and an external climate beset by uncertainty.

Its principal avenues to address this situation are structural reforms to strengthen the public finances, fostering of productivity in the public and private sectors, and support for strategic sectors.

Within the frame of reference referred to above, the national government, conscious of the need to consolidate macroeconomic stability as a state policy, set in motion the Fiscal Responsibility Law through a National Dialogue for Economic Reactivation, an initiative that addressed the interests of various sectors in seeking alternatives that could revive the sluggish economy. The fruits of this effort are now embodied in Law 20 of 2002, which, among other things, regulates public borrowing, sets limits on the fiscal deficit, and creates mechanisms for improving returns on privatization proceeds, which are held in the Development Trust Fund. One significant change along these lines, to adhere to the law, is the preparation of the general state budget starting in 2003, which is defined as a cash budget based on actual revenues and not an accrual-based budget.

Another achievement has been the recently approved Tax Reform Law, which not only increases government revenue and thereby better equips the country to address social problems, but also enables the tax system to move toward the objectives of equity, efficiency, and simplification.

Our administration has kept clearly to a framework of an economic and fiscal policy aimed at securing macroeconomic stability, increasing domestic saving so as to reduce the reliance on public borrowing, and promoting economic growth in sectors with competitive advantages, but with social justice.

In this scenario, the domestic sectors had to take steps to adapt to the new circumstances. Some of them have managed to do so relatively rapidly, while others are still completing the process.

The dynamism demonstrated by our economy reflects its capacity to rise from the trough of the cycle by adjusting without crisis, thereby confirming the possibility that we will attain higher growth. The growing participation of private investment in activities such as tourism, telecommunications, port expansion, shopping complexes and call centers, along with public investment in projects such as the second bridge over the Panama Canal and access roads, widening and rehabilitation of the Inter-American Highway, water system improvements, and restructuring of the sewer system, are good signals of changes in the economic growth trend.

Despite the difficulties, Panama is maintaining macroeconomic stability, its attractiveness in the international capital markets, and social stability, which we recognize as an invaluable asset. Moreover, the country has improved its rankings as regards economic openness and sustainable human development.

A closer review of government finances involves an analysis of the public debt, as it plays a role of great importance. The debt/GDP ratio has been maintained within the levels of growth our economy is showing and, in managing the debt, operations have been carried out with a view to helping lower these indexes, improve results as regards the cost of debt service and the maturity profile, breaking the trend of 80 percent to 75 percent debt/GDP levels in the last five years, though we had to finance a deficit on the order of 2 percent of GDP at the end of 2002.

The confidence of investors in the capital markets reflects the fact that they have recognized our efforts and aggressiveness in managing the debt, which has secured access to those markets at rates of return and pricing that are beneficial to the country. This has had a direct impact on the country's rating, enabling us to maintain our risk classification by two rating agencies at BB+ and at BB by a third.

Our greatest challenge is to ensure that this entire effort has a palpable impact on restoring economic and social growth. Panama is a rich country with substantial natural resources, a privileged geographical position, and human resources with an entrepreneurial spirit, which are decisive factors for achieving higher rates of growth and consolidating sustainable economic and human development.

Since the transfer of the Panama Canal two years ago a window has opened to tremendous opportunities concentrated in one area of our territory where enterprises from throughout the world can do business in proximity to one of the most important trade routes on the planet, through which more than 13,000 vessels transit each year.

This reality has added to the government's economic agenda one more pillar for our economic activities, spurring the design of what is known as the "Panama Pacific Special Economic Zone." At present, much of our efforts are devoted to the coordinated logistical integration of the Panama Canal, roads, airport systems, the railway, ports, and a fiber optic hub, with a view to establishing the most advanced and flexible multimodal system in the Americas.

The most important project, and the cornerstone of this multimodal logistical system, is the conversion of the former U.S. Howard Air Force Base into the "Panama Pacific Special Economic Zone," planned as a world-class business center from which companies from all over the globe can service their international markets, taking advantage of strategies and policies such as less bureaucracy, a competitive tax and customs structure, modern labor legislation with incentives for worker training and development, as well as the facilitator role that the government of Panama is playing vis-à-vis investors.

As we have seen, with the implementation of a clear economic, fiscal, and social policy, the government of Panama has accepted the challenge of recovering in the midst of uncertainties, weaknesses, and limitations, but with the commitment of placing human beings at the center of development and combating poverty.

President Iglesias, Vice-President Flannery, on behalf of the Republic of Panama, I wish to express our appreciation for the support that the Bank has extended to our country within the context of our new government program.

In particular, I wish to convey our satisfaction with the emphasis the Bank has been placing this year on achieving a performance-based lending program and considering the priority given to investment operations, as well as support for policy reforms.

I would also point to the progress made with proposed measures to enhance the development effectiveness of Bank activities, by virtue of which they should gradually become higher quality operations for all our countries.

Particularly noteworthy is the work of the Multilateral Investment Fund. Our government supports the initiative of ensuring the continuity of the MIF's operations during a new and fruitful period.

ADDRESSES

THIRD PLENARY SESSION

MARCH 25, 2003

ADDRESS BY MR. FRANCISCUS GODTS, ALTERNATE GOVERNOR FOR BELGIUM

First of all, on behalf of the Governor for Belgium, Minister of Finance Reynders, and in my own name, I would like to thank the government of Italy, the Lombardy region and the City of Milan for their excellent organization of this Meeting of the Boards of Governors.

Belgium is also pleased with Management's initiative of submitting the report on the region's economic performance in 2002 and the Bank's role to the Governors. The Report on IDB-8 will soon be 10 years old and the time has come to reexamine its content in the light of events.

The document paints the economic situation in the region in rather somber terms, although 2002 was initially presented as a year of contrasts for the region, where the serious problems of some mask positive—even impressive—results by others. The evolution of the international economic and political situation has, of course, weighed on the region, which remains dependent on external financing sources for a substantial part of its needs and on external export markets. Unfortunately, the outlook is not encouraging for 2003 or 2004. Of even greater concern is the feeling of powerlessness that shows through in the document. The region is presented as having used up all of its room for maneuver, and not even being in a position to use the Bank's resources to help respond to its problems.

It is therefore legitimate to wonder whether the priorities imposed on the Bank are a good match for the region's needs. Despite the large increase in the number of fields of activity (200 according to the ex post evaluation), diversification of financing instruments (more than 20) and increasing flexibility in the use of resources, how can it be that the region is unable to make good use of the US$8 billion that the Bank is authorized to commit each year? I will return to this point shortly.

Fortunately, all is not as gloomy as the description of the current situation would lead us to think. Although the Argentine crisis continues to monopolize attention, the other event that has marked this year is the transition in Brazil, which has been crowned with success. Given the country's economic weight in the region, we can only be heartened by the government's initiatives and hope for their success, since they could lead to others.

As for the Bank, it has been pursuing change for many a year, to preserve the relevance of its interventions in its member countries. Among the reforms in the works, two major aspects should be mentioned. On the one hand, the introduction of the concept of capital adequacy and, on the other, activities to measure the impact of operations on development.

Like most of the Governors at the meeting of the Committee of the Board held last March 22, Belgium would like to see the capital adequacy model come into effect as quickly as possible and was pleased to see development effectiveness move to center stage in recent months. It was perfectly normal over that period for internal discussions on that issue by interested parties to be heated and lively, but the time has come to act to enable the stakeholders to quickly see tangible results in this field.

With respect to the Bank's impact on development, Belgium believes that a broader discussion is required, not just within the Bank, but with all the stakeholders. Obviously one of the reasons for a lack of impact by the Bank's interventions is the multiplication of the priorities assigned to it under a 'holistic' definition of development. The strategies presented to the member countries in recent months have been conceived on that basis. Their content shows, once again, the Bank's inability to arbitrate among the different priorities imposed by its shareholders, because of its obligation to satisfy them all. The strategic approach baptized as "4+2+1" has only resulted in regrouping the 200 possible fields of intervention under seven concepts that are so broad that they encompass all of them and do not eliminate a single one. Furthermore, the search for so-called innovative solutions has led to the costly development of products for which there is very little demand and whose impact on development is debatable. The member countries should take responsibility for removing those baubles from the Christmas tree of Bank priorities, leaving it more modest in its decoration.

Belgium regrets that the issues raised do not truly offer the chance to reappraise certain preconceived ideas that lie behind the directions taken recently and have led to today's disappointments and impasses. Furthermore, the principle of "interdependence" has prioritized all the social phenomena enumerated, with no serious look at the causes and consequences. A more thorough analysis would put the horse back before the cart in many of these areas. The principle of "interdependence" inevitably leads to making choices impossible and makes it difficult for executing agencies to operate, since we have expected them to master rather too quickly complex processes that originate in the 'multidimensional' approach, given that the execution of relatively simple traditional operations can spread out over seven or eight years.

Instead of opening up this field for discussion, what is being proposed is even more flexibility, in other words, new fields where disbursements could be faster still with still fewer conditions, such as budget support. This attempt to make the Bank countercyclical could, of course, find justification in macroeconomic arguments. But is the Bank equipped for such activities? Is this its role? Is it enough to argue that others are doing it and so the Bank should too?

To be countercyclical also means to exercise self-restraint when the situation improves, so that the capacity to provide resources in the next crisis can be rebuilt. In what field will the restrictions apply? What if the crises become more frequent or last longer than expected? The risk of aggravating the debt problem for middle-income countries is real. In short, although the Bank may be more than a bank, it remains one, nonetheless.

Nor can Belgium imagine introducing more flexibility and new financial and nonfinancial instruments without first examining which existing conditions and instruments are to be replaced by those more flexible conditions and new instruments. It also believes that at this time of emergencies and poverty, the Bank should work first to improve the effectiveness of public spending and increase tax revenues.

One of the issues of greatest concern is the drying up of investment, which will probably not improve in the near future. Given the current situation, it is logical for most economic players not to invest. The only sector where investment would be possible today is public investment in infrastructure. However, the prohibition that the public sector has imposed on itself in this field and the private sector's cold feet have sharply reduced investments. The private sector has been the victim of regional economic problems and the large international groups, which had previously made most of the investments in the region, are now cognizant of the knotty problems that force them to act with extreme caution. Belgium is pleased to see the Bank reexamine this issue and hopes that it will do so free from dogmatic assumptions.

With regard to the risks facing the Bank, the work of the External Review Group on the Inter-American Investment Corporation has relaunched the proposal to regroup private sector activities into a single new entity. Belgium notes with interest the positions taken last March 22 in the Committee of the Board. It supports a solution that would introduce a clear separation of the public sector lending risk from the Bank's other activities, where the conditions for implementation do not entail a financial burden for the member countries.

On behalf of Switzerland, I would like to extend my gratitude to the Italian authorities for their excellent and generous arrangements and their warm welcome in this beautiful country.

The Region

Over a decade ago, Latin America freed itself from the shackles of dictatorships and the economic stranglehold of protectionism. Amid exuberant optimism, the region embraced democracy, open trade and the free market. Capital poured in from outside, economic growth surged, and poverty began to decline.

Today, the mood could hardly be more different. In fact, it is difficult to escape the widespread impression that Latin America is currently suffering from one of its most severe crises in several decades.

Following a period of modest economic growth since 1998, last year saw an unprecedented drop in the region's GDP by nearly 1 percent. Consumption is stagnant, investment has dropped to its lowest level for a decade and the region has suffered a net outflow of capital in the order of US$39 billion. Large external financing requirements coupled with mounting fiscal deficits and high public debts have seriously constrained the maneuvering room of Latin American governments to pursue countercyclical fiscal and monetary policies. In fact, some countries have been forced to tighten fiscal and monetary policies, thereby choking off potential growth and exacerbating the region's unemployment rate that has reached a record high of about 9.3 percent. The economic woes have not only spoiled the region's appetite for further liberal reform, but have also unleashed social discontent and political turbulence in some countries of the region.

While endogenous factors no doubt contributed to the region's disappointing economic performance, it must be taken into account that the international environment for the Latin American economies was highly adverse in 2002. Weak economic growth in the developed countries has impacted negatively on the region's export income. The prevalent aversion to risk on the part of international investors, enhanced by accounting fraud scandals and the mounting tensions of the geopolitical situation, has deterred capital flows to Latin America. The weak inflow of capital has been further compounded by the fact that the yet to be resolved crisis in Argentina coincided with the uncertainties surrounding the electoral process in Brazil.

The effects of what has become widely known as Latin America's "lost half-decade" on poverty reduction are deeply disturbing. The economic stagnation of the past years has increased poverty rates, wiping out some of the gains of the 1990s. Income per head in the region has declined by 0.3 percent per year since 1998 and inequality is on the rise. It has been estimated that some 44 percent of Latin Americans are now poor, and 20 percent suffer extreme poverty. Clearly, these figures do not provide much comfort that the region will achieve the Millennium Development Goals (MDGs) on schedule.

The Need for Concerted Action

In order to resolve the current crisis and get on track towards the achievement of the Millennium Development Goals, I would like to suggest the following priority actions.

The region's countries should continue their efforts in creating an enabling environment for private sector activity. This includes upgrading the regulatory and institutional environment, complemented by continued strengthening of supportive infrastructure—physical and financial. A further area of urgent reform relates to public sector management, including public expenditure and financial management, but especially transparency, accountability and control of corruption. Finally, the governments of Latin American countries should step up their human development efforts, spending more public money on education and health and on effective service delivery to poor people.

Developed countries must face their responsibility and ensure that all efforts are undertaken to relaunch global economic growth, including a rapid solution of the current geopolitical crisis. Moreover, the developed countries should finally follow up on their free-trade commitments and provide enhanced market access for exports from the region. Finally, after years of falling ODA budgets and a commensurate widening gap between the development ambitions of the international community and the resources provided, it is crucial that the developed countries not only maintain their ODA budgets, but also seek to increase them.

For the Bank it is important to analyze the root causes of the current crisis and draw the lessons learned. It should then engage in policy dialogue with the governments of the region and discuss how past policy mistakes could be avoided in the future. Moreover, the Bank should analyze in collaboration with the IMF and the World Bank how international financial institutions could better react to such crises. Furthermore, given that Latin America is suffering from the world's most inequitable distribution of income and wealth, it is imperative that the Bank steps up its policy dialogue aimed at encouraging the governments of the region to pursue more equitable economic policies. The clear message should be that poverty reduction is not a zero-sum game and that the creation of equal opportunities and a more equitable distribution of income and wealth is a prerequisite for sustainable economic growth. Finally, the Bank should not only deepen its policy dialogue with governments, but also develop a culture that seeks an enhanced dialogue with the people of the region. This dialogue should aim to inform the populations what options are available under the current circumstances, not least in order to safeguard against too high expectations of what can be accomplished.

Progress since Fortaleza

Institutional Strategies: In the past year, the Bank has embarked on the ambitious exercise of finalizing a series of institutional strategies designed to guide the Bank's operations towards the achievement of its two overarching goals of poverty and inequality reduction and environmentally sustainable growth. I would like to use this opportunity to commend the Bank for the excellent quality of its analytical work.

This exercise has recently come to a successful conclusion and it is now time to actively implement the Strategies. In this regard, we expect from the Bank in the coming year that the implementation of the Institutional Strategies is reflected in tangible policy and operational changes.

Moreover, we would like to urge the Bank to become more selective and to prioritize certain areas of action whilst ensuring close coordination with the other players in the field. In the context of the Social Development Strategy, we perceive the need for a more systematic prioritization of education on all levels. In the area of Modernization of the State, we would like to see more emphasis on Bank support for the establishment of adequate tax regimes and for the allocation of budget resources for social programs. With respect to the Competitiveness Strategy, it is crucial that emphasis is placed on measures aimed at enhancing the competitiveness of the poor in local markets and at strengthening saving and credit institutions for SMEs. Finally, we would like to encourage the Bank to engage itself more proactively in the environmental field.

What's missing in this impressive arsenal of strategies is a bold new Private Sector Strategy defining the Bank's role in this crucial area. Closing this gap will require a coordinated effort by the whole IDB Group encompassing all recent and past efforts to review the Bank's private sector approach. Before launching ourselves into the details of a Private Sector Strategy, it may be necessary to have a more in-depth discussion by a Committee of Governors in the second half of this year of the different options to reorganize the Bank's private sector operations.

Lending Framework and new lending instruments: Switzerland wishes to reiterate its support for the new lending framework that in our view represents a significant breakthrough in modernizing the Bank's lending approach and adapting it to the changed financing needs of the region. With respect to the recent proposal to raise the annual policy-based lending limit, we recognize that the global economic downturn and the particular difficulty faced by the region to access international capital markets warrant a more flexible handling of the issue. At the same time, we insist that the overall three-year US$4.5 billion cap on policy-based lending should be strictly respected.

With respect to the proposed new lending instruments, we regret that the momentum, which was clearly discernible in early 2002, appears to have been lost. Indeed, with the exception of the Trade Finance Reactivation Program, the Bank has not yet adopted the other instruments proposed during the past year. We would hence like to encourage the Bank to follow up on the proposed new lending instruments and adopt them in due time.

Capital Adequacy Framework: Switzerland welcomes that the new capital adequacy framework has been adopted as an important means to preserve the financial soundness of the Bank and its triple A rating. Given that the adoption of the new capital adequacy framework is expected to trigger higher OC loan charges and has hence provoked concerns on the part of borrowing countries, it is important for the Bank to convince all shareholders about the long-term benefits of the new framework.

Development Effectiveness

Mr. President, it is crucial that the Bank improve its internal measurement system and change its culture of approvals to one of results. In a similar vein, while evaluation capacity at the Bank has no doubt been strengthened, it is vital to ensure that OVE's products are fully accepted by the operational units and are reflected in the design of Bank programs and projects. The process of changing the Bank's behavior will not only require enhanced transparency and accountability on the part of all Bank officials, but in particular a strong commitment by Senior Management.

We note the encouraging steps undertaken in the past year to improve the Bank's development effectiveness. Yet we would also like to emphasize the need to keep the momentum going, implement corresponding policy and organizational changes and follow up with a working group of the Board of Directors.

Inter-American Investment Corporation

The weak performance of the IIC is of exceptional concern to Switzerland. While we acknowledge the difficult economic environment in which the IIC has been operating, we also take note of its structural deficiencies that need to be addressed.

We would like to commend IIC Management for having taken a proactive stance and submitted an Action Plan. Although we believe that some of the proposed measures need further discussion and that the Corporation will have to be cautious in implementing others, we generally welcome the Action Plan as a possible way forward in the short term.

As I already mentioned, it is time for an integrated approach to private sector development by the Bank Group. This integrated approach should, among others, take into account the recommendations of the External Review Group (ERG), which is expected to present a bold new strategy for the IIC and the IDB Private Sector Group.

Conclusion

The region is currently undergoing a severe crisis. Yet for all the pain a crisis inflicts, it can also provide the necessary impetus for laying the foundations of future positive change. I strongly believe in the need for the Bank to seize upon this critical juncture in the region's development to undertake bold, far-sighted action—not only merely to consolidate the gains of the past, but also to ensure future sustainable and equitable economic growth. No doubt, given the financial constraints of the Bank it will take the concerted action of all stakeholders to meet our ambitious development goals. Nevertheless, we should never forget that the Bank has a special responsibility for its borrowing member countries. Mr. President, recommendations for action are on the table. It is now up to the Bank to implement them both with vigor and a positive vision of the region's future.

I should like to begin by thanking the Italian government and people for the professionalism and hospitality with which they have welcomed us—and especially the city of Milan which receives us at this difficult time in world affairs.

I should also like to congratulate President Iglesias, and the Management of the Bank and the Corporation, for their fine work on behalf of the Latin American and Caribbean region.

The constitutional government of Colonel Lucio Gutiérrez, which took office on January 15 this year, inherited profound economic imbalances that were blocking the path to stability and economic growth. The clearest indication of the problem was the lack of fiscal liquidity that had to be corrected during 2003, amounting to US$2 billion or approximately one-third of Ecuador's entire public sector budget. This was compounded by significant backlogs in the modernization of the Ecuadorian economy and by uncertainty on both domestic and external markets.

An economic program to correct this situation had to be found; yet, given the size of the problem, correcting it was impossible without a combination of domestic economic policy decisions, international support and efficient treasury management by the country's Ministry of Economic Affairs and Finance.

This particular public finance situation could not be made sustainable in the absence of a much more holistic economic policy framework, however. Accordingly, Ecuador's economic program contains a number of features that seek to restore certainty and regain the confidence of domestic and international markets.

The first of these was timeliness. What did this mean? That the economic program could be made available to local and international actors alike, as soon as the government had taken office. Under Ecuadorian legislation, this situation also required the 2003 state budget to be submitted to the National Congress by January 31 this year, with international agreement also having to be reached in a very short space of time.

These three elements of timeliness with which the economic program was designed and applied resulted in concrete actions. Within three days of taking office, the government announced to the country, and to the international community, an economic program with objectives reaching beyond 2003 and targets stretching as far as January 2007.

In addition, a provisional budget, fully consistent with the economic program, was sent to the National Congress; and on March 21 a Standby Arrangement was agreed with the Board of the International Monetary Fund, thereby generating a financing package of approximately US$640 million for the current year.

Since taking office, the government has been making decisions virtually on a daily basis, on a variety of topics but with a single objective: to send out signals of credibility, consistency and coherence in economic management.

A second feature of the economic program concerns its depth. The program could not merely seek to correct the liquidity problem described above. It also had to reinforce the positive results achieved during application of dollarization, and rectify the problems detected. Thirdly, the program had to introduce the reforms needed by the country to ensure medium and long-term viability.

This implies a program that consolidates economic stability and provides sustained growth in the years to come. Accordingly, the plan's entire message and application are closely tied to creating the conditions needed to attract foreign investment and to revive local private investment in areas such as oil, telecommunications and electric power; and to introduce structural reforms in the labor, customs, tax and social security domains.

The initial real results of the program have started to emerge after just two months' application. In addition to signing the agreement with the IMF and receiving the first disbursement to help tackle the fiscal problem, a memorandum of financial support has been signed with the Andean Development Corporation for US$2 billion covering the next four years. This amount includes an initial loan already approved in the first session of the Board of the Andean Community, for US$100 million, with a 10-year payback term, subject to two years' grace.

These are concrete results that have been achieved, thereby helping the country to show that its economic policy has international credibility and is headed in the right direction. This constitutes an economic program that solves short-term problems and creates conditions for the country's medium and long-term viability, with a high dose of external participation and investment. The EMBI indicator has fallen by over 800 points since late last year, and Ecuadorian domestic debt prices have picked up strongly.

It is important to stress that the President of the Republic is lending his full involvement, conviction and support to achieving these objectives. In the adverse circumstances that have occurred, the wholehearted support of Ecuador's Head of State has never been in question. That having been said, I should like to end this presentation by simply mentioning that the objectives of our economic program are of a social nature, focused on the need to reduce poverty in Ecuador.

The aims include raising real social spending from 7.7 percent to 12 percent of GDP between 2003 and 2007; reducing poverty and illiteracy, improving basic services, and extending years of schooling, among other things. The agreement with the IMF, together with the economic program, the fiscal surplus (which has a target of 2 percent of GDP for 2003, with a primary surplus of 5.2 percent), and the reorganization of external accounts, will serve as instruments enabling us to achieve the overriding goal of enhancing the quality of life of the Ecuadorian people.

All of this clearly shows that our economy is viable and has great potential; in fact Ecuador is probably the country with the greatest growth potential in the whole of Latin America. Precisely because resources were not properly exploited in the past, my country has huge potential for growth, to resolve its social problems and create conditions for a worthy, clear and active participation in the international arena. The time for change is now or never.

As regards IDB issues, we believe the Bank needs to be continually strengthened, through the analysis of innovative financial instruments appropriate to the new needs arising in member countries, based on flexibility and competitiveness.

We ratify our support for the replenishment of the resources of the Multilateral Investment Fund (MIF), which in my opinion is an extremely useful mechanism. The development contribution it has made, by strengthening the private sector business environment and assisting governments in institutional reform and regulatory improvement, has been extremely valuable.

I would like to begin by saying how pleased we are that this year's meeting of the Board of Governors is being held in Europe. This is once more a sign of the strong links between our continent and the countries of Latin America and the Caribbean.

We wish to thank our Italian friends for their hospitality and their outstanding work in staging the Annual Meeting.

And we also would like to take this opportunity to congratulate President Iglesias on being reelected. Your reelection is an expression of the enormous trust placed by the Bank's regional and nonregional partners in your leadership for the Bank and in Latin America and the Caribbean. We wish you good luck and much success!

The signs are, we are pleased to note, that the crisis that has once more engulfed several Latin American and Caribbean countries in recent times can be solved through a massive concerted effort on the part of all concerned and through numerous acts of solidarity. Our Bank, joining forces with the other financial institutions, has played a prominent role in this and continues to bear a considerable burden of responsibility. The aim must be a recovery of growth—and not only for Latin America and the Caribbean. But in order to counter these negative developments, the nations of the world will first have to work on securing peace and eliminating the threat posed by terrorism and lawlessness.

The signs emerging, for example, from the largest country in Latin America and the host of last year's Annual Meeting, namely Brazil, give us hope for the future. The transition from the old government to the new government of President Lula shows that strong forces exist that combine the strength and leadership entrusted to them by the people with the courage to effect change. We have great expectations of the economic and financial policies that have the backing of all forces within civil society and, above all, of the war on hunger.

Whilst external factors have often been the trigger for the regrettable setbacks in Latin America, in this crisis in particular, bad financial and economic decisions on the part of many countries in the region have also helped create this difficult situation. The debts hanging over public budgets have been incurred not only as a result of unsustainable spending policies but also through a failure to adequately mobilize internal resources. Taxation in Latin America is extremely low and the revenue generated will not be sufficient to fund the minimum level of service the State must deliver in such key areas as health and education. Tariffs for those resources that are in short supply often do not reflect the scarcity of these commodities and the cost of their delivery.

Yet stable financial and economic policies are not the only factors in sustainable development. These policies must be underpinned by an equitable social policy if they are to bear fruit and benefit all the people of the country. The crisis in the region over the last few months has shown that it is the poor above all who suffer first. And more than that it is now even the middle classes who are touched by the crisis. Poverty reduction and social development have been, and will remain, amongst the foremost goals of the IDB. We expect the IDB to continue focusing in particular on pro-poor growth.

If the Millennium Development Goals agreed upon by the international community are to be achieved in Latin America and the Caribbean and in the other countries of the world, a change of thinking is needed. The fruits of economic progress must be more widely distributed and increasingly used to reduce poverty, particularly with the aim of harnessing the productive potential of the broad base of the population so as to advance development. It is also vital to raise awareness of the Millennium Development Goals in all parts of the world so that civil society can play a strong part in realising them and in monitoring the performance of their governments.

In this way, the countries of Latin America and the Caribbean can join in playing a greater role in determining the course of globalization. They must adapt their economic systems to global competition in order to be able to compete on an equal footing with other regions of the world. The German government supports the ideas of the Doha development round and is working within the European Union and the World Trade Organization to ensure that these ideas are made a reality. A great deal remains to be done, particularly in the areas of agriculture, sensitive commodities, special and differential treatment and access to drugs. But we are moving in the right direction. On this topic, I would like to emphasise the key role the IDB is playing in trade-related capacity building. This is an area in which the Bank has one of its clearest comparative advantages over other donors.

Achievement of the Millennium Development Goals in the region also represents a great challenge for the Inter-American Development Bank. With renewed vigor, including the adjustment of internal procedures and self-evaluation, it must adapt its response capacity to these aims, enabling it to make attractive offers to the partner countries in the region. The IDB is not alone in the field of the multilateral financial institutions. This means it must position itself in such a way as to be able to maintain its role as the region's own bank of choice. We therefore greatly welcome the strategy papers presented by the management in a number of important areas.

At a time of dwindling investments and foreign direct investment, the IDB must do everything possible to increase its own volume of lending once more. This is of crucial importance if it is to fulfil its mandate for the region.

With regard to lending policy, we do, however, also expect special attention to be devoted to the aspect of development effectiveness, including the definition of a clear catalogue of goals. The development impact of the projects financed by the Bank and implemented under the auspices of the partner countries must be at the center of the Bank's work. A strengthening of evaluation mechanisms can also serve to enhance quality in this area. This will also make all decision-making processes more transparent.

Sustainable development, the guiding principle espoused by the international community at 1992 in Rio and reaffirmed last year in Johannesburg, is the goal that informs the German government's actions. Regardless of economic crises, a responsible course must be one that respects the needs of future generations. The world is, however, still far from achieving sustainability, with ecological and economic goals all too often being quite erroneously set against each other. Latin America and the Caribbean, with their unparalleled wealth of natural resources, have a particular responsibility to bear. In its bilateral cooperation, Germany is endeavoring to play its part in overcoming this seeming conflict between the environment and the economy, for example through our efforts in support of the sustainable utilization of the tropical rainforest.

Last year, the international community set itself some ambitious targets based on the Millennium Development Goals, particularly at Monterrey and Johannesburg. For the German government, they are a definition of its duties in terms of future development activities and also a yardstick. With this in mind, we will continue to be committed to cooperating with the Bank and the countries of Latin America and the Caribbean.

ADDRESS BY MS. MARGARET CUND, TEMPORARY ALTERNATE GOVERNOR FOR THE UNITED KINGDOM

I should like to begin by joining the previous speakers in thanking the government of Italy for hosting this Annual Meeting here in the vibrant city of Milan, and the Bank and its staff for their arrangements.

When Governors met last year in Fortaleza, it was to express disappointment at the low rate of economic growth in the region in 2001, and the impact of the crisis in Argentina. There was a feeling then that the political and economic reforms which had been made had helped the region to withstand some of the worst effects of the crisis. It is therefore a matter of deep regret that 2002 saw a further deterioration in the circumstances of the region. This shows that we cannot be complacent about the extent of reforms to date.

It is at times such as these that we can see fully the importance of having an institution like the IDB—one of whose strengths is its close relations with its borrowing member countries. We welcome the deepened relationship between this Bank and the IMF and World Bank. It has been—and remains—essential that the three institutions should work in a cooperative and coordinated way—and not only in crisis countries. Their roles are complementary, and we must seek the full benefits of this. While it is for the IMF to provide liquidity funding to tide crisis countries over in the short-term, the role of the development banks is quite different. Their task is to help analyse the crises, and to devise means of assistance which will support long-term development, particularly through financial sector restructuring and providing assistance to the social sectors.

We welcome, too, the positive role played by the Bank in building capacity in trade negotiations. Regional and nonregional members must work together to ensure that the trade and development objectives outlined in the WTO Doha Ministerial Declaration of November 2001 will be achieved; we cannot allow these negotiations to fail. To quote just one startling statistic relating to Argentina: the elimination of European Union agricultural export subsidies and import duties would bring benefits of the order of US$2 billion a year to that country. Within the EU, the British government is pressing for the elimination of such trade restrictions as part of the contribution we can make to development.

Clearly, we need to do everything we can to help Latin American countries increase their rates of economic growth. We all recognize that current rates are not sufficient to raise the living standards of the 200 million poor people of the region. We heard again yesterday that the number living in poverty is higher now than it was in 1980. Even in the past five years, the number has risen by 20 million, with the poverty rate now estimated at 44 percent of the population. But poverty is not only a consequence of low growth, it is also a cause of it. President Iglesias spoke earlier of the need for a need for a calm evaluation of the region's problems and of the need to deal with worsening social problems.

Inequality remains at the heart of so many of these problems. In this troubled world, there must be a determination to tackle poverty, injustice and social inequality whenever they occur. As the Governor for Brazil said, education is, par excellence, the instrument for delivering a change in social equity. So it was interesting to hear the Secretary-General of the OAS say that, instead of solving the problem, the distribution of education services in the region is actually making inequality worse. Yet we know that, without the necessary educational attainment, people cannot achieve their full potential in terms of employment, and this, surely, must be a factor in the region's lack of competitiveness?

President Iglesias has reminded us again that the Millennium Development Goals are relevant to all developing countries. The Monterrey Consensus, signed by all our governments, recognizes that official development assistance needs to be doubled if these goals are to be achieved by 2015. My government was therefore pleased to receive President Iglesias' letter supporting the UK's proposal for setting up a new International Finance Facility (IFF), designed to provide additional funding to meet the Millennium Development Goals, using existing institutions for delivery. We welcome the IDB's willingness to help make this a reality.

It is, of course, not only a matter of additional resources; it is also important to use existing resources more effectively. In this context, we warmly welcome the IDB's decision to appoint a Chief Development Effectiveness Officer and we look forward to working with the person appointed.

We welcome the Bank's decision, as part of its efforts to strengthen its effectiveness, to develop strategies within its twin overarching objectives of poverty reduction and social equity, and environmentally sustainable development. We have been pleased to contribute to the consultations on these strategies and look forward to seeing the Action Plan on implementation.

The MDBs' work on aid harmonization is important to effectiveness and was the subject of an important meeting held in Rome last month. Another important objective of this work is to reduce transaction costs for countries in receipt of development assistance. We very much hope to see the Bank participate fully in the proposed follow-up work—not only in Bolivia which was chosen as one of the pilot countries, but also in other countries where there are multiple donors whose efforts need better coordination; these include a number of countries in Central America and the Caribbean.

Finally, we have heard a number of references to globalization. An institution like the IDB is well-placed to help the countries of the Latin American and Caribbean region meet the challenges and opportunities which they must face in the twenty-first century. We wish the Bank, and its President Enrique Iglesias as he embarks on his fourth term, every success in their efforts to achieve the objective for which we are all striving—the elimination of poverty in the world.

It gives me great pleasure to be present here today and to address this distinguished audience. Let me begin by expressing my appreciation to the city of Milan and the Italian government for the generous hospitality they have shown us while hosting this Annual Meeting.

I would also like to take this opportunity to pass on my government's warm congratulations to President Iglesias on his reelection as President of the Inter-American Development Bank.

During the past few years we have experienced an exceptional joint global effort to set targets to mobilize political commitment and to provide tools for promoting human development and poverty reduction. The UN conferences in the 1990s, the Millennium Declaration including the Millennium Development Goals, the Monterrey Consensus and Johannesburg Conference on Sustainable Development have provided us with the policy framework and mutually agreed basic values for future international cooperation. Now, two-and-a-half years after the historic Millennium Summit, we should not question the relevance or importance of the MDGs, but turn our attention to their implementation and *how* to reach the targets. Best strategies for their achievement are being developed at the moment and active participation in that work by the Bank and countries in the region is crucial.

The MDGs set concrete targets for development and the global fight against poverty. The primary goal behind all targets is poverty reduction, and they are interlinked and supportive of each other. They do not constitute a "menu of choices," but need to be implemented as a coherent package. Translating that agenda into concrete action requires inclusion in political decision-making and an operational framework that can only be formulated at the national level. Country ownership of all development efforts is key to their achievement. National poverty reduction and development strategies provide the best platform to customize the global targets to national circumstances and nationally defined priorities.

As poverty reduction constitutes the overarching goal of Finland's cooperation with the IDB, we appreciate the Bank's commitment, expressed by President Iglesias on several occasions, to the Millennium Development Goals. We strongly support the Bank in its efforts to incorporate the MDGs in all operations, starting from planning, through programming and implementation to monitoring processes. The preparation of the strategies for the two overarching goals, Poverty Reduction and Promotion of Social Equity and Sustainable Economic Growth, together with priority sector strategies, was a welcome step in this direction. Finland was happy to participate in the important and widely participatory consultation process linked to the preparation. This extensive process should result in clearly defined priorities to focus the Bank's future work and resources, along with an integrated, practical implementation plan including measurable, time-bound indicators to assess progress. In order to ensure maximum impact of Bank interventions, the division of labor between the IDB and other multilateral institutions as well as bilateral development actors needs to be clarified in the implementation plan. We encourage the IDB to bring the preparation process to a successful conclusion as soon as possible.

Being a major development financing institution in the Latin American and Caribbean region, the IDB has both the opportunity and the responsibility to play a leading role in supporting its borrowing member countries in translating the poverty reduction goal into specific targets at the country level, tailored to the individual context and needs of each country. The Bank has an important role particularly in enabling borrowing countries to take the lead in development efforts. Correspondingly, in response to the work done at the country level, it is equally important that the Bank aligns its interventions with nationally formulated development strategies and priorities. We commend the Bank on the remarkable improvement that was introduced last year in the preparation of the IDB Country Strategies in this regard.

Poverty reduction and promotion of social equity combined with sustainable economic growth being the IDB's overarching goals, it is facing the challenge to continue the work on financial policy reforms and capacity building for sound economic management simultaneously with the development of sustainable social services and social equity. Although the IDB has come a long way in responding to these challenges, the fact that inequality in the Latin American region is the most manifest in the world calls for continued efforts both from the governments and the Bank in addressing this issue.

The effectiveness of each instrument and intervention is crucial when prioritizing and focusing the use of resources. At the International Conference on Financing for Development in Monterrey last year, the IDB together with other multilateral development institutions expressed a commitment to measure, monitor and manage development results. This consolidated on the global level the Bank's commitment to development effectiveness expressed by President Iglesias during last year's Annual Meeting, emphasizing the need to take a more results-oriented direction. We note the progress made so far, but considering the IDB's role as a major development institution in the region, we still see an urgent, obvious need to strengthen and expedite efforts to enhance development effectiveness even further.

Maximum impact of development efforts requires understandably more than individual actors doing their best. It takes the concerted effort of all actors in a specific context. We encourage the IDB to be more proactive in contributing to the improvement of donor coordination and strengthening the collaboration between various actors. As increased donor coordination often requires sufficient authority by local offices and representations, it is important to ensure sufficient delegation of responsibilities and authority to the Bank's country offices.

Donors, multilateral and bilateral alike, with their individual, rigid administrative and operational policies, procedures and practices, put a huge burden on partner countries. The harmonization efforts aim at increasing the effectiveness of aid by improved coherence, coordination and complementarity, as well as by respecting the national priorities of partner countries and lowering transaction costs. The Rome Declaration, agreed upon at the recent Conference on Harmonization, confirms the wide consensus amidst international development actors on the importance, urgency and content of the harmonization. We trust that the IDB will continue to actively participate at both the institutional and country level, in order to further enhance that work.

The critical economic situation in many of the region's countries has constituted a large-scale, serious challenge to the Bank in the past year. We welcome the Bank's efforts to mitigate the impact of the financial crisis together with other international financing institutions. However, the situation is still precarious and more challenges can be expected.

We acknowledge the responsibility of regional institutions like the IDB to assist countries suffering from direct or indirect effects of a financial crisis. Exceptional circumstances may require flexible and innovative solutions. However, we would like to call for caution in introducing new initiatives and instruments. While searching for a timely response to acute challenges, it is just as important to ensure that both existing and new instruments contribute to the enhancement of the Bank's impact on development and poverty reduction, which is the Bank's ultimate mission and should remain so. Furthermore, it is imperative to guarantee that measures taken do not endanger the institution's financial soundness and its primary role as a long-term development financing institution.

In conclusion, let me express Finland's appreciation for the IDB's true commitment to the sustainable development of the Latin American and Caribbean region. We are fully convinced that the Bank will continue to enhance its contribution to the promotion of economic and social development and well-being of the people in Latin America, and we welcome the opportunity to be your partner in future endeavors for the benefit of the region.

ADDRESS BY MR. KAREL VAN KESTEREN, TEMPORARY ALTERNATE GOVERNOR FOR THE NETHERLANDS

I am very pleased to participate again in the Annual Meetings of the IDB and IIC and to address the Board of Governors for the third time. Milan is a great venue and I would like to thank the Italian government for its hospitality and for hosting these Annual Meetings here in one of the most famous and oldest cultural and business centers of Europe.

Although conditions here in Milan are pleasant and peaceful, many parts of the world are in turmoil. Apart from serious political problems and even war, many countries—in particular in our Latin American and Caribbean region—face serious social and economic problems. As pointed out in the document we discussed last Sunday in the Special Session, growth rates are too low, unemployment is too high, capital flows to the region are drying up. Worst of all: poverty is increasing in a number of member states. Since poverty alleviation should be our number one concern, this is a truly alarming development.

In my address, I will focus on the issues of the financial framework, poverty reduction strategies and development effectiveness, and the private sector.

The demands put forward by some members for more flexibility in the Bank's operations are understandable, and to a certain extent justified. Participating in a globalizing world economy requires the ability to adjust time and again to new external circumstances. It requires a continuous dynamism in the response capacity of policymakers. While this holds true for the Bank, it is certainly no less valid for policymakers at the national level, who also will have to practice what they preach.

The Bank is adapting to the new environment and new demands put upon it. Last year, we approved the new lending framework as part of this process. But, the continuous dynamism demanded of the Bank can only be achieved when based on a solid foundation: a foundation safeguarded for future generations through safety valves, which ensure the financial solidity of the Bank also in the long run.

Approving the permanent emergency lending window introduced a new dynamism in the Bank's outstanding loan portfolio. Consequently, the existing, static framework for determining the Bank's capital adequacy no longer suffices—it measures a pseudo-reality. For this reason I wish to reiterate our full support for Management's proposal for a new Capital Adequacy Framework. Developing financial policies based on this model will ensure a financially sound Bank.

Financial solidity is one side of the coin. Focus on development is the other. In our view, this is an essential characteristic of the Bank. The motivation of the Netherlands to participate in the Bank is that it is a tool not just for providing financing, but above all to alleviate poverty.

In 2000, the international community, represented at the highest level—that of heads of State and government—adopted the Millennium Declaration, which embodies the Millennium Development Goals. The MDGs are our common agenda for development. Therefore we expect all governments and all components of the multilateral system, including the IDB, to take these to heart.

The central MDG is the first one: by 2015, reduce by half the number of people who live in extreme poverty. An enormous but not impossible challenge. What will be needed is economic growth, but not economic growth alone. We need growth in which the poor participate, growth that makes use of their potential, growth that creates opportunities for the poor so that they can contribute. In brief: economic policies in which more social equity and less income inequality interacts positively with the performance of the economy as a whole.

I realize all this is easier said than done. But it is here that we see the unique contribution of the IDB. A contribution, however, that can only bear fruit in a national policy environment that is really pro-poor. So we expect national governments to develop national policies to combat poverty and to achieve the MDGs.

As you know, the Netherlands has a long-standing tradition of solidarity with some of the poorest countries of the region. There, the IDB is the most important source of external funding and we greatly appreciate its role. However, we feel there is room for further improvement. We noticed that the approach by the Bank in those countries is still mainly that of a provider of investment loans, rather than that of a partner in the national development process.

Both the formulation and the implementation of national Poverty Reduction Strategies require active, early and continuous involvement of the national government and all donors, including the Bank. Such a common and integrated approach by all concerned is, in our view, the best way to increase development effectiveness and achieve measurable results with regard to the MDGs.

For poverty reduction to be achieved economic growth is a prerequisite. And to foster economic growth, the private sector is crucial. In our view, the Bank can act as a fruitful catalyst for private sector development. It can and should contribute to developing an enabling environment, both through lending and technical assistance. But, in doing so, the Bank and its affiliates should always bear in mind that financial soundness is of crucial importance.

As one of the founding fathers of the Corporation, we find its financial results over the last years increasingly worrisome. We understand the reasons for the poor results: a volatile business environment and inadequate provision and reserve policies in the past have brought the Corporation to a difficult financial situation. And in our view, the IIC is not in clear waters yet. The reserve position of the Corporation is not yet satisfactory, particularly when compared to other peer institutions.

The situation of the economic environment and the scale of IIC's operations poses serious questions. One of these is the question whether the current operations format is viable. We are looking forward to the final report of the External Review Group led by Mr. Kuczynski, and have found its draft outline promising. Proposals along the line of a better integration of the Corporation and the Bank's Private Sector Department—possibly even a merger—will be followed by the Netherlands with interest.

In conclusion, a flexible Bank—able to dynamically respond to the demands placed upon it—based on a solid foundation—guaranteeing its financial solidity in the long run—with a clear focus on development effectiveness—so measurable results can be shown—is what we aim for. Difficult? Yes. Impossible? No, it's a challenge. We are fully confident that under the leadership of President Iglesias we will live up to this challenge.

Today, Bolivia is at a difficult juncture. In the political sphere, the democratic system is being put to the test, with a broadly representative parliament and a civil society that is expanding the boundaries for the exercise of democracy. In the economic sphere, the productive system is facing its greatest challenges in finding a way out of a four-year crisis that has overwhelmed thousands of microentrepreneurs and small and medium-sized entrepreneurs.

The images of confrontation that flashed across the world on February 12 and 13 illustrate the precarious nature of the current economic and political situation. Today, the Bolivian government is promoting a broad process of social consultation, with the sole objective of laying solid groundwork for a lasting economic and political consensus.

The bases for that consensus revolve around the urgent and important task of launching an effective process of industrial reactivation, job creation, productive transformation and competitiveness, in the medium term.

The task involves three challenges:

First, there is the challenge of supporting fiscal sustainability in the country.

The Bolivian economy has deteriorated from a fiscal standpoint as a result of higher spending on the social commitments contracted under the enhanced HIPC initiative and the pension reform undertaken in 1997. The fiscal deficit rose from 3.3 percent of GDP in 1997 to 8.6 percent in 2002.

This economic behavior suggests that although Bolivia has followed a policy of austerity and has undertaken major structural reforms, it has still not found the path of sustained growth that supports fiscal sustainability.

Second, we face the challenge of strengthening the financial intermediation system.

The financial system poses a challenge owing to the sharp contraction in bank portfolios over the last four years. The financial system's loan portfolio shrank by half in the same period.

Despite this, the banking system has maintained a good liquidity position, chiefly supported by treasury bonds. The economy is highly dollarized. As of June 2002, 93 percent of deposits were denominated in dollars, and they are adjusted on the basis of dollar fluctuations. The very high dollarization of the financial system has a negative impact, since it limits the use of exchange policy to stimulate the economy.

Third, we are facing the challenge of strengthening the production sector, to lay the groundwork for a productive and competitive economy.

The job creation and income structure is highly dualistic in Bolivia. About 100 large companies generate two-thirds of the country's GDP, but thousands of microenterprises, informal sector units and rural and indigenous communities create two-thirds of its jobs.

Bolivia needs to move from welfare strategies that redistribute poverty to actions that created wealth. We therefore plan to merge the current strategies for poverty reduction, productivity and competitiveness into a single strategy and attack the roots of economic and productive exclusion.

We are working around a single focus of action: productivity and competitiveness, with policies to consolidate rural and urban property rights and to promote a dozen productive chains that create jobs for over 1 million producers who account for 40 percent of our nontraditional exports.

We are in the process of expanding our policy instruments to include hospitals and business incubators, technical assistance, access to domestic and foreign markets, and simplification of procedures for thousands of producers.

In this context of fiscal, financial, and real sector fragility, external financing is an important factor in the quest for finding ways out of the crisis. The IDB has played an important role in the preparation of a series of investment projects under the operating program for this year, for a record amount of US$212 million. However, not enough progress has been made to date in seeking financing and we must make major efforts in that direction.

Considering the key importance of external resources, principally from the IDB, I would like to make three proposals to strengthen our capacity to respond to the challenge of surmounting the crisis and starting out on a path toward increased productivity and competitiveness.

First, we need access to concessional resources for longer periods, redirecting resources not yet disbursed and modifying terms and procedures to streamline disbursements.

Despite our graduation from access to concessional resources established under the HIPC II agreements, Bolivia is at a critical juncture. Scarce short-term fiscal resources and little access to medium-term concessional resources are leading to a dead end. This dilemma calls for an evaluation of the possible future graduation of countries like Bolivia and the shape that the process would take.

We also suggest greater flexibility in the financing matrix with FSO resources to: (a) modify the allocation of resources for projects to reactivate the real sector of the economy; (b) modify and adjust the requirement for counterpart funds in times of financial crisis; (c) permit local counterpart contributions to be financed for certain high-priority projects.

With regard to access to policy-based loans from FSO resources, we suggest that the ceiling of US$115 million/year for the five poorest countries should be raised, since the cap was established for situations other than the current crisis and because in situations such as Bolivia's, this instrument can support consolidation of reforms and economic development. There is also a need to allow funds to be disbursed in shorter periods than the 18 months that apply at present.

Second, we require access to complementary resources from the Ordinary Capital to meet the most urgent needs for reactivating the existing productive apparatus and developing the private sector.

We propose that access to complementary funds from the IDB's Ordinary Capital be increased, to create an enabling environment for private investment; stepping up private sector activities and concentrating on the development of capital markets; taking further steps to reduce risk for public and private entities so they can obtain better financing conditions; promoting savings and investment; expanding trade; and attracting private investment.

We propose a potential lending program to support policy and investment reforms, financed from the Ordinary Capital, based on demand by the countries.

Since the requirements of countries like Bolivia outstrip the possibilities of obtaining more concessional resources from the IDB, we propose that a study be made of access to Ordinary Capital resources with a subsidy that is higher than the one offered through the Intermediate Financing Facility and a fixed interest rate, rather than a LIBOR-based one.

As for loans to address financial emergencies under the framework of IMF stabilization programs, we propose access to loans of this kind as regular IDB instruments that should be countercyclical in nature, with appropriate financial and eligibility conditions to be defined. Along this same line, we propose that countries like Bolivia be given access to IDB emergency loans. The disbursement period should be shortened and they should only be conditional on compliance with conditions precedent.

Third, it is necessary to expand the range of financing facilities for corporate and financial restructuring programs for the private sector, through access to more funding from the Inter-American Investment Corporation and the MIF.

We propose that the resources of the Inter-American Investment Corporation be used to contribute to the recovery of the productive sector in countries affected by the economic crisis, in accordance with its Agreement as amended in 1995, whereby it is able to provide direct financing through the underwriting and purchase of shares in companies or indirect financing through other financial institutions.

Specifically, we would like to see the Inter-American Investment Corporation participate in corporate and financial restructuring processes. Its financing would include the possibility of making loans in the form of lines of credit to commercial banks, financial leasing companies and other financial institutions, for subsequent onlending to the local market, and making venture capital investments that would in turn be reinvested, reaching a market of small and medium-sized enterprises that otherwise could not be directly supported.

We propose that the Multilateral Investment Fund's mandate be extended with a new replenishment of funds, so that it can continue to back microenterprises, strengthen regulatory frameworks and support other forms of private sector development.

ADDRESS BY MS. KIRSTEN GEELAN, TEMPORARY ALTERNATE GOVERNOR FOR DENMARK

First of all, I would like to thank the Italian government, the Lombardy region and the city of Milan for their warm hospitality. We thank you for the excellent arrangements provided for this Forty-fourth Annual Meeting of the Inter-American Development Bank.

Denmark commends the IDB for its work and achievements. We strongly support the Bank as a leading partner for all governments in their efforts to ensure sustainable and equitable development in Latin America and the Caribbean.

Two-thousand and two was a very difficult year for Latin America and the Caribbean. Macroeconomic instability, stagnation and even outright recession marked the continent, a case in point being the economic crisis in Argentina. 2002 saw political instability in a number of countries of the region, at the same time as more positive developments characterized the continent, the orderly change of government and focus on poverty reduction in Brazil being a prime example. But it still remains that the Latin American and Caribbean region requires enormous efforts from within and from the international community in order to fulfill the region's full potential. More than 200 million people live in poverty, the majority of these in middle-income countries. This is distressing evidence of an enduring predicament: that the income gap between rich and poor is larger in Latin America than in any other continent. Pronounced inequality is not only morally deplorable and a main cause of political instability, it is detrimental to sustainable development as well as economic growth. A crucial aspect is the marginalization of women, which prevents the countries in the region from fully benefiting from their human resources. Gender equality is, apart from its political, legal and social advantages, an important element for sustainable development.

With the Millennium Declaration, our goals are set on reducing poverty, promoting gender equality and increasing access to primary education, to mention but a few. Let it be said immediately; no country in the region is likely to reach all goals. At the same time, indicators show that countries are generally moving in the right direction in achieving the goals on education and environmental sustainability. In the areas of poverty reduction, health and gender equality, most countries will not achieve the goals set and much needs to be done. More focus must be placed on the implementation of strategies at the country level to reach all MDGs. The creation of National Poverty Reduction Strategies (PRS) and similar development plans are essential in this regard. We welcome the steps taken by IDB to support the preparation of PRS in the region, and we encourage the Bank to expand its involvement in implementing the PRSs and aligning its country programs to national development strategies, together with other multilateral as well as bilateral donors.

Improving the development effectiveness of the Bank's operations is central to the deliberations at this Annual Meeting. We welcome the recently submitted progress report on development effectiveness, and the thorough and fruitful discussion. We all agree that the Bank has to be flexible and responsive to regional needs and challenges. It does, however, not imply that we can afford to lose sight of the development impact of the Bank's operations. It is imperative that we collaborate in monitoring results and harmonizing procedures as well as providing indicators for our development operations. In this way, our efforts will be more effective and we will be able to determine how and to what extent multilateral and bilateral efforts in fact contribute to reducing poverty and reaching the Millennium Development Goals by 2015.

The work carried out by the Office of Evaluation and Oversight (OVE) on enhancing the efficiency and impact of the Bank is essential in reaching these results. We look forward to the implementation of OVE's many constructive suggestions regarding loan and program design, Quality at Entry, monitoring and building evaluation capacity. We are satisfied that Management is increasingly giving attention to the institutional arrangements of the Bank, seeking ways to instigate a culture change with a view to creating incentives for results-based management.

When focusing on results, one cannot but stress the importance of national ownership. Monitoring of actions and policies to achieve MDGs must be anchored at the country level. Capacity building in the recipient countries is therefore essential. Our experiences from Bolivia and Nicaragua suggest that increased decentralization of planning and budgetary responsibility to IDB's Country Offices could contribute to a more flexible cooperation between IDB and national authorities, as well as between the Bank and other multilateral and bilateral donors. Decentralization means letting people actually involved with programs and projects at the country level make substantial decisions at all phases of any given project. This lessens bureaucratic inertia, rationalizes the decision-making process and leads the way for enhanced ownership—thereby making coordination, alignment and harmonization with other donors easier and more efficient.

One of Denmark's main priorities during our Presidency of the European Union last year was to underscore the important link between trade and development and the need to expand this agenda. Integrating national economies into global trade potentially offers vast gains for developing countries. This requires greater access to developed countries' markets and a firmer implementation of trade agreements in the developing world. At the same time, we must work for a development-oriented outcome of trade negotiations. Through decades of support to regional trade arrangements, IDB has an excellent point of departure for assisting members with trade related technical assistance in coordination with WTO and other actors in this field. Moreover, IDB's country programs should, when relevant, include efforts that further developing countries' abilities to take greater advantage of market access opportunities.

Improving the institutional capacity and promoting good governance is essential for the region to attract investment. Another important element is that of reducing corruption. The recent case of corruption allegations against the Bank serves to encourage the Bank to continue strengthening its proactive, decisive anti-corruption policies and practices, with clear sanctions to counter possible violations. Denmark attaches great importance to the subject of corruption and will this year launch a comprehensive strategy to combat corruption in all its forms in the context of Danish development assistance. It follows from increasing amounts of evidence that corruption generally has strongly negative developmental effects, both at a general level and, in particular, on the lives of the poor. We appreciate the Bank's support towards projects on modernization of the State and transparent procurement procedures, and encourage the Bank and governments to strengthen their efforts in this area.

Combating HIV/AIDS remains a top priority for Denmark. Maybe some of you recall the seminar on this issue sponsored by the Nordic countries at last year's Annual Meeting in Fortaleza, where the need to strengthen interventions in this area was yet again emphasized. An estimated 2 million people in the region are infected, and in some Caribbean countries the infection rates are extremely high (up to 6 percent), only topped by countries in the sub-Saharan region. This has severe effects on development potential. Moreover, the rate of HIV/AIDS among women is rapidly spreading (from 41 percent in 1997 to 47 percent in 2000). This underscores that combating HIV/AIDS clearly involves a gender dimension. Gender equality and the empowerment of women are therefore fundamental elements if we are to reverse the current trend. While the Bank has supported AIDS prevention, for example through a number of health sector reform loans and direct funding, this issue, including the gender dimension, needs to be placed higher on the Bank's agenda. Only with a strengthened effort can we reach the MDG of halting the spread of HIV/AIDS by 2015.

Denmark remains a leading donor in the world in terms of development aid. We welcome recent additional pledges from a number of donors and continue to encourage countries that have not yet reached the 0.7 percent target to make concrete efforts within specific timeframes to reach this goal.

Let me conclude by assuring you of our continued support to meet the challenges of the Latin American and Caribbean region in the years to come.

Let me start by joining others in thanking the Italian authorities, the Lombardy region and the city of Milan for organizing this year's Annual Meeting. It is a true pleasure to be here in Milan, enjoying the atmosphere and your hospitality.

I would like to offer a few comments on some of the main issues addressed in this Annual Meeting that are of particular importance to Sweden. These are related primarily to the fundamental questions of how to maintain, support and reinforce the Bank's mandate as a development institution but also how to strengthen the development effectiveness of the Bank's activities, which is key for achieving the Millennium Development Goals, to which we all have subscribed.

Looking back, the events that have occurred over the past two years provide us with a very mixed picture of economic and social development in Latin America and the Caribbean. As we know, the conditions range from fairly stable growth in some countries to a very precarious situation in others.

However, most worrisome are the profound social consequences and even deeper inequalities resulting from the economic recession. In some countries, we have seen a dramatic increase in the number of poor people, people who before formed part of a flourishing middle class. The figures give cause for grave concern.

As the most important provider of development financing in Latin America and the Caribbean, the IDB is a crucial partner in facing and changing this negative trend and thus we strongly support the institution in this role, both as a source of financial resources for the borrowing countries, and owing to its deep knowledge, experience and great leverage in the region.

The various activities of the Bank must contribute to long-term social and economic benefits for the majority of the poor people. If not, we are defaulting on the objectives set out in the Bank's mandate. The Bank's array of lending and nonlending instruments must reflect this commitment.

So the challenge must be to continue to support the regional countries in building policies and practices through which sustainable poverty reduction can be achieved in the longer term, attaining the Millennium Development Goals. The Bank's response capacity to the changing environment must of course be addressed regularly in an adequate way, within the new lending framework adopted just a year ago.

Next, I would like to touch upon the importance of development effectiveness as a means to face these challenges and to ensure that we, the Bank and its members, truly are impacting development.

To promote a results-oriented culture, both in quantitative and qualitative terms, must be encouraged. We support and welcome the initial steps already undertaken by the Bank. But what has been achieved so far is not enough. The IDB needs to show concrete results both to the people of the borrowing countries and to the nonborrowers. Prompt actions must be taken so as not to fall behind other development institutions which during the past few years have made substantial progress in this regard. The upcoming appointment of a Chief Development Effectiveness Officer is certainly important and promising, but we must remember that such a daunting task must ultimately be seen as a common responsibility for all of us.

Time has also come to speed up and implement the Bank's overall institutional sector strategies, essential to push pro-poor growth and social development. We are looking forward to receiving the concrete action plan, including financial resources set aside, on how to move the agenda forward in actually implementing these strategies, building upon clear ownership from the countries.

Being able to show results and continuously enhancing effectiveness are closely linked to the need for improved harmonization and coordination in the development effort. In our view this means that all actors involved: multilateral and bilateral donors, international, regional and subregional financial institutions and civil society must work together effectively and continuously, at Headquarters as well as at the country level, to support the fulfillment of the development priorities set by the countries themselves.

Finally, for the IDB to be able to continue to play its fundamentally important role, the financial soundness of the Bank needs to be secured. This cannot be stressed enough. We must ensure that the long-awaited capital adequacy framework and its policies for financial risk management are adopted and implemented without delay.

ADDRESS BY MR. WALTER RILL, TEMPORARY ALTERNATE GOVERNOR FOR AUSTRIA

It is a great pleasure and privilege for me to attend this year's Annual Meeting of the Inter-American Development Bank and affiliates. First of all, I would like to thank the people of Italy, especially those of the city of Milan, for their warm welcome and hospitality extended to us.

Let me also thank Mr. Iglesias for his long-lasting leadership of the Inter-American Development Bank and its affiliates that has greatly contributed to the continuous improvement of the quality of the services provided by the institution. At the same time, I congratulate you, Mr. President, on your reelection for another term in the office, actually starting in a couple of days, at a time when the situation for the region and, therefore, for the Bank is particularly difficult.

In your remarks at the occasion of your reelection, you mentioned the need to continue to view the Bank as a friend of Latin America—a friend that experiences the same problems, feels the same pain, and shares in the same successes. It is in this spirit that I would add that one of the finest characteristics of friendship is the ability to talk to each other in a frank and forward-looking manner while building on the experiences that both sides of that friendship have made in the past.

In my view, that would imply that the countries in the region would defend and protect their friend against any attempt to undermine its future ability to support the region, including its financial integrity, and not only complain about the institution if they feel that because of a particularly difficult time, the support provided by IDB is perceived as being insufficient.

On the other hand, it would mean that the IDB—in cooperation with other organizations—would analyze carefully the situation in a country and would present the results including all the achievements as well as all the problems and shortcomings regarding the performance of the country concerned in its dialogue with the country; that way the government and the people in the country would be enabled—in cooperation with an acknowledged friend—to define the most appropriate ways and means to either solve present, or to avoid future crisis situations.

Looking back, we have to acknowledge that a number of important Latin American countries suffered from one of the most severe crisis situations in the past several years and decades with serious repercussions for the region as a whole.

Due to the extended economic crisis in Latin America, we are facing dramatic consequences for the structures of the countries concerned and especially for the poorer and more vulnerable social groups in each country. Many social and economic problems remain unresolved. On the contrary, the number of people living in poverty actually increased substantially due to these crises. In particular, the efforts to make the public sector more productive—especially through decentralization and privatization—did not achieve the kind of results that were hoped for. The question that could not be adequately addressed so far relates to the requirements to overcome the crisis.

First of all, the regulatory as well as the institutional framework has to be established in order to be able to enforce effectively rights and obligations.

This legal framework has to be formed in conjunction with social and structural reforms to offer opportunities for participation in the social and economic development for all parts of the population.

Such a framework should be seen as a sound basis for the private sector interested in operating under transparent, stable and predictable conditions. At the same time, such a framework could be a source for increased confidence of foreign investors as well as of donor countries for their readiness to cooperate.

All this has been fully confirmed by the presentations, discussions and conclusions in the seminar on "Financing Private Sector Development: An Integral Approach" that has been organized here last week; I only can recommend to further disseminate its major conclusions.

If I may, I would make just one other reference in this very context. One of the features of that seminar was the presentation of specific financial techniques as alternatives to more traditional forms of financing usually available to SMEs. However, to the extent that the financial instruments being applied are becoming more complex, the more important are the appropriate framework conditions that need to be equally sophisticated. Therefore, such alternative instruments cannot be seen as replacement for weak public institutions, on the contrary.

What is the respective role of the IDB, IIC and MIF to support the regional member countries in achieving these objectives?

First of all, we have to accept that the possibilities of the IDB are limited as they are in any other partner organization. Therefore, the instruments available have to be used as effectively as possible and be well coordinated. The operational activities of the Bank should be shaped in such a way as to protect the financial integrity of the Bank. In our opinion, only a good and solid financial status of the Bank itself—reflected by its AAA rating—will enable the Bank to master the upcoming challenges together with the region. In this way, the Bank will remain a strong and helpful partner to Latin America and the Caribbean as their own regional institution.

With regard to the discussion about new instruments, after the decisions we have taken during the course of last year we doubt whether we really need new instruments. The Bank, IIC and MIF should carefully balance the short-term needs and the long-term perspective when deciding the introduction of new instruments, as well as the application of existing instruments to support the implementation of adequate measures by their friends in the region, and their sequencing; thereby each part of the group—IDB, IIC, and MIF, respectively—has to decide the optimal and most effective use of its resources depending on the specific situation in the country concerned at a given point in time.

It is in this context that we would ask for caution with regard to the implementation of the action plan proposed for IIC as a kind of short-term solution to the current problems. We are not convinced that this action plan would be the appropriate answer to these problems; in our view, the IIC should remain focused on its role as an investor refinanced by public monies in order to give an example for other investors to follow and to uncover existing problems rather than to enter into a kind of competition with other investors. At the same time, the IDB has to engage in a dialogue with governments in order to create the appropriate framework for private sector development and to build on the lessons provided by IIC.

These decisions have to be made on the basis of the results achieved. Therefore, a careful ex-post evaluation is very important. In this way, we could optimize the application of instruments in an attempt to avoid crisis situations in advance or to react appropriately to crisis situations as they occur. This basic approach to evaluation could be a main pillar for the further development of the Bank as a "think-tank" or "knowledge center" for the region.

Another extremely important aspect of making the best use of existing resources and increased development effectiveness would be improved coordination within the IDB Group as well as with other donor organizations. That way, we, collectively, the Bank as well as all other partners in development cooperation, would focus much more on results.

While I believe that it goes without saying, I would like to emphasize, nevertheless, that all these efforts have to be considered and implemented in the context of the Millennium Development Goals as the overarching umbrella.

In conclusion, once more, I want to thank you, Mr. President, for your excellent work at the helm of the Institution for so many years. My thanks also go to the staff of the IDB Group and their professional work done, as well as to our Executive Director and his team.

Regarding the future challenges for all participants in development cooperation in the region, I would like to express my desire and my hopes that jointly we will be able to seize the opportunities that exist for the region despite the current economic crisis in the region and, equally important, the political and economic crisis elsewhere.

Allow me to add my voice to those of the Governors who have preceded me in this rostrum and extend to President Iglesias the warmest congratulations of the Republic of Haiti on the occasion of his reelection to a fourth term as President of the IDB Group.

There is no question, President Iglesias, but that this new term will enable you to complete the efforts to modernize the Bank to the benefit of Latin America and the Caribbean. We also trust that, in the course of this new term, Haiti's own situation within the IDB Group will markedly improve.

I also wish to thank the city of Milan and the government and people of Italy for their generous hospitality and the quality of the welcome they extended to the Haitian delegation.

Moreover, I salute the efforts that went into the excellent organization of this meeting.

This Forty-fourth Annual Meeting of the Board of Governors of the Inter-American Development Bank is being held at a time when all member states are concerned by the misdeeds of international terrorism, by the extent and depth of poverty, and by the prevalence of serious diseases, first and foremost of HIV/AIDS. It should also be noted that the economies of the countries of Latin America and the Caribbean are going through an extremely difficult period and that per capita incomes are continuing to decline.

In the case of Haiti, owing to problems associated with the political and socioeconomic situation, the Bank has approved no new credit since 1998 and, despite the ratification of new loans in late 2000, no disbursements have taken place.

In early 2002, because of the fragility of net foreign exchange reserves and in the conviction that the Bank would not be proceeding to disburse the ratified loans, the Haitian authorities had to suspend debt service temporarily in order to devote somewhat more resources to easing cases of extreme poverty which had been aggravated among a population in which the vast majority of the people are living on less than one dollar a day.

Hence, quite apart from the lack of disbursements, the level of Haiti's arrears to the IDB has risen now, in March 2003, to US$24.6 million, consisting basically of US$16.6 million for the principal and US$8 million in interest and credit fees. These arrears thus amount to roughly the level of our net foreign exchange reserves and represent nearly 40 percent of the total.

Of course, we should note that since the second half of 2002, the Bank has indicated that the only obstacle to disbursements being made is the nonpayment of arrears, and that initiatives have been taken to help Haiti find a solution to this problem. In this regard, I am pleased to note President Iglesias's unstinting efforts to enter into direct contact, on behalf of Haiti, with the representatives of bilateral agencies and the members of various groups known as Friends of Haiti in order to invite them to contribute to resolving the arrears problem.

These actions, President Iglesias, constitute evidence not only of your concern for Haiti but also of your willingness to go beyond statements of sympathy to take concrete initiatives aimed at helping us find a solution that takes our real difficulties into account.

I must also make special mention of the CARICOM member states which are not only working with the OAS to help find a compromise solution to the political situation, but have also promised to contribute to solving the arrears problem by contributing between 5 percent and 15 percent of the amount due.

To our friends in CARICOM, I assure you that my country will never forget this expression of solidarity.

It also goes without saying that the Republic of Haiti, despite the extreme fragility of its net foreign exchange reserves, which currently amount to about US$24 million, or the equivalent of less than two weeks' imports, is now engaged in considering all the alternatives whereby it might use a portion of its own resources in order to contribute to the settlement of arrears to the World Bank and the IDB before the end of the current fiscal year. Arrears to these two institutions currently amount to over US$50 million.

A first round of discussions on this issue has been held with the World Bank, which has prepared a preliminary proposal of a plan for the overall settlement of arrears. The scenarios envisaged call for a one-time or staggered payment in keeping with the external flows that would be made available. The government of Haiti has expressed no objection in principle to this overall approach, provided that this plan is not incompatible with bilateral arrangements.

As regards the IMF, I am pleased to inform you that a mission from the Fund visited Haiti last week. Its aim was to gather information on the implementation of new policy measures and on the recent behavior of indicators in various sectors of the national economy. The mission was particularly interested in the recent implementation of the flexible system for determining petroleum product prices and the improvements in the state budget preparation process.

The mission also initiated discussions regarding the implementation modalities for an interim approach (SMP—staff monitored program) ultimately leading to a program under the Poverty Reduction and Growth Facility (PRGF). The initial discussions were encouraging, and another mission will be visiting Haiti toward the end of April to finalize the SMP negotiations.

Hence, once the arrears have been settled and an arrangement signed with the IMF, the Bank will be able to disburse the first tranche of the sector loan as well as the initial disbursements of the loans for health, education, drinking water, and basic infrastructure.

It will then be time, I trust, for Bank authorities to work in coordination with the Haitian authorities on the situation of net negative flows that will surely occur, given the small size of the projects currently in Haiti's portfolio at the IDB. To this end, we hope that the Region 2 authorities will be able to apply accelerated procedures to enable us to use the resources allocated for the current year, by finalizing a sufficient number of Category A projects.

However, we must observe that if the majority of Haiti's friends, and in particular our European friends, were to demonstrate a bit more understanding and generosity in support of both our efforts and those of President Iglesias and CARICOM, the arrears problem could be resolved considerably more rapidly. For this reason, we appeal to our European friends and invite them to reconsider their position vis-à-vis the situation of the Haitian people.

On the political level, need I recall that the government has agreed to apply OAS Resolution 822 in its entirety, and to do everything in its power to fulfill its recommendations?

However, while it is regrettable that the various proposals put forward to date have not persuaded the opposition to participate in the formation of the Provisional Electoral Council that would make it possible to get the electoral process under way and thereby ultimately bring the political crisis to an end, one must not lose sight of the fact that the government, for its part, is committed to continue making every possible effort to create, inter alia, a climate of security conducive to the organization of such elections.

Unfortunately, despite the appreciable progress made, the process has not moved forward at the desired pace. This is to be deplored, as it is obvious that the difficulties that the various political sectors have with reaching a consensus has for several years now made Haitian and foreign investors take a wait-and-see attitude that contributes to making our economy more fragile.

This situation has clearly negative effects on the resumption of economic activity, on the behavior of the national currency, and on the quality of life of the Haitian people, which is faced with accelerated impoverishment. However, it would be a mistake to forget that while, in general terms, the establishment and consolidation of democracy is a long and laborious process, for us in Haiti the high level of poverty makes the battle for democracy even more difficult.

The government is aware of the fact that only the implementation of a far-reaching program of reforms could build the capacity of the institutions engaged in combating poverty and consolidating the democratic process. Consequently, it planned, with assistance from its international partners, to introduce a major program of institutional, social, and economic reforms.

But our partners' decision to reduce their cooperation with Haiti has not enabled us to introduce this program. And the poverty situation has become considerably worse.

Nevertheless, Haiti continues to follow with great interest the changes taking place in the region as part of the regional integration process and the more general phenomenon of trade globalization. We know that if this process is to go forward under the best possible conditions, our country will have to make sacrifices, redeployments, and adjustments, and to perform truly well in the years ahead.

We are cognizant of the fact that sustained efforts will thus have to be made to create conditions favorable to the recovery of economic activity, leading to the lasting and self-sustained development of our country. These efforts and the ongoing dialogue with our major financial partners will of necessity lead to the introduction of all the reforms referred to above.

And then, Haiti has no choice but to meet the challenge of good governance.

It is therefore our fervent hope that, once the process of improving our relations with the international community has been finalized, we will be able to initiate and consolidate the introduction of a second generation of reforms, and thereby establish a track record that will make it possible to consolidate the government's credibility both in terms of governance in general and in terms of financial administration in particular.

For now, and pending the definition of a compromise formula that is in the interest of the Haitian people, the government cannot but reaffirm its will to work for a Haiti that is stable and at peace with itself, a Haiti where poverty has been reduced, a Haiti with an independent and impartial judiciary, a Haiti that takes care to respect human rights, a Haiti that is respected and will have again assumed its proper place in the community of democratic countries.

As you know, in less than a year, on January 1, 2004, Haiti will be celebrating the two-hundredth anniversary of its independence. The desire of the government and people of Haiti is to transform this bicentennial into a new departure which enables us to adopt appropriate measures to change the nature of the State substantially in order to achieve a level of sustainable development based on social justice and democracy.

The Republic of Haiti invites you all to join with it next year in celebrating this pact of peace and harmony.

ADDRESS BY MR. DIEGO LUIS CASTELLANOS, TEMPORARY ALTERNATE GOVERNOR FOR VENEZUELA

In the region today, some if not all countries are contending with difficulties on the political, economic, and sociocultural fronts. Sluggish growth, inefficient goods and financial markets, asymmetries between economies, and deteriorating institutions are manifestations of these troubled times, holding back development and moves to create a hemispheric economy in the short to medium term.

There is a danger that such circumstances could prompt us to question reforms and institutions, but we must go beyond that. What we have here are manifestations of economic and social organization issues and certain unidentified factors that are impairing the reforms' efficiency. Something is being left to the side, causing questions about the progress achieved and the nature of the reforms themselves, rather than those deterrents.

The severe economic crisis in Venezuela has its roots in political instability. In the wake of the April 2002 coup, with incidents of sabotage and paralyzation of the oil industry and the production apparatus, public revenues fell, international reserves became unsteady, the bolivar depreciated sharply, and huge amounts of capital left the country, triggering a balance-of-payments deficit.

In response, the country adopted a temporary foreign currency management regime and stringent fiscal policies to ensure the continuity of the country's payments, stabilize the bolivar, counteract erratic capital movements, control inflation, and adjust spending in light of declining fiscal revenues.

The Venezuelan authorities are firmly committed to moving ahead with fiscal and monetary reforms needed to secure internal and external equilibrium, continue to honor the nation's international commitments on schedule, and step up dialogue with the international financial institutions. These economic policy measures should set the Venezuelan economy back on a sustained growth path, this being crucial for the country's poverty reduction efforts.

Venezuela reaffirms its commitment to the inter-American spirit and, in particular, to the Inter-American Development Bank. This should translate into the development and consolidation of new financial and nonfinancial instruments and the pursuit of flexibility, efficiency and innovation in the Bank's institutional principles and in the economic principles that underpin our economies.

We believe that the Bank should continue to spur reforms to help the region take its place efficiently in the global marketplace and help advance domestic market integration, raise income and narrow disparities.

In closing, we would like to highlight the importance of assuring that the Bank's finances remain sound. The Bank should continue with diligent efforts to devise an appropriate internal risk-management methodology, in keeping with the Charter mandates and with due regard to the region's circumstances, sending efficient market signals with best practices and assurances of financial solidity. Work to improve the Bank's instruments needs to continue in order to heighten their overall development effectiveness, responsiveness and flexibility and provide enhanced incentives.

FOURTH PLENARY SESSION

MARCH 26, 2003

ADDRESS BY MS. INGRID GLAD, TEMPORARY ALTERNATE GOVERNOR FOR NORWAY

I would like to begin by thanking the authorities of Milan for hosting this year's Annual Meeting in this friendly and fashionable city.

Despite the great potential for economic and social development in Latin America and the Caribbean, stagnation and uncertainty continue to prevail. (Yes, there are signs of recovery in the countries worst hit by the economic crisis, but the prospects for significant improvements are not imminent.) We appreciate the IDB's desire to address these very difficult circumstances, which is reflected in the new lending framework adopted in 2002. The IDB does, however, primarily have a long-term development mandate. We firmly believe that the Bank should limit its involvement in short-term operations to mitigating the social impact of financial crisis. In our view, all future new instruments aimed at enhancing the IDB's response capacity should be subject to the criteria of poverty reduction and development effectiveness.

Norway supports the proposed new capital adequacy framework, which is necessary to ensure the IDB's financial soundness in the future. We would like to underscore the importance of transparent monitoring of the model and of adequate qualitative indicators.

Latin America is the most unequal region in the world. The IDB cannot change this deplorable state of affairs on its own. Improvements are dependent on political will and commitment in the region. As was stated in the Inaugural Session: it is time for politicians to take the lead and deal seriously with the sensitive but crucial issues of redistribution of income and wealth in relation to property rights, taxation and social inclusion. The IDB has spearheaded efforts in the region to raise awareness and increase knowledge about socially excluded groups. Achieving the Millennium Development Goals (MDGs) for the region as a whole is only possible if we close the enormous social and economic disparities between groups of people and geographical areas that are a feature of most countries in the region. The seminar on social inclusion at this Annual Meeting gathered experts and advocates to discuss approaches, policies and partnerships on how to address these challenges. Norway looks forward to continue working together with the Bank and its members through the newly created multidonor fund on social inclusion. We would indeed welcome other countries joining us in this very important endeavor.

The IDB has proven its ability on numerous occasions to shape the development policy agenda in Latin America and the Caribbean, not least under the impressive leadership of Enrique Iglesias. Norway is extremely pleased to note that the IDB initiative on Ethics in Development has bolstered great interest and demand in the region. Mr. Iglesias has engaged a large array of institutions, interest groups and citizens in a broad discourse on ethical values and ethical dilemmas related to development. Norway supports this initiative because we believe it addresses issues and challenges of great importance to the future of Latin America.

Last year, the IDB addressed HIV/AIDS at the Annual Meeting in Fortaleza and we welcomed the Bank's explicit commitment to fighting the epidemic in the region. We had expected that this commitment would translate into Bank-wide action and policy development. In our view, progress has been slow and we therefore urge the Bank to speed up its actions in close partnership with UNAIDS and in association with the Global Fund to fight HIV/AIDS, Tuberculosis and Malaria.

Many of the MDGs are gender-specific, which is an indication of the remaining gender gap and challenges in many areas of society. Norway has provided support to the IDB over many years for capacity-building on gender both in the institution and in individual countries. So far, results have been most notable in promoting women leaders, and increasing knowledge of and action against domestic violence in the region. These are indeed important measures, but we feel that less progress has been made in mainstreaming this perspective into Bank operations. We therefore welcome the ongoing preparation of a Bank-wide Gender Mainstreaming Action Plan. We also have high expectations regarding the implementation of the Diversity Action Plan, in terms of improving the gender and ethnic balance among staff in the institution.

Let me turn to the IDB's private sector work, which urgently calls for a comprehensive approach. Strengthening the institutional, legal and financial framework must go hand-in-hand with facilitating private investment. The debate on whether the present IIC really has a sustainable business model goes right to the core of the additionality/development effectiveness concerns. Acknowledging the difficult balance between the developmental and commercial mandate of IIC, we believe that an even larger emphasis should be placed on the needs of the less-developed countries and regions. We hope that the ongoing review of the Corporation will lead the IIC and the IDB private sector efforts in that direction.

Achieving the MDGs will require greater commitment to cooperation and harmonization by multilateral and bilateral development partners at the country level. Norway was encouraged by the progress made at the High Level Forum on Harmonization in Rome last month. We expect both donors and partner countries to work together in the months ahead to enhance harmonization efforts. It is important that concrete progress be made on the ground in projects and programs under the leadership of the respective partner country governments.

With respect to this particular region, we have noted that the government of Honduras—with the joint support of the IDB and the World Bank—has already taken an initiative to enhance donor coordination. We would like to congratulate the government of Honduras on its initiative and to commend the IDB on the support it has provided. We hope that other countries in the region will initiate similar actions. Furthermore, we would encourage the IDB—as the major provider of development finance to the region—to continue and increase support to its member governments on this front.

Although Norway appreciates the steps taken by the IDB to increase the development effectiveness of its operations, it must be admitted that the Bank has made less progress than expected so far, particularly in the light of the Governors' resolution of March 2002. In order to meet the development effectiveness challenge, we will all have to reform our practices. With a new general understanding of what it takes to foster development, we need to find ways to measure the total outcome and effect of our joint efforts in a country or in a sector. This does not mean that we should not be concerned about the monitoring and results of our individual efforts. On the contrary, to ensure greater effectiveness of its interventions, the IDB should revamp its own monitoring and evaluation systems and adopt a results-based management approach.

In conclusion, a joint international effort is urgently needed to enhance and build up the monitoring and evaluation capacity of the borrowing countries themselves. As the leading development institution in the region, the IDB should play a key role in this vital endeavor.

ADDRESS BY MR. FERNANDO MANGUAL, TEMPORARY ALTERNATE GOVERNOR FOR THE DOMINICAN REPUBLIC

Let me express on behalf of the people and government of the Dominican Republic, and its President, Hipólito Mejía, how pleased we are that the city of Milan was selected to host the work of this Annual Meeting. A magnificent part of Italy it is, enlivened by music, opera, the fine arts, and its dazzling architecture, which led Mark Twain to describe the cathedral as "a poem in marble." It is also a European center of elegant fashion, and of gracious hospitality. On behalf of the Dominican Republic, I want to express appreciation for the attention that has been lavished on us, as well as for all the effort that we know goes into organizing an event of this kind.

After the sharp slowdown in the world economy in 2001, with recession in the United States, Japan and Germany, we saw a slow recovery beginning in the first half of 2002. Yet in the second half of that year, the picture shifted, with growth declining even further in many economies, and a reduced outlook for 2003. Among the causes of these unfortunate trends, we may point to the weakness of consumption, the fall in business investment and earnings, significant losses on stock markets, rising prices for oil and, finally and most particularly, the war in Iraq. All of this has served to create a climate of uncertainty in the world economy.

In 2002, the major stock markets suffered their most significant losses in many years. Economic activity has not responded, as was hoped, to the monetary policy instruments employed to revive it. Consequently, fiscal policy in the most important economies became more expansionary in an effort to sustain the limited level of economic activity during 2002, and this situation is expected to continue in 2003. Yet excessive reliance on such a policy is producing severe fiscal imbalances in the major economies, and poses the potential for conflict between cyclical needs for fostering growth and the need for long-term equilibrium in government finances, so that interest rates can be more favorable for economic expansion.

Slow economic growth and the prevailing climate of uncertainty led to a further decline of some 30 percent in 2002 in the worldwide level of foreign direct investment, on top of the 50-percent drop in the preceding year. Developing countries have been noticeably affected by these cutbacks, because investment of this kind is a key factor for their growth.

In the case of Latin America, net foreign direct investment shrank by 42.7 percent in 2002, the worst performance in three consecutive years of decline. International trade recorded a slight recovery in 2002, with growth of around 2 percent, which was however far below the expansion of 12.5 percent achieved in 2000. For the year 2003, the outlook is somewhat better, with growth forecast at around 6 percent, according to the United Nations Conference on Trade and Development (UNCTAD).

We expect, then, that recovery of the world economy in 2003 will be slow and unsteady, due to the persistent climate of uncertainty which has been made worse by the war in Iraq. In fact, the short-term outlook for the world economy depends in large part on that conflict and the fallout from it.

Given the high degree of openness of the Dominican economy (nearly 100 percent, including services), the adverse international setting has had a negative impact on our country's growth, especially in terms of its exports of goods and services during 2001 and 2002. In the final quarter of last year, we also had to face rising prices for oil imports. The most significant impact was felt in two of the major foreign exchange-generating activities, tourism and the industrial free zones, and to a lesser extent, in family remittances and foreign direct investment. With less foreign exchange available, and with the government devoting a greater proportion of its resources to social investment, it was impossible to achieve the growth levels of previous years. At the same time, this external shock raised the current account deficit to 4.2 percent, and required adjustments both in government spending and in the exchange rate.

The latter months of last year saw a considerable improvement in tourism arrivals and in exports from the industrial free zones, as well as in foreign direct investment. In fact, we are now expecting a gradual reduction in these external constraints and an improvement in the overall performance of the Dominican economy. Nevertheless, with the short-term outlook for the world economy so uncertain, the Dominican authorities have taken the necessary steps to encourage growth, while keeping it within limits that will ensure macroeconomic stability.

In this respect, the monetary authorities are taking a highly restrictive stance and the government is following a policy of fiscal austerity, by increasing savings and demonetizing them through the Central Bank. The combination of these two policies has begun to show surprisingly swift results, since the middle of February, in terms of exchange rate stability. Faced with the trade-off between stability and growth, the Dominican government has opted for stability, which it regards as a necessary condition for growth.

It was precisely to counteract the decline in Latin American exports of goods and services that the IDB has submitted for the consideration of its members a program to reactivate external trade financing in the region, offering new instruments and the revival of existing ones to support the private sector in its export efforts. The Dominican Republic has given its full support to this initiative, which it considers very timely under the circumstances.

We recognize that the IDB is in the process of adapting its policies and institutional mechanisms to the changing requirements and needs of the times and of its member countries. Yet the Dominican Republic would like to suggest some additional efforts:

- Among the IDB's new financial instruments, we should stress those that have the characteristics of being countercyclical, flexible and competitive. Such flexibility is essential at this time;
- The IDB should continue to support countries through investment loans, which we believe to be an effective financial instrument for promoting economic and social development in the region. This support is all the more urgent, given the shrinking inflow of foreign investment to the region;
- The Bank should consider replenishing the Multilateral Investment Fund (MIF), in light of the high value added that those resources represent in supporting countries' reforms and their efforts to develop and expand the role of the private sector;
- The MIF should play a leading role as an engine for development, given its proven track record in promoting projects that benefit microenterprises, offer alternative methods of commercial dispute settlement, foster financial reform, and strengthen capital markets;
- More resources should go to financing projects by domestic businesses through the private sector window, so as to achieve a better balance in the IDB's loan portfolio between foreign and domestic investors.

We would also suggest maintaining the existing safeguard measures, such as the one that guarantees that 65 percent of the loan portfolio will be earmarked for the Group A and B countries and 35 percent for the Group C and D countries.

We congratulate the Bank for the catalytic role it has played in initiatives for trade opening and economic integration in the region. In particular, the funding provided to the Free Trade Area of the Americas (FTAA) Secretariat is supporting an institution that is vital for continuity of the negotiations process in that forum. We hope that the Bank will continue to reinforce its support for this important undertaking.

We would like to take this occasion to request the Bank's support in promoting programs to foster contact between the governments involved in the negotiations and representatives of civil society, in order to ensure broad awareness of the importance of trade liberalization for the economies of our various countries.

The Dominican Republic is gratified at the support the IDB has given for improving equity in primary education through the introduction of new models for helping disadvantaged children in marginal areas, where school performance indicators lag behind those of urban areas. This is an extremely important program for ensuring that access to education is not closed off by the urgent priorities of daily survival facing the most disadvantaged groups.

Moreover, during the past year, our country benefited from an IDB loan operation to enhance the competitiveness of Dominican agriculture, through the introduction of new technologies to improve the health and safety of its food products. These technologies will help reduce production costs and make more efficient use of resources, which in turn will help reduce poverty in rural areas.

In this context, we want once again to thank the IDB and in particular its president, Enrique Iglesias, for the unconditional support given to consolidating and reforming the Dominican financial sector. In fact, our country now has an effective, transparent and flexible monetary and financial system. With this legislative initiative, our country has taken a giant step forward, not only in consolidating a healthy and efficient monetary and financial system, but also in constructing a modern constitutional state.

Now that the new architecture of the national monetary and financial system has been designed, Dominicans face a different but no less significant challenge: implementing the new Monetary and Financial Act. We are confident, however, that we can continue to count on the support of the Inter-American Development Bank in this regard.

Despite its setbacks, the Dominican Republic is a country on the move. The Inter-American Development Bank is our most important partner, and is supporting us in the institutional reforms we are undertaking to modernize the State, to reform the national financial system, to combat corruption, to improve the design and implementation of public results-based budgeting, and to establish structures that will allow civil society to participate in government management.

With the support of the IDB, the government is undertaking a series of social programs designed to make a substantial reduction in poverty, including a better and more just distribution of economic growth, and targeting higher percentages of funding to social investment and infrastructure of the kind that can be supplemented by private investment.

Again with IDB support, we are currently formulating a poverty reduction strategy, and we are doing so in consultation with the major representatives of civil society and the political parties, so that the strategy will have a better chance of becoming a State policy capable of achieving the goals and objectives of the Millennium Summit.

On this point, we recall that 189 countries, including both developed and developing countries, signed the agreement at the Millennium Summit in the year 2000. Reducing poverty is a shared responsibility, and developed countries need therefore to review some of the external causes so that these goals will be achievable, together with the objective of broadening and consolidating democracy and peace in a sustainable way.

The Dominican government, under the leadership of President Hipólito Mejía, has very properly recognized that the country's economic development is the responsibility of the Dominican people, and especially of its government, and for these purposes international solidarity is a very important complement.

The Inter-American Development Bank is a tremendous catalyst for all of these initiatives. For the support that the IDB has given the Dominican Republic, we are infinitely grateful to the Bank's teams and officials, and in particular to Enrique Iglesias, the president of this important financial institution.

First of all, on behalf of the government of Portugal, I would like to say what an honor it is to address this distinguished assembly. I would also like to thank the Italian government and the authorities of the Lombardy region for their warm hospitality and reception, and for their excellent organization of this meeting.

I share the thoughts expressed by the speakers who have preceded me at this meeting as to the complexity of the current international setting, and the particularly difficult situation that Latin American countries endured in 2002.

The economic performance of Latin American countries continues to be affected by the sluggish economies in the developed countries, a decline in world trade and deterioration in the terms of trade, the collapse of investment, and the effects of the crisis in Argentina.

It is cause for concern that the region now registers the lowest levels in recent years in terms of income per capita and investment, and that the trends in public deficits, public debt and unemployment are rising in most of the region's economies.

This weak economic growth has reversed the trend toward reducing the levels of poverty and of absolute poverty in the region. Unfortunately, the year 2002 saw more than 7 million Latin Americans slip into poverty, making it even more difficult to achieve the goals established in the Millennium Declaration.

With the negative developments of this past year, the outlook for the future continues to be marked by uncertainty, and is now aggravated by fears about the international economic fallout from the current geopolitical situation. In fact, the external and internal factors conditioning the growth of output in Latin America and the Caribbean could persist, making developing countries even more vulnerable.

In this context, we must welcome the stability that Brazil has achieved following the uncertainties that surrounded the last presidential election, and also the positive signals now emerging from the crisis in Argentina.

Given the difficulties that the region experienced in 2002, IDB lending was at its lowest in recent years. Even so, the Bank was again, for the ninth consecutive year, the primary multilateral financial institution supporting Latin American development.

This fact merely serves to highlight the responsibility of the Bank, as much in terms of its mandate—to concentrate on poverty reduction and continue to promote sustained economic and social development in the region—as the challenges to which the Bank itself will have to respond.

In this respect, I want to pay tribute to the Bank's efforts and to the spirit of true partnership that prevails among us all as members of this institution. This partnership has made it possible to take some important decisions in terms of striking a balance between the vectors that determine the institution's activities, by which I mean the need for operational flexibility, on one hand, and the need to preserve the Bank's financial integrity on the other. In particular, we welcome the approval of the new lending instruments that will strengthen the toolkit available to borrowing countries, and we hope to see the new capital adequacy model introduced promptly.

Yet I would also like to point out that, along with this diversification of lending instruments, we think it very important to reinforce the effectiveness of Bank operations in terms of their impact on development, by adopting a culture that is effectively results-oriented, one that is capable of setting goals and of measuring and evaluating progress achieved and applying lessons learned.

As we know, the year 2002 was particularly important in terms of the international community's reflection on and reaffirmation of its commitments to development assistance. Major events such as the intergovernmental conference in Monterey on development finance and the world summit in Johannesburg on sustainable development served once again to enshrine and consolidate the international community's commitment to such principles as ownership, accountability, good governance, partnership, coordination, and harmonization of operating policies and procedures.

In this context, we believe that the Bank has already made great progress, but we believe that it could go even further by drawing upon its most valuable asset, its capacity for political dialogue with beneficiary countries, as a means of putting those principles I have mentioned into practice in the field at the local level.

In this process, we must never forget to involve civil society and, of course, the private sector. Financing for the private sector must be a priority in any country's strategy for coherent and sustained development, in light of changes and trends in the world economy particularly in the region.

That is why we support the Bank's efforts to restructure and reinforce its current financing instruments for the private sector in general, and for small and medium-sized enterprises in particular, through a strategy to maximize the effectiveness of that support.

In the context of the evaluation of the Multilateral Investment Fund (MIF), we hope to see greater coordination in the short term between these instruments through implementation of the recommendations in the report of the Office of Evaluation and Oversight (OVE). We hope that the necessary coordination and consistency among the Bank's instruments will culminate in the outcome of the work now under way in the External Review Group (ERG) and the work to be done by the special committee of Governors on the MIF.

I would also like to convey my acknowledgment and gratitude to OVE and the ERG for the reports they have submitted to this meeting.

Nevertheless, I must express my concern that such an important issue as analyzing the IDB's private sector activity is the subject of two parallel and, to some extent, unrelated exercises. Portugal supports a broader, more comprehensive review covering all existing agencies and departments and seeking to put forward an integrated strategy of support for the private sector.

I believe that, with the leadership of President Iglesias, whom I would like to congratulate on his reelection to a further term at the helm of our institution, and with the commitment of all the Bank's shareholders to the success of its activities, we will productively address the issues under consideration here, and that the IDB will continue to make a strong contribution to development and progress in Latin America and the Caribbean.

Introduction

I would like to begin by adding my voice to those who have expressed congratulations to the organizers of this year's meeting. On behalf of the government of the Republic of Paraguay, I thank the government of Italy, the Lombardy region, and the city of Milan for their generous hospitality.

In just over one month after our meeting here, Paraguayans will go to the polls to elect a new government to guide their country's future.

The Year 2002 and the Current State of Affairs

It has been said that 2002 was one of the most critical years for Latin America in recent decades, and Paraguay's economy was no exception in this fragile environment. During the year, inflation jumped to 14.6 percent after four years in the single digits, our currency depreciated by 51.3 percent, and the fiscal deficit rose to 3 percent of GDP. Paraguay's GDP fell by about 2.2 percent.

Stagnant government revenues (particularly tax receipts), steady growth in nondiscretionary spending, and fallout from the economic slowdown were what caused the poor outturn in our public accounts. The sharp increase in inflation can be attributed to the steep depreciation of our currency, the marked increase in public service charges, and the hike in petroleum-based fuel prices.

External factors played an important role. Economic, financial and exchange instability in the region and the drop in international prices for cotton and soybeans had a negative impact on Paraguay's foreign trade. Even so, our trade deficit shrank in 2002, to stand at a level 40 percent lower than in 2001.

In 2001, Paraguay successfully implemented an International Monetary Fund (IMF) monitoring program. Based on this experience, the IMF agreed to move forward with a stand-by agreement designed to support structural changes considered to be of crucial importance to our country; however, the National Congress did not pass the legislative package. Nevertheless, we hope to resume talks with the IMF in May, once the economic team has been put together by the new government that will take office in August.

The government has implemented measures that have reversed short-term trends, returning monetary and exchange policy to their rightful role. After a 51-percent devaluation in 2002, our currency appreciated by more than 15 percent in the first months of this year, international reserves grew, and the exchange rate spread was narrowed, indicating lower expectations for a devaluation. Among the more significant measures were the regulation of financial investment of public funds and the return of tax receipts to the Central Bank.

Despite the difficulties of last year, 2003 is expected to bring positive GDP growth, an inflation rate comparable to last year's, and devaluation at acceptable levels consistent with variation in domestic prices. Prospects are brightest for the agricultural sector, owing to improvements in productivity, weather conditions, and international prices for our chief exports. The fiscal deficit is estimated to come in at about 2 percent of GDP, a level that we consider reasonable given the difficult times for both Paraguay and the region as a whole.

Implementation of the IDB-financed Fiscal Management Strengthening and Modernization Program should expedite administrative processing by computerizing a large part of the tax collection process and simplifying procedures for taxpayers, thus enabling us to significantly improve efficiency in this area.

We also expect the Single Export Window, recently implemented through a technical cooperation operation under the Multilateral Investment Fund, to streamline export procedures, reducing the time and costs involved by simplifying and automating processes and centralizing data.

With support from the Bank, a new government Contracts Act was passed and the Council to Promote the National Integrity System was established. In February of 2002, an interinstitutional cooperation agreement was signed with a view to combating the root causes of corruption in government.

A number of other important projects have been formulated and should be implemented in the near future, including reform of the public banking system, of the welfare system, and of the Cabinet structure. In addition to economic justification and resources, all of these will require a strong ability to build consensus, and we hope the new government that takes office later this year will be able to find that consensus. The first of these reform programs has seen a decisive step taken with the signing last January of a loan under the Project Preparation Facility that we hope will enable us to make clear progress toward implementation. The draft legislation for the other two reform programs is already before the Congress.

Integration within MERCOSUR

Although my country, like the rest of the region, is experiencing difficult economic times, the overall structure of its foreign debt continues to be long-term, with an average maturity of over 10 years and a balance of US$2,286 million, equivalent to 35 percent of GDP.

Paraguay possesses extraordinary energy potential. Together with our MERCOSUR partners Brazil and Argentina, we have hydroelectric projects such as Itaipú and Yacyretá that represent a combined investment on the order of US$30 billion (present value). The former generates 90,000 GWh, and the latter has a capacity of 17,000 GWh.

The Yacyretá project, financed by the IDB and the World Bank, has encountered numerous difficulties that have impeded completion, but we are studying a new financing proposal to bring it up to its full generating capacity. The partners need to reach agreement on the terms of negotiation and then submit the proposal to the two banks.

These two projects are helping us to achieve effective energy integration, which will not only produce economic benefits but is ultimately intended to have a profound social impact as well.

Our legislature, aware of our energy capacity and geographic position, and interested in diversifying that immense potential, has enacted a framework law that will allow a gas pipeline to be built under the exclusive aegis of the private sector and in an environment of legal certainty.

The aim is to integrate Bolivia's gas wells in the Tarija area by means of a pipeline that would allow for the thermal generation of electricity in Paraguay, in addition to other industrial and domestic uses of natural gas. In keeping with this integrationist view, we are negotiating with Brazil to supply electricity from the Itaipú power plant to the state of Paraná, which lies across the border from Paraguay.

A further example of the integration effort is the Western Integration Corridors Program. With cofinancing from the Bank and the Andean Development Corporation (CAF) in the amount of US$160 million, we are linking the major arteries of the MERCOSUR countries, connecting the Atlantic coast of Brazil with the Pacific coast of Chile by way of Paraguay and Bolivia, with a total investment of US$190 million.

Paraguay in the IDB, the MIF and the IIC

I echo my fellow Governors who have reaffirmed their commitment to preserving the financial well-being and soundness of our institution, and we acknowledge the difficult decision—especially in light of the times—taken recently to increase the lending fees. We also look forward to the prompt definition of a capital adequacy model for the Bank, which is currently being discussed by the Board of Executive Directors.

We also acknowledge the importance of having clear mechanisms for gauging the development impact of Bank-financed projects. We are concerned, however, that the cost of implementing this initiative—both the direct costs and the indirect costs implied by longer project preparation times and more conditionalities—may in the end significantly outweigh the expected benefits. We are comforted by the assurances given at the meeting of the Committee of the Board of Governors that such a situation will be avoided.

The Multilateral Investment Fund (MIF) is without a doubt a very efficient instrument for promoting private sector participation in our economies, and once again we wish to make known our hope that this instrument will continue to be available in the future. We therefore support the necessary efforts to secure a replenishment of resources that would enable the MIF to continue to operate without interruption.

We also welcome the actions taken by the Inter-American Investment Corporation (IIC); we feel they provide an appropriate response for the short and medium terms. We trust that the work of the External Advisory Group will provide key inputs for designing a long-term strategy for the IIC, as well as for the Bank Group's action in the private sector overall.

On the occasion of this meeting of the Boards of Governors, Paraguay will be signing an agreement with the IDB with the aim of promoting the efficient use of land resources and land-use management. The US$9 million provided by the Bank, together with the local counterpart funds, will help to increase the legal security of land tenancy in rural areas.

Conclusion

A long road lies ahead of us. The needs are great, and conditions are unfavorable. Nonetheless, we will continue to work to strengthen our country, put our macroeconomic house in order, and attempt to return to the path of sustainable growth.

We need to invest much more in education and health, attack the root causes of poverty and inequality, and create the right conditions so that the private sector—a true source of jobs and wealth—has the clear rules it needs to compete and develop. Our State must be reformed by increasing efficiency and transparency, thus contributing to the well-being of our people. In these efforts we hope to continue to enjoy the strong and decided support of the Inter-American Development Bank.

ADDRESS BY MR. MELITON J. AUIL, ALTERNATE GOVERNOR FOR BELIZE, ON BEHALF OF BELIZE, COSTA RICA, EL SALVADOR, GUATEMALA, HONDURAS AND NICARAGUA

On behalf of the governments of Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, I would like to express our appreciation to the government of Italy, the regional government of Lombardy and, in particular, the city of Milan, for their warm welcome and kind hospitality. It is always a pleasure to visit this lovely city.

On behalf of each and every one of the Central American countries, I would also like to thank the Inter-American Development Bank, and especially its President and our good friend, Mr. Enrique Iglesias, for their support to build a better future for our people. We take this opportunity to congratulate Mr. Iglesias on his reelection, and wish him every success in his new term. Our countries are proud of his leadership in the IDB Group.

This Annual Meeting is taking place at a difficult time for the world economy, particularly for a number of Latin American countries. Central America has not been immune to the slowdown in the world economy, the decline in the terms of trade, the weakening of capital inflows, and natural disasters.

While our countries promote growth, they carry on parallel efforts, investing in human capital, and attaining and consolidating macroeconomic stability and structural reforms, thus progressing quickly and efficiently in our insertion in the global economy.

Today, Central America is home to flourishing democracies, reaffirming its commitment to strong democratic values, the rule of law, and transparency in governance. Our nations continue the promotion of reforms to open up their market economies, improve an enabling investment climate, expand the role of the private sector in areas where it is more efficient than the public sector, and build a more effective State. Moreover, as part of our insertion in the global economy, our region is speeding Central American integration, taking actions to achieve the Puebla-Panama Plan objectives, and signing free trade agreements with a number of countries. At present, our free trade negotiations with the United States are critical for forging closer ties with the world's largest economy.

Projects such as the Puebla-Panama Plan, the Central American Common Market, the consolidation of customs, and free trade negotiations are areas in which the support of the Bank must continue. We urge that these areas be priorities on the agenda of the Bank Group, as they help achieve the objectives of development, growth and opportunities for our people. In our own country of Belize, we have faced the challenges and arranged to grasp the opportunities of the new realities. Both the public and private sector work in partnership to remove unnecessary bureaucratic friction and increase production efficiency to achieve international competitiveness. Testimony to this is an average growth of 6.6 percent over the last five years despite five storms and 9-11.

We welcome the support that international organizations are providing for Latin American countries that are grappling with socioeconomic crises today. Our countries provided timely support for the Bank's emergency programs and we hope those resources will help mitigate the difficult situation of the countries that are in need of them.

Although we consider that the Bank plays an important role in supporting countries in times of crisis, we emphasize the core mandate of the IDB should continue to be the support of sustainable development of our countries with a vision of the future, where investment lending plays a key role. In our view, liquidity problems and other initiatives managed by institutions such as the International Monetary Fund and Bladex should not be the IDB's mission. We do believe, however, that the current situation in the region calls for greater flexibility in investment lending programs, so that the Bank can promote their use in difficult circumstances. Long preparation phases, complicated and multiple conditionalities, and other features of these programs do not encourage their use in problematic times. We urge the Bank to take the necessary steps in addressing these matters.

Results-based instruments would expedite project execution. We ask the Bank's Board of Executive Directors and Management to make every effort to ensure that the region benefits in a prompt and timely manner from these instruments by creating the necessary framework and conditions for these results-based instruments.

Technical cooperation continues to be a very important product for all countries, particularly for small economies with a limited pool of skilled human resources. We, the Governors, should work together to ensure that these funds are continuously available in the Bank.

In difficult times, such as the ones the region is going through, the international markets pay closer attention to the financial management of the Bank's Group. Therefore, we wish to stress the importance to continue demonstrating to the markets the solid financial condition of the Bank, as well as our commitment to sustain it. The financial targets of the institution must mirror the conditions demanded by the markets, and the new products it offers, such as Emergency Programs.

The dynamic process of globalization is demanding broader reforms. We should continue to work to boost productivity, to further develop our capital markets, strengthen small business and microenterprises, strive for even closer integration and more open trade, and make other efforts in areas where the Multilateral Investment Fund has played or could play an important role. We support a replenishment of the MIF and hope that many countries will back our interest in providing additional financial resources that will confer high value added on private sector development in Latin America and the Caribbean.

Poverty and human development indicators, as well as the millennium goals, show that our region needs to make additional efforts in the social area, and in poverty reduction. The opportunities that come with free trade agreements, improvements in education, health and infrastructure are fundamental for sustainable poverty reduction, and should continue to be one of the Bank's priorities.

We still have countries with widespread poverty which still need resources from the Fund for Special Operations. We should open discussions on its replenishment which would enable the neediest economies to continue their poverty reduction programs, and create more opportunities in today's world in which countries are called to increase productivity and efficiency.

We are seriously concerned about the small number of Private Sector Department operations in Central America as a whole, and Belize in particular. We have repeatedly pointed out the need for greater efforts in this area but the results are not what we had hoped for. Once again, we reiterate our request that the Bank's private sector window step up its efforts to increase its presence in our region. To that end, we praise the efforts of the Board of Executive Directors to make the role of the Private Sector Department more dynamic. We hope that the private sector's action plan for the Group C and D countries yields concrete results.

We also would like to see more vigorous action by the Inter-American Investment Corporation in our Central American countries. We hope to see real support for small and medium-sized enterprises in the region.

We welcome the efforts of the External Review Group in pursuing an in-depth review of the IIC. Such review is a very positive step towards solidifying the Corporation's and the Bank's vision about the future of our efforts to accelerate the development of private enterprise in Latin America and the Caribbean. We encourage the Group's findings and stress the importance of the Charter of the Corporation, in which the governments clearly expressed our wish to support the development of small and medium-sized enterprise.

In closing, on behalf of the governments of Central America, we wish to reiterate to President Iglesias, Executive Vice-President Flannery, the Board of Executive Directors and Management, our countries' support for their efforts to ensure that the IDB Group assists Latin American and Caribbean countries as they strive to reduce poverty, speed up growth, become partners in the globalization process, create a conducive climate for investment, accelerate integration, expand free trade areas, develop capital markets, and strengthen microenterprises and small and medium-sized businesses, which are the engines of our economic progress.

It is an honor to address this meeting on behalf of the government of Peru, and to share with you the latest developments in the Peruvian economy and our perspective on the work and future role of the Inter-American Development Bank in our turbulent region.

In 2002, the Peruvian economy turned in a strong showing compared to other countries in the region and elsewhere, with GDP growth of 5.2 percent. In contrast, the other economies in the region posted negative growth averaging around –1 percent; the European economies stagnated, and the U.S. economy recovered with 2.4 percent growth, but with no certainty of sustainability. The difference between Peru's performance and that of the other countries in the region is attributable, in our opinion, to sound economic fundamentals based on strict fiscal discipline and prudent monetary policy, in a context of social peace and growing political consensus together with private investment promotion.

The current democratic government's strategy is to achieve sustained high economic growth that will contribute to reducing unemployment and poverty with low inflation and sufficient international reserves to both underwrite external account sustainability and equip us to compete globally. These objectives are appropriately reflected in Peru's strategy with the IDB.

Monetary policy has been prudent, resulting in the region's lowest inflation rate at just 1.5 percent, while domestic interest rates remained at historical lows for most of the year. The Peruvian currency also showed its strength with only a 2.3 percent devaluation, in contrast to the region's traditionally more solid currencies.

The Central Reserve Bank is, by constitutional mandate, an autonomous institution. The membership of its board, most of whom are elected or ratified by Congress, ensures its independence and policy stability.

On the fiscal policy front, the deficit was reduced to 2.2 percent of GDP, surpassing the original target of 2.3 percent of GDP and continuing with a clear downward trend. Tax revenue intake increased as a result of both economic reactivation and the process of legal and administrative reform, for an increase of 0.4 percent of GDP. Although this figure is still below the ideal tax burden of 15 percent to 16 percent of GDP, we are on track to achieve this objective.

Forecasts for 2003 call for GDP growth of between 4 percent and 5 percent, driven by the manufacturing and construction sectors. The consolidated public sector deficit will come down from 2.2 percent to 1.9 percent of GDP, and the Central Bank's inflation target of 2.5 percent would be maintained for this year.

The government has been designing a set of policies to make our economy more efficient and competitive. Within this context, the process of concessions will continue such that the private sector can carry out works in an environment of stable ground rules. In the area of competitiveness, we have been working closely with the Inter-American Development Bank.

Multilateral organizations, and in particular the IDB, play a key role in the realization of our program, not only because they will provide long-term financing but also because their technical assistance will enable a series of reforms to be implemented to allow us to consolidate and continue to make progress in reducing poverty and progressing beyond underdevelopment.

From experience, we know that the IDB's programs in Peru contribute to our national development objectives by supporting rural roads and sanitation projects, social programs such as FONCODES, modernization of the State, and investment programs for microenterprise and small businesses. The question then becomes how to be sure that this support to key sectors of our economy is making the maximum possible difference. In other words, how can we ensure that this support translates into tangible results that are sustainable over time? Multilateral financing that will raise the country's external debt level should also translate into better social indicators, better infrastructure, better institutions and better capacity to compete in a globalized world. We welcome the inclusion of development effectiveness in the IDB agenda. This is a very important matter and should lead us to seek out synergies in order to do more with less. I should like to state clearly that we support instilling a results-based culture in the IDB, but with the caveat that this policy be implemented in such a way so as not to raise transaction costs for operations with the borrowing member countries.

It is clear to us that delivering financial resources is not sufficient. Effectiveness in their use should be a priority objective in the IDB and in our countries. To this end, no amount of improvement in the Bank's internal procedures, or improvement in project design, monitoring and evaluation will be sufficient if we mean to increase the development effectiveness of the projects we finance with support from the IDB and other institutions. It is crucial to support the creation of solid institutions in our countries to ensure that the gains are sustainable over time. A heightened sense of ownership is needed so that projects can achieve their objectives and be implemented properly. The IDB's support in these areas is needed all the more.

It is therefore crucial that the Bank continue to support policy-based lending programs. We support the Board of Executive Directors' interpretation whereby resources not used in 2002 would be carried over to 2003 and 2004 within the overall envelope of US$4.5 billion approved in Fortaleza. Having said this, we would nevertheless add that we would rather have a Bank with fewer limitations and constraints on its operations. This area should be evaluated by the Bank's Management and Board of Executive Directors.

We gain nothing in speaking of development effectiveness, however, if the Bank does not have the right instruments to respond to the needs of its borrowing countries. The Bank will need to place new financial instruments at the disposal of its member countries if it is to remain relevant in the region. Much has changed since the Bank's creation 40 years ago. It must continue to show an extraordinary ability to adapt to the increasingly complex requirements of a globalized world.

The Bank's Management and Board of Executive Directors should approve new facilities to enable the countries to better manage their liabilities. We would like to request that market mechanisms be made available to the countries to give them access to derivatives such as currency and interest rate swaps through the IDB. Also, we propose eliminating IDB debt prepayment penalties. As in the previous case, prepayments give our governments choices in reducing debt or transferring it from one financing source to another, promoting efficient fiscal management and allowing more freedom of choice.

Finally, the ability to maintain intertemporal equilibria is a key attribute of economic policy in any country, favoring savings during economic booms that will allow active participation in solving the crises that beset us from time to time. Including mechanisms in support of this kind of intertemporal distribution of financing among the IDB's instruments would uphold the objective of increasing their effectiveness and development impact in the borrowing countries. In this sense, more flexibility in counterpart funding requirements in times of fiscal restraint would help us better manage our project portfolios and enhance program impacts and results without interrupting the pace of operations or interfering with investment plans.

Along the same lines, it is vital to have countercyclical instruments that allow us more room for maneuver in the face of fiscal constraints.

Social programs and State reform initiatives are not the only path to higher growth. International experience has shown that two of the most important conditions for achieving development are international trade and increases in private investment.

Let me turn now to international trade finance, looking broadly at credit facilities per se and other means of delivery. Foreign trade finance has always been scarce, and becomes even scarcer at times of crisis, making it impossible to look to external markets as a source of recovery. These problems hit hardest at the most vulnerable: small and medium-sized enterprises.

At the roof of these problems are underdeveloped financial systems. Missing, for instance, are trade monitoring mechanisms and credit insurance facilities. There is no foreign trade insurance, no trade credit securitization. Accordingly, Peru has voted in favor of the International Trade Finance Reactivation Program for the private sector. We are confident that this program will attenuate the problems to which I have referred here and hope that it will be renewed successively to provide continuous service to foreign trade operators and facilitate the global integration of our economies.

We also consider private investment—both domestic and foreign—to be the best engine of growth for our countries. Domestic savings shortfalls are the constraint in the short term, and limit our opportunities for growth to our ability to attract foreign savings.

Accordingly, IDB programs in support of investments—both large-scale ones such as the Camisea project and small and medium-sized enterprises—play an important part in achieving these objectives.

The IDB's role in promoting private investment in the region should be strengthened and expanded. We support the proposal put forward by the working group chaired by Pedro Pablo Kuczynski to create an IDB Group organization that would attend to the region's private investment needs in a consolidated way. This new organization should have a broad mandate, without heavy restrictions that could diminish its competitiveness vis-à-vis similar institutions. In today's world, our region needs an organization that can decide and move quickly, and we hope that this new one is provided with sufficient flexibility to meet our region's enormous demands for financing.

I would also like to mention the importance of the Multilateral Investment Fund's implementation of a series of innovative initiatives in the region, and the catalytic role it has played in fostering an enabling environment for private enterprise. Peru is committed to supporting the MIF's renewal and will willingly participate in the working group to attain that goal.

In closing, allow me to extend a cordial invitation, on behalf of President Toledo's administration, to next year's Annual Meeting of the Boards of Governors to be held in Lima. It is our hope that, by the time we have the pleasure of welcoming you to Lima, progress will have been made on many of the issues we are discussing in today's complex and uncertain environment.

FIFTH PLENARY SESSION

MARCH 26, 2003

CLOSING SESSION

ADDRESS BY MR. ENRIQUE V. IGLESIAS, PRESIDENT OF THE INTER-AMERICAN DEVELOPMENT BANK AND CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS OF THE INTER-AMERICAN INVESTMENT CORPORATION

Let me begin by again thanking the government of Italy; our Governor, Minister Giulio Tremonti; Deputy Minister Mario Baldassarri; and all their colleagues at Italy's Treasury Ministry for their support all year long in preparation for our meeting. I also want to express our appreciation for the message sent by Prime Minister Silvio Berlusconi for the Inaugural Session. Very special thanks are due as well to the Lombardy region and its President Roberto Formigoni, the city of Milan and its Mayor Gabriele Albertini, the Fiera Milano Convention Center, the meeting's Organizing Committee, and my friend, Gilberto Bonalumi. Your support has been crucial in making this meeting so successful.

It has been a very busy meeting. The most striking thing, given the situation in the world today, is that it took place at all. At one point we did have our doubts, and wondered whether the tragic world events would allow our Governors and special guests to attend. I am very pleased to see so many Bank Governors here, along with more than 3,000 other attendees. I am also pleased that our special guests honored us with their presence from the Inaugural Session to the many different seminars held over the course of the meeting.

This meeting mattered: first and foremost as a means to work toward dialogue, solidarity and peace. By being here in Italy, Latin America and the Caribbean show how much we value our relationship with the nonregional countries, so admirably represented on this occasion by Italy.

I want to touch on several points at this Closing Session. First, this meeting has helped foster cooperation between Italy and Latin America in a number of areas. At the Inaugural Session, Deputy Secretary of Foreign Affairs Mario Baccini offered an overview of Italy's bilateral cooperation with the countries of our region. But I wanted to mention two initiatives in particular. One is the signing of an agreement with Minister for Innovation and Technologies Lucio Stanca, establishing the Italian Trust Fund for Information and Communication Technology for Development with a contribution from the Italian government of 3 million euros. The other very important initiative is the launch of the Italian Agency for Latin America (IALA), with support from the Italian government in cooperation with the IDB. The IALA's core mission will be to strengthen ties between Italian small and medium-sized businesses and their counterparts in Latin America and the Caribbean. These two initiatives will lead to even closer cooperation with Italy, which will begin to bear fruit in the second half of this year, when Italy carries these initiatives into the heart of the European Union as it assumes the rotating presidency. We warmly welcome the Italian government's efforts to build stronger ties of cooperation with Latin America and the Caribbean.

Second, as on previous occasions, these meetings have given the region's ministers the opportunity to present their government programs and views of the economic picture to the world's financial and banking institutions.

Third, as has become tradition, the meeting served as the occasion for reaffirming specific cooperation agreements with our countries. Contracts were signed for over US$1.5 billion in loans and US$7 million in technical cooperation funding. Accords with the FAO and IFAD were strengthened through coordination meetings with those institutions.

Fourth, the prevailing economic conditions were a topic of discussion throughout the meeting. Clearly, this was one of the worst years for Latin America in decades. But the main message from this meeting is that things are starting to look up. There is cautious optimism about the region's future, as long as international conditions do not dim the bright outlook. Encouraging signs include new prospects for Argentina's economy and the solid macroeconomic management undertaken by the governments of Brazil and Ecuador. Expectations are high, and we expect them to be borne out.

All Governors expressed concern over the state of the economy in Latin America. We cannot overlook the fact that 2002 per capita income fell below 1997 levels. While not every country experienced this, the decline in the regional average was unmistakable. Our distinguished guest speakers at the Inaugural Session delivered more bad news: poverty has grown in recent years. This should come as no surprise; insufficient growth causes poverty to rise, as ECLAC's Executive Secretary noted. Another concern raised at the Inaugural Session is the low productivity of the Latin American economy. It is unacceptable to have productivity levels that are one-fourth those of Asian countries and one-third those of industrialized nations. If these conditions persist, the countries of the region will fall short of the Millennium Development Goals, especially as they relate to poverty. We need to focus on growth, poverty and productivity. But, I say again, these red flags are raised against the backdrop of favorable expectations expressed by the governments at this meeting.

Fifth, the seminars. A key aspect of the official and parallel seminars held over the course of this meeting is that they bring the Bank into contact with financial and business circles and the academic community to discuss important issues for Latin America and the Caribbean.

At the first seminar on financing private sector development, for instance, representatives from Latin America learned about Italy's considerable experience in the area of small and medium-sized enterprise. The field trip to Lombardy's thriving industrial district of Brianza and Monza gave all participants an excellent introduction to the so-called "Italian model," showcasing one way in which our work in this sector could continue in the region. Italy's experience—and especially that of Lombardy—must serve as a benchmark in setting the agenda for future Italian cooperation in Latin America and the Caribbean.

The first seminar also discussed the financing of business development, capital market development, and integral development: a very important topic at a time when the Latin American economy needs revitalizing. I also believe that support for small and medium-sized enterprises represents a new kind of cooperation between nonregional countries and Latin America. Big business in industrialized nations already has ties to Latin America with established bases of operation and lines of communication. Not so for small and medium-sized enterprises. The experience of European countries in this regard offers a very valuable source of inspiration.

The second seminar of the meeting also tied into the Italian experience, dealing with the introduction of information technology in governance. Prime Minister Berlusconi has advocated e-governance since the G-8 meeting in Genoa. A special partnership between Italy and the countries of the developing world is planned to introduce new public administration and governance methods. In an initial phase of this cooperation, six Latin American countries will deploy information technology with the aim of making their governments' activities more transparent and effective.

NGOs took part in the meeting to prepare for the third seminar, which addressed social inclusion. Social exclusion is a very serious issue and a major challenge facing Latin America. Examining Europe's experiences with social inclusion was very valuable, in my view, because the lessons learned can now be made part of the Bank's agenda. We were delighted to recognize the accomplishments of three individuals who have overcome obstacles to success, rising to positions of leadership in Latin America's political and intellectual life: Minister Nina Pacari, an Ecuadorian of indigenous descent who became a member of congress and now serves as foreign minister; Mr. Gilberto Rincón Gallardo, a prominent Mexican community leader who championed a law that sets the standard for social inclusion; and Minister Benedita da Silva, who rose from the favelas of Rio de Janeiro to the post of Minister of Social Assistance in the administration of President Lula da Silva. Their successes show how the barriers of social exclusion can be broken down, and more equitable integration truly achieved, when the right opportunities are available.

The fourth seminar raised the issue of global versus local, with which Europe has ample experience. Globalization is an ongoing phenomenon that is thoroughly reshaping the economy and society in many parts of the world. It opens up great opportunities, but carries great risks if asymmetries go uncorrected and local governments remain unengaged. These two alternative views—bottom-up locally and top-down globally—were the subject of a fascinating discussion here in Milan.

The fifth seminar, on jobs and worker protection, looked at case studies in the area of employment policies and programs.

Five more events were organized in parallel. One, dealing with institutional coordination on rural issues, featured the participation of the FAO, IFAD and other international organizations. The need for meaningful action in this area, after so many years of neglect, was evident. Another event brought together political leaders from Latin America and Europe on the subject of MERCOSUR. Milan's mayor hosted a meeting of his counterparts from other cities, and a discussion of the Washington Consensus featured the participation of Washington's International Economics Institute and Milan's Università Luigi Bocconi. Lastly, participants in the Europe/Latin America forum included the President of the European Commission and leading political figures of our region.

These Bank-sponsored seminars and parallel meetings organized at the initiative of Italian and international organizations reflect our institution's desire to foster dialogue on the major issues of the day.

Turning now to the addresses delivered by the Governors, there was much talk about the international economic conditions, and all voiced concern about a very important matter: the Bank's countercyclical role. The Bank has been the leading multilateral lender to Latin America for nine years. Last year, the total lending approved fell below the average for recent years as a result of very specific circumstances that excluded several countries—Argentina among them—from the Bank's lending activities. This year, however, Bank lending is expected to exceed $10 billion. All Governors also made very clear in their addresses that the current economic climate demands sound macroeconomic policies and a focus on good governance.

The governments in attendance at the International Conference on Development Financing in Monterrey pointed to domestic savings as essential in this regard, along with exports, good governance and macroeconomic policy. But they also noted the importance of international relations, and on that front Latin America is looking forward with great anticipation to progress with the multilateral meetings of the World Trade Organization. One area of great concern is agricultural protectionism. This steep duty is absorbed by our countries' economies and borne directly by the poor, since farm prices are affected. In this sense, it deepens poverty in our countries.

Regarding the region's social problems, the Governors urged renewed efforts by the Bank to help alleviate poverty and promote equity.

The private sector was another focus of the meeting. Mr. Pedro Pablo Kuczynski facilitated discussion as head of the External Review Group studying the Bank Group's private sector operations delivered through the Private Sector Department, the Corporation, and the Multilateral Investment Fund. This study offers an excellent opportunity for the Bank and its Governors to examine these operations as a whole and enhance coordination among the various private sector financing mechanisms.

A fifth key message out of the meeting was the importance of maintaining the institution's financial soundness, especially in these times of widespread economic crisis and distress in some Latin American countries. The Bank is on a sound footing. We enjoy top credit ratings worldwide, yet we must work consistently to maintain them. We need to continue exercising great care in the signals we send to markets. Many delegations here in attendance brought up the capital adequacy study in relation to this issue, which the Board of Executive Directors will address in the coming months with the aim of helping to preserve our greatest asset: a strong presence on international markets with the best credit rating available, earned through the prudent approach we have always taken.

A sixth theme of the meeting was development effectiveness. Several governments expressed concern that this condition might grow burdensome, a point certainly worth considering. But the issue of development effectiveness represents a great opportunity stemming not only from the questions donor countries may raise about the use of resources; it is also an opportunity for the countries that receive them. Effective social spending, for instance, is one of the best tools available today for addressing social problems. This carries enormous implications for our institution on either side: accountability for resources, and accountability for how they are used in the countries. Moreover, along these lines, it is also very important to preserve and deepen the Bank's capacity for dialogue with the countries, to help them brainstorm and find ways of working together. Effectiveness needs to become pervasive; it is not an issue that can be tackled solely from the perspective of Bank loans. What matters are the inroads development effectiveness makes into national policy; this is where we can be truly effective: by helping countries improve their use of resources and implementation of their economic and social programs.

A seventh issue raised was flexibility, or the need for the Bank to adapt to countries' changing conditions and needs. The Bank has been making progress on this, especially in 2002. You approved emergency lines of credit, reaffirmed policy-based lending, adopted the guarantee system, and launched a trade finance facility. We will continue developing and implementing these ideas. The Bank's 26 borrowing member countries are seeking more and new kinds of cooperation as they develop and their problems evolve. This means our spectrum of needs is very broad. Yes, we should be selective, but we must address these needs in the most effective way possible. I believe the Board of Executive Directors and the Committee of the Board of Governors should continue working on the issue of flexibility in the coming months, always bearing in mind that its natural counterpart is sound, efficient financial management in our dealings with the countries.

Lastly, the Governors supported the strengthening of the Multilateral Investment Fund. The Fund is a very valuable instrument for the Bank, and has exceeded initial expectations. This justifies making it stronger in the next several years. Another, related idea I have been pursuing with the Governors and Board of Executive Directors is the need for the Bank to embrace the concept of regional public goods. The Bank is the only multilateral financial institution with 30 years of experience marshaling this tremendous capital—cooperation among countries. Latin America is more cooperation-oriented than any other developing region, and the regional public goods concept builds on that. Much can be done by partnering in the areas of environment, health, education and governance. To accomplish this, the Bank needs to leverage its experience and incorporate the concept of regional public goods into its practices. I believe we can contribute substantially to enhanced regional cooperation and joint action.

At the Inaugural Session, I called this a special time of uncertainty and anguish. But it is also a time of opportunities. These opportunities flow from the fact that governments are taking an eminently responsible approach and, in the face of current complications, are not ceding to populist temptations that could lead to deviations that would make our countries' future more costly. That should be well understood.

But we also have the opportunity to take a longer, broader view toward a brighter future. We need to find the sources of our growth and cannot be satisfied with current levels. We cannot content ourselves with the way social problems are being dealt with. Our governments and institutions should be thinking medium- and long-term, looking for paths to economic growth and solutions to social problems, as Brazil's President Lula da Silva recently said. We need to find the right two-pronged approach that will yield real, long-term solutions. The Bank, I say again, is more than a bank. That has been the hallmark of our institution down through its history. Our institution may not be perfect, but it is a friendly institution that exists to serve its member countries. That is its reason for being. To that end, a cooperative relationship between Bank and governments is essential. For example—and I hope this does not sound like boasting—the Board of Executive Directors and Management are working together in a way I would go so far as to call a good model for international organizations. We also acknowledge as an institution that coordination with the International Monetary Fund and the World Bank is essential to meeting our countries' present needs. More than ever, we need to make common cause with subregional organizations, such as the Andean Development Corporation, the Financial Fund for the Development of the River Plate Basin, the Central American Bank for Economic Integration, and the Caribbean Development Bank. More than ever, pooling our efforts with these institutions is essential to meet today's steep challenges and the variety of country needs.

Mr. Chairman, this meeting in Europe, and in Italy for the first time, has been a great event for us once again. And let me add this: for all of us—Italians, Latin Americans, Caribbeans, and other members of the IDB family— history is, in the words of Benedetto Croce, the story of liberty. All of us profess the religion of liberty. We all agree, as Croce so eloquently put it, that "while history may not be an idyll, neither is it a tragedy. It is a drama in which all the actions, characters, and members of the chorus are in the Aristotelian sense guilty, guiltless, a mixture of good and evil. Yet the dominant theme is always that good comes of evil in the end. The saga is one of liberty striving to restore the social and political conditions for greater liberty, and always succeeding." This is the liberty that will lead to peace, the peace we all desire sooner, rather than later, in the history of this world. We all believe in liberty, peace and the future of our region. We are certain that, amid the opportunities opened up by today's crisis, now is the time to build a prosperous future.

Thank you all very much.

REPORT OF THE CHAIRMAN OF THE COMMITTEE OF THE IDB BOARD OF GOVERNORS ON ITS ACTIVITIES SINCE THE LAST ANNUAL MEETING

The Committee of the Board of Governors, appointed pursuant to Resolution AG-5/70, held its Eighty-sixth Meeting in Fortaleza, Brazil, on March 10, 2002. No meetings have taken place since then.

I. Eighty-sixth Meeting – Fortaleza, Brazil, March 10, 2002 (document CA-448)

Summary of the Eighty-fifth Meeting of the Committee

The Committee approved the summary of the Eighty-fifth Meeting of the Committee, held in Washington, D.C., United States of America, on January 17–18, 2002 (document CA-444 Rev.).

Report of the Chairman of the Committee of the Board of Governors of the Bank on the work done since the last Annual Meeting

The Committee Chairman reported on the activities carried out by the Committee over the past year. He highlighted the significance of the agreements on the increase in the cap on private sector lending; on the three windows to be established (emergency lending, policy-based lending and investment lending), on which an evaluation would be conducted after a three-year period; and on the financing matrix.

The Chairman recalled that the central goal of the discussions was to enhance the Bank's capacity to mobilize resources to support the development of the countries in the region. During the discussions, the Governors had expressed concern about the development effectiveness of the Bank, maintaining the Bank's financial soundness, and ensuring equitable access to Bank products for all the countries.

He was confident that the decisions made would improve the flexibility of the Bank's instruments so that needs in the region could be addressed.

Lastly, he highlighted the importance of coordination among the Governors, the Board of Executive Directors, and Management, which had contributed to the successful outcome of the discussions and decision-making process.

Remarks by the President of the Inter-American Development Bank (document CA-447)

President Iglesias reported on the main events in the world and in the region of Latin America and the Caribbean, and discussed the new challenges that were emerging from the international and regional debates.

He recalled the Bank's role as a key player in ensuring financial flows to its member countries and the supply of regional public goods. The challenge for the Bank, he stressed, would be to update itself in line with the changing needs and demands of its member countries, while reaffirming its origins and relevance and preserving its identity as well as its financial soundness.

The President highlighted the main achievements of 2001: approval of the new lending framework, the relevance of which would need to be reviewed in light of the development effectiveness of each instrument; the support provided for international trade through projects related to the FTAA negotiations, the Initiative for the Integration of Regional Infrastructure in South America, and the Puebla-Panama Plan; and the work of the External Advisory Group.

Mr. Iglesias mentioned the supply of regional public goods and the Millennium Development Goals for Latin America and the Caribbean as two of the new challenges emerging from international and regional debates.

Lastly, the President discussed the Bank's main priorities: strengthening country programming; enhancing evaluation capacity both in the Bank and in the countries; conducting a study on capital adequacy and developing the tools necessary to determine appropriate levels for loan loss provisioning and reserves depending on credit risk; ensuring the development effectiveness of the Bank's work; and maintaining consistency between these priorities and the Bank's work.

The challenge of being relevant. The future role of the IDB. Report of the External Advisory Group (document CA-446)

The Committee took note of the oral presentation given by Mr. José Ángel Gurría, External Advisory Group coordinator.

The Committee Chairman asked the Governors to make their comments on the report and any they might wish to make on the following agenda item, "Development effectiveness," at the same time.

Development effectiveness

- **Summary of OVE work on development effectiveness (document CS-3402)**
- **Reference: Development effectiveness at the IDB (document CS-3401)**

The Committee took note of the oral presentation given by Ms. K. Burke Dillon, Executive Vice-President of the Bank. The Executive Vice-President reviewed the activities carried out to date, including: portfolio monitoring; mid-term project evaluations; use of flexible lending instruments; implementation of the Project Alert Identification System (PAIS), a helpful tool for project monitoring; and the new guidelines for country papers.

Ms. Dillon reported that a database on lessons learned was being developed and an action plan was being formulated to improve the portfolio. In addition, Management was working on improving procedures for project review and internal organization and on strengthening the Country Offices, for example, by enhancing the coordination and distribution of responsibilities with Headquarters.

The Executive Vice-President stressed how important it was for the Bank to be providing assistance for strengthening the capacity of borrowers and executing agencies to prepare, implement and evaluate projects and to be cooperating with other multilateral development banks (MDBs) for project coordination.

Lastly, she reiterated that an incentive program should be set up to improve development effectiveness.

The Committee then took note of the statements made by Mr. Stephen Quick, Director of the Office of Evaluation and Oversight.

The Governors for Venezuela, Jamaica, Mexico, Japan, Nicaragua, Spain, Brazil, the United States of America, Germany and Canada took the floor to discuss this item and the Report of the External Advisory Group.

Report of the External Advisory Group. The Governors agreed to commend the Group itself and the Bank for the report presented, which concisely addressed the issues at hand for the Bank.

The Committee took note of the following main points raised:

- *Risk management.* The Governors agreed that the Bank's capital should be better used and that its framework for risk management should be improved. However, certain Governors specifically stated that they were against including the callable capital in the recommendation to make better use of the Bank's entire capital.

- *Competitiveness.* This was considered an important issue and it was recommended that mechanisms to improve market access in the region be reviewed.

- *Private sector.* The Governors agreed on the importance of the Bank's role as a facilitator of private financial inflows in the region. It was therefore important to improve the business environment so that private investment could become more efficient and more productive. Certain Governors suggested that the possibility of establishing an IDB affiliate be examined once the Bank had updated its risk management practices so that its new operational capacity under the new caps approved by the Governors could be demonstrated.

- Nonfinancial services:

  - Several Governors expressed support for the idea of using part of the net income of the Ordinary Capital to increase the availability of nonreimbursable technical cooperation funding, but indicated that the proposal required further analysis.

  - The Governors welcomed the recommendation that the mandate of the Multilateral Investment Fund (MIF) be extended.

  - With regard to the Fund for Special Operations, the Governor for the United States of America recommended that the system in place in other MDBs be used. Difficulties would arise if the IDB performance rating for the countries differed from the one being used by those MDBs.

- *Lending to subnational governments without sovereign guarantees.* Most of the Governors agreed that such lending was important and should be further examined, in particular by conducting an assessment of its potential impact on the Bank's financial soundness. It was also suggested that other alternatives be explored to provide support to subnational governments without sovereign guarantees.

- *Independent Business and Social Advisory Council.* A more in-depth study should be conducted on the need for such a council, which should include members with strong backgrounds in the social sectors.

Lastly, the Governors stressed that the report presented important issues that would require further consideration by the Board of Executive Directors of the Bank, in order to draw conclusions and issue recommendations for its future implementation.

Development effectiveness. The Committee recognized the quality of the documents presented and commended Management and the Office of Evaluation and Oversight for their work on this matter.

The Committee also recognized how difficult it was to measure effectiveness, especially for projects in the social sectors. A system should therefore be designed to measure social program effectiveness that included general considerations and made allowances for the particularities of each country.

It was stressed that the Bank should build on its comparative advantage, strengthen the countries' sense of ownership of the projects, and ensure project sustainability. It was also noted that participation by civil society could help enhance the quality of Bank products.

It was important that the effectiveness of Bank operations be measured and the Millennium Objectives be incorporated into the operations. In this regard, the usefulness of project performance reporting and drawing of lessons learned was highlighted.

The Governors welcomed the establishment of a separate development effectiveness evaluation unit, which would report directly to the Executive Vice-President and would review all projects for evaluability as part of the project approval process.

Lastly, the importance of the Bank evolving from an approval culture to a results-based culture was highlighted.

Other distribution:

Board of Executive Directors
Managers
Representatives

REPORT OF THE CHAIRMAN OF THE COMMITTEE OF THE IIC BOARD OF GOVERNORS ON ITS ACTIVITIES SINCE THE LAST ANNUAL MEETING

The Committee of the Board of Governors, established pursuant to Resolution CII/AG-3/92, held its Twenty-fourth Meeting in Fortaleza, Brazil, on March 9, 2002. No meetings have taken place since then.

I. Twenty-fourth Meeting – Fortaleza, Brazil, March 9, 2002 (document CII/CA-83)

Summary of the Twenty-third Meeting of the Committee

The Committee approved the summary of the Twenty-third Meeting of the Committee, held in Santiago, Chile, on March 17, 2001 (document CII/CA-80).

Progress report. Oral presentation

- **General Increase in Resources of the Inter-American Investment Corporation. Status of subscription of shares and payment of installments**
- **Admission of new members**

The General Manager of the Corporation reported on the status of the subscription of shares and payment of installments. The Corporation had received US$48 million (80 percent) for the first installment and US$30 million (46 percent) for the second installment.

With regard to the admission of new members, the General Manager noted that the admission of Belgium, Finland, Norway, Portugal and Sweden had been approved by the Board of Governors in March 2001. In July 2001, Sweden completed the necessary formalities and signed the respective documents, becoming the 38th member of the IIC. Norway followed in January 2002, becoming the 39th member.

The documentation for the admission of Belgium, Finland and Portugal was at various stages of the formalities, and the admission process for those countries was expected to be completed in the near future.

The Chairman of the Committee welcomed the new member countries of the Corporation. He also thanked the countries that were current in the payment of their installments and those that had even made early payments. He urged the countries with pending installments to make them presently.

The IIC's support for companies with nonregional majority ownership. Amendment of Article III, Section 1(b), of the Charter (document CII/CA-81)

The Committee took note of the oral presentation by the General Manager and considered the document setting out the proposal for the IIC to support companies with nonregional majority ownership, which would involve the amendment of Article III, Section 1(b), of the Charter.

The Governors stressed the need to continue supporting small and medium-sized enterprises in the region and the importance of the value added that the IIC's activities ought to have. In this regard, they referred to the need to evaluate the development impact of the IIC's operations.

The Governors for the United States of America, France, Germany, Colombia, Argentina, Mexico, Italy, Spain, and El Salvador took the floor to refer to this matter.

The Governor for Germany proposed—and the Committee agreed—that the Charter amendment be considered by the Board of Governors at its meeting on Tuesday, March 12, 2002.

Lastly, the Committee agreed that once the amendment was approved, the record would indicate that the Board of Executive Directors was being given a mandate to formulate policies on the terms and conditions for implementation of the amendment.

Other distribution:

Board of Executive Directors
Managers
IDB Representatives

PARTICIPANTS

CHAIRMAN OF THE BOARDS OF GOVERNORS
Giulio Tremonti

PRESIDENT OF THE INTER-AMERICAN DEVELOPMENT BANK AND CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS OF THE INTER-AMERICAN INVESTMENT CORPORATION
Enrique V. Iglesias

EXECUTIVE VICE-PRESIDENT OF THE BANK
Dennis E. Flannery

VICE-PRESIDENT FOR PLANNING AND ADMINISTRATION OF THE BANK
Paulo Paiva

GENERAL MANAGER OF THE CORPORATION
Jacques Rogozinski

SECRETARY OF THE BANK AND THE CORPORATION
Carlos Ferdinand

INTER-AMERICAN DEVELOPMENT BANK
INTER-AMERICAN INVESTMENT CORPORATION
OFFICIAL DELEGATIONS

Argentina

Governor

Roberto Lavagna
Ministro de Economía

Temporary Alternate Governors

Oscar Tangelson
Secretario de Política Económica
Ministerio de Economía

Guillermo Nielsen
Secretario de Finanzas
Ministerio de Economía

Leonardo Madcur
Subsecretario de Financiamiento
Ministerio de Economía

Margarita Aicardi
Dirección Nacional de Proyectos con Organismos Internacionales de Crédito
Ministerio de Economía

Advisors

Martín Bès
Director Ejecutivo Suplente
Banco Interamericano de Desarrollo

Ricardo Carciofi
Director Ejecutivo
Banco Interamericano de Desarrollo

Leonardo Costantino
Secretario Privado del Ministro de Economía
Ministerio de Economía

Pedro Lacoste
Vicepresidente
Banco Central

Claudio Lucione
Secretario Privado del Ministro de Economía

Felisa Miceli
Representante del Ministro de Economía

Adrian Nador
Secretario Privado del Ministro de Economía

Sebastián Palla
Jefe del Gabinete de Asesores del Secretario de Finanzas
Ministerio de Economía

Armando E. Torres
Director de Prensa
Ministerio de Economía

A. Guillermo Zoccali
Director Ejecutivo
Fondo Monetario Internacional

Austria

Temporary Alternate Governors

Walter Rill
Director
International Finance Institutions
Federal Ministry of Finance

Brigitte Windisch
Division for International Finance Institutions
Federal Ministry of Finance

Bahamas

Governor

James H. Smith
Minister of State for Finance

Alternate Governor

Ruth Millar
Financial Secretary
Ministry of Finance

Advisors

Janee McCartney
Under Secretary
Ministry of Finance

Carl Oliver
Senior Economist
Ministry of Finance

Barbados

Alternate Governor

Grantley Smith
Director of Finance and Economic Affairs
Ministry of Finance

Advisor

Virginia Mapp
General Manager
Securities Commission

Belgium

Alternate Governor

Franciscus Godts
Directeur à la Trésorerie
Ministère des Finances

Temporary Alternate Governor

René Legrand
Directeur à la Trésorerie
Ministère des Finances

Advisor

Johan Rosseel
Senior Counselor
Office of the Executive Director
Inter-American Development Bank

Belize

Alternate Governor

Meliton J. Auil
Governor
Central Bank of Belize

Advisor

Craig Leon
Senior Manager
Global Markets

Bolivia

Governor

Javier Comboni Salinas
Ministro de Hacienda

Temporary Alternate Governors

George Gray
Director Ejecutivo
UPADE

Rodolfo Castillo López
Director General
Agencia para el Desarrollo de la Sociedad de la Información en Bolivia

Brazil

Governor

Guido Mantega
Ministro de Estado do Planejamento, Orçamento e Gestão

Alternate Governor

Dante Coelho de Lima
Secretário de Assuntos Internacionais
Ministério do Planejamento, Orçamento e Gestão

Temporary Alternate Governors

José Carlos Miranda
Chefe da Assessoria Econômica
Ministério do Planejamento, Orçamento e Gestão

Cassio Casseb Lima
Presidente
Banco do Brasil, S.A.

Patricia Góes Bakaj
Secretária-Adjunta de Assuntos Internacionais
Ministério do Planejamento, Orçamento e Gestão

Luiz Fernando Furlan
Ministro de Desenvolvimento, Indústria e Comércio Exterior

Advisors

Maria Isabel Rezende Aboim
Gerente Executiva de Política e Gestão Financeira
BNDES

José Linaldo Gomes de Aguiar
Chefe do Departamento da Dívida Externa e de Relações Internacionais
Banco Central do Brasil

Álvaro Gurgel de Alencar Netto
Ministério das Relações Exteriores

José Frederico Álvares
Diretor Executivo Alterno
Banco Interamericano de Desenvolvimento

César Álvarez
Subsecretário-Geral da Presidência da República

Rubens Amaral, Junior
Coordenador Geral da América do Norte
Banco do Brasil

Osanan Lima Barros Filho
Diretor de Negócios Internacionais
Banco do Brasil

Benvindo Belluco
Coordenador Geral de Política com Organismos e Conjuntura
Ministério de Planejamento, Orçamento e Gestão

Augusto Brauna Pinheiro
Diretor de Negócios Internacionais
Banco do Brasil

Irene de Lima Camara
Cônsul-Geral Adjunta
Encarregada do Consulado-Geral em Milão

Otaviano Canuto dos Santos Filho
Secretário de Assuntos Internacionais
Ministério da Fazenda

Roberto Timotheo da Costa
Diretor
BNDES

Adézio de Almeida Lima
Sênior Vice-Presidente
Banco do Brasil

Viviane Pretti Feitosa
Coordenadora de Gabinete do Departamento da Dívida Externa e de Relações Internacionais
Banco Central do Brasil

José Fiorêncio
Superintendent
BNDES

Fernando de Magalhães Furlan
Chefe do Gabinete do Ministro
MDICE

Adalnio Senna Ganem
Ministério das Relações Exteriores

Jorge Marques Leandro
Conselheiro
Escritório do Diretor Executivo
Banco Interamericano de Desenvolvimento

Ricardo de Morães Monteiro
Assessor Especial
Ministério do Planejamento, Orçamento
e Gestão

Selma Pantel
Conselheira Principal
Escritório do Diretor Executivo
Banco Interamericano de Desenvolvimento

Beny Parnes
Diretor de Assuntos Internacionais
Banco Central do Brasil

Rossano Maranhão Pinto
Vice-Presidente de Negócios
Internacionais
Banco do Brasil

Murilo Portugal Filho
Diretor Executivo
Fundo Monetário Internacional

Ney Lopes de Souza, Junior
Secretário de Estado para Relações
Internacionais do Rio Grande do
Norte

Martus Rodrigues Tavares
Diretor Executivo
Banco Interamericano de Desenvolvimento

Canada

Temporary Alternate Governors

Charles Bassett
Senior Vice-President
CIDA

Roger Ehrhardt
Director General
International Financial Institutions
CIDA

Advisor

Karen Garner
Senior Policy Officer
Department of Foreign Affairs and
International Trade

Chile

Governor

Nicolás Eyzaguirre Guzmán
Ministro de Hacienda

Temporary Alternate Governors

Mario Marcel
Director de Presupuestos
Ministerio de Hacienda

Raúl Sáez Contreras
Coordinador de Finanzas Internacionales
Ministerio de Hacienda

Heinz Rudolph
Coordinador, Finanzas Internacionales
y Mercados Capitales
Ministerio de Hacienda

Marta Tonda
Jefa de Gabinete
Ministerio de Hacienda

Luis Eduardo Escobar
Asesor
Ministerio de Hacienda

Advisors

Pedro Auger
Consejero
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

Esteban Jadresic
Gerente, División Internacional
Banco Central de Chile

Tatiana Klima
Asesora del Ministro

Guillermo R. Le Fort
Director Ejecutivo
Fondo Monetario Internacional

Germán Quintana
Director Ejecutivo
Banco Interamericano de Desarrollo

Colombia

Governor

Roberto Junguito
Ministro de Hacienda y Crédito Público

Temporary Alternate Governors

Miguel Urrutia
Gerente General
Banco de la República

Sergio Clavijo
Codirector
Banco de la República

Fernando Tenjo-Galarza
Codirector
Banco de la República

Juan Ricardo Ortega
Viceministro Técnico
Ministerio de Hacienda y Crédito Público

Carlos Alberto Rodríguez
Director General de Crédito Público
Ministerio de Hacienda y Crédito Público

Juan Pablo Córdoba
Director
FOGAFIN

Roberto Steiner
Director Ejecutivo Alterno por Colombia
Fondo Monetario Internacional

Advisors

María Inés Agudelo
Asesora
Ministerio de Hacienda

Carolina Barco Isakson
Ministra de Relaciones Exteriores

Iván Duque
Asesor Principal
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

Luis Guillermo Echeverri
Director Ejecutivo
Banco Interamericano de Desarrollo

Rodrigo Llorente
Presidente
Inversiones Llorente Sardi Ltd.

Pedro Nel Ospina
Presidente
BANCAFE

Hugo Rangel Rincón
Subdirector de Crédito
Departamento Nacional de Planeación

Carolina Soto Losada
Asesora de Dirección
Departamento Nacional de Planeación

Sandra Suárez Pérez
Alta Consejera Presidencial - Plan Colombia
Presidencia de la República

Catalina Villa
Asesor del Director General de Crédito Público

María Elisa Zambrano
Directora General
Agencia Colombiana de Cooperación Internacional

Costa Rica

Governor

Jorge Walter Bolaños
Ministro de Hacienda

Alternate Governor

Francisco de Paula Gutiérrez
Presidente
Banco Central

Croatia

Temporary Alternate Governor

Vladimira Ivandic
Head, International Institutions Department
Ministry of Finance

Denmark

Temporary Alternate Governors

Kirsten Geelan
Head of Department
Royal Danish Ministry of Foreign Affairs

Asser Berling-Rasmussen
Head of Section
Department for Development Banks
Royal Danish Ministry of Foreign Affairs

Dominican Republic

Temporary Alternate Governor

Fernando Mangual
Director General
Oficina Nacional de Planificación

Advisor

Héctor Santos
Director Ejecutivo Suplente
Banco Interamericano de Desarrollo

Ecuador

Governor

Mauricio Pozo Crespo
Ministro de Economía y Finanzas

Alternate Governor

Gilberto Pazmiño
Viceministro de Finanzas

Temporary Alternate Governor

Mauricio Yépez Najas
Presidente del Directorio
Banco Central

Advisors

Borys Abad
Executive President
Pacif Petrol

Leopoldo Báez
Gerente General
Banco Central

Ramiro Galarza
Asesor
Banco Central

Francisco Game
Asesor
Banco Central

Finland

Alternate Governor

Matti Kääriäinen
Assistant Deputy Director General
Ministry of Foreign Affairs

Advisor

Veikko Soralahti
Counsellor, Unit for Latin America
and the Caribbean

France

Temporary Alternate Governors

Ambroise Fayolle
Sous-directeur, Dette
Développement et marchés émergents
Direction du Trésor

Alexandre Draznieks
Chef du Bureau F4
Pays émergents et autres pays en
développement ou en transition
Direction du Trésor

Sylvie Ravalet
Adjoint chef de bureau F3
Institutions multilatérales
de développement
Direction du Trésor

René Ghesquière
Chef
Services économiques pour
l'Amérique centrale et les Caraïbes
Mission économique et financière
de Mexico

Advisors

Roger-Jean Belbenoît
Conseiller financier
Mission économique et financière
de Brasilia

Stephane Latouche
Conseiller financier
Mission économique et financière
de Mexico

Pierre-François Weber
Économiste au service des relations
monétaires internationales
Banque de France

Germany

Temporary Alternate Governor

Karsten Hinrichs
Deputy Director General
Federal Ministry for Economic
Cooperation and Development

Advisors

Siegfried Borggrefe
Head of Division
Federal Ministry of Economics and Labor

Karin Langosch
Desk Officer
Federal Ministry of Finance

Maren Bettina Lipps
Desk Officer, IDB
Federal Ministry for Economic Cooperation and Development

Ernst Thien
Director
Deutsche Bundesbank

Haiti

Governor

Jean Faubert Gustave
Ministre de l'Économie et des finances

Temporary Alternate Governors

Ketleen Florestal
Coordonnatrice, Comité technique
Ministère de l'Économie et des finances

Venel Joseph
Gouverneur
Banque de la République d'Haïti

Yvon Guirand
Membre
Conseil d'administration
Banque de la République d'Haïti

Advisors

Ronal Gabriel
Directeur de la Monnaie et analyse économique
Banque de la République d'Haïti

Marc Hébert Ignace
Assistant-Directeur de la Supervision des banques et des institutions financières
Banque de la République d'Haïti

Honduras

Governor

Arturo Alvarado
Ministro de Finanzas

Advisors

Jacobo Nicolás Atala
Gerente General
Banco Mercantil, S.A.

Juan Miguel Canahuati
Presidente
ZIP Choloma

Jorge Ramón Hernández Alcerro
Ministro de Gobernación y Justicia

Sandra R. de Midence
Consejera
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

Jaime Rosenthal
Presidente
Banco Continental

Patricia Rosenthal
Contralor
Banco Continental

Yani Rosenthal
President
Cementos del Norte, S.A.

Israel

Temporary Alternate Governors

Israel Kaplan
Director
Finance, MDBs and Asia Division
Ministry of Finance

Esther Shuminer
Head of Projects Unit
International Affairs Division
Bank of Israel

Advisors

Guenia De Mayo
Counselor
Office of the Executive Director
Inter-American Development Bank

Yosef Shochat
Minister-Counselor
Commercial Affairs
Israeli Consulate in Milan

Italy

Governor

Giulio Tremonti
Minister of Economy and Finance

Temporary Alternate Governors

Mario Baldassarri
Vice Minister
Ministry of Economy and Finance

Lorenzo Bini Smaghi
Director General
International Financial Relations
Ministry of Economy and Finance

Augusto Zodda
Director General for General Affairs
Ministry of Economy and Finance

Antonio Finocchiaro
Deputy Director General
Bank of Italy

Giorgio Leccesi
Director, MDB Office
Ministry of Economy and Finance

Advisors

Sandro Cacchiarelli
Advisor to the Vice Minister
Ministry of Economy and Finance

Emiliano Corniola
Ministry of Economy and Finance

Teresita Foggia
Advisor to the Vice Minister
Ministry of Economy and Finance

Patrizia Guidarelli
Advisor
Ministry of Economy and Finance

Antonella Lazzeri
Advisor
Bank of Italy

Francesco Maronta
Ministry of Economy and Finance

Marco Milanese
Advisor to the Minister
Ministry of Economy and Finance

Fabrizio Ravoni
Spokesman for the Vice-Minister
Ministry of Economy and Finance

Guido Rivolta
Spokesman for the Minister
Ministry of Economy and Finance

Marina Sabatini
Director - General Affairs
Ministry of Economy and Finance

Patrizia Taglioni
Advisor
Ministry of Economy and Finance

Silvia Zucchini
Ministry of Economy and Finance

Japan

Temporary Alternate Governors

Kiyoshi Kodera
Deputy Director-General
International Bureau
Ministry of Finance

Masato Matsui
Deputy Director
Development Institutions Division
International Bureau
Ministry of Finance

Advisors

Hiroyuki Abe
Section Chief
Development Institutions Division
International Bureau
Ministry of Finance

Hideaki Chotoku
Multilateral Cooperation Division
Economic Cooperation Bureau
Ministry of Foreign Affairs

Keiichi Inamine
Governor
Okinawa Prefectural Government

Tetsuo Kabe
Counselor
Embassy of Japan in Italy

Akihide Maeda
Governor
Okinawa Prefectural Government

Shigeki Mitomo
Financial Attaché
Embassy of Japan in Italy

Masayuki Sakamoto
Director, Finance Department
Okinawa General Bureau
Cabinet Office

Yoshiki Shingaki
Section Chief, Budget and Funds Division
Finance Department
Okinawa General Bureau
Cabinet Office

Mexico

Governor

Francisco Gil Díaz
Secretario de Hacienda y Crédito Público

Alternate Governor

Agustín Cartens
Subsecretario de Hacienda y Crédito Público

Temporary Alternate Governors

Sandra Fuentes
Cónsul General en Milán

Jesús Marcos
Subgobernador
Banco de México

Alonso García
Director General de Crédito Público
Secretaría de Hacienda y Crédito Público

Felipe Calderón
Director General
BANOBRAS, S.N.C.

José Luis Romero
Director General
Banco Nacional de Comercio Exterior

Ricardo Ochoa
Director General Adjunto
Organismos Financieros Internacionales
Secretaría de Hacienda y Crédito Público

Carlos Flores Alcocer
Jefe, Oficina para Planeación Estratégica y Desarrollo Regional

Advisors

Guillermo Babatz
Director General
Sociedad Hipotecaria Federal

Jorge Collard
Director de Finanzas
BANOBRAS, S.N.C.

Irene Espinosa
Consejera Principal
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

José Luis Fernández
Consejero Comercial en Italia
BANCOMEXT, S.N.C.

Agustín García-López
Director Ejecutivo
Banco Interamericano de Desarrollo

Javier Guzmán
Director de Asuntos Internacionales
Banco de México

Timoteo Harris
Director de Financiamientos Internacionales
NAFIN, S.N.C

Sergio Lozoya
Consejero
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

Alejandro Muñoz Ledo
Gerente de Organismos Financieros Internacionales
BANCOMEXT, S.N.C.

Federico Patiño Márquez
Director General Adjunto de Fomento
NAFIN

Cecilia Ramos
Secretaria Particular del Subsecretario de Hacienda y Crédito Público

Salvador Rojas
Director General Adjunto de Finanzas
BANCOMEXT, S.N.C.

Miguel Siliceo Valdespino
Director Ejecutivo
Finanzas Internacionales
BANCOMEXT, S.N.C.

Netherlands

Temporary Alternate Governor

Karel van Kesteren
Director
United Nations and International
Financial Institutions Department
Ministry of Foreign Affairs

Advisors

Pieter Moorrees
Policy Advisor
Foreign Financial Relations
Directorate
Ministry of Finance

Jan Plantinga
Senior Policy Advisor
South America Division
Ministry of Foreign Affairs

Marinus van Wier
Deputy Head, IFI Section
Ministry of Foreign Affairs

Nicaragua

Alternate Governor

Eduardo Montealegre
Ministro de Hacienda y Crédito
Público

Temporary Alternate Governor

Mario Alonso
Presidente
Banco Central de Nicaragua

Advisors

Adolfo Argüello
Gerente General
Banco Uno

Azucena Castillo
Presidente Ejecutiva
Fondo de Inversión Social
de Emergencia

Juan Julio Posada
Asistente Ejecutivo
Banco Central de Nicaragua

Salvador Sacasa Cisne
Asesor Económico del Ministro de
Relaciones Exteriores

Jorge Wong Valle
Asesor
Banco Mundial

Norway

Temporary Alternate Governors

Ingrid Glad
Assistant Director General
Royal Ministry of Foreign Affairs

Ingvild Belle
Counselor
Royal Ministry of Foreign Affairs

Advisor

Susan Eckey
Head of Unit
Ministry of Foreign Affairs

Panama

Governor

Norberto Delgado Durán
Ministro de Economía y Finanzas

Alternate Governor

Domingo Latorraca M.
Viceministro de Economía
Ministerio de Economía y Finanzas

Temporary Alternate Governors

Aracelly Méndez
Directora de Crédito Público
Ministerio de Economía y Finanzas

Bolívar Pariente C.
Gerente General
Banco Nacional de Panamá

Advisors

Peter Allen
Asesor Económico
Ministerio de Economía y Finanzas

Gustavo Chellew
Asesor del Ministro
Ministerio de Economía y Finanzas

Eduardo Linares
Director Ejecutivo Suplente
Banco Interamericano de Desarrollo

José Manuel Pérez
Director
Programa de Desarrollo Sostenible
de Darién

Paraguay

Governor

Alcides Jiménez Quiñónez
Ministro de Hacienda

Alternate Governor

José Ernesto Büttner Limprich
Viceministro de Economía
e Integración
Ministerio de Hacienda

Advisors

César Addario
Asesor del Ministro de Hacienda

Orlando Ferreira Caballero
Director Ejecutivo
Banco Interamericano de Desarrollo

Luis Meyer
Ministro Secretario Técnico de
Planificación

Peru

Governor

Javier Silva Ruete
Ministro de Economía y Finanzas

Alternate Governor

Kurt Burneo Farfán
Viceministro de Hacienda
Ministerio de Economía y Finanzas

Temporary Alternate Governors

José Pablo Morán Val
Embajador del Perú en Italia

Roberto Seminario
Embajada del Perú en Italia

Advisors

Luis Guiulfo
Director Ejecutivo
PROINVERSION

Juan José Marthans
Superintendente de Banca y Seguros

Andrés Montoya
Asesor
Ministerio de Economía y Finanzas

Juan José Neyra
Consejero
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

Ricardo Palma-Valderrama
Director Ejecutivo
Comisión Ministerial Organizadora de la
Asamblea BID/CII 2004

Javier Pérez de Cuéllar
Embajador del Perú en Francia

Jaime Pinto Tabini
Director Ejecutivo Suplente
Banco Interamericano de Desarrollo

Renzo Rossini
Gerente de Estudios Económicos
Banco Central de Reserva

Julio Velarde
Director
Banco Central de Reserva

Roberto Vélez Arce
Funcionario Consular
Milán

Edgar Zamalloa
Ministerio de Economía y Finanzas

Portugal

Alternate Governor

Miguel Frasquilho
Secretário de Estado do Tesouro
e Finanças
Ministério das Finanças

Temporary Alternate Governors

José Moreno
Subdirector Geral de Assuntos
Europeus e Relações Internacionais
Ministério das Finanças

Manuela Ferreira
Chefe de Divisão Direcção-Geral de
Assuntos Europeus e Relações
Internacionais
Ministério das Finanças

Advisors

Pedro Gonçalves
Chefe de Gabinete do Secretário de
Estado do Tesouro e Finanças
Ministério das Finanças

Nuno Leal de Faria
Director Adjunto do Departamento
de Relações Internacionais
Banco de Portugal

Slovenia

Governor

Dušan Mramor
Minister of Finance

Alternate Governor

Irena Sodin
State Under-Secretary
Ministry of Finance

Spain

Alternate Governor

Juan Costa Climent
Secretario de Estado de Comercio
y Turismo
Ministerio de Economía

Temporary Alternate Governors

Manuel Lagares Gómez
Director
Gabinete del Secretario de Estado

Gonzalo Ramos Puig
Director General de Financiación
Internacional
Ministerio de Economía

Ángel Martín Acebes
Subdirector General
Instituciones Financieras Multilaterales
Ministerio de Economía

Ángel Torres Torres
Subdirección General
Instituciones Financieras Multilaterales
Ministerio de Economía

José María Hernando
Consejero Económico y Comercial de
España en Milán

José Luis Kaiser
Asesor del Secretario de Estado
Ministerio de Economía

Luis Maldonado
Asesor del Ministro de Economía

Advisors

Enrique Alberola
Responsable de la Unidad de
Economías Latinoamericanas

Enrique Alejo González
Director General de Comercio
e Inversiones
Ministerio de Economía

José Luis Curbelo Ranero
Director de Análisis e Inversiones
COFIDES

Federico Ferrer Delso
Director General
Departamento Internacional
Instituto de Crédito Oficial

José Gasset Loring
Presidente
COFIDES

Bernardo Hernández
Asesor, Financiación Internacional
Ministerio de Economía

Emilio López-Viñuela
Subdirector General
Política Comercial para Iberoamérica
Ministerio de Economía

Paz Pérez Pernas
Ministerio de Economía

Paloma Ruiz Esteller
Directora
Ministerio de Economía

Mercedes Sánchez Pedrosa
Jefa de la Unidad de Apoyo
DG de Cooperación con Iberoamérica
AECI

Manuel Solbes
Director Comercial y de Desarrollo
Corporativo
COFIDES

Alberto Virellas Gomes
Subdirector General de Cooperación
con Países de América del Sur
AECI

Suriname

Governor

Humphrey Stanley Hildenberg
Minister of Finance

Advisors

Georgetine Tjalim
Economic Affairs Department
Ministry of Finance

Adelien Wijnerman
Treasury Department
Ministry of Finance

Sweden

Governor

Ruth Jacoby
Director-General for Development
Cooperation
Ministry for Foreign Affairs

Alternate Governor

Stefan Emblad
Director
Department for Global Development
Ministry for Foreign Affairs

Temporary Alternate Governor

Peder Spangberg
Desk Officer
Ministry of Foreign Affairs

Advisors

Göran Holmqvist
Director, Department for Latin America
SIDA

Calle Svensson
Senior Advisor
SIDA

Christina Wedekull
Counselor
Office of the Executive Director
Inter-American Development Bank

Switzerland

Governor

Oscar Knapp
State Secretariat for Economic Affairs

Alternate Governor

Peter Bischof
Head, Latin American Division
Swiss Development Cooperation

Temporary Alternate Governor

Martin Rohner
Head of Division
Multilateral Financial Institutions
State Secretariat for Economic Affairs

Advisors

Lukas Siegenthaler
State Secretariat for Economic Affairs

Alois Rafael Steiger
Desk Officer, Multilateral Affairs
Swiss Agency for Development and
Cooperation

Roy Suter
State Secretariat for Economic Affairs

Trinidad and Tobago

Governor

Keith Rowley
Minister of Planning and Development

Alternate Governor

Victoria Méndez-Charles
Permanent Secretary
Ministry of Planning and Development

Advisor

Anslem London
Secretary for Finance and Planning

United Kingdom

Temporary Alternate Governors

Margaret Cund
Head of International Financial Institutions Department
Department for International Development

Ian Brooks
Manager for Regional Development Banks
International Financial Institutions Department
DFID

Advisors

Ben Davies
Rural Livelihoods Adviser for Latin America
DFID

Ann Keeling
Deputy Director and Senior Social Development
Overseas Territories Department
DFID

Stewart Mills
Senior Counselor
Office of the Executive Director
Inter-American Development Bank

Daniel Shimmin
Policy Analyst
Europe, Middle East and Americas Policy Department
DFID

Jeremy Stickings
Rural Livelihoods Adviser for Multilateral Institutions
DFID

Richard Teuten
Head
Latin America Department
DFID

United States

Temporary Alternate Governors

Randal K. Quarles
Assistant Secretary of the Treasury

William E. Schuerch
Deputy Assistant Secretary
Department of Treasury

Nancy Lee
Deputy Assistant Secretary of Eurasia and Latin America
Department of Treasury

Heidi Cruz
Director
Office of Latin America and the Caribbean
Department of Treasury

William Block
Deputy Director
Latin American Office
Department of Treasury

Stephen Altheim
International Economist
Office of Multilateral Development Banks
Department of Treasury

Kerri Di Zoglio
Financial Economist
Office of Economic Policy
Department of State

Kurt Van Der Walde
Financial Economist
Office of Economic Policy
Department of State

Advisors

Jorge L. Arrizurieta
Alternate Executive Director
Inter-American Development Bank

David Bloomgarden
Senior Counselor
Inter-American Development Bank

José A. Fourquet
Executive Director
Inter-American Development Bank

Gene Harris
Director
Commercial Liaison Office
Department of Commerce

Ivy Kosmides
Counselor
Inter-American Development Bank

Barbara White
Associate Director
Commercial Liaison
Department of Commerce

Uruguay

Alternate Governor

Isaac Alfie
Coordinador de la Asesoría
Macroeconómica y Financiera
Ministerio de Economía y Finanzas

Temporary Alternate Governors

Alejandro Atchugarry
Ministro de Economía y Finanzas

Carlos A. Barros
Embajador del Uruguay en Italia

Julio De Brun
Presidente
Banco Central del Uruguay

Advisors

Umberto Della Mea
Gerente
División Política Económica
Banco Central del Uruguay

Ariel Fernández Cova
Gerente
División Operaciones
Internacionales
Banco Central del Uruguay

Carlos Steneri
Representante Financiero
Ministerio de Economía y Finanzas

Venezuela

Temporary Alternate Governors

Diego Luis Castellanos
Presidente
Banco Central

Antonieta Arcaya
Cónsul General
Milán

Advisors

Mary Dager
Asesora Técnica en Asuntos
Internacionales
Banco Central

Luis Dávila
Gerente de Finanzas
Petróleos de Venezuela

Alejandro Dopazo
Director de Crédito Público
Ministerio de Finanzas

Rosamaría Fuenmayor
Asesora
Ministerio de Finanzas

Rafael Isea
Consejero
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

José Alejandro Rojas Ramírez
Director Ejecutivo
Banco Interamericano de Desarrollo

Rubin Villavicencio
Asesor
Banco Central de Venezuela

Argentina and Haiti

Ricardo Carciofi
Martín Bès
Ericq Pierre
Miriam Centurion

Austria, Denmark, Finland, France, Norway, Spain and Sweden

Michel Planque
Pekka Hukka
Christina Wedekull
Marta Blanco
Paal Aavatsmark

Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago

Luis Alberto Rodríguez
Havelock Brewster
Maureen Vernon
Talmon Brice
Joanne Riley

Belgium, Germany, Israel, Italy, The Netherlands and Switzerland

Michaela Zintl
Paolo Cappellacci
Guenia De Mayo
Johan Rosseel
Robert Pantzer

Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua

José Carlos Quirce
José Carlos Castañeda
Sandra Midence
Raúl Barrios

Bolivia, Paraguay and Uruguay

Juan E. Notaro Fraga
Jorge Crespo-Velasco
Orlando Ferreira Caballero
Ignacio Corlazzoli

Brazil and Suriname

Martus Rodrigues Tavares
José Frederico Álvares
Selma Pantel
Jorge Leandro

Canada

Alan F. Gill
Jonathan Caldicott
François Lafond

Chile and Ecuador

Germán Quintana
Victor Acosta
Pedro Auger
Francisco Vélez-Arízaga

Colombia and Peru

Luis Guillermo Echeverri
Jaime Pinto Tabini
Juan José Neyra
Iván Duque

Croatia, Japan, Portugal, Slovenia and United Kingdom

Yoshihisa Ueda
Toshitake Kurosawa
Takara Teranishi
Stewart Mills
Andrej Kavcic

Dominican Republic and Mexico

Agustín García-López
Héctor Santos
Irene Espinosa
Sergio Lozoya

Panama and Venezuela

José Alejandro Rojas
Eduardo Linares
Rafael Isea
Fidel Ramos

United States of America

José A. Fourquet
Jorge L. Arrizurieta
Ivy Melinda Kosmides
David Bloomgarden

EXECUTIVE DIRECTORS AND ALTERNATE EXECUTIVE DIRECTORS OF THE INTER-AMERICAN INVESTMENT CORPORATION

Argentina and Haiti

Ricardo Carciofi
Martín Bès

Austria, Germany, Italy and The Netherlands

Michaela Zintl
Paolo Cappellacci

Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago

Luis Alberto Rodríguez
Havelock Brewster

Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua

José Carlos Quirce
José Carlos Castañeda

Bolivia, Paraguay and Uruguay

Orlando Ferreira Caballero
Jorge Crespo-Velasco

Brazil and Suriname

Martus Rodrigues Tavares
José Frederico Álvares

Chile and Colombia

Germán Quintana
Luis Guillermo Echeverri

Denmark, Finland, France, Norway, Sweden and Switzerland

Paal Aavatsmark
Robert Pantzer

Dominican Republic and Mexico

Agustín García-López
Héctor Santos

Ecuador and Peru

Jaime Pinto Tabini
Victor Acosta

Israel, Japan, Portugal and Spain

Marta Blanco
Yoshihisa Ueda

Panama and Venezuela

José Alejandro Rojas
Eduardo Linares

United States of America

José A. Fourquet
Jorge L. Arrizurieta

China, People's Republic of

Jianxiong He
Deputy Director-General
People's Bank of China

Xiangyan Song
Deputy Division Chief
People's Bank of China

Yuebin Yang
Counselor
Ministry of Foreign Affairs

Shuo Zhou
Deputy Division Chief
People's Bank of China

China, Taipei

Chung-dar Lei
Assistant Director General
Foreign Exchange Department
Central Bank of China

Ki-Tseng Lin
Taipei Representative in Italy

Min Li Lin
Director
Taipei Representative in Italy

Jia-ning Liu
First Secretary on Home Assignment
Department of International Organizations
Ministry of Foreign Affairs

Ching-Nain Tsai
Deputy Director General
Bureau of Monetary Affairs
Ministry of Finance

Tzu-pao Yang
Secretary General
International Cooperation and
Development Fund

Korea

Sung-Soo Eun
Director
International Finance Bureau
Ministry of Finance and Economy

Dae-Bong Kang
Associate Director
International Organizations Team
International Relations Office
Bank of Korea

Gyu-Bok Kim
Commissioner
Korea Financial Intelligence Unit
Ministry of Finance and Economy

Geum-Young Song
Deputy Director
Latin America and Caribbean
Regional Cooperation Division
Ministry of Foreign Affairs and Trade

Jung-In Youn
Deputy Director
International Financial Institutions
Division
Ministry of Finance and Economy

Russia

Andrei Bokarev
Advisor
Department of International Cooperation
and External Debt Management
Ministry of Finance

Vladimir Davydov
Director
Institute of Latin America
Russian Academy of Sciences

Vladimir Goriounov
Deputy Chairman
Central Bank of the Russian Federation

A. Kondakov
Director
Department of Economic Cooperation
Ministry of Foreign Affairs of the
Russian Federation

Dimitri Levchenkov
Deputy Head
Department of Programs for Development
of the Economy and Cooperation
Ministry of Economic Development

A. Maslov
Advisor
Department for International Cooperation
Administration of the Government
Russian Federation

African Development Bank

Leila Mokaddem
Senior Investment Economist

Inés Sagrario
Consultant

Andean Community

Alfredo Barnechea
Consejero Especial del Secretario General

Guillermo Fernández de Soto
Secretario General

Andean Development Corporation

Ana Mercedes Botero
Directora

L. Enrique García
Presidente Ejecutivo

Fidel R. Jaramillo B.
Vicepresidente de Estrategias de Desarrollo

Jesús Miramón García
Director de Negocios Corporativos

Hugo Sarmiento
Vicepresidente de Finanzas

Eleonora Silva
Directora de Tesorería

Peter Vonk
Vicepresidente Corporativo
Banca de Inversión y Asesoramiento Financiero

Asian Development Bank

Bindu N. Lohani
Secretary

Bank for International Settlements (BIS)

Angus Butler
Deputy Chief Representative

Gregor Heinrich
Chief Representative Designate
Representative Office for the Americas

Agustín Villar
Senior Economist
Monetary and Economic Department

Caribbean Community (CARICOM)

Byron Blake
Assistant Secretary-General
Regional Trade and Economic Integration

Caribbean Development Bank

Compton Bourne
President

P. Desmond Brunton
Vice-President of Operations

Patricia Tudor
Vice-President

Center for Latin American Monetary Studies

Kenneth G. Coates Spry
Director General

Central American Bank for Economic Integration (CABEI)

Roberto Pereira
Jefe de Financiamiento Externo

Nick Rischbieth Glöe
Tesorero

Luis Ernesto Santamaría
Gerente Financiero

Central American Monetary Council

Miguel A. Chorro
Secretario Ejecutivo

Sergio F. Recinos
Subsecretario Ejecutivo

Council of Europe Development Bank

Apolonio Ruiz Ligero
Vice Governor

Economic Commission for Latin America and the Caribbean (ECLAC)

Mario Cimoli
Oficial de Asuntos Económicos
División de Desarrollo Productivo y Empresarial

Rolando Franco Díaz
Director
División de Desarrollo Social

Manuel Marfán Lewis
Director, a.i.
División de Desarrollo Económico

José Antonio Ocampo Gaviria
Secretario Ejecutivo

European Bank for Reconstruction and Development (EBRD)

Bruno Balvanera
Head of Business Development Department

Fabrizio Saccomanni
Vice-President
Evaluation and Operational and Environmental Support Department

European Central Bank

G. Pineau
Deputy Director General
International and European Relations

Francisco José Ramón Ballester
Economist
International and European Relations

European Commission

Roberto Bendini
Administrateur

Mario Caivano
Asesor

Francisco Da Camara
Director General para América Latina

Pedro de Sampaio Nunes
Director
Directorate-General Information Society

Marco Formentini
Responsable, Políticas Sectoriales

Pilar Juárez
Administrator

Gareth MacNaughton
Directorate-General Information Society

Patricia Maugain
Administradora Principal

Andrea Mogni
Principal Administrator

European Investment Bank (EIB)

Jean-Louis Biancarelli
General Director
General Directorate for Lending Operations

Claudio Cortese
Director
Latin America and Asia Department

Yves Ferreira
Loan Officer - Latin America

Isabel Martín Castellá
Vice-Chairman

Matthias Zoellner
Head of Division
Latin America

Financial Fund for the Development of the River Plate Basin

Alfonso Kreidler
Presidente

Walter Villalba
Secretario Ejecutivo

Food and Agriculture Organization of the United Nations (FAO)

Gabriel Bellon
Representante Adjunto en Uruguay

Henri Carsalade
Assistant Director-General
Technical Cooperation Department

Maximiliano Cox
Director
División de Desarrollo Rural

Margarita Flores
Chief
ESAF

J. R. Deep Ford
Economista de Sistemas
Alimentarios

Gustavo Gordillo de Anda
Subdirector General
Representante Regional para
América Latina y el Caribe

Claudio Gregorio
Oficial Encargado
Servicio III, TCIL

David A. Harcharik
Deputy Director-General

Paul Lewin
Consultor
Oficina Regional para América
Latina y el Caribe

Antonio Pérez
Consultor Economista Agrícola

Mabel Saíz
Economista

Roberto Samanez
Jefe de la Rama de Asistencia
en Políticas

Fernando Soto Baquero
Oficial de Políticas
Costa Rica

Iberian-American Federation of Financial Institutions (FIBAFIN)

Ernesto Francisco Figueredo Coronel
Presidente
Asociación de Empresas Financieras
del Paraguay

Jorge Aníbal Figueredo Fleitas
Presidente
Financiera Atlas S.A. E.C.A.

Norberto Giudice
Secretario General

Alan Muñoz
Vicepresidente

Inter-American Council of Trade and Production

Antonio Estrany y Gendre
Presidente

Inter-American Housing Union (UNIAPRAVI)

Gerardo M. Gonzales
Representante Residente

Inter-American Institute for Cooperation on Agriculture (IICA)

Roger Guillén
Secretario de Coordinación
CORECA
Consejo Agropecuario
Centroamericano

M. Carmen López Campos
Directora de Cooperación para
Europa

Felipe P. Manteiga
Representante ante los Estados
Unidos de América

Marac Meassick
Especialista en Planeamiento
Estratégico

Sergio Sepúlveda
Director
Desarrollo Rural Sostenible

Terry Evon Vogt
Deputy Director General

International Finance Corporation

Georgina Baker
Manager
Global Financial Markets
Department

Stefania Berla
Principal Syndications Officer

Marcos Brujis
Manager
Latin America and Caribbean
Department

Suellen Lazarus
Director
Syndications and International
Securities Department

Paolo Martelli
Country Manager - Colombia
Latin America and Caribbean
Department

Karl Voltaire
Director, Global Financial
Markets Department

International Fund for Agricultural Development

Veronica Alliende
Latin America and the Caribbean
Division

Vanda Altarelli
Advisor

Lennart Båge
President

Nicola Favia
Senior Policy Coordinator

Vincenzo Galastro

Jean-Jacques Gariglio
Country Portfolio Manager
IFAD

Pablo Glikman
Country Portfolio Manager
Latin America and the Caribbean
Division

Raúl Hopkins
Regional Economist

Bruce Hamilton Moore
Coordinator
The International Land Coalition

Paolo Silveri
Evaluador de Operaciones en
América Latina

Raquel U. de Peña-Montenegro
Director
Latin America and the Caribbean
Division

Marie Caroline Upham
Programme Officer

International Investment Bank

Mikhail Ermolov
Board Counselor

Mikhail Sarafanow
Chairman of the Board

International Labour Organization

Alberto Criscuolo
Consultant
Small Enterprise Development

María Sabrina de Gobbi
Experta en el Programa de Finanzas
Sociales

Roberto di Meglio
Especialista

Anne Posthuma
Senior Specialist in Small
Enterprises Development

Gerald B. Rodgers
Director
Policy Integration Department

Merten Sievers
SME - Expert

Juan Somavía
Director General

Valentina Zuin
Consultant

International Monetary Fund

Francisco Baker
Senior Press Officer

Charles Blitzer
Assistant Director

Martine Guerguil
Assistant to the Director

Claudia Hareau
Interpreter

Jorge Márquez-Ruarte
Deputy Director
Western Hemisphere Department

Anoop Singh
Director
Western Hemisphere Department

Islamic Development Bank (ISLAMIBANK)

Amadou Boubacar Cisse
Vice-President, Operations

Latin American Association of Development Finance Institutions (ALIDE)

Rommel Acevedo
Secretario General

Latin American Economic System (SELA)

Antonio Leone
Coordinador
Programa Iberpyme

Latin American Export Bank

José Castañeda
Presidente Ejecutivo

Christopher Hesketh
Primer Vicepresidente - Tesorería

Jaime Rivera
Vicepresidente Ejecutivo

Latin American Federation of Banks

Laury M. De Cracco
Directora Ejecutiva
Asociación Bancaria de Venezuela

Maricielo Glen
Secretaria General

Robert Marcuse
Asesor

Ignacio Salvatierra
Presidente

Latin American Reserve Fund (FLAR)

Roberto Guarnieri
Presidente Ejecutivo

Alfonso Machado
Director Adjunto
Operaciones Financieras

Dennis Meléndez
Director de Estudios Económicos

Multilateral Investment Guarantee Agency (MIGA)

Ileana Boza
Regional Manager

Patricia Veevers-Carter
Manager
ECA/LAC

Nordic Development Fund (NDF)

Jesper Andersen
Regional Manager

Jens Lund Sorensen
President

Nordic Investment Bank (NIB)

Erkki Karmila
Executive Vice-President

Lars-Åke Olsson
Senior Vice-President

Oddvar Sten Ronsen
Senior Vice-President

Jón Sigurdsson
President and CEO

OPEC Fund for International Development

Y. Seyyid Abdulai
Director General

Said Aissi
Assistant Director-General

Luis González
Senior Operations Officer

Rómulo Martínez

Organisation for Economic Co-operation and Development (OECD)

Sergio Arzeni
Head
LEED Programme

Marcella Deluca
Analyst
Center for Education and Innovation

Nanno Mulder
Economist
Economics Department

Raymond Torres
Head of the Employment Analysis and Policy Division

Marilyn Yakowitz
Head, Latin America and Brazil Programs

Organization of American States (OAS)

César Gaviria
Secretario General

Fernando Jaramillo
Jefe de Gabinete

Jorge López
Secretario Privado del Secretario General

Organization of Iberian-American States for Education, Science and Culture

Carlos H. Gómez
Director General de Recursos para la Cooperación

Pan American Health Organization (PAHO)

Daniel López-Acuña
Director
Program Management

Cristina Torres
Asesora Regional en Desarrollo de Políticas de Salud

United Nations

Françoise Gaspard
Maîtresse de conférences à l'École des Hautes Études en Sciences sociales

Sergei Kambalov
Deputy Executive Coordinator
Secretariat of the UC ICT Task Force

Rolf Georg Wichmann
Chief, Office of the Executive Director
UN Habitat - Regional Office for Latin America and the Caribbean

United Nations Children's Fund (UNICEF)

Ximena de la Barra
Asesora Regional de Política Social
Oficina Regional para Latinoamérica y el Caribe

United Nations Conference on Trade and Development (UNCTAD)

Osvaldo Agatiello
Programme Coordinator
South-South Trade Promotion Programme

Carlo Federico Cattani
Senior Advisor on Trade Finance

Bruno Masier
President
World Trade Point Federation

Carolina Quintana
Regional Coordinator for Trade Point in the Americas

United Nations Convention to Combat Desertification

Michael Johnson
Liaison Officer
North American Liaison Office

Alejandro Kilpatrick
Responsable de Programas Adjuntos para América Latina y el Caribe del Mecanismo Mundial

Per Rydén
Managing Director

Ana Teresa Sáez
Programme Manager
Latin America and the Caribbean
Global Mechanism

Cheikh M. Sourang
Senior Programme Manager and
Deputy Managing Director

United Nations Development Programme (UNDP)

Guido Bertucci
Director
Division for Public Administration
and Development Management

Oscar de Rojas
Director
Financing for Development Office

Lyssette Henríquez
Asesora Técnica Principal
Programa de Integración Productiva

Luisa Recchia
Programa de Gestión Urbana

Anna K. Tibaijuka
Secretaria Ejecutiva
ONU-HABITAT

United Nations Educational, Scientific and Cultural Organization (UNESCO)

Paul Falzon
Chief
Development Banks Section

United Nations Industrial Development Organization (UNIDO)

Gustavo Aishemberg
Director
Office for Latin America and
the Caribbean

Graziano Bertogli
Deputy Head
Investment and Technology
Promotion Office

Carlos A. Magariños
Director-General

Vincenzo Pianese
Industrial Promotion Office

Francisco Sercovich
Office of the Director-General

World Bank

Paola Agostini
Senior Economist

Katherine Bain
Civil Society Team Leader

Jean-Claude Balcet
Senior Regional Coordinator

Mark Cackler
Manager
Agriculture and Rural Development
Latin America and Caribbean
Region

Carlos Cuevas
Lead Financial Economist

Marialisa Motta
Private Sector Development
Specialist

Guillermo Perry Rubio
Chief Economist
Latin America and Caribbean
Region

John Redwood
Director
Environmentally and Socially
Sustainable Development
Department

Stefano Scarpetta
Labor Market Advisor

Josefina Stubbs
Senior Social Development
Specialist

World Meteorological Organization (WMO)

Francisco Villalpando
Program Manager
North, Central America and
the Caribbean
Technical Cooperation Department

World Trade Organization (WTO)

Francisco Thompson-Flôres
Deputy Director-General