INTER-AMERICAN DEVELOPMENT BANK
INTER-AMERICAN INVESTMENT CORPORATION

PROCEEDINGS

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

Seventeenth Annual Meeting of the
Board of Governors of the Corporation

Fortaleza, Brazil
March 2002

This publication contains the official record of and additional information on the Forty-third Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Seventeenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation, held jointly in Fortaleza, Brazil, from March 11–13, 2002. It includes the resolutions approved between the Forty-second and Forty-third Annual Meetings of the Bank and those approved during the latter of these meetings, as well as the resolutions approved between the Sixteenth and Seventeenth Annual Meetings of the Corporation and those approved during the latter of these two meetings. It also contains the addresses delivered at the meetings and the lists of participants, which include the official delegations, Senior Management and Boards of Executive Directors of the Bank and the Corporation, and observers.

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The Inaugural Session opened under the chairmanship of the Governor for Chile, Mr. Nicolás Eyzaguirre Guzmán. The Agendas of the meeting of the Bank and the meeting of the Corporation (see page 5) were then approved. The outgoing chairman reported on the activities of the Committee of the Board of Governors of the Bank and the Committee of the Board of Governors of the Corporation since the previous Annual Meeting[1] and expressed words of farewell.[2] Subsequently, Mr. Martus Rodrigues Tavares, Governor for Brazil, was elected Chairman of the Boards of Governors.

The Inaugural Session was attended by His Excellency Mr. Fernando Henrique Cardoso, President of the Federative Republic of Brazil; His Excellency Mr. Gustavo Noboa, President of the Republic of Ecuador; and His Excellency Mr. Alejandro Toledo, President of the Republic of Peru.

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 approved the report of the Committee of the Board of Governors of the Bank on work performed since the previous Annual Meeting. The report appears on page 179.

2. The Annual Report of the Bank and financial statements for 2001

During the Second Plenary Session, the President of the Bank reported to the Board of Governors on the activities conducted by the institution in 2001 and on the current situation of and prospects for Latin America and the Caribbean.

During the Second Plenary Session, the Governors adopted Resolutions AG-2/02, AG-3/02, and AG-4/02, 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, 2001.

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$70.2 million in convertible currencies from the General Reserve of the Fund for Special Operations, as set forth in Resolution AG-3/02.

3. Site and date of future annual meetings of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation

During the Fifth Plenary Session, the Board of Governors adopted Resolution AG-5/02, whereby it was decided that the Forty-fourth Annual Meeting of the Board of Governors would be held in Milan, Italy, from March 24–26, 2003.

1 Documents AB-2159 and CII/AB-798 contain the text of these reports.
2 Document AB-2202, CII/AB-839 contains the text of this address.

The Board of Governors also adopted Resolution AG-6/02, whereby appreciation was expressed for the invitations extended by the Governors for Peru, Japan, the Bahamas, Panama, Belgium, Costa Rica, and Mexico. In accordance with the procedure for determining the site of the Annual Meeting appearing in Resolution AG-1/76, the Board of Executive Directors was asked 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.

4. Election of Executive Directors of the Bank

At the request of the Chairman of the Board of Governors of the Bank, the Governors for Brazil and France acted as tellers and tallied the votes in the fifteenth general election of Executive Directors of the Bank. Pursuant to the tellers' report, the Secretary announced that the Governors authorized to vote according to Article VIII, Section 3(b)(ii) of the Agreement Establishing the Bank, had elected the following Executive Directors for the term beginning July 1, 2002:

Mr. Marcel Massé	Canada
Mr. Ricardo Carciofi	Argentina and Haiti
Mr. Martus A. Rodrigues Tavares	Brazil and Suriname
Mr. Agustín García-López	Dominican Republic and Mexico
Mr. José A. Rojas	Panama and Venezuela
Ms. María Cecilia Otoya	Colombia and Peru
Mr. Germán Quintana	Chile and Ecuador
Mr. Juan E. Notaro	Bolivia, Paraguay, and Uruguay
Mr. José Carlos Quirce	Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua
Mr. Luis Alberto Rodriguez	Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago
Ms. Michaela Zintl	Belgium, Germany, Israel, Italy, the Netherlands, and Switzerland
Mr. Michel Planque	Austria, Denmark, Finland, France, Norway, Spain, and Sweden
Mr. Yoshihisa Ueda	Croatia, Japan, Portugal, Slovenia, and the United Kingdom

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 approved the report of the Committee of the Board of Governors of the Corporation on work performed since the previous annual meeting. The report appears on page 185.

2. Annual Report of the Corporation and financial statements for 2001

During the Fourth Plenary Session, the Governors adopted Resolution CII/AG-1/02, approving the financial statements of the Inter-American Investment Corporation for the financial year ending December 31, 2001, in accordance with Article IV, Section 2(c) of the Agreement Establishing the Corporation.

3. Remarks by the Chairman of the Board of Executive Directors and report of the General Manager of the Corporation

During the Fourth Plenary Session, the Governors took note of the introductory remarks by the Chairman of the Board of Executive Directors and of the report by the General Manager of the Inter-American Investment Corporation on its past activities and its plans for the near future.[3]

4. Election of Executive Directors of the Corporation

At the request of the Chairman of the Board of Governors of the Corporation, the Governors for Brazil and France acted as tellers and tallied the votes on the seventh general election of Executive Directors of the Corporation. Pursuant to the tellers' report, the Secretary announced that the Governors authorized to vote according to Article IV, Section 4(c) of the Agreement Establishing the Corporation, had elected the following Executive Directors for the term beginning July 1, 2002:

Mr. Ricardo Carciofi	Argentina and Haiti
Mr. Martus A. Rodrigues Tavares	Brazil and Suriname
Mr. Agustín García-López	Dominican Republic and Mexico
Mr. José A. Rojas	Panama and Venezuela
Mr. Jaime Pinto Tabini	Ecuador and Peru
Mr. Germán Quintana	Chile and Colombia
Mr. Orlando Ferreira	Bolivia, Paraguay, and Uruguay
Mr. José Carlos Quirce	Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua
Mr. Luis Alberto Rodriguez	Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago

[3] Document CII/AB-828 contains the text of this report.

Ms. Michaela Zintl	Austria, Germany, Italy, and the Netherlands
Mr. Álvaro Rengifo	Israel, Japan, and Spain
Mr. Paal Aavatsmark	Denmark, France, Norway, Sweden, and Switzerland

Carlos Ferdinand
Secretary of the Bank and of the Corporation

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

1. Report of the Chairman of the Board of Governors and Chairman of the Committee of the Board of Governors on the work done since the last annual meeting

2. Election of the Chairman of the Board of Governors

3. Annual Report of the Bank. Financial statements for 2001:

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

4. Election of Executive Directors for the term 2002 to 2005

5. Place and date of future annual meetings of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation

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

1. Report of the Chairman of the Committee of the Board of Governors on its work since the last annual meeting

2. Election of the Chairman of the Board of Governors

3. Annual Report of the Corporation. Financial statements for 2001

4. Election of Executive Directors for the term 2002 to 2005

5. Remarks by the Chairman of the Board of Executive Directors

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

RESOLUTION AG-7/01

REMUNERATION OF THE EXECUTIVE DIRECTORS OF THE BANK

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 of the Bank and made recommendations in that regard;

The Board of Governors

RESOLVES:

To accept, the recommendation of Section 2.2(i) of the Report of the Special Committee of the Governors contained in document AB-2143, and pursuant to Article VIII, Section 2(b)(v) of the Agreement Establishing the Bank, to increase by 5 percent the remuneration paid to the Executive Directors and by 6.2 percent the remuneration paid to Alternate Executive Directors, effective July 1, 2000.

(Adopted June 8, 2001)

RESOLUTION AG-8/01

SITE AND DATES OF THE FORTY-THIRD ANNUAL MEETING OF THE BOARD OF GOVERNORS

The Board of Governors

RESOLVES:

To hold the Forty-third Annual Meeting of the Board of Governors in Fortaleza, Brazil, from March 11–13, 2002.

(Adopted August 31, 2001)

RESOLUTION AG-9/01

LENDING TO THE PRIVATE SECTOR

WHEREAS, by Resolution AG-1/99 of February 22, 1999, the Board of Governors approved the proposal in document CS-3170-14 to authorize the Board of Executive Directors to increase the level of private sector operations to up to 5 percent of the amount of loans outstanding, not including emergency loans;

WHEREAS, document CS-3170-14 further proposed that the Board of Executive Directors would review such level of private sector operations within two years with a view to proposing any further increases, given the circumstances at that time and experience gained; and

WHEREAS, the Board of Executive Directors, by document GN-2172, has forwarded to the Board of Governors the report of Management recommending that the Board of Governors authorize a further increase in the maximum level of private sector operations;

The Board of Governors

RESOLVES:

1. To authorize the Board of Executive Directors to raise the ceiling on private sector loans and guarantees to 10 percent of the amount of loans and guarantees outstanding.

2. For the purpose of the limitation specified in paragraph 1. above:

   (a) "private sector loans and guarantees" shall be deemed not to include political risk guarantees for which reinsurance is contracted except to the extent of retention amounts designated under the Bank's reinsurance guidelines; and

   (b) "the amount of loans and guarantees outstanding" shall be deemed not to include the amount of emergency loans outstanding.

3. Such private sector loans and guarantees, including political risk guarantees for which reinsurance is contracted pursuant to the Bank's reinsurance guidelines, shall be included in loans and guarantees made by the Bank for the purpose of determining limitations on operations under Article III, Section 5 of the Agreement Establishing the Inter-American Development Bank and under the applicable Bank policies.

4. The authorization granted to the Board of Executive Directors in paragraph 1. above is further subject to the condition that the Board of Executive Directors shall have determined that:

   (a) Management has prepared and presented to the Board of Executive Directors an adequate plan to fully integrate private sector operations in all country programs, including country papers and programming missions;

   (b) Management has put in place a well-functioning system to assess and manage risk associated with private sector operations;

   (c) Management has put in place a mechanism for regular reporting to the Board on the status of the private sector portfolio; and

   (d) Management has put in operation an improved system of public disclosure of private sector projects approved by the Bank.

5. The Board of Executive Directors shall monitor the use of reinsurance, as referred to in paragraph 2(a) above, and shall review the status of such reinsurance operations before permitting the level of private sector loans and guarantees, plus such reinsurance, to exceed a combined total of 10 percent of the amount of loans and guarantees outstanding.

6. The Board of Executive Directors shall direct the Office of Evaluation and Oversight to complete, within three years of the date of the approval of this Resolution, a review to determine the developmental effectiveness and additionality of private sector activities relative to other Bank activities.

7. Management shall develop and implement a comprehensive strategy for support of private sector development in the Region as well as a private sector Action Plan for C and D countries.

(Adopted on December 12, 2001)

RESOLUTION AG-1/02

AGREEMENT ON MEASURES FOR ENHANCING THE RESPONSE CAPACITY OF THE INTER-AMERICAN DEVELOPMENT BANK

WHEREAS:

It is necessary for the Governors to deliberate periodically on the mandates and objectives of the Bank within the framework of discussions on the role of multilateral development banks within the international financial system;

For the purpose of promoting sustainable economic and social development, regional integration and the reduction of poverty in Latin America and the Caribbean and pursuant to Resolution AG-5/01, the Committee of the Board of Governors has considered proposals to increase the Bank's capacity to respond to new requirements in its borrowing countries, while preserving its financial soundness;

In its meeting held on January 17 and 18, 2002, the Committee of the Board of Governors discussed the contents of Document CS-3399 entitled "Management Proposal – Lending Framework" and Document CS-3400 entitled "Foreign Exchange Financing (the Matrix)" and recommended that an Agreement on Measures for Enhancing the Response Capacity of the Bank be submitted to the full Board of Governors for approval;

The Board of Governors has, in approving the Report on the Eighth General Increase in the Resources of the Inter-American Development Bank (Document AB-1704) and the Agreement on Concessional Resources of the Bank and Related Matters (Document AB-1960), established: (1) a limit on the amount of policy-based lending of 15 percent of the cumulative lending program under the Eighth Replenishment; (2) indicative targets requiring the Bank to lend 35 percent of total lending to countries with per capita Gross National Product below certain levels, and to lend 40 percent of the total volume and 50 percent of the total number of Bank loans for operations oriented towards social equity and poverty reduction; and (3) limits on the percentage of total costs of any investment project that may be financed in foreign exchange by the Bank, and the aforementioned limits require modification or the approval of exceptions in order to adopt the measures recommended by the Committee of the Board of Governors;

The Board of Governors

RESOLVES THAT:

The agreement recommended by the Committee of the Board of Governors which is set forth in the Annex to this resolution is hereby approved.

The Board of Executive Directors and Management are hereby directed and authorized to take all necessary steps to implement the agreement set forth in the Annex to this resolution.

(Adopted March 1, 2002)

AGREEMENT ON MEASURES FOR ENHANCING THE RESPONSE CAPACITY OF THE INTER-AMERICAN DEVELOPMENT BANK

Lending Framework

A new Lending Framework is approved, consisting of three categories of lending: Investment Lending, Policy-Based Lending, and Emergency Lending, subject to the specific limitations and requirements set forth in this document.

The aforementioned Lending Framework shall be implemented as of January 1, 2002. The Board of Executive Directors will review the results of implementation of the Lending Framework, report on the findings, and provide recommendations for consideration of the Board of Governors at the Annual Meeting of the Board of Governors to be held in 2005. This review will also include the implementation of: (a) measures to enhance the Bank's development effectiveness; (b) measures to enhance the development effectiveness of each lending category, particularly Policy-Based and Emergency Lending; and (c) the establishment and utilization of new lending instruments.

The Bank shall adopt measures to strengthen the development effectiveness of all the instruments of its lending categories. These measures shall address the following aspects to improve quality at entry and the quality of the Bank's portfolio: (a) operative aspects of programming and project preparation and execution; (b) internal organization and approval procedures for operations, taking into consideration the recommendations of the Office of Evaluation and Oversight; (c) monitoring and evaluation systems; (d) continued efforts to strengthen country programming by improving country papers and analytical and diagnostic work on public sector management and fiduciary safeguards; and (e) continued efforts to strengthen coordination and harmonization with other bilateral donors and multilateral financial institutions on analytical assessments, policy and procedures, financial sector reforms, and codes and standards.

Investment Lending

The Bank shall focus on increasing borrowers' capacity to use investment lending.

The policy regarding the percentage of foreign exchange financing of total costs established in paragraphs 2.91 to 2.94 of Document AB-1704 shall be modified as indicated in the "proposed text" included in Document CS-3400 of January 11, 2002.

Investment Loans shall have a minimum disbursement period of three years, excluding direct loans to the private sector, innovation loans, sector facility loans, project preparation and execution facility loans, technical cooperation loans, and emergency reconstruction facility loans. No exceptions to this requirement may be approved.

The existing Emergency Reconstruction Facility shall be expanded to include non-market, non-natural, unanticipated emergencies.

Policy-based Lending

The percentage limit on the amount of Policy-based Lending established in paragraph 2.55 of Document AB-1704 shall be replaced by an aggregate nominal lending limit of: (a) the equivalent of US$4,500,000,000 of Ordinary Capital resources during any consecutive three-year period, the first of which shall begin on January 1, 2002 and end on December 31, 2004, and the equivalent of US$1,500,000,000 of Ordinary Capital resources during any one-year period; provided, however, that such annual limit may be increased by up to an additional 15 percent, as long as the three-year lending limit established in this paragraph is maintained; and (b) the equivalent of US$300,000,000 of the resources of the Fund for Special Operations during the period between January 1, 2002 and December 31, 2004, subject to compliance with the Agreement on Concessional Resources of the Bank and Related Matters approved pursuant to Resolution AG-1/99.

All Policy-based Loans must have clear goals and objectives and include measurable indicators approved by the Board of Executive Directors. Measures shall be introduced immediately to enhance the instrument's development effectiveness, with direct references to the policy reforms the loans are supporting, evaluable expected results, and appropriate indicators to measure progress.

Policy-based Loans shall have a minimum disbursement period of 18 months.

Emergency Lending

Emergency Loans shall be designed to address financial emergencies in the region. A revolving aggregate amount of up to the equivalent of US$6,000,000,000 of the Ordinary Capital resources may be approved for such loans starting in 2002 and continuing thereafter. Emergency Loans shall not be subject to the policy regarding the percentage of foreign exchange financing of total costs referred to in paragraph 5 above or to the limit on Policy-based Loans established in paragraph 8 above. In addition, Emergency Loans shall not be included in calculations of lending for purposes of determining achievement of the indicative goals of: (a) lending 35 percent of total loans to countries with a per capita Gross National Product below the levels determined in accordance with paragraph 9 of Annex A of Resolution AG-1/99; and (b) lending 40 percent of the total volume and 50 percent of the total number of Bank loans for operations oriented towards social equity and poverty reduction, in accordance with paragraph 2.29 of Document AB-1704.

The Board of Executive Directors shall seek mechanisms to ensure that Emergency Lending resources will be available to all borrowing member countries in need of such resources. Within the Lending Framework described in this document, the Board of Executive Directors will set aside an amount in reserve for C and D country groups in the Emergency Lending category for a pre-determined period of time, after which uncommitted amounts may be made available for all borrowing countries.

The primary objective of Emergency Lending is to provide financial support to help address the effects of international financial crises on the region's economic and social progress, to mitigate the effects of crisis on the poor and vulnerable, protect funding for social programs that benefit the poor, and avoid reversal of policy reforms.

All Emergency Loans shall fit within a macroeconomic stabilization program that, at a minimum, has been endorsed and should be subject to periodic surveillance by the International Monetary Fund, and shall be coordinated with the World Bank when appropriate.

The Board of Executive Directors is authorized to define the financing terms (on a premium basis), conditions and eligibility criteria of Emergency Loans, taking into account the need to maintain the financial soundness of the Bank, the lessons learned from the 1998–99 Emergency Lending Program, and the terms established by other international financial institutions that would participate in such efforts.

The Emergency Lending category shall consist exclusively of the loans described in paragraphs 11–15 above.

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

RESOLUTION AG-2/02

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, 2001, containing the general balance sheet and the statement of profit and loss, are approved.

(Adopted March 11, 2002)

RESOLUTION AG-3/02

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, 2001, 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$70,200,000 in convertible currencies of the General Reserve of the Fund for Special Operations.

(Adopted March 11, 2002)

RESOLUTION AG-4/02

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, 2001, containing the general balance sheet and the statement of changes in fund balance, are approved.

(Adopted March 11, 2002)

RESOLUTION AG-5/02

SITE AND DATES OF THE FORTY-FOURTH ANNUAL MEETING
OF THE BOARD OF GOVERNORS

The Board of Governors

RESOLVES:

To hold the Forty-fourth Annual Meeting of the Board of Governors in Milan, Italy, from March 24–26, 2003.

(Adopted March 13, 2002)

RESOLUTION AG-6/02

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-third 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 Governors

RESOLVES:

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

2. To instruct the Board of Executive Directors, following the procedure approved pursuant to Resolution AG-1/76, to present its recommendations concerning the place and date 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 13, 2002)

RESOLUTION ADOPTED BETWEEN THE SIXTEENTH AND THE SEVENTEENTH ANNUAL MEETINGS OF THE CORPORATION

RESOLUTION CII/AG-5/01

SELECTION OF OUTSIDE AUDITORS

The Board of Governors

RESOLVES:

That, pursuant to Article IV, Section 2(c)(vii), of the Agreement Establishing the Inter-American Investment Corporation, and Resolution CII/DE-15/01 adopted July 31, 2001, the firm of PricewaterhouseCoopers LLP is selected, with respect to the fiscal years 2001 to 2005, to serve as the external auditors to examine the general balance sheets and the statements of profit and loss of the Institution, in accordance with Section 8 of the By-laws.

(Adopted September 4, 2001)

RESOLUTIONS ADOPTED AT THE SEVENTEENTH ANNUAL MEETING OF THE CORPORATION

RESOLUTION CII/AG-1/02

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, 2001, containing the balance sheet and the statements of income and retained earnings and of cash flow, are approved.

(Adopted March 12, 2002)

RESOLUTION CII/AG-2/02

AMENDMENT OF THE AGREEMENT ESTABLISHING THE CORPORATION

WHEREAS, Article I, Section 1, of the Agreement Establishing the Inter-American Investment Corporation (the "Agreement") states that the purpose of the Corporation is to promote the economic development of its regional developing member countries by encouraging the establishment, expansion, and modernization of private enterprises, preferably those that are small and medium-scale;

WHEREAS, Article III, Section 1(b), of the Agreement authorizes the Corporation to provide direct financing to enterprises whose voting power is majority-owned by nonregional investors provided certain conditions are satisfied;

WHEREAS, the Corporation has a highly catalytic role in the fulfillment of its mandate by providing indirect financing through financial intermediaries, thus reaching a market of relatively smaller enterprises that it could not otherwise reach directly; however, Article III, Section 1(b), of the Agreement does not allow any indirect financing through financial intermediaries to small and medium-scale enterprises unless investors and citizens from regional developing member countries hold the majority of the voting power of such enterprises;

WHEREAS, the Corporation could increase the mobilization of resources from outside the region to the region's private small and medium-scale enterprises by eliminating the restriction relating to the majority of voting control held by regional investors; and

WHEREAS, Article VIII, Section 1(a), of the Agreement provides for the amendment of the Agreement by a majority representing at least four-fifths of the votes of the members, which shall include two-thirds of the Governors.

The Board of Governors

RESOLVES THAT:

I. Amendment of the Agreement Establishing the Inter-American Investment Corporation

1. Section 1(b) of Article III is hereby amended to read as follows:

" (b) Make direct investments, through the granting of loans, and preferably through the subscription and purchase of shares or convertible debt instruments, in enterprises located in regional developing member countries, and make indirect investments in such enterprises through other financial institutions, both of which investments require the significant generation of local added value."

II. Entry into Force

This resolution and all the provisions thereof shall enter into force three months after the date of the official communication addressed to all members certifying that the resolution has been adopted, or such later date as may be determined by the Board of Governors, as referred to in Article VIII, Section 1(c), of the Agreement.

(Adopted March 12, 2002)

Wednesday, March 6

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

Thursday, March 7

8:00 a.m. to 6:30 p.m.	Registration of participants
9:00 a.m. to 6:00 p.m.	Seminar: "Development of Rural Economies in Latin America and the Caribbean: Sustainable Management of Natural Resources, Land Access, and Rural Finance"
9:30 a.m. to 6:00 p.m.	Seminar: "Strategic Issues of Water Use and Management in Latin America and the Caribbean: An Action Agenda"

Friday, March 8

8:00 a.m. to 6:30 p.m.	Registration of participants
9:00 a.m. to 6:00 p.m.	Seminar: "HIV/AIDS and Development: Challenges and Responses in Latin America and the Caribbean"

Saturday, March 9

8:00 a.m. to 6:30 p.m.	Registration of participants
9:00 a.m. to 4:00 p.m.	Seminar: "Sustainable Tourism Development"
9:30 a.m. to 1:00 p.m.	Seminar: "Reforming Reform"
10:00 a.m. to 6:00 p.m.	Seminar: "Physical and Regional Integration: the Puebla-Panama/South American Plan"
3:00 p.m. to 5:00 p.m.	Preliminary Session of Heads of Delegation to the Seventeenth Annual Meeting of the Board of Governors of the IIC, followed by Meeting of the Committee of the Board of Governors of the IIC

Sunday, March 10

8:00 a.m. to 6:30 p.m.	Registration of participants
10:30 a.m. to 12:30 p.m.	Seminar: "Argentina: Perspectives and Lessons for Latin America"

2:30 p.m. to 6:00 p.m.	Seminar: "The Resurgence of Macro Crises: Causes and Implications for Latin America"
3:00 p.m. to 5:30 p.m.	Preliminary Session of Heads of Delegation to the Forty-third Annual Meeting of the Board of Governors of the IDB, followed by Meeting of the Committee of the Board of Governors of the IDB

Monday, March 11

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)
2:30 p.m. to 6:45 p.m.	Seminar: "Looking beyond Our Borders: Opportunities and Challenges of the New Regionalism"
3:00 p.m. to 6:30 p.m.	Second Plenary Session

Tuesday, March 12

9:30 a.m. to 1:00 p.m.	Third Plenary Session
3:00 p.m. to 5:30 p.m.	Fourth Plenary Session (IIC)

Wednesday, March 13

9:30 a.m. to 12:45 p.m.	Fifth Plenary Session and Closing Session

FIRST PLENARY SESSION

MARCH 11, 2002

INAUGURAL SESSION

ADDRESS BY MR. NICOLÁS EYZAGUIRRE GUZMÁN, OUTGOING CHAIRMAN OF THE BOARDS OF GOVERNORS OF THE INTER-AMERICAN DEVELOPMENT BANK AND THE INTER-AMERICAN INVESTMENT CORPORATION, AND GOVERNOR FOR CHILE

As my term as Chairman of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation draws to an end, I have the honor of addressing all of you present at this inaugural session to share some thoughts about the region and offer a brief account of what has been accomplished this year.

First of all, I would like to thank the people of Fortaleza, the state of Ceará and Brazil for their generous hospitality and congratulate them on the arrangements made for this Annual Meeting of the Boards of Governors of the Bank and the Corporation.

A Difficult Year for Latin America and the Caribbean

When we met in Santiago a year ago, few of us could have imagined what would happen politically and economically in Latin America and the Caribbean and in the world in 2001.

Economically, the climate was one of cautious optimism, despite the risks perceived inside and outside the region. The general forecasts in March 2001 suggested that Latin America would grow by 3.5 percent. Today the figure has shrunk, probably to less than 1 percent.

The impact on the region of scant capital flows and the decline in the terms of trade were compounded by the tragic events of September 11th, aggravating the downward-trending economic situation. These events had a particularly severe impact on the small economies, where tourism is one of the economic mainstays.

Once again, Latin America and the Caribbean appear to have entered a period of uncertainty and lack of confidence in our reforms and in our capacity to grow sustainedly and eliminate poverty and inequality. Unfortunately, our region has been the site of some of the most serious financial and economic crises in recent years and has been most heavily buffeted by crises originating in other parts of the globe.

After more than a decade of globalization and sweeping reforms of markets and of the State in the trade and financial policy spheres, the region's citizens expected that difficulties of this kind would not return with such intensity and, in the event of external shocks, that governments had the policy tools to cushion their internal effects.

As we have seen, this did not happen in Latin America and the Caribbean. Yet other emerging regions have posted surprising results in this global era, increasing their growth rates and even far outstripping world growth levels. This difference in performance among the emerging economies is a puzzle that is still being worked out.

The evidence on globalization's impact on developing country economies also indicates that some of globalization's negative features can be surmounted with good policies.

Moreover, the union of globalization and good policies can maximize the benefits for growth and public well-being. To that end, the State must create solid institutions, establish credible and flexible macroeconomic policies and build social safety nets able to withstand episodes of turbulence.

Growth in Latin America and the Caribbean Has Become Less Stable

On average, the region has not grown as fast as the world economy, and growth has become more unstable—an instability more pronounced than in the industrialized countries and East Asia. This is a serious concern since instability has a negative impact on growth and equity. The poor are less equipped to avoid the effects of the economic cycle.

It is precisely this aspect of globalization—the apparently greater instability experienced by the developing countries—that is commonly used as an argument for rejecting it.

Why Has Instability Increased?

First, the behavior of export prices has been more volatile under globalization than in the 1950s and 1960s. This is not a new phenomenon. The region's economies continue to be exposed to volatility in the terms of trade because their exports are not sufficiently diversified. This is partly a consequence of the protectionist policies of the industrialized countries.

Second, capital flows behave in a pro-cyclical manner, aggravating the business cycle in emerging economies. The saying that "capital arrives when it isn't needed and leaves when it is needed most" has become quite familiar.

Third, the adoption of pro-cyclical fiscal policies and monetary/exchange policies that are not credible have helped intensify the economic cycle and its consequences for the well-being of the very poor.

An Unfriendly International Trade Architecture

The emerging economies, particularly in Latin America and the Caribbean, have opened up to international trade, lowering tariffs and tariff dispersal and eliminating nontariff barriers. The region enthusiastically embraced liberalization, expecting that the reallocation of resources to sectors in which it had comparative advantages would allow it to boost exports and thereby lessen the volatility caused by fluctuations in the prices of the few commodities it exported. However, our countries have found that market access for their exports is not assured even once they gain entry to those markets. The multilateral trading system has not been effective enough in removing these barriers and uncertainties.

First, exporters face the threat of accusations of dumping or subsidizing when they achieve the objective of the reforms, which is precisely to become competitive in sectors where they have comparative advantages. According to WTO statistics, more than one-third of the antidumping measures adopted between 1995 and 2001 were imposed by three developed members of WTO.

Second, certain sectors in which developing countries have comparative advantages, such as textiles and agriculture, enjoy high levels of protection in the developed countries. The developing countries' expectations regarding reductions in agricultural protection have not materialized and the industrialized economies have put off to the very last minute the elimination of textile quotas to which they committed at the Uruguay Round.

Third, tariff staging impedes the diversification of exports into manufactured goods, one example being agribusiness.

Fourth, the combination of agricultural subsidies and protection in the advanced countries means that only surpluses are traded on the world market. The result is frequent, wide fluctuations in the prices of these products. A region with strong agricultural potential like Latin America and the Caribbean is particularly hard hit and continues to be exposed to high levels of volatility in the prices of its exports.

This uncertainty regarding access conditions diminishes the incentive for foreign investors to set up business in developing countries to supply the markets of the developed ones.

A recent World Bank estimate of the costs of industrial nation protectionism suggests that the annual cost to poor countries of protection in the rich ones is double the total value of the external aid being delivered to the poor countries.

The imbalance in the multilateral rules governing foreign investment is another factor that is not helping efforts to diversify the exports of the developing countries. The WTO Agreement only prohibits the policy instruments that are or were used by developing countries. It is silent on the local subsidies afforded by industrialized countries to attract domestic and foreign investment. These are just as distorting for the location of investment as the performance requisites that were applied by our countries.

Since there is no diversification, the export supply is less responsive to real exchange rate depreciations in times of crisis, reducing the capacity to react and cushion the cycle.

An Unfriendly International Financial Architecture

Capital flows to emerging economies are essentially driven by conditions in the industrial economies. The developed countries divert their excess liquidity to developing economies when the latter are expanding, and in the low part of the cycle they withdraw those surpluses, differentiating little among the emerging economies.

In the industrialized economies, modest changes in the interest rate affect the movement of capital. The developing countries, on the other hand, must raise their interest rates significantly to keep capital within their borders and protect their currency.

This was the experience of most of the Latin American countries during the Asian crisis. As part of its monetary policy, Brazil raised its interest rate to 38 percent at the end of 1997 and Chile weathered three liquidity crises in 1998, when the overnight market rate topped 100 percent on some days. This sometimes extremely high increase in interest rates dampens economic activity, often creating a vicious circle from which it is difficult to escape.

Furthermore, because of the process we call contagion, even countries with strong fundamentals and sound policies cannot stave off attacks on their currency, as we saw in Colombia in the 1980s and Chile in the 1990s.

On the domestic front, developing economies have very shallow capital markets that are highly sensitive to volatility in flows. This increases the cost of financing for local investors and, in the process, affects economic growth.

The underlying problem is the so-called "original sin", i.e., that the currencies of emerging countries do not have credibility, which means they are ill-equipped to counteract capital flight in times of crisis, unlike the situation in the developed countries. An interesting study in contrast is the case of Australia, one of the OECD countries with the highest growth rates. Hit by the Asian crisis, the Australian dollar depreciated by over 30 percent, without the economy shrinking, precisely because a large part of the country's external debt is denominated in local currency.

The financial volatility with which our countries must contend is compounded by the fact that when contagion occurs, the capacity of international organizations to counteract the exit of private capital from the emerging economies is very limited. This point is critical in finding a solution to the fragility of developing economies in the context of the current discussion on international financial architecture.

The Importance of Domestic Policies

One way of addressing these problems that helps make the situation manageable but can never be a panacea is to adopt a floating exchange rate system, with credible and flexible monetary and fiscal policies, in the context of a solid and soundly regulated banking system.

Experience with fiscal policy in the countries of Latin America and the Caribbean indicates that this policy moves in the same direction as the cycle, unlike what happens in the developed countries. In a crisis, the rise in interest and/or exchange rates and the drop in GDP push down fiscal revenues. This, coupled with the absence of prior saving and constraints on access to external and internal financing, leads inevitably to spending cuts, which simply exacerbate the downward economic cycle. In other circumstances such spending cuts may represent an attempt to restore the credibility of the public sector or to satisfy the requirements of international agencies that make financial assistance contingent on the implementation of a fiscal adjustment package.

Having anti-cyclical monetary and fiscal policies would make it possible to cushion the effects of external shocks, moderating their fallout on domestic demand and the financial system.

However, the capacity to act anti-cyclically depends on policy credibility, and credibility is earned more on the basis of the reputation built up in periods of expansion than on the basis of harsh and radical adjustments carried through in times of crisis.

Building a reputation and making headway in reforms in times of plenty is probably the greatest challenge for Latin American and Caribbean governments. It requires the intensive use of political capital, the ability to say no when one could say yes. Our countries are not condemned to weak currencies and pro-cyclical fiscal policies: we can build solid institutions, but to do so we must learn to invest and consolidate during the good times.

Today our region faces a two-fold challenge: to rebound from this crisis and to decide how to manage normalcy when it returns.

But, as we work on these tasks, we must not forget the problems of the international trade and financial architecture which—like policy mistakes or unfinished reforms—have prevented the countries of Latin America and the Caribbean from fully enjoying the benefits of globalization.

Given the tremendous internal political effort that our countries must make to build their reputation and their institutions, international lending agencies need to become involved both in times of crisis and also in what is done before a crisis arrives. The role of this Bank and other multilateral development institutions is most important during periods of normalcy.

The IDB has stood and will continue to stand with us during good times and bad. Its financial operations and technical assistance can help us build credibility, devise effective and transparent fiscal rules, and create and operate social safety nets to truly cushion the negative effects of external instability on the region's people, particularly the very poor.

We also must work to achieve an orderly outflow of capital when that situation arises. A necessary condition here has to do with the need for an official lender of last resort to help safeguard the stability of developing economies. This will enable a pattern of permanent growth that is stable over time.

All of this effort is worthwhile. Globalization offers tremendous opportunities for our people and our economies. Access to information, knowledge and technology multiplies with fuller integration into the world economy. This will make it possible to develop our countries' potential to the utmost. Globalization is not just a meeting of business and capital, it is a meeting of humanity.

Let there be no mistake: the problems that we see today in the international economic architecture are problems only insofar as they limit the full entry of our countries into a globalized world. They are not problems of globalization itself. For this same reason, the pointing out of these problems should not be an excuse for not doing our share of the work.

The Work Done This Year

In the course of the past year, on instructions from the Board of Governors, the Committee of the Board of Governors undertook to explore and devise instruments that would respond better to the new and changing needs of Latin America and the Caribbean. This challenge is a natural consequence of the changes that have unfolded in the region, which have fundamentally altered the role of the State in the economic and social development process.

I will mention only two changes that have had a major influence on Bank action. The public sector has significantly reduced its involvement in domestic investment as a result of privatization programs and public works concessions. Strict management of public spending and of the public debt has had an impact on the nature of demand for Bank loans.

In its deliberations to provide the Bank with new instruments and policies to better address the region's needs today, the Committee of the Board of Governors had to give consideration to the new scenario that arose in 2001 and made its task more urgent.

The core element in its deliberations involved defining guidelines to redirect the Bank's actions, its lending framework and nonfinancial instruments, to enable it to rise to the serious new challenges.

In this context, the Committee of the Board of Governors engaged in thoroughgoing deliberations that led to a proposal for a new lending framework for the Bank, submitted at this meeting for your consideration and approval. It places special stress on the development impact that all the Bank's instruments must necessarily have and on improving the Bank's analytical and programming tools.

The new lending framework will permit the Bank to have a stable window for emergency lending and to maintain its active support for reforms through policy-based lending.

It should be underscored that the entire framework is consistent with the support that the Bank will provide for the private sector through increased funding for the PRI window, already approved by the Governors, and improved nonfinancial products, particularly regional policy dialogues and support for integration processes and for the establishment of free trade zones in the region.

All of this will undoubtedly permit the Bank to provide stronger and more timely support for the region. It will also reinforce the necessary process of reforms in an effective and clear manner.

It is also important to note that our institution's internal capacity for dialogue and consensus-building was strengthened during 2001. The speed of world events tested our flexibility and response capacity. The results speak for themselves. Our Bank enhanced its capacity for internal dialogue and deliberation, finding solutions based on a broad consensus and which also are creative and flexible. All of this reinforces the idea and spirit that the IDB's founders had in mind when the institution was established—a meeting place for the countries of the region and the developed countries, designed to offer decisive support for growth and equity in Latin America and the Caribbean.

The Bank's action, comprised of its lending instruments, its nonfinancial products and its ability to innovate to tackle new challenges, should be permanently at the service of the region's needs. This means working with countries to help ensure that capital flows are not a source of instability and helping the region's capital markets to integrate more comfortably into the global economy. It also means providing support in the form of financing and ideas for governments, so that their reforms will be sustainable and can be consolidated. All of this will be essential for returning to the growth rates needed to narrow the tremendous social gaps that still persist in the region, this being the IDB's overarching objective.

The new lending framework will strengthen the Bank's support for the reform process and help keep the reforms from reversing course in times of crisis. The agreement reached by the Governors will also make the Bank's traditional infrastructure and poverty reduction activities more effective.

As Chairman of the Boards of Governors, I would like to thank my fellow Governors for their confidence and for their cooperation in building agreements, and I thank President Iglesias for his efforts and dedication in finding imaginative solutions to see the IDB's objectives realized.

ADDRESS BY MR. MARTUS RODRIGUES TAVARES, CHAIRMAN OF THE BOARDS OF GOVERNORS OF THE INTER-AMERICAN DEVELOPMENT BANK AND THE INTER-AMERICAN INVESTMENT CORPORATION, AND GOVERNOR FOR BRAZIL

First of all, I want to welcome you personally and on behalf of the Brazilian government. After 22 years, Brazil is once again host to the Annual Meeting of the Boards of Governors of the Inter-American Development Bank and of the Inter-American Investment Corporation.

The IDB has historical ties with Brazil. We are honored that the birth of the institution was inspired by President Juscelino Kubitschek, who in 1958 proposed to the countries of Latin America that they should launch a plan of cooperation to foster progress in the region.

In the last four decades, the Bank has been transformed into an institution that goes far beyond purely technical and financial considerations. Today, not only is it the leading source of multilateral credit, but it is also a resource center for the analysis and discussion of any regional issue.

It is an honor and a great responsibility to be addressing you in my capacity as chairman of the Boards of Governors. I would like to discuss some of the main concerns of the region with respect to the role of the Bank in promoting our development.

Since our last meeting in Santiago, Chile, in March 2001, the international economic situation has changed, and unfortunately for the worse. A series of unfavorable developments and, of course, the tragic events of September 11 in the United States, have increased tension and undermined confidence among investors, and have brought to the surface some of the weaknesses afflicting our region.

The adverse international setting in 2001 led to a sharp reversal of external financing for Latin America and the Caribbean, and reinforced the view that we are still very dependent on external savings, on market whims and on risk assessments that are not always in line with reality.

For two decades we have been accumulating achievements that must not be forgotten or overlooked. We have made tremendous progress in consolidating democracy, and this has changed the political history of our continent.

We have undertaken economic reforms, with sacrifices that must not be underestimated.

We might look to the example of Chile, which was very successful in reforming its social security system and in making substantive changes to its taxation system and foreign trade. Or we could look at Mexico, which in the wake of the 1995 crisis made adjustments to its financial system that could be the envy of any of its industrialized nation neighbors.

Or we may look at Brazil, which has succeeded in stabilizing its currency, reforming the State, modifying its planning and budget structure, and is now making a resolute fiscal adjustment and posting primary surpluses of 3 percent of GDP. These are only a few examples.

But the fact is that, regardless of government efforts, our economies still face structural problems that are holding back development and impeding efforts to reduce poverty.

As if that were not enough, there are factors exogenous to our countries that have conditioned and interrupted the trajectory of sustainable and lasting growth.

In 2001, our region grew at around 1 percent. As we know, we would have to grow by at least 3.5 percent over a long period of time if we are to make a substantial dent in poverty and in social inequalities, and to redistribute income at the same time.

It is true that we need to become more competitive and improve conditions of market access so we can export more and become less reliant on external capital.

It is also true that the emerging economies can and must implement policies to improve the way foreign investors view them, especially in terms of risk perception. They must adopt consistent macroeconomic policies over the short and long terms, with an emphasis on fiscal balance. And they must consolidate reform and intensify market mechanisms.

At the same time, we cannot overlook the fact that capital flows have been very volatile in recent years, regardless of policies adopted to stimulate investment. The emerging countries have only limited capacity to influence or reduce this volatility.

As you know, a debate over the world's financial architecture is under way in the multilateral financial institutions, and in particular the International Monetary Fund, with heavy involvement of the industrialized nations.

Many of our macroeconomic problems have been aggravated by increasing difficulties in accessing international financial markets. We therefore need to pool our efforts to restore and expand those flows.

On this point, I believe the IDB has an essential and strategic role to play.

On one hand, it needs to exert its influence solidly in defense of the region's interests in discussions with other multilateral agencies. Recent episodes indicate how urgent it is to seek a change in the international financial architecture so as to reduce the instability of financial flows and make them more predictable.

On the other hand, the Bank needs to provide help to countries of the region in situations where the flow of capital is interrupted. In this respect, the new Emergency Line that is being voted on is an important achievement and could be supplemented, perhaps, with other mechanisms.

I also want to highlight the work of the Committee of the Board of Governors, which has devoted the last few months to discussing proposals for enhancing the Bank's capacity to respond to the new needs of the borrowing member countries.

We also need to reinforce the concept of development effectiveness, which means choosing projects with a greater impact on poverty reduction and environmental preservation. (In Brazil, we have adopted this practice with our Avança Brasil programs.)

It is important to remember that the IDB has been engaged in important reforms since 1998, and that it has come up with new instruments for meeting the region's needs. The agreement on the Fund for Special Operations is unquestionably an achievement that must be preserved.

Another substantial advance is the increase in the limit on lending to the private sector from 5 percent to 10 percent of the Bank's capital. I suggest that this initiative be combined with other measures to give the private sector more flexible access to loans, bearing in mind the diminishing capacity of the public sector to finance infrastructure works.

Brazil and, I believe, the other countries of Latin America and the Caribbean have no doubts as to the basic objectives of the IDB, which are oriented towards reducing poverty and social inequity and supporting sustained growth. All of us concur that the priority areas of activity should be social development, modernization of the State, competitiveness and regional integration.

Incidentally, I want to highlight the admirable effort of the IDB in facilitating the physical integration of Central and South America. I am proud indeed that this was inspired by the Study of National Integration and Development Corridors, produced in Brazil.

At the same time, the transformations and singular features of our economies today require differentiated treatment for each country. We cannot necessarily use the same formula to arrive at the same objectives.

The Bank, thanks to its experience and its deep understanding of the reality of each country, can offer new products and improve existing instruments to be able to act more swiftly and more effectively to help economies recover.

In this respect, I would call attention to a critical problem in most of our countries, which is that of security.

Remembering that violence afflicts primarily the poor, it is important for the Bank to be able to support crime prevention by adopting citizen security programs—of course, with due regard to the principles of national sovereignty and in concert with the demands of each country.

This is surely a task where the IDB could play a catalytic role, and could even become a reference center.

I would like to put forward, as something to think about, a proposal for effective and coordinated action by the IDB to complement the initiatives of countries of the region in the areas of public safety and the reform of justice systems.

I welcome the conclusions and recommendations of the External Advisory Group, which was convened at the initiative of President Enrique Iglesias and has been chaired by Dr. Ángel Gurría. The results of its work will be of great value in reassessing the role of the IDB in addressing the new challenges facing the region.

Without going on too long, I feel I must mention, on such a special occasion, the progress that Brazil has made in achieving economic stability and pursuing sustained growth with social inclusion.

We managed to expand social spending by more than 35 percent in real terms between 1994 and 2001. Moreover, a good portion of public spending has been directed at projects to combat poverty in the more disadvantaged regions.

Direct income transfer programs amounted to about US$12 billion last year, a figure that makes those programs among the largest in the world.

It is true that the unfavorable international economic situation in 2001 meant that Brazil's economic growth expectations were frustrated to some extent. The country ended the year with GDP growth of 1.5 percent.

At the same time, the prompt economic policy response helped to bolster the confidence of economic agents. As well, despite short-term instability, our macroeconomic fundamentals continued to improve, thanks to the policy of setting inflation targets, consistent with a floating exchange rate and fiscal discipline.

With stable domestic prices, exports rose by 5.7 percent, securing a trade surplus of US$2.6 billion. Combined with the inflow of foreign investment of more than US$20 billion, the result was equilibrium in the balance of payments.

The difficulties of 2001 also served to restore our own confidence in the country and in our capacity to confront and overcome other challenges. And they reinforced our conviction that reforms are key to the success of policies for enhancing the region's competitiveness.

I also would like to say something in this distinguished forum about our neighbor Argentina, Brazil's principal partner in South America, and one that is strategic to our bilateral trade, to building MERCOSUR and to the defense of democracy.

We have been following developments in Argentina's economic and social situation very closely, and particularly the turmoil that marked the end of the convertibility regime at the beginning of 2002.

We have been and will be making common cause with Argentina, both in our words and in our actions.

I am confident that the Inter-American Development Bank has the sensitivity to understand the urgent need for efforts to avoid a more prolonged economic decline in Latin America and the Caribbean. That would mean more sacrifices for our people, and it could compromise support for the reform process.

It would surely be a setback that no one wants to see.

Let me close my remarks by thanking you for electing me to chair the Boards of Governors. I assure you that Brazil will live up to your expectations. Please consider yourselves very welcome, and enjoy the beauty and hospitality of our land.

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

A. Introduction

This gathering marks the third occasion on which Brazil has hosted a meeting of the Governors of the Bank. As we assemble in the historic city of Fortaleza in the heart of northeastern Brazil, which is so integral a part of this great nation's history, I would like to thank you personally and on behalf of the Bank for the very warm welcome extended to us, attesting once again to the hospitality for which your country is so justly renowned. We are grateful to the national, state and municipal authorities and to everyone who has worked so selflessly to make sure that this meeting is a success. Since it would take far too long to thank each of you individually, let me, instead, say a heartfelt *muito, muito obrigado.*

The Brazil which welcomes us today has come a very long way since the seeds of a future IDB were sown 44 years ago under the inspired leadership of President Juscelino Kubitschek. Today it is the world's eighth largest economy and a formidable player not just in our region but in the international community of nations as well. No short summation could do justice to the story of Brazil's progress and its people's advancement over this past half-century. Were we to choose a single feature to highlight it would perhaps be this nation's resolute efforts to instill good governance, that *sine qua non* of progress.

The task has not been an easy one. The noble aspirations enshrined in the constitution with which Brazil re-embraced democracy were not, on their own, sufficient to see good governance entrenched in a country of remarkable diversity. By holding firm to democratic tenets and institutions and encouraging broad-based dialogue among members of society, the country has been successfully removing the obstacles that were keeping those aspirations from being realized. Brazil has made impressive strides economically and on its social indicators. Obviously much remains to be done, in the social sphere particularly, but we are decidedly optimistic as to the country's future. A Brazil with a robust economy and a progressively more just society is fundamental not just for Brazilians but for Latin America and the Caribbean as a whole. To move forward in today's world, nations need an open society; economic growth and social inclusion are two conditions for such a society to function. Brazil is showing us that a State which works is key to making its people partners in a more integrated world. Such a State understands the importance of civic rights, recognizes how social investment cements solidarity and fosters social cohesion, and enables the functioning of dynamic, creative and transparent markets.

Brazilian anthropologist Gilberto Freyre advanced the notion that "the Brazilian ideal of human happiness is not confined to material gains or creature comforts; it includes the development of human personality by way of processes that would appear to have been shaped by the exchange of intellectual and moral values which flows from democratic encounters between different races and cultures." Brazil, he adds, "may well have a distinctive contribution to make to the development of human personality in the modern world." Freyre is quite right, but I would go one step further than this all-too-modest man of letters: I would suggest that Brazil is duty-bound to make a contribution and that its contribution should not just be "distinctive", as Freyre conceived it, but absolutely and uniquely Brazilian. The human dimension of development should lie at the very heart of its message.

B. The Region's Economy in 2001

In my report to the Governors at the annual meeting one year ago I noted that the economic slowdown which had followed a succession of financial crises in Asia and Russia appeared to have run its course. The year-end figures ultimately bore this out, signaling as they did a clear turnaround of the cycle in Latin America and the Caribbean in 2000. The region's economies grew by more than 4 percent on average—up substantially from the 0.5 percent increase posted in 1999. Growth prospects for 2001 appeared to be in line with achievements in 2000, if not brighter. But in the final analysis the regional growth rate averaged barely 1 percent.

This disappointing showing can be attributed to three main factors.

First, the severity of the business cycle slowdown in the three engines of the international economy—the United States, Europe, and Japan—in an unusually synchronized loss of momentum that weakened economies the world over.

Second, the September 11th tragedy unleashed by demented acts of terrorism, with its inexorable political, economic, and social aftermath that carried our region along in its wake.

Third, the renewed financial vulnerability of Latin America and the Caribbean, which intensified in the second half of the year.

Let us take a brief look at the impact of each of these three factors on the region's economy this past year.

- Plunging prices for oil and other commodities have driven down export revenues in the region. While business cycle fluctuations explain some of the declines—for metals and grains, for instance—structural factors were also at work in some cases. The problem in some instances was global overproduction; in others the region's exports had become less competitive. Sugar and coffee, so important to so many Latin American and Caribbean small producers, fell into this latter category. Capital flows also dwindled, with portfolio investment virtually drying up over the past two years. Although private direct investment has held steady, there are indications that private investors are with some delay picking up the same negative economic signals in both the industrialized and emerging economies. The resulting loss of momentum is cause for concern. The global slide in GDP growth obviously had a heavy impact on world trade, whose growth plummeted from 12 percent in 2000 to barely 1 percent last year.

  These factors, in combination, pushed down growth rates in the region, though regional averages must not be allowed to mask a few good performers. What matters is that countries resisted the temptation to reverse course during this difficult period. They have continued to strive for sound economic management. They have not turned their back on fiscal discipline or on monetary orthodoxy, and they have opened up their markets—decisions which in more than one instance have exacted a heavy toll. One inevitable casualty was employment: in most countries the numbers of jobless soared. In this recessionary phase of the cycle, poverty, marginalization and exclusion also worsened in the region.

- The tragic events of September 11th also shook Latin American and Caribbean economies, particularly those whose trade and tourism industries are most closely linked to the U.S. economy. The tourism trade suffered, especially in Central America and the Caribbean. Only now are we seeing signs that tourism flows may be returning to normal, albeit very slowly. The September tragedy also had an impact on family remittances and raised the cost of exports as security-related insurance costs mounted.

- In recent years the region has weathered severe financial and balance-of-payments crises triggered by external events but also by domestic economic policy mistakes. Recent developments in Argentina are the latest in the string of crises. But, unlike previous episodes, the Argentine situation is not having a generalized contagion effect as markets appear to be taking a more rational approach to distinguish among different countries in the region. Inevitably, though, events in Argentina will leave their mark on risk ratings for the subregion.

  According to the G7 finance ministers who gathered recently in Ottawa, we can expect to see a moderate recovery of the global economy this year. Since the Japanese economy is still fragile and European Union economies are reporting lackluster growth, the rally will be led by the U.S. economy.

If these forecasts are borne out, Latin America and the Caribbean stand to gain with recovery of commodity and services markets particularly in the assembly and tourism industries, prime movers of these economies that are so closely linked to the U.S. economy.

But even in the best case it would likely be 2003 before we see any generalized improvement. Given the slow growth forecasts, this year does not look promising.

The question for the region becomes how to place ourselves in today's environment, both as individual countries and as a region, always mindful that each country faces special situations.

We have had occasion in the past to outline some policy avenues for achieving economic and social goals to help the region realize its aspirations. These policies are embodied in the Bank's *institutional strategy* which sets forth central focuses of Bank activities: support for modernization of the State; increasing competitiveness; social development, and strengthening regional integration.

Without going over that same ground, I would like to underscore some priority lines of activity against the backdrop of the current cycle. The Bank plans to center its efforts on three objectives:

First, help alleviate the social costs associated with weak growth, particularly its impact on poverty and unemployment.

Second, help rekindle economic growth—inclusive growth—grounded in higher saving rates and more competitive exports.

Third, help equip the region's economies to better weather international cycles, particularly the volatility associated with the pace of growth of trade, financial flows and investment.

I would like to highlight some of the most salient policy approaches to achieve these objectives. They are the very policies that you have been shaping and implementing in your countries.

- **Reducing social costs**

The first goal has to do with lowering the social costs of slow growth. When countries' output does not keep pace with population growth, the inevitable result is a rise in unemployment and associated increases in poverty and exclusion. One of the sectors hardest hit by this combination of ills is small business and microenterprise, which typically suffers during periods of recession. Because this sector is so vital in both the formal and informal economy of the region, we believe that activating employment programs, mobilizing lines of support for small business and microenterprise, devising and bolstering social safety nets and similar endeavors should head the list of priorities.

I am well aware of how difficult it is to implement this kind of policies in an era of fiscal restraint, but from its experience the region knows to emphasize these emergency measures to mitigate, at least, the worst of the impact on low-income groups. This is a priority in today's environment.

- **Rekindling growth**

The second objective is to move economies back onto a healthy growth path. Though an improvement in the international cycle obviously will be key to reviving growth in our countries, it is not the whole answer. Countries will have to pick up the pace of their work on some well-defined economic policy fronts, with special emphasis on improving competitiveness, boosting domestic savings and creating an enabling environment for domestic and foreign private investment.

These objectives form part of broad pro-growth policies, but in today's climate it is imperative to consider specific action in a number of areas.

For one thing, Latin America and the Caribbean need to develop or modernize the institutional infrastructure of local and regional capital markets so these can attract private, domestic and international savings and transform them into productive capital with which to fund investment in our countries. It also is essential to strengthen financial intermediation systems, these being crucial both to help propel economic activity and improve competitiveness and to contend with unstable capital flows in open economies. Considerable gains have been achieved with the reform programs, but further efforts are needed to improve prudential regulation, adopting a comprehensive approach to financial and capital market oversight.

Public institutions need to be strengthened, particularly institutions that give investors assurances of legal predictability and contract compliance. As episodes of financial turmoil in recent years have shown, the inviolability of contracts is fundamental for investment promotion. This is an issue to which the region must pay special attention.

Reform of the State, with particular attention to public finances and public management, will help increase public saving, improve the quality of services provided by the different levels of government and make sure such services are relevant, adopting a public administration approach centered on delivering services whose cost, quality and effectiveness meet the needs of a modern State. This transformation will help reduce the "country cost" for the private sector and make the region's economies more competitive, improving the lives of ordinary citizens in the process.

- **Lessening external vulnerability**

The third objective is to make countries less vulnerable to external events. A necessary focus in the current climate will be measures to preserve the broad macroeconomic equilibria achieved in recent decades. Inflation will have to be held in check, especially by responsible fiscal policy and reliance on orthodox monetary policy.

Countries' success in reducing their vulnerability—particularly to swings in commodity prices, capital flows and foreign direct investment—will ultimately depend on how successful they are in restarting domestic growth and on the quality of the recovery. To put it another way, how effectively an economy will be able to shield itself against international volatility will hinge in great measure on its success in boosting domestic savings and increasing and diversifying its export base.

As saving has fallen off in recent years, countries have turned increasingly to external borrowing or to the proceeds of privatization programs that for the most part are now completed. Likewise, weak savings levels make it more difficult for countries to service their debt, thus triggering internal and external strains which eventually show up in higher country risk ratings in global markets. Healthy growth coupled with mounting savings and an improved export profile will leave countries less vulnerable to volatile trade patterns, commodity prices and capital flows.

Improving Latin American and Caribbean exports means more than simply boosting sales volumes: two equally important concerns are export quality and diversification. Because the region is so heavily dependent on commodities it is still tied in to the less dynamic components of international trade. A priority for national economies is to increase their participation in the global marketplace in areas such as trade in services, particularly the information technology industries and tourism.

- **Regional integration**

Another issue the region will need to place even higher on the list of priorities is regional integration, a natural complement to individual country efforts to lift growth rates and operate more efficiently in the global marketplace.

We have consistently maintained that the kind of open regionalism pursued in Latin America and the Caribbean in recent years is an invaluable instrument for advancing each and every country in the region and helping them become full partners in the world economy.

In slow growth environments such as we face today it becomes more important than ever to broaden and strengthen integration and cooperation agreements between countries and groups of countries, not least because of what such arrangements can do to ease countries' vulnerability to international cycles.

In order to manage these issues, and for purposes of the Doha and FTAA Rounds, our governments will need to prepare their negotiating teams and tackle structural reforms that are essential for open, competitive economies. In a report to the Committee of the Board of Governors we have underscored the importance of government efforts to rise to these challenges and have assured our member governments that the Bank stands ready to work with them to this end.

C. Questioning the Reforms

The economic reforms embraced by Latin American and Caribbean countries in recent years were intended primarily to unfetter their markets and their economies. Today these reforms are being called into question in many quarters. Two out of three of our fellow citizens believe the economic situation to be bad or very bad; only one in four believes that it will improve.

When these reforms were launched in the 1990s, the industrial economies were booming and world trade, financial flows, and foreign direct investment were on the upswing. More recently, against a global backdrop of sluggish growth rates if not outright recession, as the turnaround of the international cycle has heightened stresses around growth and employment, citizens are voicing their concerns more emphatically and with an ever greater sense of urgency. Many countries in the region are now having to contend with this state of affairs.

To approach this issue we need, in my view, objectivity and a certain intellectual humility to understand the roots of citizens' concerns and the causes of the social malaise.

In countries whose reforms have yielded tangible results in terms of growth, price stability, an opening up to international trade and institutional modernization, criticism is coming from sectors which have been left behind, their income and employment expectations still unrealized, or from groups who feel that the fruits of economic growth are not being fairly shared.

In countries where reforms have yielded lackluster results, or perhaps no results at all, the complaint is voiced by citizens who are still living in poverty, have no jobs, or otherwise find themselves excluded and who after years of painful adjustment have yet to feel any tangible results of the reforms.

The criticism is directed not just at the ground rules set in place as part of the reform effort but at the larger globalization process now unfolding. Fast-evolving communications and information technologies are a powerful force behind the new globalization, driving global financial and investment integration and the movement of persons. This has brought manifest benefits to a group of countries and to segments of their societies.

However, many around the world are taking aim at some of globalization's perverse effects. Globalization is being blamed for the widening gulf between rich and poor nations, for the erosion of values like solidarity or cultural identity, and for jeopardizing environmental sustainability.

Globalization is not a new phenomenon. Some form of globalization has been at work since the Chinese purchased horses from the Scythians, Mediterranean importers bought silk from China, and Roman texts legitimized the benefits of trade. What is new in our era and has prompted an outcry in many quarters is the lightning pace of the process whereby ideas and lifestyles are 'going global'. The ideas, images and modes of globalization that now can be transmitted instantly to every corner of the world do not sit well with every community that receives them.

Models that work for some countries may have undesirable consequences in other settings when they undermine local traditions. Nevertheless, history also shows us the power of imitation and cultural diversity in spurring creative responses. Today the real question comes down to this: what happens when consumer models are widely disseminated in the absence of shared ethical frameworks? A defining feature of our times is the huge gulf between rhetoric, expectations, and practice.

The best route therefore is globalization which takes due account of the growing complexity of our societies, leaves room for flexibility and is able to adapt creatively to the challenges of the marketplace. Only an approach such as this can do honor to Pope John Paul II's call for humanizing globalization and to the United Nations Millennium Declaration for a globalization that will be a positive force for everyone on the planet.

Once again, these challenges to globalization need to be examined dispassionately and without preconceived notions, to draw lessons from reform processes essayed thus far and keep striving for a more humane, more equitable environment for international economic dealings.

Without attempting an in-depth review of reform outcomes in the region, I would like to share some general thoughts with you.

- One signal achievement of the reforms was to tame high inflation rates that had been a feature of Latin America and the Caribbean in the seventies and eighties. Without a doubt, this was an important step forward for these economies.

- I believe there is clear evidence too that the reforms helped create conditions for economic revival. Countries were able to leave behind the flat growth rates of the 1980s, even if their growth was weaker than hoped for. There is admittedly some discussion as to the robustness of this expansion and on how lasting and stable it will be. Stoking the controversy is the fact that following a chapter of reform-fueled growth, the region has slipped back to low, unstable rates.

- There is a feeling in many quarters that reforms have worsened poverty in the region. There is no concrete evidence in the literature to support such a contention; what some studies show is that to the extent that reforms have spurred growth and helped instill stability, however temporarily, they have helped reduce poverty. Be that as it may, poverty indices are unacceptably high and the ranks of the poor continue to swell, notwithstanding the small relative reduction observed as a result of improvements in the social situation of the poor. It is likewise true that those who came out "losers" in the reforms may have been concentrated in low-income groups, whereas the "winners" cut across different socioeconomic brackets.

  What this tells us is that if the appropriate mechanisms had been in place to cushion the reforms' impact, these groups would not have become impoverished. This is a serious weakness of the reforms adopted in recent years.

- Yet another widely held belief is that the reforms have worsened income distribution. Any blanket pronouncement to that effect would be at best risky, since country experiences have varied depending on how the reforms were implemented. What we do need to acknowledge is that a frequent effect of trade liberalization has been rising unemployment among the ranks of unskilled workers and a concomitant worsening of income distribution.

- The effectiveness of the State is another angle from which one can view the reform dynamic. The reforms sought to scale back the State's functions and prominence in the economy—and to "depoliticize" its administration—though the State had been front and center in implementing the reforms. Though countries have opted for marketplace solutions, perhaps in reaction to heavy-handed statism in the past, a sustained rhetoric against State-centered approaches has led at times to a disproportionate dismantling of the State. The challenge now facing the region is that precisely at a juncture at which countries need to be improving the operation of their markets and making them more transparent for efficient resource allocation, the "quality of the State" needs to be improved as well. In this case, smaller does not necessarily mean better: the measure of a State is how efficiently it works and how accountable it is to the citizenry. At the heart of this concept of a new State is an efficient civil service staffed by highly skilled professionals.

- Macroeconomic stability is another issue which comes up in discussions of the reforms' success. The outcome of reforms—and, again, this varies from one country to another—has less to do with the magnitude of the changes themselves than with certain complementary actions which are needed to keep reforms from destabilizing an economy. The ideal conditions would be prudent fiscal policy and a combination of policies in other areas that could prevent any sharp deviation in the real exchange rate. When these conditions were not present in countries, the reforms touched off an initial unsustainable boom cycle followed by fiscal dislocations and excessive public and private borrowing.

These preliminary conclusions will need further study in order to draw lessons from the wealth of experience the region has accumulated in recent years, to be able to move on to new reform fronts or fine-tune current efforts so as to ultimately achieve all the economic and social objectives which drove the initial reforms.

When we move from general conclusions down to the country level we have to ask why the reforms have yielded more benefits in some countries than in others. For this we must look into differences in initial conditions in countries which decided to adopt reform programs, or their timing or sequencing, or the match between the reforms in each case and internal political factors, or what effect the international climate had on each situation. All of these elements have a bearing, in some form and to some degree, on individual country experiences in the region.

Two factors, in particular, warrant closer examination to explain why reform efforts were more successful in some countries than in others.

First, country institutions need to be equipped to underpin the reform process. At the outset, reform programs focused more on enacting well-designed laws and standards than on the caliber or independence of the institutions that would be called upon to implement them, or on the incentives in place for that purpose. In other cases there were no political and societal oversight mechanisms to watch over those institutions and make sure they operated efficiently and transparently.

The early reforms set out to dismantle price controls, lower tariffs, privatize State enterprises, and eliminate distorting financial market interventions, and thus required little institutional support. The problem in subsequent stages was that countries were unable to develop the institutions needed to regulate privatized enterprises, apply and enforce financial regulation and oversight standards, collect taxes, and establish new mechanisms to support efficient financing and expansion of markets.

A second factor is the role of the international economic situation. As we noted earlier, the volume, makeup, and cost of funds available to Latin America and the Caribbean have been volatile. As a result, the volatility on the international scene diminished the reforms' impact on investment and growth and heightened macroeconomic instability. Two imperatives now are to increase savings, as I noted earlier, and to advance on the agreements concluded at last year's landmark World Trade Organization meeting in Doha. As the Director-General of the WTO pointed out a few weeks ago, cutting barriers to agricultural and textile trade in half would, by itself, boost developing country income by more than US$200 billion over the next 15 years.

The challenge now is to take stock of the reform process and encourage countries to adopt policies that will make the reforms more efficient and move on to new areas where modernization is a must.

Here as in so many instances, the IDB must remember that its task is to be "more than a bank", that its vocation is to help its member governments examine and learn from experiences and outcomes. Evaluations of practices, comparative analyses, and examinations of alternatives are important inputs for formal and informal dialogue with governments and civil society and for applied research.

Much remains to be done in financial, labor market, trade and fiscal reform, to name just a few key areas. This will call for a new kind of State which corrects market failures and governance failures. Markets need stability, order, and credibility in order to operate. Though prices may well exercise a spontaneous regulatory power, only the State—an honest, transparent, decisive State—can instill stability, order, and credibility. It is impossible to imagine sustained economic and social development in an environment in which lawlessness, corruption, and impunity still hold sway, in which laws are not politically or socially legitimized. It is impossible to conceive of a viable market system or an open society without an effective, transparent State.

Finally, as we continue with the still lengthy reform agenda, countries must be careful to proceed with caution and with modesty.

With caution, because if the reforms do not win a minimum measure of local acceptance or if society and its leaders gain no sense of ownership of them it is highly unlikely that effective institutional mechanisms will take shape. Reform efforts could come to a standstill and end up as purely token changes, making no inroads whatsoever against inefficiency or corruption.

With modesty, because we should not pretend to know quite as much as we have at times claimed. There are no easy roadmaps for growth or poverty eradication. But there are lessons to be learned from the region's experience—from its successes and failures alike. These should be drawn on case by case, with good leadership and the will to persevere.

D. New Challenges for the Bank

In the 1990s we witnessed the globalization of financial and investment markets while individual countries put through reform programs and unfettered their markets, especially their financial markets. For several countries in the region this has meant changes in traditional approaches to development finance. As considerable flows of financing and direct investment headed to the region, the role of the development banks became less prominent and new opportunities opened up for their cooperation with the private sector.

In the wake of recent events in the international economy and financial crises in our own countries, the region has become reacquainted with the realities of the business cycle and the phenomenon of contagion. When financial flows to Latin America and the Caribbean slackened and their cost went up, investors' perception of risk was heightened, making them more selective and increasingly reluctant to invest in the region.

I am confident that as we leave this cycle behind our economies will return to the healthy trend that took root in the 1990s when the global financial marketplace was taking shape. In the meantime, the Bank is being called upon to intensify its involvement and profile in the region, a challenge to which our institution now must rise.

At a recent meeting the Committee of the Board of Governors proposed a new lending framework which should greatly enhance our services to our borrowers. In this framework the Bank's financial cooperation instruments are grouped into three broad categories: investment lending, policy-based lending, and emergency lending.

The Governors underscored one condition common to all three forms of lending: the need for continuous evaluation of their development impact and the importance of yardsticks for such assessments, to make sure our institution is working effectively and to enhance the quality of its portfolio.

Management hopes to fulfill this mandate by redoubling results-focused efforts. We will work with the Board of Executive Directors to improve programming and evaluation mechanisms, in coordination with other multilateral and bilateral organizations.

The best instrument for securing our members' commitment to Bank-supported development programs is our dialogue with borrowing member country governments, the private sector, and civil society.

We propose to focus on increasing investment lending as a share of our loan portfolio, investment project funding having been the cornerstone of the Bank's work since it opened its doors.

We sincerely believe that policy-based loans have played an important part in reform processes of the past decade. But, moving forward, we need to ensure that they pursue clear objectives and have targets and benchmarks against which their development impact can be measured.

No one can deny that the volatile international climate, domestic financial crises and natural disasters have left our region far too vulnerable to economic reversals. In order to support its member countries when they are faced with such situations, the Bank has devised a line of action to help alleviate the social costs which crises of this magnitude exact from the poorest, protect financing for social programs, and preserve the policy reform gains countries have managed to achieve.

In such situations the Bank's role is to supplement the core function of the International Monetary Fund, fitting its support within its mandated lines of action. The IDB, like any financial institution, cannot be immune from financial risk. With that in mind, the watchwords of our financial management have always been prudence and moderation. Thanks to that philosophy and the member countries' commitment, throughout our history, to this great cooperative we know as the IDB, our institution's securities have consistently earned the highest ratings in financial markets. This should be a source of immense pride for the Bank and all its shareholders.

A central concern in administering the Bank's new areas of activity, whether the risks being managed are sovereign or nonsovereign, is the need to adhere to certain core principles: keeping the Bank's finances sound, preserving the integrity of its callable capital, and safeguarding its AAA rating. This is a task for the Bank and for its borrowing and nonborrowing member countries alike.

For 42 years the Bank has served its members responsibly, moving flexibly whenever new needs presented themselves but steadfastly pursuing its founding purpose, so wisely enshrined in Article I of its Charter: "The purpose of the Bank shall be to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively."

Four years ago the Bank's Board of Executive Directors and Management crafted an *institutional strategy*, looking afresh at Eighth Replenishment mandates to find ways of achieving them in the current regional and global economic and social climate.

To address the core objectives of reducing poverty and spurring environmentally sustainable growth, the Bank identified four pillars for its actions in support of policies for social development, competitiveness, governance, and integration.

More recently, at the dawn of the new century, Heads of State and Heads of Government agreed to common targets in the *United Nations Millennium Declaration* to assure the economic and social advancement of our peoples.

Latin America and the Caribbean stepped up to this commitment. The Bank should associate itself with country and regional policies to achieve the Millennium Declaration development targets. With its tradition of cooperation firmly anchored in noble shared values, our region could build an even more ambitious and diverse set of objectives.

It is our intention to make discussions of these aims with the borrowing member countries a feature of the Bank's country and regional programming exercises.

E. Closing Remarks

I would like to conclude my remarks with some reflections on the political situation in the region. A few years ago in this same forum, I noted that while prospects for democracy in the region were healthy we needed to heed the evidence of a mounting sense of frustration among the region's people at how democracy was working. It was vital, I said at the time, that the region avoid any risk of a return to authoritarian forms of government and chronic political instability. I continue to believe firmly that the entrenchment of democratic systems belongs at the top of country agendas. I am equally convinced that the consolidation of democracy is needed to answer to ethical demands for civic rights and the technical and political exigencies of development, particularly the reduction of poverty and inequity.

An economy will thrive if a number of conditions and social forces are at work. Key factors are savings, investment, innovation, and technology development, along with a policy framework which addresses citizens' legitimate interests and aspirations. Only a genuine democracy affords the requisite political stability and legal protection to foster savings, investment, and new technology which are essential to build modern economies, boost productivity, and improve economic efficiency and social justice. Only in a democracy will there be policies sensitive to the needs, hopes and aspirations of ordinary citizens.

However, recent surveys suggest that the preference for democracy in Latin American and Caribbean societies has weakened significantly. Alarming though this trend may be, the same surveys reveal the population's growing political maturity. The shaking of public confidence in democratic institutions—the judiciary, parliaments, political parties—and dissatisfaction with how those institutions are operating is making people skeptical, or triggering new political forces, though not support for authoritarian forms of government. Nevertheless, the dangerous perception that political parties and politicians are more concerned with winning and holding onto power than with the public good is gaining currency.

If countries are to restore people's faith and trust in democracy and its political institutions and narrow the gulf between hopes and realities, they will have to revive their economies, redress social inequities, and do more to reduce poverty, enhance citizen security and improve the quality and accessibility of public services. Indicators of political freedoms have been on a healthy upward trend for 20 years now; there has been no instance in the region of a genuinely democratic election process being interrupted. To the contrary: it is gratifying indeed to see democracy becoming more and more deeply entrenched.

Another development that should bring new hope is the September 2001 signing of the Inter-American Democratic Charter, a signal achievement on three fronts.

First, the process which led up to the Charter's signature shows that more and more leaders and authorities share the public's concerns about democracy's failings in our region.

Second, on the matter of threats to democracy the Charter addresses not only sudden or irregular interruptions of the democratic institutional political process—coups d'état, as they are known—but also any unconstitutional deviation from or rupture of the democratic order, such as self-administered coups, the dissolution of legislatures, electoral fraud, and media shutdowns.

Third, the Charter is one piece of a larger process to build the democracy clause into hemispheric integration processes.

An impressive sight in the region's cities today is the eruption of the masses into streets and squares. This is a palpable manifestation of a mighty force for change sweeping through our countries, demanding that we look anew at the roles of the State, the market, and different social actors.

The fact that this eruption is but one facet of deep-seated changes at work in today's world shows just how inexorable a phenomenon we are confronting. It also underscores how eminently desirable this change is, forming as it does part and parcel of the democratization process—at once an expression of that process and a demand that it go farther and deeper. It also goes hand in hand with efforts to add social demands, inclusion, and environmental protection to the development agenda, to give it a human stamp.

Disruptive elements that surface from time to time, with occasional outbursts of violence, are one feature of this growing civic assertiveness. They do not diminish our obligation to continue fostering environments, policies, and institutions which can provide socially desirable outlets for the energy of those who clamor for change. The solution is the same: deepen and broaden democracy. It is important that we understand that demands for participation are not at odds with representative democracy. When a country has sturdy democratic institutions in place, it gives its citizens not just assurances of participation but the avenues for participation. And it is precisely through these institutions that the citizenry will reassert the institutions' own legitimacy.

There is good reason to believe that our countries' current tribulations are typical growing pains. Today I wish to reiterate the Bank's commitment to support each and every one of them in their efforts to consolidate democracy and achieve the economic development and social progress that are legitimate aspirations of all their people. Given the region's extraordinary human potential and endowment of resources, we know that this is eminently possible.

Let me say again how delighted I am that Brazil is hosting this Annual Meeting of the Governors of the Inter-American Development Bank and welcome all those here present who are working to make this a successful event. Allow me to extend my appreciation to those who organized the work months in advance. Particular thanks go to the Government of Ceará, the Prefecture of Fortaleza and all their staff who worked with dedication alongside the IDB staff in bringing this to fruition.

This is an excellent opportunity for us to meet in this corner of Brazil, a corner of which we Brazilians are proud. We are proud of its people, its beauty, and the way this region has shown how a leader can emerge even from the poorest area, overcoming tremendous odds. Governor Tasso Jereissati is a case in point. It is possible—even in the harshest region of a country beset by difficulties such as Brazil—to make progress, to make social progress and to foster a process of change with a human face.

There is another reason why we Brazilians are happy the IDB is meeting here in Ceará. Ceará is the birthplace of an organization—SUDENE—that in its time meant much to all of us. This was the Northeastern Development Authority, inspired and created by a great Brazilian, Celso Furtado. SUDENE grew out of the same concern that leads us today to strive to make development, more than just an accumulation of wealth, a transformation of society.

The IDB has that same inspiration and, it must be said, has contributed much to meet expectations of progress in the Northeastern region of Brazil, the most disadvantaged and the most in need of a boost. So it is very appropriate that the IDB should meet here in Ceará.

I would also like to highlight the role of another citizen of Ceará, Mr. Martus Tavares, who embraced the work of this meeting so enthusiastically and who has demonstrated his competence and perseverance.

We all know that the IDB has always defended an integrated view of development across the social, political and cultural dimensions, beyond the merely economic. This view—and Dr. Iglesias has once again shown his particular expertise in this area—shelters a respect for the environment and the moral foundations without which institutions cannot renew themselves. This has been the IDB's concern.

If this view prevailed before, it is even more important today—in the wake of the terrorist attacks of last September—to look beyond the region, beyond SUDENE looking after Ceará, beyond the IDB looking after Latin America. We need to take a different view of the world and not limit ourselves to discussing conventional avenues.

I have always spoken of a "governance deficit" at the global level. The way to fill that deficit is by democratizing decision-making processes and seeking out what I call "globalization through solidarity". This can be described in different ways, as the human face of globalization referred to by President Alejandro Toledo, as an ethical approach. What we call it matters less than what we all perceive as necessary: a struggle to ensure that development opportunities are afforded to all peoples in a balanced and sustainable way. This has been my constant concern. Just after the first time I was elected President—so long ago that I no longer worry about the ups and downs of popularity since this is a permanent feature in political life—I addressed an international assembly. It was at ECLAC, in Chile. And that first speech was on this very subject, on the need for a different kind of development, what today is called a different kind of "international financial architecture", a whole different view of the world. I even asked ECLAC to redefine, from a Latin American perspective, such a rebuilding of the world order, always based on an ethical, more just foundation, always aware that no progress can be made until decision-making processes are made more democratic at all levels, including international levels.

I know that the objectives of peace and security that must inspire the efforts of the international community in its fight against terrorism are crucial. But the task of social and economic development cannot be put off.

I must register my dismay at an international agenda almost exclusively focused on the question of security—which is decisive, and very important, but does not address the concerns of our peoples. I also know that an important step forward was taken in Doha, Qatar, where a path for the future was laid out. It will be essential from now on to ensure that trade negotiations are shaped by a balanced approach so that they can create a dynamic of growth in the world economy and so that they can, if not eliminate—that would be too ambitious—at least reduce the asymmetry in the current process of globalization.

That is the overall expectation of all developing countries, as well as people of conscience wherever they happen to live, whether in developing or developed countries: that the current asymmetry must be reduced. But let's speak frankly. The road that leads to strengthening the multilateral trading system is certainly not the road of protectionism, not the road of tariff and non-tariff barriers that impede access by products from developing countries to more dynamic markets. Nor is it the road of discretionary antidumping measures, or agricultural subsidies applied in scandalous proportions, to impede free competition.

On the contrary, the path staked out at Doha can only be successful and effectively lead to a "development round" if the political will exists to eliminate the obstacles thrown up by protectionism. The negotiations under way to create a Free Trade Area of the Americas truly represent a great challenge for our countries.

I have said on several occasions, including in Quebec in the presence of all the hemisphere's heads of state, that in order for the FTAA to become a reality it will need to reflect the results of negotiations leading to a balanced agreement with benefits for all. We cannot countenance an agreement where certain countries seek to open others' markets at the same time as they close their own under domestic pressures of a purely protectionist nature.

I am now in my eighth year of office as President with responsibility for this country which—not to be quite as optimistic as Enrique Iglesias—is one of the world's ten largest economies. Perhaps not the eighth largest, but at least one of the ten largest. But I must say in all honesty that I am most concerned at recent signals being sent by the United States that it is not prepared to open up to competition in sectors of interest to other countries.

The steel measures—which will affect part of Brazil's exports to the United States, although we have secured some reductions in those restrictions—higher agricultural subsidies, and constraints placed by U.S. negotiations on fast-track authority all run counter to the effort to establish a true FTAA. When I mention the restrictions on steel, I am simply repeating what Alan Greenspan, Chairman of the Fed, has indicated by way of direct and unequivocal criticism: that we need to understand clearly that protectionism and free trade are not compatible. If you want free trade, you have to reduce protectionism, and you cannot ask developing countries to open their markets while at the same time restricting their access to those of rich countries.

We all know that reciprocity in trade deregulation is an indispensable complement to the efforts being made by Latin American countries to enter the global economy. Those efforts have just been described by Dr. Iglesias and by the Presidents who have preceded me here today. International trade and investment leverage this process. And financial instability, like trade protectionism, is detrimental to all. But—as we know all too well—it is particularly hard on developing countries.

We have risen to the challenges thrown up by a volatile international financial system. Here the IDB's work has been very important, just as it was in 1998 when the Bank took part in the program in support of Brazil. The difficulties then being experienced led to a new exchange system for our country in early 1999. I'll say it again because I am bound to do so, but it has been said by everyone who has preceded me: volatile international capital flows must be brought under control by using more creative policies and instruments. This would lend more predictability—if such a thing is possible—to a financial system whose frequent crises make it even more difficult for developing countries to achieve sustainable growth.

The upcoming conference in Monterrey may offer positive prospects. I say "may" because we need to wait and see what happens there. I would like to see more tangible results. I won't raise here the question of the Tobin tax, which I have talked about often enough to be irritating to some. I am aware of its limitations. I would simply like to say that something must be done; something can be done. I will not even refer to our ambition for something so generic given all the problems we are aware of. But there are more tangible measures. Why not increase special drawing rights with the International Monetary Fund to increase its effectiveness at times of crisis?

Why not calculate our debt as Europe is doing? Why register a loan up front, increasing the country's debt and diminishing its ability to seek out new financing, rather than spreading it out over time as the resources actually enter the country?

Why restrict our ability to finance development through mere accounting maneuvers, if things are done differently in Europe? What is the reason for this? We have asked the IMF for clarification several times. Why do they proceed in this way? The answers assume that some of us are illiterate. We are not. The President of Peru at least is an economist and knows how to read and write. I am merely a sociologist.

As a non-economist, I have the difficult task of stabilizing Brazil's economy. This we are doing—it must be recognized—with tremendous help from the Brazilian people and competent economists. Don't deceive us, though. Give us reasons and we will be reasonable enough to say that we are in agreement. But unless we are given reasons, we will insist at our meeting in Monterrey that we are talking about simple things. It's not a question of reordering the universe. We'll leave that task to the one who created the universe. But let's at least help relieve the conditions that are suffocating us.

Favorable conditions internationally are absolutely essential for our countries to obtain the support they need to overcome their crises. We have a case at hand that illustrates this to a shocking extent: the case of Argentina. I understand—and I have said this both publicly and privately—that early on before Argentina gave clearer signals that it had found a way, the international financial institutions expressed skepticism.

But in recent weeks we have seen an enormous attempt by the Argentine government and people to find a way. Clearly, under certain circumstances, no more can be asked for than a response that is essentially a lie. And if more is asked for, with the conditions for that "more" absent, and it is crucial for the country, what memorandum of understanding can there be between the country and the IMF, but a false one?

The great change we made in Brazil was precisely to improve our sincerity and transparency, to open up our accounts. How many times in the past were negotiations based on a kind of lie? An agreed-upon lie, since the other party—the powerful party— knew that we would not comply. The situation was so serious that we had to pretend. Now, Argentina doesn't want to pretend. The Argentines are saying "I've already made a move; now help me take another step". The concrete proof that we are truly moving toward a dynamic understanding of development in Latin America, the concrete proof we will see now, in the actual support for Argentina, on the condition that the country actually follows the way indicated. We need to show solidarity for our own, and support for loans to Argentina.

I have no doubt in this regard, because I know of the considerable efforts undertaken by the President of the IDB in that direction. I am sure that he has the capacity, as he is once again showing, to coordinate actions to rescue the Argentine economy. I am referring to the international rescue, not the domestic rescue—that's up to the Argentines, who are already looking after it.

The IDB is also the bank of integration, with a major presence in technical support for FTAA negotiations, in assisting subregional processes like MERCOSUR and the Andean Community. The Bank plays an important role in coordinating efforts to integrate regional infrastructure throughout South America, in accordance with the decisions we took at the first summit of South American presidents held in Brasilia in September 2000.

The second summit of South American presidents will soon take place in Guayaquil, Ecuador. And Guayaquil, by chance, is President Gustavo Noboa's home city. We'll be there in July. There we will be gauging progress made on setting up this vital network of subcontinental infrastructure interconnections. Infrastructure for energy—which is fundamental—oil, electric power, gas, river transport, land transport. Defining shared telecommunications codes. In other words, a very important set of measures that are essential for effective integration of the region. I am confident that the IDB, as the bank of integration, will continue to lend us its collaboration. But the IDB is also a bank of peace, and contributes to implementing programs of cooperation along the border between Peru and Ecuador.

This morning, I am happy to say, I met with Presidents Alejandro Toledo and Gustavo Noboa, who are here with us today, to discuss precisely how to speed up this process now that these two countries have achieved peace after decades of armed struggle and death. Brazil is proud to have helped in this process, along with the United States. Naturally, we are also concerned to put conditions in place so that the border populations today living in peace do not have the feeling that peace is good because fewer people die in war. But so many more people continue to die under conditions of malnutrition, hunger and underemployment than if we organized to work on this problem. And so we shall. And the IDB will be there with us.

I know that the IDB has fought for social inclusion and sustainable development of natural resources in all our countries. This reflects the quality of its work but also the predominant feeling in our region—one of social justice and environmental conservation. Without this, we are all aware, there can be no development. And without a shadow of a doubt, that is the view of the Brazilian government, more importantly, of Brazilian society. The results corroborate this view; they reveal the highest human and ethical sense that is present in development efforts in our region. In the final analysis, the success or failure of our initiatives will not be measured by economic indicators but on the response to a simple and direct question: Is this really improving quality of life? That is the central question.

Oswald de Andrade, a Brazilian writer, came up with a saying that is simple but true: "joy is the acid test". When people are not happy, we cannot say that there has been substantial progress. Happiness can come about when we see more children in schools— and in better schools—when we see noticeable drops in infant mortality. When we see the most vulnerable being protected by a social safety net, when we see workers finding employment and the poorest improving their earnings, their purchasing power, free of the scourge of inflation.

We have done much in Brazil. I won't quote figures. But much remains to be done. We have created a social safety net. Last year—I like to give this example because some people, not unreasonably, complain about taxes—we distributed more resources directly to the needy than we collected in income tax from individuals and companies. The portion of that income tax that goes to the federal government is about US$10 billion. That US$10 billion, as Mr. Tavares has said, was distributed directly to the poorest. Directly—under a program to eradicate child labor, families receive subsidies for every child that stops working. Families under a certain income level benefit from the School Fund for each child in school—11 million children to the end of this year out of a total of 35 million children in our schools. Close to one-third, the poorest third, receive assistance. A number of programs exist, to provide assistance for utility bills; a nutritional program for poor mothers during pregnancy and the first year of a child's life. These programs benefit a total of 10 million persons.

How are these funds distributed? Very simply, in the form of a magnetic card that is given preferably to the mother, the head of the family. Where this is not possible, the card goes to an older brother or the father, but preferably to the mother, who gets the funds directly at a bank branch or a post office, with no political intermediary, no City Councillor, no Deputy, no Governor, no President of the Republic. We do it this way because it's their right: the right to live a better life.

So this is why we redistribute all the funds we collect in income tax on individuals and companies. The Treasury is for everyone. It is precisely for this reason that we need, as the Bank's President has said, a social safety net. At the same time as we promote development, we design social policy for universal access to education and health. Education was mentioned by President Noboa in referring to the digital divide. I can't say that we have a program for this yet, but I can say that just over 97 percent of Brazilian children between the ages of 6 and 14 are in school. This is on a par with countries with the highest schooling rates in the world. And it gives me great joy, as someone who has been a teacher all his life and whose mother, daughter, and son-in-law are all teachers, to tell you that illiteracy is dead in Brazil. In just 10 to 15 years, this country will have eradicated illiteracy. When I was born, the illiteracy rate was 70 percent.

In spite of everything, in spite of criticism and self-criticism that could go on endlessly, in spite of the obstacles, in spite of the asymmetries, even though our sense that the world should be more evenly shared and more fair, has been quite strong enough. In spite of all of this, we can continue making progress with the enthusiasm and confidence that President Iglesias has shown here. And we have done something. And beyond us, our peoples have been patient, have judged us sometimes favorably and sometimes negatively, have changed governments, but have kept the flame alive.

That flame grows stronger when the wind of freedom blows upon it. In our continent, in spite of everything, the wind of freedom blows strong. With freedom, the will of our people, and technical expertise—and the IDB represents that expertise here—and with the moral conviction that we must proceed responsibly and competently, I have no doubt that we will have many more annual meetings at which we will measure the steps we have taken toward progress and the well-being of all our citizens.

ADDRESSES

SECOND PLENARY SESSION

MARCH 11, 2002

ADDRESS BY MR. GEORGE A. O. ALLEYNE, DIRECTOR OF THE PAN AMERICAN HEALTH ORGANIZATION

First let me thank President Enrique Iglesias for the opportunity to address this Forty-third Annual Meeting of the Board of Governors of the Inter-American Development Bank (IDB). I wish to take the President's invitation as a recognition of the Centennial of the Pan American Health Organization (PAHO); as a recognition of the work we have done over the past 100 years, and an indication of the Inter-American Development Bank's willingness to work with us over the next 100 years. This year we celebrate our Centennial, and as the oldest international health organization in the world, we naturally take some pride in recalling what has been accomplished. But more than what we have accomplished as an organization, it is what the countries of the Americas have achieved in health with our support that is the source of our greatest satisfaction. But beyond the celebrations of the moment, and the many occasions during this year our Member States will find for reflecting on where we have come in health, it is a time to reflect on the immense task ahead, and the need for allies in addressing that task. So my remarks to you will be couched in terms of achievements, but more importantly, what there is to be done and the vision I have of institutions like yours and mine seeking and finding common ground in approaching these tasks.

When PAHO was founded in 1902, the major health concern in the Americas was with the spread of infectious disease. Migrants from Europe were bringing yellow fever into the United States. Diseases like yellow fever, cholera, and plague were rampant throughout the Americas. We are told that in the latter part of the nineteenth century, an epidemic of yellow fever killed some 15,000 people in Buenos Aires alone, and the United States was not exempt, as there were over 100,000 cases in the south of that country with over 20,000 deaths. The countries of the Americas determined that their interests could be served by establishing an agency that would be responsible for the collection and dissemination of information about disease so that the appropriate protective or quarantine measures could be taken. It is a matter of pride to us that when the formal treaty establishing our Organization was signed eventually in 1924, the countries saw their combined efforts at sharing information with a view to inhibiting the spread of disease not only in terms of human health, but were emphatic that the control of such diseases was important for trade and commerce to flourish in the Americas. One might say that from the beginning we were conceived as a development agency, in that the promotion of trade and commerce was and continues to be key to the economic development of our countries.

Today the disease panorama is somewhat different as the individual and collective efforts of the countries to improve public health have borne fruit. The demographic changes in our populations have brought to the fore chronic or degenerative diseases such as heart disease, diabetes mellitus, and strokes, which are the number one cause of adult mortality in almost every country. The pernicious habit of smoking has brought with it increases in cancers, particularly of the lung, and a host of other afflictions. But this does not mean that we do not have to be concerned with the spread of some of the old infectious diseases such as tuberculosis and malaria, and the appearance of new ones. The discussions here over the past few days have emphasized the nature of that modern day plague, HIV/AIDS, with its capacity to wreak havoc upon the lives and economic well-being of the countries of the Americas. I am pleased to see the IDB taking a proactive role in assisting countries in their fight against HIV/AIDS. These demographic changes also mean that our people are living longer and all countries have to be considering the potential extra call on their health and social services that derive from having to care for an aging population. This graying of the population is not the unique province of developed countries. The percentage of the population over the age of 60 years is higher in Uruguay than it is in the United States, and the Caribbean shows one of the most rapid increases in the number of older people in the world.

But even as we express concern for and seek ways of addressing old and new diseases, we have to acknowledge the progress the countries of the Americas have made in health in the past century—a progress that still continues. In the decade of the twenties the infant mortality rate in Brazil was about 160 per 1,000 live births, while today it is just below 30 and falling. This is a story that is repeated throughout the Americas. As late as 20 years ago the life expectancy at birth in the Latin America and the Caribbean was about 65 years, today it is 70 years.

Without being triumphalistic, we can cite several examples of the achievements of the Americas in health. This Region was the first to eradicate smallpox. The eradication of poliomyelitis 11 years ago is a feat of which our countries are justly proud and we await the global eradication of this disease that has crippled so many children. The IDB can take pride in its contribution to this laudable effort. The Americas are on the verge of eliminating measles—a disease that kills nearly three quarters of a million of the world's children annually. Last year in all the countries of the Americas there were only 530 cases of measles, and the origin of any small outbreak has been due to the importation of cases from places such as Europe that has not done as well as our Region. I could cite many other public health achievements, such as the marked reduction of iodine and vitamin A deficiency. More children can show a healthy smile because there is less dental caries thanks to fluoridation programs. Again, I must recognize the support of the IDB in this area of oral health and similar ones.

But we cannot be unaware of what has become the major concern of all agencies that are concerned as we are with human development. That concern is with poverty and its many consequences and manifestations. Data from the Economic Commission for Latin America and the Caribbean (ECLAC) show that although the percentage of the poor is stable or indeed falling slightly, the absolute numbers of the poor are increasing, and the estimate is that there are about 150 million persons in Latin America and the Caribbean living in poverty. And I speak only of income poverty and do not widen the definition to include the lack of some of the other basic capabilities necessary for decent existence. This is no new truth to an audience such as this. What may be new is that while poverty reduction figures as the number one international development goal, some four of the other seven major goals relate to health in one or other form. What may also be new to you is the value the poor place on health. This comes through clearly in the World Bank's telling series on the Voices of the Poor.

It has been known for a long time that the poor are less healthy than the rich, and it is almost a canon of faith that an increase in family or personal income will improve health. What is less well appreciated is the role of health improvement in poverty reduction. There are very good historical data to show that investment in health and nutrition enhances economic growth. This phenomenon is shown in both macro and micro economic studies, some of which have been jointly sponsored by PAHO and the IDB. The mechanisms through which health investment leads to poverty reduction are complex. At a very basic level, investment in the health of the young increases their ability to learn, and it is fairly obvious that a healthy population that lives longer produces greater returns for investment in education. The combined investment in health and education produces the human capital that is recognized as being essential for economic growth. Good data from Brazil and other countries on the labor market returns to health investment show that adult height as a marker for the accumulation of health inputs during early life is closely related to wage earnings, and this can be shown to be independent of educational status. Children that are provided good calorie intakes in their early years can be shown to earn more as adults than if they were fed diets with fewer calories.

Disease reduction leads also to enhancement of the particular locale's capacity to attract investment. In the case of those countries that are heavily dependent on tourism, it is clear that the health of the people and their environment are key factors in the attractiveness of the environment. The recent report of the Commission on Macroeconomics and Health (CMH), chaired by Jeffrey Sachs, presents compelling evidence on the economic returns to investing in population health and disease reduction. The Commission argues that in the very poor countries of the world there will have to be major donor input if they are to meet the minimum costs of dealing with the most prevalent and devastating diseases. The countries of Latin America and the Caribbean do not fall into the category of those in which the available public health expenditure is simply not enough to sustain a health expenditure that can deal with common health problems. The critical problem for our countries is the organization of the health expenditure and the targeting of critical interventions and quality services towards the very poor.

Thus, one of the challenges for the health sector is to present and sustain the argument that investment in the health of the population is important not only for good humanitarian reasons. We are properly affronted by the prospect of populations suffering ill health when there is good understanding of the origins of that ill health and the technology and interventions are available to reduce the burden of disease. But our challenge goes beyond making the argument for health as being a constitutive good. We have to be arguing with the good data we have available that the health of the population is a critical element for the economic growth of society.

The relationship between health and poverty that we continue to emphasize is not restricted to the role of health in poverty reduction. Illness can drive an individual and the family into poverty. There may be sale of the productive assets of the family to cope with illness. In addition, the asset-poor may then find that it is impossible to escape from the poverty trap into which they have been driven by illness and perhaps the cost of treating it.

The second major challenge in health for us in the Americas is to reduce the health inequity that plagues us. The improvement in average health indicators that shows the advances we have made hides the gross inequalities that plague us. These differences exist between and within countries. These differences in health outcomes that are avoidable and nonvolitional are deemed to be manifestations of inequity and should be thought of as being socially unjust. Infant mortality rates have been falling steadily in the Americas, but the relationship between the mortality rates for the rich and the poor has remained about the same over the last 40 years. This gap between the economically well off and the deprived is seen in almost every health indicator. The differences in health status between groups within a country has been a source of concern for a long time and has been cited as a possible source of social unrest and discord. It is difficult to reconcile that in an area that is so vital to human well-being there should be such differences. It is theoretically possible that nations can address these differences predominantly by targeting their attention to deprived groups. Thus, there can be special attention given to providing services targeted specifically to the poor or the rural segment of a population, and there is evidence that these can result in clear improvement of the health of society as a whole.

The more thorny moral and practical question arises when there are marked differences between countries, as is the case in our hemisphere. Should there be concern that there is a hundredfold difference in maternal mortality between two countries of our hemisphere? Should there be concern that there is a tenfold difference in infant mortality as a proxy for health care in our hemisphere? I hold that the moral or ethical concept behind the search for health equity makes it necessary for us to show more than passing concern for such a situation. As a society of concerned nations we should accept some responsibility for the level of avoidable health differences that exist between countries, especially when there is technology available to reduce such differences. I believe that the case for reducing avoidable differences within a country on the basis of ensuring or promoting national security and stability can also be made when the difference exists between countries. Social dissatisfaction engendered by the visual images of health and other social gaps cannot be taken lightly. We in PAHO have been so embarrassed by the situation in Haiti that leads to such high maternal mortality, that we have embarked on a focused program that seeks to make this problem an entry point into helping to strengthen the organization of health services managed by the Ministry of Health.

The Pan American Health Organization's technical cooperation is directed towards assisting the countries in the development of their policies and programs and in assisting them in the development of the kinds of information systems to facilitate their targeting the interventions appropriately. We are particularly pleased to see our countries examining more and more the distribution of their indicators and not simply dealing with averages that hide the inequalities that may be inequities. We are pleased to see more of our countries borrowing for health programs.

At the beginning I mentioned the vision of the common ground our institutions could find. I am particularly pleased to have signed about one and a half years ago an agreement with President Iglesias and the World Bank to work together in a Shared Agenda for health development. After one year we can point to areas in which the financial contribution of the financial institutions has come together with the technical expertise of a specialized health agency in a union that is beneficial to the countries and the institutions themselves. I see PAHO putting its technical expertise in health at the disposal of the countries of Latin America and the Caribbean as they approach the IDB for financial support in the health sector. Together we can try to ensure that the projects are technically sound but also respond to the needs that have been identified on the basis of the kind of data and analysis that we have been helping countries to carry out for some time. I have great hopes that as health comes to be seen as an integral part and not a consequence of human development, and as it is appreciated that we have a responsibility to look behind the averages of health indicators to see the extent to which the poor are disadvantaged, there will be more and more possibility for collaboration between our institutions.

Mr. President, 226 years ago Adam Smith inquired into the causes of the wealth of nations. These causes are still being debated and, although there is much more clarity about their nature, there is still debate about the relative weight of one or other cause. It is pleasing to me to note that health is surely being included in these causes, and as an earnest of this I saw last year the CARICOM Heads of Government issuing what will become a landmark declaration entitled "The Health of our Nations is the Wealth of our Nations," and setting in motion a set of activities to give substance to their declaration.

I have hopes that this example will spread in the Americas and in the next century of PAHO's existence as a human development agency, we will see the same kind of advance in the reduction of poverty through health development as we have seen over the last 100 years in the reduction of the spread of infectious disease. I would like to count on the continuing support of the IDB in achieving this advance.

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

I would like to thank Enrique Iglesias, President of the Inter-American Development Bank, for inviting me to address this meeting of the Board of Governors, and the Brazilian authorities, and Mr. Martus Tavares in particular, for their warm hospitality which we will enjoy again in a few weeks' time at ECLAC's biennial meeting in Brasilia. I would also like to convey to you a cordial greeting from United Nations Secretary General Kofi Annan and invite you all to take an active part in the United Nations Summit on Financing for Development, which will take place in Monterrey, Mexico, next week.

The events of the last five years underscore the importance of this global dialogue on development problems, the first of its kind to be held in two decades. In retrospect, it is obvious that the events unleashed in the East Asian economic powerhouses in the second half of 1997 and exacerbated by the Russian crisis in August 1998 had a far more profound impact on developing countries than was at first realized.

These events ushered in a transition from a period of abundant private capital going back to the early 1990s to a new phase in which external financing was not readily available, and only on far more volatile, more costly terms and conditions. This situation was further aggravated by the incipient contraction in foreign direct investment, which had been the most abundant source of private capital funding in the 1990s. The year 2002 marks the third consecutive year in which the flow of private capital funds to Latin America and the Caribbean has shrunk, and the fourth year in a row in which the net transfer of capital from abroad will be zero or slightly negative.

The decline in available financing, compounded by the impact of the slowdown in the world economy on international trade, stalled the economic recovery that had begun in 2000, leading to negligible growth in 2001, with the likelihood of zero growth throughout Latin America and the Caribbean in 2002. Overall, in the five-year period from 1998 to 2002, economic growth in the region was no more than 1.5 percent a year, a figure that just parallels the demographic growth rate. This trend should move us to fully rethink the recent patterns in regional development and the problems facing the world economy, which are reflected in its limited capacity to speed up growth in the developing nations and in the unusually frequent occurrence of economic crises.

The Monterrey Summit will afford a unique opportunity to identify the problems facing the global economy and to expand international cooperation to address them. I will limit myself here to financial issues only. It should be noted that the Asian crisis sparked an intense debate on the need to reform the international financial architecture. This controversy and the measures taken in connection with it has led to some progress. However, on the whole, the process of reform has been slow, incomplete, and marked by the lack of a consensus on critical areas of sound international financial governance, including the very content of the reform agenda. The "Monterrey Consensus" is the first time a consensus has been built on the agenda for international financial and trade reform.

Among the progress achieved in the reform process, I would like to point out the more preventive approach to macroeconomic oversight on the part of the International Monetary Fund, the improvement in the information available on the financial markets and the enhancement of the regulatory frameworks and prudential oversight for the banking systems in many countries as part of a more pragmatic approach to financial liberalization. However, the standards on banking regulation that have been discussed by the Basle Committee, if not modified, may further reduce credit to borrowers considered high risk, which include developing countries.

Some progress has also been made in designing International Monetary Fund credit lines although the most innovative of these, the standby credit, has not been used, indicating that its design is flawed. Decisions on whether IMF conditionalities should be limited to macroeconomic issues and closely related areas of structural reform also represent a breakthrough, but there is still some way to go. The very role of the IMF emergency lending facility has again been called into question in recent discussions and proposals. This poses a serious threat to countries that, given the unstable situation of international private flows, are up against the chronic threat of insufficient liquidity. Despite a wide range of proposals on actively using Special Drawing Rights to finance IMF operations, including those put forward by former IMF Managing Director Michel Camdessus, this issue is still off the reform agenda as it has been for the last two decades.

The absence of multilateral rules for dealing with the problems of overindebtedness has been highlighted by many analysts as one of the most conspicuous gaps in international regulation. The recent addition of this issue to the agenda should therefore be considered a major achievement. If the mechanism is poorly designed, however, it may become a source of further discrimination against developing countries, leading, in particular, to higher country risk spreads. Accordingly, many developing countries view these proposals cautiously. The greatest danger lies in considering this instrument a substitute for rather than a supplement to the IMF's emergency financing facility. Debt restructuring thus basically needs to be seen as the proper instrument for addressing problems of solvency, whereas if it is used instead of the emergency financing facility to resolve liquidity problems, it could result in higher country risk spreads.

The Heavily Indebted Poor Countries Initiative should also be viewed as progress. However, inadequate funding for the initiative eventually generated high charges for the developing countries through increases in the intermediation spreads of certain multilateral financial institutions and cutbacks in their technical assistance programs. It is indeed paradoxical that the initiative, far from being a move towards normalizing access to external financing, is actually depriving the beneficiary countries of the use of the financing for a prolonged period and subjects them to a lengthy period of structural conditionality.

Lastly, two areas in which there has been little progress in international financial reform concern issues that are key to this meeting: the role of regional and subregional financial institutions and the role of multilateral development banks. The Inter-American Development Bank plays both roles. Its basic function as an anticyclical source of external financing was apparent recently when private capital was in short supply. Its active role as a catalyst for private resources, as a forum for policy dialogue, and as a support for regional and subregional processes of various kinds is also quite clear. Hence, in the area of international financial reform, attention needs to focus once more on the major role played by multilateral development banks, particularly regional ones. Here, I should stress the importance of the proposals put forward by the External Advisory Group on the role of the IDB. I would also like to express my personal thanks to President Iglesias for asking me to be part of the Group.

Given the slow pace of international financial reform, which is not yet complete despite clear signs of the urgent need for such reform in an adverse international environment, the international community must take decisive measures. The Monterrey Summit offers an invaluable opportunity to do so. On behalf of the United Nations Secretary General, I extend to all of you a cordial invitation to participate actively in this event.

I am honored to address this annual meeting and to extend my greetings to all the Governors, government authorities and participants. At the outset, I would like to express my gratitude to the Government of Brazil, its President and its people. I am especially pleased that, on my first visit to a multilateral forum as Governor, fate has it that our meeting should be held in the city of Fortaleza, in Brazil, a country with which we feel we are working toward a common future and destiny.

My intention today is to share with you some initial thoughts and to give you an idea of the task to which we are committed. Everyone is aware of the critical situation facing our country and the main facts about the performance of the Argentine economy. Let me provide a few figures to illustrate the situation, however. In terms of production, after nearly four years of recession the cumulative decline in output per capita has reached 16 percent, and investment is down by 43 percent. In 2001, deposits in the financial system fell by 22 percent in nine months and international reserves by nearly 50 percent. Last year we recorded a deficit of US$13.9 billion on the accounts of the national government, and the provinces as a whole were in deficit by US$5 billion. At the same time, the social outlook is bleak: Argentina today has 4.5 million people with employment problems, and 15 million living below the poverty line.

When our administration took office a little over 60 days ago, production was virtually paralyzed and public finances exhausted, with no access to any form of credit. Depositer confidence had evaporated. Last December saw the collapse of the basic rules of convertibility, which had been a valid instrument for ending hyperinflation and promoting growth as long as the external context was adequate. As a means of curbing capital flight, the previous administration had to resort to tremendous restrictions on savings and banking transactions, the so-called *corralito*. The turbulence and social unrest that ensued were an obvious corollary of this disaster—Argentina witnessed the fall of two presidents within a few days. In short, from any viewpoint, economic, social or political, the situation is unprecedented and is testing the ability of our people to rebuild the present and to join in a common endeavor towards a better future.

To address this critical crisis, the government proposed a far-reaching course of action, including the necessary legislative measures: to reestablish conditions for an autonomous monetary policy, with a flexible exchange rate regime and a fiscal policy of extreme austerity, in keeping with the magnitude of the situation. We have sent to Congress a draft budget that calls for a reduction of 70 percent in the deficit for the year. The only exception is for social spending, where funding will be targeted at subsidies for the unemployed, supplemented by assistance for food and medication. The Central Bank, an autonomous institution that now has a new Charter consistent with its functions, will be responsible for implementing the monetary program.

Given the performance of the Argentine economy in recent years and the events that have taken place in recent months, the course we have selected implies an enormous challenge, without any doubt. Yet, as I have said on many occasions to my fellow citizens, the government cannot look to magic formulas or quick fixes. We intend to establish clear and simple rules. The objective of the program is to rebuild "normal" economic institutions following the road taken by other countries that also started in difficult situations but are today successful.

This approach in no way implies that we are underestimating the difficulties and the collective effort that will be required. We are aware of the urgent need to resolve the problems affecting operation of the financial system. We are moving progressively, with due caution, to regularize that situation, and have made significant progress in these two months. It is urgent now to restore public confidence, since only by moving in this direction will we be able to revive the savings and investment cycle, a crucial prerequisite for normal productive activity and hence for generating employment. The government program also seeks to restore the climate for both domestic and foreign investment by guaranteeing the basic principles of legal security and economic freedom. We have already begun work with private firms providing public services to adapt their performance parameters to the new circumstances.

Similarly, we are aware of the need to regularize our international finances, and we will soon begin renegotiating our public debt with our creditors. As you know, we are working closely with the International Monetary Fund to reach an agreement as quickly as possible. It is essential to restore confidence, and to do that we need international understanding and support in short order. At the same time, we can point to the goals that we have already reached. The recent approval of this fiscal year's budget by the National Congress is one such accomplishment. The agreement that we signed with the provinces a few days ago contains vital elements, in terms of both their fiscal impact and the implementation of more effective rules for distributing resources among the different levels of government. We are also convinced that the measures we have taken will enhance the country's export potential and allow us to restore international trade flows. Our membership in MERCOSUR will now have a realistic foundation and we will thus be better equipped to face the issues involved in hemispheric integration and integration with other trading blocs.

Neither our aspirations nor our efforts as I have described them are exclusively the concern of my ministry. They represent the action program of a consensus-based government, whose President was appointed by the legislature to lead a transition that involves three basic commitments: reconstructing the political and institutional governance of our country, ensuring social peace by making the greatest possible effort to eradicate the injustice and social exclusion that today affect an unacceptable number of Argentines and reestablishing a common destiny based on production and work. In short, we see our responsibility as a government to bring about an active, steady transition, fully aware of the commitments undertaken and the difficulties of the moment, but with the determination to rise to the challenge of building new opportunities.

Let me turn now to the issues facing this annual meeting. In the first place, I would like to pay tribute to the work of the Committee of the Board of Governors and the efficiency of its chair, our colleague the Governor for Chile. As a result of that work, the Bank will now be able to implement a financial framework for its various categories of lending. This is obviously helpful for the case of Argentina, since we hope to renew financing for the emergency line of credit for which the contract was originally signed at the end of 1998. Moreover, having different types of loans available will help better meet borrower needs and will benefit the Bank as a whole. We all know that we can make further progress in the adoption of new instruments. In short, we are seeking to enhance the Bank's responsiveness capacity.

Similarly, we understand that the issue goes beyond financial instruments. The effectiveness of financing must be measured by its development impact. We are interested in an approach that emphasizes results. We see that there are some tasks that are up to the countries, but others that fall to the Bank as an institution. From this viewpoint, we believe that results-based management will require adjustments in the Bank's organization and in its human resources, both at headquarters and in the Country Offices. All of this suggests that in measuring the effectiveness of operations we must use simple benchmarks, with close attention to the costs of measuring them, and making any necessary adjustments in the organization.

In preparation for this annual meeting we received a document on the future role of the IDB, prepared by an external advisory group at the request of President Iglesias. We concur with the objectives put forth in that paper for the future of our institution, because they are consistent with the institutional strategy agreed upon and the mandates of the Eighth Replenishment. Argentina is ready to work with the other member countries of the Bank to expand the Bank's activities. Although some of the proposals in the paper will require extensive discussion, there are others that could be implemented within a short time horizon. The key here would seem to be to build a basic consensus on the menu of proposals.

In terms of the private sector window, we understand that the Board of Executive Directors and Management are in a position to propose the necessary adjustments for expanding it, including the essential issue of risk management. In this new task, the Bank will need to ensure efficient management of the current portfolio; we need to approach execution with at least as much efficiency as we applied at the project identification stage.

With respect to the Inter-American Investment Corporation, Argentina sees the future of that institution as a suitable instrument for financing small and medium-sized enterprises in the region. At this annual meeting we have joined other member countries in declaring our support for amending the IIC Charter so that financing can also be channeled to firms with majority nonregional ownership and so that the IIC can make indirect investments in them. If what was perceived as an obstacle to the Corporation's activity was real, the amendments adopted will have to result in an increase in operating efficiency. Nevertheless, we believe that additional efforts are still necessary: we must explore new business models that can multiply the impact of the financing provided while reducing the preparation costs of operations.

With respect to the MIF, the Donors Committee has agreed to extend the term of its operations for another three years. That decision is consistent with our belief in this type of initiative. The MIF has financed a number of successful projects in Argentina that could never have come to pass without an instrument like the MIF. We are pleased with the performance evaluations that have been done, and we would stress the need to identify projects that can be self-sustaining after the MIF support ceases.

This year the member countries of the Bank agreed to participate in the Heavily Indebted Poor Countries Initiative. With the adoption of the respective resolution, we have wrapped up the long, laborious process of seeking and obtaining funds. We recognize the importance of the HIPC Initiative. Yet, as Argentina has pointed out on several occasions, solutions of this kind have a negative impact on the Bank's portfolio, and the Bank is not in a position to make the kind of transfers required. The initiative applies to the past, but primarily affects possible expansion of the concessional mechanisms for specific categories of countries. Regional institutions such as ours can be an appropriate vehicle for such policies, provided, first, that they respect the principles of transparency in the source and application of funds and, second, that they avoid cross-subsidies between borrowing countries.

Last year we focused special attention on the Bank's budget. We assigned priority to several initiatives in 2002 that have led to an increase in resources for specific activities. We expect to see results and returns proportionate to the investment and an incentive for greater efficiency in the organization. Similarly, we are closely monitoring the Bank's human resource strategy and its various management instruments.

Before closing, I would like to pay explicit tribute to the work of the Bank's Management and President Iglesias, who has been attentive to the circumstances facing the region. I am also particularly grateful to President Iglesias for his concern and his efforts throughout these difficult times that Argentina has been experiencing.

Lastly, I would like to convey to this annual meeting our firm conviction and our commitment to the Bank's objectives and activities. As we move beyond the current situation, Argentina will continue to work with the other member countries in support of the growth and expansion of the Bank's activities, and to consolidate the Bank for the benefit of the community of member countries.

May I take a moment, first, to thank the Government of Brazil and the people of Fortaleza for such a warm welcome and such kind hospitality.

Over the past few days, I have had the pleasure of visiting both the Caribbean and Latin America. It is clear from what I have seen that partnership and cooperation among countries of the hemisphere can bring truly remarkable results.

In my role as Canada's Minister for International Cooperation, I hope the people of the Americas will continue working with us as our partners in many different fields. In this spirit, I am pleased that Canada and the IDB yesterday signed a framework agreement to make this partnership even more fruitful. This can only help us build on our rich and rewarding bilateral—and multilateral—relationships.

This is the first meeting of the Board of Governors since the Summit of the Americas in Quebec City last year. So let me begin with a few observations.

At the Summit, leaders agreed on an ambitious Plan of Action. It called for renewed focus on:

- developing the hemisphere;
- reinforcing cooperation and integration;
- strengthening democracy;
- creating prosperity; and
- realizing human potential.

Remember, these were collective commitments made by the IDB's borrowing members—and the IDB was there pledging its support. The Bank—and President Iglesias— deserve a lot of credit for their involvement in this process.

Let me simply note that leaders of the hemisphere have invested a great deal of energy into shaping the Summit Plan of Action. As our countries strive to achieve these goals, Canada knows that our fellow IDB Governors are uniquely placed to help translate the Plan into financing, action, and long-term development.

Canada believes the Bank serves an important role for the hemisphere. It is an important source of stable development funding for countries in the region. Not only does it provide a forum for policy dialogue. If used effectively, the Bank has the special ability to help us all achieve the Millennium Development Goal of cutting poverty in half by 2015.

At the Eighth Replenishment in 1994—backed by the Bank's Corporate Strategy— Governors endorsed the Bank's mandate to promote the economic and social development of Latin America and the Caribbean. This mandate is equally valid today. Indeed, it is completely in line with the Summit Plan of Action.

I applaud the fact that the IDB has devoted over half of its loans to poverty reduction and social equity. In effect, the Bank has exceeded the goal set by its Governors. Canada encourages the Bank to continue on this course.

The Bank has also strengthened governance and integration among borrowing member countries. Under the Eighth Replenishment, we said that participation in world markets is an important tool for modernizing the State. And the Bank has acted on this.

At one level, it has supported negotiations for the Free Trade Area of the Americas. At another, it has supported the governance and structural reforms needed to fully realize the benefits of globalization. Canada fully supports this challenging agenda; and we believe more will need to be done to better equip countries in this regard. We commend the Bank on its recent initiative for a regional policy dialogue on competitiveness.

The Bank *has* increased lending for poverty and social equity. I hope it will maintain its momentum on this score. But, as recognized under the Eighth Replenishment, increased resources alone are not enough. Lending must be accompanied by governance reforms, modernization of the State, and inclusiveness in decision-making.

The agenda of the IDB in support of the Summit of the Americas lists five critical themes:

- governance and democracy;
- economic development and integration;
- ecology and sustainable development;
- equity and human well-being; and
- connectivity and technology.

All of these can help turn globalization into a process of poverty reduction; all are consistent with the Millennium Development Goals.

Now we need to work together to reach these goals. Let me outline a few areas of potential action.

First, the Bank needs to stay the course on its support for equity and inclusion—whether for indigenous people or other marginalized groups. We strongly urge a continued, intensified effort to build on the levels of lending for poverty and social equity attained in 2001.

Second, the Bank should continue increasing its development effectiveness through implementation of its Corporate Strategy. In other words, it should:

- preserve the Bank's financial strength;
- strive for improved monitoring and evaluation—especially of policy-based lending and the need to integrate evaluation into the front end of project design and approval;
- forge stronger links between country programming and all of the Bank's operations—from the largest program loan to the smallest technical assistance operation;
- and, it means focusing on results. Our governments and our citizens are concerned that the funds provided through their taxes are used as effectively as possible and reach those who most need them. The key to greater effectiveness lies in making better use of what we already have.

And this leads me to my third point: the Bank's role in relation to others—both bilateral and multilateral. The Bank must be on the leading edge and succeed in putting a human face on development. Lending that is fast-disbursing, or crisis-driven, often confuses the IDB's mandate with those of the International Monetary Fund (IMF) and the World Bank. There are opportunities for enhanced cooperation with the IMF and the World Bank. When the IDB does respond to a crisis, for example in proposing a reprofiling of loans to Argentina, it must focus on mitigating the social impact and reducing poverty, as well as respond in ways which best use its vast knowledge and experience.

Fourth, we have witnessed a decade during which the gap between the "haves" and "have-nots" has widened. Expanded trade, broadened opportunities, increased efficiency—these can generate economic activity and greater wealth, which can substantially reduce poverty. But that can only happen if opportunities and wealth are shared widely and fairly. As a regional institution, with a mandate to strengthen hemispheric cooperation and integration, the Bank has a special role to play to make sure that globalization in the Americas starts to benefit the poor.

Given lagging growth in many countries and continued poverty, I believe it is vital to safeguard resources, which means ensuring that the poorest, Group II countries—including the smaller, more vulnerable countries—receive the help they need and deserve.

The Bank's core mandate—its focus on long-term economic and social development, and its emphasis on overcoming poverty—is ever more pressing and relevant today. Indeed, the Millennium Development Goals, the Summit Plan of Action, the Bank's mandate, and the priorities of Canada's development cooperation program appear to be entirely in harmony.

In closing, let me simply note that our shared goal must be nothing less than a better life and a brighter future for all the people of the Americas.

It has become commonplace to say that the world changed on September 11th. The war against terrorism has become a priority on the international agenda. If we add the economic recession and the special problems in the region, we can say without hesitation that this meeting is being held at one of the most critical, and therefore most interesting, times in recent Latin American history. This explains the great importance we attach to the decisions and policies that come out of this meeting.

Just as September 11th changed the world's history, in Colombia's case, last February 20th, when the peace process with the FARC broke off, also changed our future. The fight against terrorism took center stage and maintaining economic stability became a crucial element in national security.

In this connection, I would like to say clearly and categorically that the Colombian government will do not only whatever is possible, but whatever is necessary, not to knuckle under to terrorism or its sources of financing, such as kidnapping and drug trafficking. Since one of the objectives of the terrorists is to weaken the economy, we will redouble our efforts to maintain the confidence that has been built up by responsible management of our public finances.

We have sent very clear signals to the market in this regard, announcing budget cuts in sectors other than the military, as our first reaction to the breakdown of the peace process. We have said that the government's revenues must be increased to finance the additional costs of this war, which we will do without sacrificing our objective of making our economy fully sustainable in the medium term.

We will continue with the task of maintaining prudent and responsible macroeconomic management, despite the adversities we face internationally and locally. It is precisely in these times of crisis that it becomes more necessary than ever to stick to the path of responsibility and not to turn to facile short-term solutions which, as history has taught us, will later be very costly for our people.

But this does not mean that the international community can remain indifferent to the crisis in the region or to the special problems facing Colombia, particularly when, in our case, we are engaged in a war on terrorism and drug trafficking. Such problems are not limited to Colombia, but affect the whole world, and the principle of shared responsibility should therefore prevail.

We are concerned, for example, that the idea is gaining ground of reducing flows of funds from multilateral lending agencies such as the IDB to middle-income countries such as Colombia, based on the strange or simplistic contention that we have unlimited access to the capital market. Nothing could be further from the truth. We only need to compare the current figures for net capital flows to Latin America with the figures that applied years ago.

As the External Advisory Group indicated in its excellent report presented yesterday by Ángel Gurría, which we fully support, the region cannot manage without the multilateral agencies playing a role in support of anticyclical measures, since we run the risk of precipitating another crisis that would be much worse than the recent one.

Another strange contention in this same doctrine is the one that forced the IDB to place limits on the funds available to finance the so-called policy-based loans. It has never been shown that funds tied to projects bring higher social returns than those derived from loans related to policy reforms. Common sense, which is often absent from major decisions, suggests that, unless we put the fundamental variables in order, any social investment runs a high risk of not producing results.

It is not that we disagree with the crucial need to measure the social impact of the resources. On the contrary: to ensure that loans have high social returns, Colombia has been a pioneer in establishing procedures, indicators and measurements that will give us input to achieve this worthy goal. It would be much better, then, if the IDB were to help us and all the countries improve evaluation mechanisms to achieve a greater impact on development with the resources.

A third strange contention is that poverty can be eradicated by focussing the efforts of multilateral agencies exclusively on the lowest-income countries. Aren't there more poor people here in Brazil, in my country Colombia, or in any other Latin American country, than in many of the countries that would be favored by this discriminatory policy?

Don't misunderstand me, we are not against, and in fact we applaud and support, rich countries wanting to give money to poorer countries. But, for God's sake, not at the expense of countries that are making huge efforts to emerge from underdevelopment and reduce the extraordinary inequality that afflicts us. Before asking those of us who have no resources for money to assist the very poor, it would be better for those who do to meet the targets of aid to the poorest established by the United Nations.

And if the idea is to attack poverty, there are targeted efforts that institutions such as the IDB could make that would obtain excellent results. In the case of coffee, for example, which is facing the worst crisis in its history and has Central America, half of Colombia, and many other parts of our region virtually dying from hunger and threatening their economic stability. New Yorkers pay three dollars for a cup of coffee but growers in El Salvador and Colombia only get, listen closely now, one cent. With a minimum of effort to organize the coffee market and to finance diversification of the most inefficient growers, we would be helping the poor in Africa and Latin America more, much more, than by implementing so many strange ideas.

Last, I would like to mention a problem that affects us all and Colombians in particular. I am referring to money laundering which, as we all know, is the lifeline for financing drug trafficking and terrorism. We have made great progress in Colombia towards developing instruments and legislation to combat this scourge. But we need to do much more and all efforts will fall short without coordinated and effective international action. You know that better than I do. I therefore believe that this is a good opportunity to ask the IDB to play a more proactive role in this effort since, if we are able to break the financial arm of international crime, we all stand to benefit.

Instead of weakening the IDB, we must strengthen it, give it more resources, and allow it to support the region with emergency lines such as the one we are approving, expand its sphere of action, and redouble its capacity for anticyclical assistance. In short, we must gird it to play a more powerful role in a globalized world where it is imperative to have institutions that compensate for market imperfections.

Circumstances in Latin America demand the best from all of us, our commitment, and our responsibility. We must not fail. History would not forgive us.

And to you, of course, President Iglesias, our everlasting thanks on behalf of all Colombians, for your commitment, leadership, and devotion to the defense of the interests of all Latin Americans.

ADDRESS BY MR. KEITH ROWLEY, GOVERNOR FOR TRINIDAD AND TOBAGO, ON BEHALF OF THE BAHAMAS, BARBADOS, GUYANA, JAMAICA, AND TRINIDAD AND TOBAGO

I have the honor to address this joint Annual Meeting on behalf of the five Caribbean nations that form the Caribbean Constituency, that is, The Bahamas, Barbados, Guyana, Jamaica and my own country Trinidad and Tobago.

Our delegations wish to convey our appreciation to the Government of Brazil and the city of Fortaleza for hosting this year's meeting and for the generous hospitality extended to us in this very pleasant city. We also commend the Management and staff of the Bank for their role in facilitating this occasion.

Mr. Chairman, we congratulate you on your election, and on your assumption of the important responsibility of piloting the course of the Bank over the next year. Our Constituency also expresses its appreciation to the Governor for Chile for his valuable work as Chairman during the past year, in the course of which he skillfully enabled us to reach agreement on a lending framework and on operating guidelines that are of strategic importance to the borrowing members.

The Caribbean Constituency attaches a great deal of importance to these annual gatherings. They provide us with the opportunity to deliberate on the challenges facing us as a region and as individual countries, and to devise solutions through our partnership in this institution. Over the past 42 years, the IDB has become the premier multilateral lending institution operating in our countries and, as such, it is primarily to this institution that we look for assistance, both financial and technical, to address the development aspirations and genuine concerns of our people.

In 2001, an already weakening world economy faced a most unexpected and deadly adversary. The horrific events of September 11th worsened the problems of our global economic system in no small way. Indeed, since the last Annual Meeting in Santiago, we have witnessed a significant potential threat to our hard-won economic progress become a reality.

Suffice it to say, the Caribbean Region has not been spared. Once more, vulnerabilities of our small economies have been starkly exposed. Like much of Latin America, we have had to contend with deteriorating terms of trade, and the effects of recessionary conditions in the United States.

As a result, aggregate output in the Constituency expanded by less than 2 percent, reflecting a relatively strong outturn in Trinidad and Tobago, negative growth in Barbados and modest results in The Bahamas, Guyana and Jamaica. The Bahamas, Barbados and Jamaica have been hardest hit by the decline in tourism, especially after the September 11th terrorist attack. Additionally, Jamaica and Guyana have had to grapple with commodity price shocks and poor weather conditions. My own country, Trinidad and Tobago, which recorded the strongest growth of about 4 percent, has had to significantly scale down public investment in the face of declining oil prices.

Faced with difficult circumstances, our Governments have vigorously pursued prudent fiscal, monetary and exchange rate management. Not surprisingly then for most of our countries, the key macroeconomic indicators have been satisfactory.

The results bear testimony to the resolute stance of Caribbean Governments to protect the hard-won gains of our structural reform efforts. In this regard, we remain committed to market expansion policies, freer trade, and democratic systems of governance, modernized state systems and regional integration. Moreover, we strive continuously to achieve growth that is sustainable, socially responsive and intrinsically inclusive both in terms of its generation and the equitable distribution of its benefits.

The Guyanese authorities are gratified that they were able to work effectively with the Bank to get full commitment of all of Guyana's FSO allocation for the 2000–2001 biennium. It is, of course, our hope that by achieving equally full commitment of Guyana's allocation of FSO resources in the future, the Bank will reinforce its role in further strengthening the development effort in the country.

The Bahamian authorities were pleased that the Bank was able last year to advance a major road infrastructure project for New Providence Island to the point of approval. They anticipate that when this project is fully implemented, it will improve the flow of traffic on the Island, and significantly enhance the efficiency of the tourism sector, the dominant industry in the country's economy, and thereby generate significant economic and social benefits for Bahamians.

In the case of Barbados, two operations to support the justice system and to strengthen management of the coastal environment were approved in 2001, which will help reinforce the already high quality of the Barbadian social system, and consolidate the foundation of the national economy.

Jamaica is especially appreciative of the flexible response of the Bank in providing assistance to protect and strengthen its reform program, following the impact of the September 11th terrorist attacks, and the flood rains of November.

With respect to my own country, Trinidad and Tobago, which has had no loan approvals since 1999, we are satisfied with the progress made on a housing project which will improve conditions mainly for low-income groups. We look forward to early approval of this loan. Also, of highest priority is highway expansion and agricultural reform on which the Government anticipates a partnership with the Bank. It is our intention to make optimal use of Bank resources and reverse recent declines in our portfolio performance.

Going forward, the Bank and our Constituency together face the challenge to address a matter of particular concern to us. Our group has been experiencing a net resource flow to the Bank at a time when objective conditions suggest that the opposite should be occurring. We fully understand that no borrowing country, or group of borrowing countries, can expect to have net resource flows from the Bank uninterruptedly and indefinitely. But we believe that there is considerable room for effective joint programming and for expeditious project development and execution which will impact net resource flows in the right way at the right times.

The borrowing members of the Bank continue to face challenges to adjust to dynamic change, both internally generated, and externally imposed by the forces of globalization. It is clear that the resources at the disposal of the IDB Group are modest in relation to the total needs of the region. Nevertheless, the strategic role of the Bank in helping regional countries adjust to change has increased with the passage of time.

It was, therefore, timely on our part a year ago in Santiago to mandate the Committee of the Board of Governors to prepare proposals for enhancing the Bank's responsiveness to the changing needs of its borrowing members. It is very gratifying that as a result of the discharge of that mandate, the Board of Governors has now approved a package of measures to move the Bank forward in its relationship with its borrowing members.

But we must continue to further the process. In implementing the package of measures, we expect that the modification of the financing matrix for investment loans, and the new framework for policy-based lending can be put into effect forthwith. It will be important at the same time, however, to maintain the momentum of implementation of the other elements of the package.

Also, the challenge of increasing the Bank's responsiveness will continue after implementation of the agreed package. We have no doubt that there will be a need for further action because the recently agreed measures do not exhaust the scope for sound initiatives to increase the Bank's responsiveness. We therefore welcome the report from the President's External Advisory Group which points to possible additional lines of action for enhancing the Bank's response capacity.

While the Bank has already done a great deal in helping Caribbean Countries prepare for integration in new trading arrangements and for natural disaster mitigation, we would welcome a broader focus on the much larger issues. As part of this overall effort, we urge the Bank to continue to recognize the special circumstances of its smallest members, not prejudiced by per capita income considerations, but on the basis of systemic features which make our economies inherently vulnerable to external risks and greater income volatility. We must recognize that overcoming this problem will require not only the right domestic policy efforts but also the strong support of multilateral development institutions.

Despite voicing strong concerns over the years, we have yet to welcome the first Private Sector Department operation in our Constituency. Today we stress our position again especially since we have approved, in the last year, a resolution raising the cap on private sector lending from 5 percent to 10 percent of the Bank's outstanding portfolio. We are gratified that the resolution we recently approved contains a clause calling on Management to develop and implement a private sector action plan for the C and D countries. Let me say that we accept that the Management must, of necessity, be thorough and exacting in its due diligence for establishing eligibility for private sector lending. At the same time, however, we encourage the Management to pursue its due diligence with a sense of practicality and realism, in order to avoid unnecessary roadblocks and delays that will prevent our members from accessing this important window in the Bank.

In a similar vein, we encourage the Inter-American Investment Corporation to intensify its effort to find viable financing opportunities in our Constituency. In particular, we urge the Management to deepen its understanding of the market in the Caribbean for IIC financing, so that this could inform the customization of the IIC products for the subregion. The IIC must reinforce its outreach efforts in our Constituency with a view to delivering an appropriate mix of its products to our group, from direct corporate financing, to financing through credit lines and agency lines with local intermediaries, and participation in equity funds.

More broadly, as we look to further development of IIC operations, we welcome the attention the Board of Executive Directors has been giving to the question of IIC financing for enterprises with nonregional majority shareholding. We share the sentiment that in today's world the current restrictions should be relaxed, though care should be taken to ensure that IIC financing is additional to, and does not substitute for, meaningful value that the nonregional majority shareholder would be expected to bring to the enterprise. Our Constituency therefore strongly supports the resolution that will come before us amending the IIC Charter to give effect to this objective.

Finally, we cannot help noting that the call for "development effectiveness" promises to become a veritable mantra in the fora of the IDB Group; and indeed so it should be. We, in the Caribbean Constituency, want to give the assurance that we are acutely aware that we cannot afford the luxury of being careless about the development effectiveness of all our undertakings, including the operations we pursue with the Bank. The margins of tolerance within which our small countries operate are too tight. And in this, nothing concentrates the mind better than the realization that it is our countries which must in the end repay development loans.

In this connection, we are encouraged by the initiative started last year to evaluate country programs, and to rationalize the Bank's policies, strategies, and instruments. Trinidad and Tobago was one of five countries on which a comprehensive evaluation was undertaken. This exercise exposed very pervasive weaknesses. The Trinidad and Tobago authorities look forward to this exercise helping to refine the strategic interventions that will form the Bank's country program in the period ahead, and sharpen the development impact of all Bank projects.

In this we must address the need for better programming of resources, through closer collaboration among the various arms of the Bank Group, more rigorous project design and more creative and flexible management of the project execution process. This must be supported by greater policy dialogue with country authorities that facilitates a full understanding of the individual country context. After all, we must never lose sight of the purpose of the Bank, that is, not to be doctrinaire but to help participating members achieve the goals and objectives set by the people of the respective countries.

Therefore, when the Bank comes to speak to us about development effectiveness, it will be preaching to the converted. The critical challenge will be to bring the Bank's experience and perspective together with those of the borrowing country authorities in order to shape projects that will deliver "development effectiveness" in practical operational terms.

It is with this vision of creative dynamism for the future that we want to forge ahead in our relations with the Bank. We are greatly encouraged by the fact that those relations have been predominantly positive, and we once more place on record our appreciation for the contribution that the Bank has made, and continues to make, to the development of our societies. Our Constituency looks forward with confidence to building on those foundations in our future partnership with the Bank.

ADDRESS BY MR. JOHN B. TAYLOR, TEMPORARY ALTERNATE GOVERNOR FOR THE UNITED STATES OF AMERICA

This is my first Board of Governors meeting. At the time of last year's meeting I was still awaiting confirmation of my appointment by the United States Senate. I was very disappointed that I could not attend last year. But I have been looking forward to attending this year's meeting and I am happy to be here today.

This past year has been a challenging one for all of us. Our attention has been drawn to important new tasks, such as combating the financing of terrorism and restoring economic growth after last September's terrorist attacks. At the same time we continued to deal with the difficult problems of economic instability, slow growth, and reduced capital flows in the region.

Some say that the problems of this past year have diverted attention from the region and have eroded the commitment of the United States to increased trade, freemarkets, and democracy in the hemisphere. Nothing could be further from the truth. We are neighbors and friends. Geography, culture, history, and the strong bonds of mutual economic and security interests tie the Americas together. The United States remains committed to this friendship.

The Inter-American Development Bank (IDB) is an essential part of this friendship—playing a role in economic development in the region. Today I would like to discuss how we should build on the successes of the IDB to make the hemisphere a better neighborhood—one characterized by more economic growth and less poverty.

Productivity Growth in the Hemisphere

The place to begin talking about economic development is with productivity growth. Poverty reduction and higher standards of living cannot occur without productivity growth. Productivity is simply the amount of goods and services a worker can produce in a particular period of time. The higher productivity is in a country or a region, the higher income per capita is in that country or region. You can see that by comparing the richer and the poorer countries in our region.

For the countries of Latin America as a whole the 1990s were better than the 1980s in terms of productivity growth, reflecting many economic reforms, especially in the macroeconomic areas. Productivity growth was 0.7 percent per year in the region as a whole in the 1990s after averaging below zero in the 1980s. That is an improvement, of course, but I believe there is room for much more improvement.

During the period that productivity growth was 0.7 percent in Latin America, it was 1.7 percent in the developed countries, and 2.7 percent in the East Asian countries. That 1 percent or 2 percent productivity difference could have made a huge difference in living standards in the region. Productivity growth in the United States is projected to be at least 2 percent in the next few years. Productivity growth in Latin America should be higher than 2 percent—or more than triple what it was in the 1990s.

While productivity is not a new thing, experience and research during the recent years have taught us many new things about productivity. As a matter of accounting, productivity will grow if capital—including human capital—per worker grows or if technology improves. The reason why I think that the productivity potential is so much higher in the region is that there is so much room to increase capital—including human capital—and to adopt cutting edge technology in use around the world today.

So, when evaluating a loan or a grant the IDB should look at its effect on productivity. That will lead to activities that will raise living standards and reduce poverty. I was very glad to see the emphasis placed on productivity growth in the recent report of the IDB, *Competitiveness: The Business of Growth*. Secretary Paul O'Neill gave his strong endorsement of that report when he spoke at the IDB last fall. Using the latest research and data, the report demonstrates that more investment and more education in the region will increase productivity.

The report also shows that an improved business climate—a more consistent rule of law, better control of corruption, fewer obstacles to starting a business—will raise productivity. And the report shows that there is room for improvement. For example, in Canada it takes 2 "procedures" to start up a business; in the United States it takes 4 and in Latin America it takes 12. And the report points out important success stories such as the Oportunidades, formerly known as Progresa, program in Mexico and the Bolsa Escola program here in Brazil which provide funds to families with low incomes whose children attend school. I am pleased that the IDB is using this model to develop educational programs in other countries.

Measurable Results

To achieve success in any endeavor it is necessary to have measurable results. That certainly holds true in our endeavor to raise productivity growth. We must be sure that the activities of the IDB actually do the things they are supposed to do. While nearly everyone welcomes the recent increases in funding for education by the IDB, we should not be satisfied with the funding alone. We must look at the outputs. Is enrollment increasing? Are more children graduating? Are literacy rates rising? Close monitoring is needed to assure that tangible, measurable results are being obtained. It is not enough to look at input. It is output that counts.

It is good that the IDB has already started strengthening the independent evaluation office a process that has prompted candid debates about results. But it is not enough to have a separate and independent evaluation unit. Quality has to be built into every project at the early design stage, before it is presented to the Board of Directors, with clearly stated output-based objectives. I understand that during this past year, the independent evaluation office reviewed every loan proposal to see if it contained adequate indicators to measure results. I also understand that the review shows a broad need for improvement. This is a special challenge for the line managers in their day-to-day operations.

Some of you may know that the United States has proposed a large 18 percent increase in funding for the World Bank's International Development Association (IDA) in the current replenishment. We have also proposed that the year-to-year increments in this replenishment be tied to measurable results. Although an FSO replenishment is not immediate, the approach we are now proposing for IDA should eventually apply to FSO. If resources can be shown to be delivering effective economic development, the United States will be ready to make meaningful financial commitments.

Strengthening the Private Sector

Economic development will falter and fail without a strong private sector. Without a transparent economic environment based on the rule of law, private investment simply will not happen. This is especially important for small and medium sized enterprises, since opaque regulatory and legal environments create insurmountable barriers to entry. These barriers must be removed if the region is to grow rapidly.

The IDB and the other development banks can do more to promote private sector development. This will include giving practical investment climate assessments and providing more loans to small businesses. Work on improving transparency and governance in each country remains the biggest challenge.

We further need to remove the continuing obstacles to hemispheric integration. The United States is committed to the Free Trade Area of the Americas so that all the countries of the region can benefit from the free flow of goods and services. We know that this process will not be easy. The IDB is doing important work on trade capacity building.

The recent report by the IDB External Advisory Group gave particular attention to the private sector operations. I share the view expressed in that report that the IDB needs to strengthen risk management and evaluation functions for its private sector operations and for the IDB as a whole.

I would also like to comment on the work of the Multilateral Investment Fund in strengthening the environment for the private sector in Latin America. Its investment and technical assistance for Caja Los Andes in Bolivia, for example, enabled that institution to increase its portfolio seven fold, improve the efficiency of credit officers, and transform itself from an NGO to a full fledged formal financial institution. The MIF realized an internal rate of return of 17.9 percent when it exited Caja Los Andes in 2001, demonstrating that small business finance can be profitable.

We were pleased to support the extension of the MIF for 5 years so it can fully utilize its existing resources. The MIF and the IDB are focusing on reducing the transaction costs of remittances to Latin America and the Caribbean—a flow that is estimated to have grown to $23 billion last year.

The Importance of Grants

The IDB needs to look at grants as an important development tool. President Bush proposed increasing the share of development bank support for poor countries that is in the form of performance-based grants. Grants are appropriate for projects that fail to generate the revenues needed to service loans. It does not make sense, for example, to finance disease interventions such as HIV/AIDS with loans. Education support can also be in the form of grants. There is already agreement that a larger share of support from IDA and from the African Development Fund should be in the form of grants, though there is debate about how large that share should be.

How does the IDB fit into President Bush's grants proposal? Again there is currently no FSO replenishment underway. However, the IDB could use a portion of resources resulting from emergency lending to provide grants. If grant programs can be funded from this source, it will also take some pressure off the FSO, leaving added resources for the very poorest countries.

Conclusion

I have noted a number of difficult obstacles to economic growth in the region today. I have also noted that it is possible to remove these obstacles and achieve the goal of substantially higher economic growth. I am confident that the goal can be met successfully in the years ahead, and the IDB can play an important role in achieving this goal. Of course, we as shareholders must continue to ask the tough questions about productivity and measurable results. As President Iglesias has said, the goal of economic growth is the "business of the Inter-American Development Bank," and we look forward to working with him on this goal in the future.

Once again we have the privilege and pleasure of participating in the annual meeting of our Inter-American Development Bank. This year, we are meeting in the Federative Republic of Brazil, in its beautiful northeastern region and in the historic city of Fortaleza, where we have received such a warm welcome from other authorities and residents alike.

Looking back at the year 2001, we find that it was a year of low growth in the region, and that the macroeconomic and trading context was highly unfavorable. This was exacerbated by an international scenario in which most of the developed countries were in recession or experiencing a sharp economic downturn, and capital markets were volatile. Once again, we faced a world trading system that was still heavily distorted for agricultural products and in which prices for raw materials, except oil, were very low. Compounding this situation, and to a great extent because of it, there was a steep decline in the inflow of foreign capital.

Uruguay too had a poor year, with falling GDP, prolonging the recession that began in 1999. Two major factors lie behind this performance. First, there was a new outbreak of foot-and-mouth disease that virtually paralyzed the livestock subsector and the portion of the economy that depends on it, such as meatpacking and other services. Second, the region's growing instability had an adverse impact on our exports within the region and on expectations on the part of our economic agents with respect to consumption and investment.

Our economic policy was aimed primarily at neutralizing the adverse impact of both factors, as far as possible, and given the severe constraints imposed by the high fiscal deficit that first appeared in 1999. In the middle of the year, a tax reform repealed taxes on the hiring of labor in farming, industry and certain services, and it was also decided to step up the pace of the currency devaluation. Together, these policies helped improve the competitiveness of the tradable goods sector by some 15 percent, in comparison to specific foreign markets.

In addition, progress was made in implementing new measures to enhance the overall efficiency of the economy and to stimulate the domestic market. A number of deregulation initiatives are under way in areas that were previously reserved to the public sector, such as certain port activities, electricity, gas, international telephone service, the concessioning of certain airport services and the auctioning of cellular bands. An ambitious process is also under way for the concessioning of public works, which we call "megaconcessioning", and which we expect to be operational by the middle of this year.

In this brief review of the major events in our economy, I cannot fail to mention the impact the current situation in Argentina has had on our country and the measures we have taken to deal with them.

As soon as Argentina abandoned the convertibility system, we changed some of the components of our exchange rate policy, and the currency is now sliding at an annual rate of 33 percent, within a currency band of 12 percent. At the same time, we introduced a fiscal accountability program designed to reduce the fiscal deficit from 4 percent of GDP to 2.5 percent. As part of the program, parliament approved a package of new taxes and we are cutting spending sharply, by approximately the same amount.

In addition, we have strengthened capitalization of the private banking sector to address the difficulties identified in February, and we have made substantial progress in an agreement with the International Monetary Fund in order to provide a more favorable framework of expectations for economic agents in the country and abroad.

In this context, and returning to the IDB, in 2001 the Bank achieved a volume of operations close to US$8 billion, one of the highest in its history. This again demonstrates the importance of the Bank and the decisive role it plays in helping our countries, especially those in adverse circumstances, to maintain the capacity to pursue a major agenda of social and economic policies without abandoning structural reform, by using orthodox policies and overseeing fiscal and external accounts, but without reverting to times that are fortunately behind us.

There can be no doubt that the biggest debate in the Bank this past year was how to enhance the Bank's responsiveness to the new needs of the borrowing countries. Resolution of this debate means that, in 2002, we are now better prepared, and we have an important facility to help any countries that encounter financial difficulties and need prompt support from the Bank. At the same time, we have maintained our investment lending and policy based lending programs, which are now sized at levels more compatible with the region's needs. We should point out that the support for development and modernization of the State offered by the policy-based lending in our country has been highly useful, especially for the social security reform.

Thanks to the positive results achieved in this way, we warmly support proposals to adopt measures for better monitoring and evaluation of reform projects, thereby enhancing the Bank's effectiveness by making appropriate use of all its instruments. Improving the quality of project formulation and monitoring will not only mean a healthier overall portfolio, it will also have a more favorable impact on the development of our countries. Strengthening the activities of the Evaluation Office will be a requirement for achieving this objective.

We would also like to highlight the importance of the lending matrix by country group. Not only have these parameters been rigorously respected since the Eighth Replenishment, but if we examine the record over the past few years, we are pleased to see that small countries and socially oriented loans account for more than 40 percent of the total.

Another topic of importance in 2001 was approval of the increase in the cap on private sector lending, which doubled the percentage of such loans allowed. This step will clearly strengthen the Bank's activities in direct projects with the private sector. We hope that, as the Bank moves more aggressively in this area, this will translate into a higher volume of investment in our countries, which would be very timely, since external capital flows in the region have temporarily declined.

Moreover, we think it very important that the Bank has successfully eliminated procedures that limited the participation of the IIC in investment projects for companies in which the majority ownership lies outside Latin America and the Caribbean. We hope that this new rule will be reflected in a greater volume of projects approved each year and will help to attract more capital to the region. With respect both to the private sector and the IIC, we believe that, while maintaining sound quality control over projects, we need to make greater efforts to ensure additionality, particularly in regard to employment, foreign exchange earnings and enhanced competitiveness for our economies.

I want to make special mention of the MIF, an enormously useful instrument for development of the private sector and especially of SMEs in our countries. The MIF has now provided US$750 million in grants and loans since it was established, with an undoubtedly great innovative impact that has had a demonstration effect for larger-scale operations that were subsequently financed by the Bank. The Donors Committee recently extended the life of the MIF for five more years, so that all remaining funds can be completely used. Nevertheless, we believe that serious thought should be given to recapitalizing this instrument in order to strengthen and expand its activities for a longer period. While an evaluation of its results is under way, it would be prudent to begin now with consultations towards an increase in its capital, considering the length of time that such a process requires.

Another positive note from last year was the approval of amendments to the limits on the foreign exchange matrix. We hope that this decision will help enhance project execution capacity. On other issues, such as updating the definition of eligible expenditures and reviewing many of the procedures for project formulation and administration, may also make a significant contribution in this respect.

It is also important to stress the progress that the Bank has made in the area of integration, where its ongoing leadership has been crucial for our countries. One notable contribution was the program of projects and technical cooperation presented at the Summit of the Americas in Quebec City, as part of the FTAA integration process. The IDB has also played a key role in other regional integration initiatives that are already under way.

Lastly, I would like to highlight the work accomplished in the area of the Bank's human resources, where longstanding problems have been resolved and approaches have been developed to bring better organization and transparency to the institution's internal operations and thereby provide greater professional development opportunities for the staff.

Let me close by expressing our satisfaction and total concurrence with the words of President Cardoso last night, referring to the reelection of President Iglesias, a fellow Uruguayan who is greatly loved by all our people.

I would like first to thank the Government and the people of Brazil, and particularly the State of Ceará and the City of Fortaleza for their warm and generous hospitality. I would also like to congratulate the Bank's Management and staff for the excellent arrangements for this meeting.

The International Scenario and Latin America and the Caribbean after September 11

The year 2001 was a very difficult one. Economic activity worldwide weakened even before September 11.

The initiatives taken by the international community immediately after September 11 have eased some of the negative effects on the world economy. Recovery is now expected to accelerate, both in Europe and in the United States.

But let's face it. Some of the developing nations are under threat of being marginalized from the current phase of recovery and Latin America is at the forefront of such risk. Let me remind you that after September 11, the IMF revised downwards 2002 growth forecasts for Latin America by 2.7 percentage points, a revision that is more than double that for industrial countries and also greater than any other developing region.

This was even before Argentina's crisis had occurred, which further added to the structural weaknesses of the region.

For Latin America, there is the risk that this new century starts much as the previous decade ended. As you recall (quoting from the IDB Annual Report), Latin America the region recorded in the 1990s the worst growth performance among the world's main regions, with a 3.3 percent average growth rate, against 5.1 percent in East Asia, 4.0 percent in the Middle East, 5.2 percent in the rest of Asia, and 3.5 percent in Eastern Europe. In per capita terms, the income of Latin Americans rose by only 1.5 percent a year over the past decade, compared to 3.3 percent in East Asia, 3.5 percent in the rest of Asia, and 2.7 percent in Eastern Europe. Only Africa and the Middle East did worse, with 0.5 percent and 1.2 percent respectively.

There are many factors behind such poor performance. I would like to single out two which should become the primary target for IDB action: the low level of education and the poor quality of public institutions. According to the IDB Annual Report, the average educational level of Latin America's workforce grew only 1.5 percent per annum in the 1990s, compared with 2.5 percent in South Asia. Higher education in Latin America is still concentrated in a relatively small group of the population. This is one of the main reasons for the high income inequality. There are no doubts that economic growth is key for reducing poverty. But it is also true that huge income inequalities can be a major obstacle to economic growth.

A second cause of the poor performance—weak institutional framework—remains a major hardship. A figure that struck me from the 2001 Report on Economic and Social Progress edited by the IDB is that policy instability is regarded as a major problem for 38 percent of business people in Latin America, against 25 percent in Africa, 20 percent in Asia, and 14 per cent in the developed world.

The Fight against Poverty

The fight against poverty and social inequity in the Region requires a collective commitment by all stakeholders: Latin American countries themselves, but also industrial countries, and the international institutions, especially the IDB.

What countries in Latin America have to do is well known—the IMF, the World Bank, the IDB remind us of these requirements all the time: create the conditions for a most effective fight against poverty. We know what is needed—sound macroeconomic policies; structural reforms; a stronger legal and regulatory framework; fight against corruption. We must deliver.

Industrial countries also have major responsibilities. The first test of credibility in the fight against poverty lies in our ability to open up our markets and to phase out trade-distorting subsidies in sectors where developing countries have a comparative advantage. Last year, the European Union decided to fully open its markets to the poor countries' exports, except for arms. We encourage all the other industrial countries to follow this initiative. More should be done. The second test of our commitment is to increase official development assistance (ODA) flows to help developing countries fight poverty. What is needed is not only more aid, but also better quality of aid: a more effective use of resources.

Last, but not least, the international financial institutions, and in particular the IDB, have a crucial role to play in the fight against poverty in Latin America. The IDB must then be fully equipped to perform its tasks more effectively.

The MDB Reform Process and the IDB

In the course of last year, we discussed, together with major countries, with the management of all development banks and with other shareholders ways to improve MDBs effectiveness and efficiency. These discussions led to concrete proposals and commitments that are contained in a report released in July last year in Rome. Six areas were highlighted in which we agreed, together with MDBs'management to take major steps to improve MDBs' efficiency, namely: coordination, good governance, lending instruments and pricing review, global public goods, financial sector reform and, finally, internal governance.

Much progress has been achieved since then. But more can be done. Let me just point to a few areas.

Coordination

On coordination among MDBs, the report called for strengthening the links between MDBs' country strategies within the development framework. The Memorandum of Understanding between the World Bank and the IDB is an important first step in this direction. Now we expect further progress in the alignment of country strategies. We also expect in the course of this year improvements in prioritizing and accelerating the harmonization process..

Good Governance

On governance, there is broad agreement that country strategies should also include a review of the country's governance, with particular focus on public sector management, accountability and anti-corruption measures. Public sector management and accountability are already included as priorities in the newly prepared country papers. We believe, however, more attention can be given in IDB strategic documents to the rule of law and to measures to fight corruption. IDB's lending activity can increase further the focus on good performers, thus creating the right incentives, ensuring the most effective use of scarce resources and enhancing the development effectiveness of the Bank's operations.

Lending Instruments and Pricing Review

We all agree that the MDBs, and the IDB in particular, should focus more and more on operations targeted at poverty reduction and enhance the development impact of our scarce resources. This calls for greater selectivity in operating in sectors where access to private capital is improving. MDBs have agreed to review their lending instruments and pricing policies. We welcome the recent agreement by the IDB Governors to enhance the Bank's capability to respond to the increased needs of the recipient countries, in particular by diversifying its lending tools. This will allow the IDB to broaden the means to support the region's development, with due attention to the financial soundness of the Bank. In order to be effective, this new framework should be implemented hand-in-hand with the establishment of clear objectives and measurable indicators and the strengthening of the monitoring and evaluation function of the Bank. We do not think, however, that the Bank should transform itself into financing primarily budget and balance-of-payment needs, thus duplicating what other IFIs are doing. Priority should always be given to poverty reduction.

Global Public Goods

Global public goods have a strong impact on development and poverty reduction. The main priorities are fighting infectious diseases, promoting environmental improvement, facilitating trade and supporting financial stability. The IDB has already launched a number of initiatives in the areas of infectious diseases, environmental protection and regional integration. We very much welcome these initiatives. We will work closely with the Management to identify further areas where the IDB can provide value added, in close coordination with the World Bank.

Financial Sector Reform

The IDB, as other MDBs, has been asked to play a more proactive role in assisting borrowers, especially low-income countries, in developing institutional capacity and appropriate strategies to meet international codes and standards, including the Financial Action Task Force (FATF) anti-money laundering standards. Progress has been achieved to enhance cooperation with FATF, but more can be done. In particular, I join what the Governor of Colombia said in this respect. We need to be assured that by the end of this year all country strategies incorporate financial sector issues and consider measures to meet international codes and standards.

Internal Governance

Finally: internal governance of the MDBs. Accountability and transparency are crucial to strengthen credibility of development banks in the eyes of our parliaments, of civil society, of all stakeholders in general. Strengthening compliance mechanisms, ensuring timely disclosure, establishing a more transparent budget process, improving effective circulation of documents, and reviewing internal organization: these are the areas where we agreed to work further together. We appreciate Management's efforts aimed at certifying that IDB-financed operations have a clear development impact, aligning internal processes, procedures and incentives towards the attainment of results. Further efforts can be made in improving the monitoring and the evaluation functions of the Bank. One way to further improve these functions could be to set up a Development Assessment Unit with the task of carefully assessing the development impact of each single project. Another area where improvements can be made is the budget process, with a view to give shareholders full control over compliance between the institutional priorities and the allocation of resources.

The Role of the Private Sector

Some additional words on the IDB's critical role in promoting the private sector.

We welcome the study of the External Advisory Group chaired by Mr. Gurría on the future role of the IDB. It contains many stimulating ideas, in particular on the role of the private sector, that are consistent with the reform agenda that we have launched. These ideas need to be seriously considered and pursued further.

The investment climate in Latin America needs to improve dramatically. One way is to foster the development of small and medium-size enterprises, which can be instrumental in promoting economic growth and alleviating poverty. This requires a sensible governance system and proper infrastructures that allow private entrepreneurs to emerge and to operate effectively. In this context, the IDB has a unique opportunity for strengthening its catalytic role to help countries develop an institutional and regulatory environment that can promote favorable conditions for private sector investments.

Conclusion

Mr. President, this first decade of the third millennium can mark a reversal in the declining trend experienced by Latin America at the end of the last century. It is our responsibility not only to wish so, but to achieve it. We are confident that under your leadership the IDB will continue to reform itself and strengthen further its role in the region. As a shareholder of this institution, we will continue to support the policies and the strategies of this Bank and we will do our best to work with you and the other shareholders to improve the capacity of the Bank.

Mr. President, in wishing the Bank success in this coming year, let me conclude that it will be an honor for the Italian authorities to host the next annual meeting in Milan in 2003.

I have the honor of speaking on behalf of Bolivia, a country that in the mid-1980s successfully stabilized its economy and adopted a series of structural reforms to strengthen the social component of its market economy, modernize the State, and in particular reduce extreme poverty and narrow the widening economic and social gaps in order to pave the way for development of a sound democracy.

From the early 1990s to 1998, the economy grew on average in excess of 4 percent thanks to these reforms. In the last three years, however, the Bolivian economy has slowed and unemployment has risen on the heels of a sharp decline in the terms of trade, economic downturns in neighboring countries, the destruction of the illegal coca crops, and the fight against smuggling. In addition, campesino movements organized a highway blockade and generated a climate of social upheaval that could have degenerated into a serious crisis for the future of my country.

The adverse climatic conditions produced by the El Niño and La Niña phenomena caused heavy agricultural losses and damaged road infrastructure. Earlier this year, the country's most productive departments, particularly the city of La Paz, were ravaged by natural disasters.

At this time, I would like to reiterate the Bolivian government's firm resolve to move forward with the fight against the drug trafficking despite the high economic and social costs it entails. Drug enforcement and the destruction of illegal coca crops represent a reduction in annual GDP of at least three percent, the impact of which has had to be absorbed by broad segments of the population, and is reflected in chronic political and social instability. To offset these adverse effects, the government is implementing a program for alternative development, the scope of which is limited by insufficient resources and thus cannot meet the expectations of small farmers.

These factors have caused internal demand to contract sharply and sales in the private sector to fall, thus limiting the sector's ability to service its debt with the financial system.

Although the structural reforms will indisputably generate long-term benefits, they will entail a high fiscal cost over the next ten years that could undermine macroeconomic stability. Such is the case of pension reform, which will guarantee future pensioners a decent life and stimulate capital markets. The annual budgetary cost of implementing this reform, though, will amount to roughly 4.5 percent of GDP.

Against this complex economic, political, and social tapestry, in August 2001, President Hugo Banzer Suárez was compelled to step down for health reasons. His successor, current President Jorge Quiroga Ramírez, introduced a 12-month plan to reverse the country's difficult situation and lay the groundwork for a comprehensive social strategy for poverty reduction. The main features of the emergency program are the following:

- Promote public investment as a means of stimulating aggregate demand and meeting social needs. This measure has resulted in record costs exceeding the amount initially budgeted;
- Carry out a national emergency employment plan, which is generating 10,000 jobs each month, in an effort to reduce unemployment;
- Pay an annual pension to citizens over 65 years of age, with the proceeds from the capitalization and refund of contributions to the Housing Fund in order to raise personal income;
- Implement financial restructuring programs for municipalities and support universities and departmental governments so that they can meet the terms of their investment and private sector debt repayment programs;

- Reschedule private sector bank debt through the creation of a Special Economic Reactivation Fund with a contribution of US$500 million. At the same time, a financial sector capital strengthening fund was set up. This injection of resources has helped mitigate the crisis for those sectors, regions, and vulnerable groups that have been hardest hit.

The central pillar of President Quiroga's plan for the medium and long terms is the Bolivian Poverty Reduction Strategy, the result of a broad-based participatory process with civil society known as the National Dialogue. The strategy stresses actions to raise income for the poor, improve their skills, reduce their vulnerability, and broaden their participation in the context of administrative decentralization.

The relief provided under the HIPC Initiative will be used to allocate additional funding to the poorest municipalities and expand benefits and coverage of health and education services.

Another component of the 12-month plan is institutional strengthening and the fight against corruption. To this end, strengthening the National Road Service and the Internal Revenue Service as institutions was promoted and Customs reform continues. In addition, regulations were established for government procurement and sworn statements on the assets and income of government officials.

Opening up markets and attracting foreign direct investment are priorities for the government. Trade agreements were entered into with the Andean Community to consolidate soya and oil seed markets. Arrangements are also being made to review and expand preferential tariffs for Bolivian exports to the United States.

In the area of hydrocarbons, a sector in which Bolivia has Latin America's second largest proven gas reserves, energy integration with Brazil was consolidated, increasing sales of natural gas. Also under negotiation is a project to export liquefied gas to the United States market.

These measures, together with international economic recovery starting in the second half of the year, make it possible to project economic growth of around three percent this year and continue the structural reforms already under way.

All of the objectives attained were possible thanks to effective action by the Inter- American Development Bank (IDB), reflecting the fine performance of priority social and road infrastructure projects. It is also important to note that my country supports the regional policy dialogue and cooperation advanced by the IDB, since the exchange of experiences between regions and governments and the inclusion of civil society in the dialogue are vital.

The IDB also stood ready to deliver resources for immediate relief for the natural disaster that recently struck La Paz, and we are grateful for its assistance. We are also considering channeling resources for strengthening the Bolivian private sector through the Multilateral Investment Fund and the Inter-American Investment Corporation.

External shocks have altered the parameters and assumptions used by the countries to make projections on the sustainability of their debt, jeopardizing their chances of graduating and the sustainability of poverty reduction programs. This process should be reevaluated in light of the most recent world events such as the September 11 attacks, the growing social and political tensions besetting certain countries in the region, capital market instability, and debt problems that have led to macroeconomic problems.

In this context, I think this is a good time to reflect briefly on the IDB's policies for the low-income countries and its linkage to the future graduation of these nations.

Access to FSO resources should be a stimulus for countries with clear anti-poverty strategies. Accordingly, consideration should be given not only to per capita income as a means of determining the distribution of FSO resources but other factors as well, such as macroeconomic performance, institutional performance, and primarily the progress made with social programs and efficient use of resources to fight poverty.

To ensure that ongoing programs are not adversely affected, the richest countries in the world that are members of the Bank must substantially increase the concessional resources. If this cannot be done immediately, a policy of intermediate graduation should be introduced combining a gradual phaseout of access to concessional FSO resources and additional resources from the Intermediate Financing Facility (IFF).

Multilateral financing needs to be broadened to include the private sector, which, in the less developed countries, finds it hard to gain access to international capital markets on regular terms and conditions. In this regard, the IDB could grant partial guarantees, back contingency lines of credit, and act as a catalyst in the financing of infrastructure projects with the private sector.

To conclude, Bolivia is making great strides to consolidate democracy and structural reform. However, as we still have some way to go in bringing about poverty reduction, we continue to need the support of multilateral organizations, particularly the IDB.

I would like to end by commending and thanking the Government of Brazil and the authorities of the state of Ceará for their excellent organization of this meeting and the warm welcome extended to the participants in this Annual Meeting of the Inter-American Development Bank.

In the name of the Governor for Belgium, Mr. Didier Reynders, and on my own behalf, I would like to thank our host country, its people, and the city of Fortaleza for their organization of this meeting. Although this is the fifteenth annual meeting I have attended, the experience is always very helpful in terms of staying in touch with the region and the Bank. I am pleased that our meeting is being held in this region which reflects the challenges facing the continent and our institution.

At the conclusion of the work performed under the auspices of the Committee of the Board of Governors, the Bank now has new directives regarding commitments.

At the same time, the External Advisory Group has submitted its conclusions and recommendations that aim to allow the Bank to pursue its modernization and to serve its member countries more effectively. We will follow the discussions of this issue within the Board of Executive Directors with great interest, but it seems appropriate to offer a few comments on this matter, which I shall do later in this address.

The Bank is engaged in an intensive effort to improve various aspects of its operations, and Belgium welcomes these endeavors. The effort must continue: the relevance of our interventions requires periodic reappraisal in light of lessons learned from the evaluation of operations and the assessment of their impact. In light of what we have learned from analyses of development effectiveness and quality, the various areas of activity in which the Bank is authorized to engage should be prioritized based on their contribution to the progress of borrowing countries, to better discern the causal connections between the various problems that arise so as to concentrate our efforts on the underlying problems rather than on their symptoms or consequences.

I would like to address certain aspects of the working group's conclusions that have rekindled discussion of the respective merits of policy-based lending and investment lending.

Our approach to policy-based lending is prudent, and this prudence does not derive from skepticism about the reforms themselves. Inappropriate policies, of course, have put growth at risk. Implementation of the Consensus of Washington recommendations has remedied the situation to some extent, but the adoption of good policies does not bring about growth and reduce poverty automatically. Thus despite clear improvements in economic policies, the region initially experienced a lower growth rate than Asia –even though many institutions and policies there were not and are not in compliance with official requirements– and was then affected by the international economic slowdown that began a few months ago. Consequently, we would like to see borrowers conduct certain reforms on their own, and to see the Bank display prudence and selectivity in choosing the reforms that it is called upon to finance. This should reduce the risk of being drawn into a vicious circle of financing deficits. Although these reforms are not the most adequate answer to the problems encountered, in most cases they will translate into new spending cuts in exchange for long-term financing, the future burdens of which will absorb an increasing share of revenues to the detriment of missions that the State is already finding difficult to carry out.

To avoid a situation in which borrowing repeatedly replaces the mobilization of local resources, with all the dangers that this entails, increasing government revenues is another avenue to be explored more vigorously. Owing to problems with the application of existing tax laws, in some instances revenues are only a third of what they should be. One of the main reasons for the better performance of industrialized countries is that nearly all tax revenues are collected, enabling institutions to carry out their work. Consequently Belgium appreciates the Bank's recent efforts in the key area of modernization of the State, and welcomes the steps that some governments have taken in this direction. However, the Bank and the governments of borrowing member countries must take more resolute action, given the relatively modest cost of such operations in comparison with their potential high rate of return, particularly in consideration of the flexibility that governments will gain in various areas of economic activity.

Additionally, we must take care not to overestimate the impact of direct foreign investment or to believe that foreign investors will pour in automatically thanks to improvements in the business environment. It seems more prudent for most borrowing countries to rely on their own strengths by supporting their own investors. Accordingly, Belgium welcomes the Bank's renewed interest in small and medium-sized enterprises. In our view, this essential action should focus on three areas in which the Bank has experience and a comparative advantage: reducing red tape through programs promoting modernization of the State and good governance; access to credit, particularly during difficult periods; and manpower training. These are also essential ingredients for attracting direct foreign investment, which seeks dynamic local subcontractors and skilled labor, among other things.

Various consumer and business confidence indexes in industrialized countries show that hope is a key ingredient for investment. To generate growth, investment must be a collective effort, in the sense that although an individual may be willing to invest, he will refrain from doing so if most others are hesitant to commit. Therefore, it is extremely important to restore a climate of confidence among local economic agents, which has been undermined by a period of extreme turbulence characterized by the contagion of 1998, the crisis in Argentina, and the international economic slowdown. In this respect, it is essential for government authorities to hold the course of recent years in terms of sound macroeconomic management even when results are slow to appear, as is now the case.

Finally, the new lending instruments have not yet been the subject of detailed discussions. The information available about most of these instruments is promising. However, some of them relate more to finance than to development and, in the absence of evidence to the contrary, are fairly incompatible with our present mandate. One instrument that is worthy of our interest is lending to subnational entities. There is consensus regarding the important role of these levels of government for development, but a majority expresses clear reservations about such financing without a central government guarantee. It seems fitting to reconcile these points of view. I imagine that the proposal's initiators are demonstrating confidence in their subnational entities, and therefore that it is for reasons other than the possible execution of these guarantees that they wish to do without them. These reasons may include an increase in their own indebtedness, for example, which would risk raising their borrowing costs. One option worth exploring would be to obtain prior agreement from beneficiaries of loans without guarantees that repayments to the Bank will be deducted at the source from resources transferred to it by the supervisory authority, so as to guarantee loan repayment in another form. However, borrowing in foreign exchange by entities whose revenues are in local currency entails risk, as recent crises have reminded us.

I will conclude with a few comments on the report of the External Advisory Group. The main issue for nonborrowing shareholders seems to be a future IDB-9, despite the agreement at the time of IDB-8 that it would be the last replenishment. Of course, the issue of relevance also arises in quantitative terms when we consider the scope of capital flows and the size of the region's economy. On an annual basis, the Bank's commitments amount to only 0.15 to 0.2 percent of regional GDP. Whether we like it or not, these facts are significant when it comes to getting a message across and establishing adequate incentives to obtain the desired response. In addition, owing to the use of Fund for Special Operations resources for debt relief under the HIPC Initiative, we have already agreed to review the Bank's concessional resource requirements in a few years. Accordingly, it may be appropriate to link the review of concessional resource requirements to the broader issue of the level of resources that it would be desirable for the Bank to have in order to carry out its mission.

The second issue to be discussed is the suitability of transforming the Private Sector Department into an affiliate in its own right. On its face, this initiative would seem not to have an impact on the resources and missions of the Bank, since it involves their transfer to an autonomous entity with different missions and risk profiles. An analysis of the risks and benefits of the formula deserves a more in-depth examination, and the decision on this issue should be taken at the level of the Governors.

The third major issue is assessing the value of the capital subscribed by the borrowing countries. The World Bank is asking itself the same question. This issue is of even greater relevance as the region has just emerged from a difficult period characterized by repeated financial crises, and will soon face another challenging period if economic recovery is slow to take shape at the international level. It will be equally important to determine what this capital will be used for, and whether it is desirable to allocate it to an increase in commitments. A detailed analysis should be undertaken in this area as well.

Finally, I would like to take this opportunity to note once again that Belgium remains interested in hosting a future annual meeting of the Bank.

I am very pleased to take part in this Annual Meeting of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation. I would like to add my congratulations and thanks to the Government of the Federative Republic of Brazil for its warm hospitality and excellent organization of this event in the beautiful city of Fortaleza. I am certain that this meeting will be extremely useful and important, particularly in light of the current economic climate.

The synchronization of the economic cycle among the main economic blocks observed this past year confirms the close interdependency that exists in the word of today. Furthermore, the tragic events of September 11th have had an impact on the international community as a whole and on the very foundations on which the world economy has been built.

Growth in world trade, for example, shrank dramatically, from 13 percent in 2000 to just 1 percent in 2001, according to World Bank estimates. The increase in the cost of transportation and transaction costs in general, associated with closer international scrutiny for security reasons, will undoubtedly have a permanent impact on the free movement of goods, services and people in the coming years.

However, and as a counterweight to these negative developments, the macroeconomic coordination observed in the world in the final quarter of last year, particularly the widespread drop in interest rates, had a direct influence on the prospects for global economic recovery.

The market consensus suggests that the United States economy could recover more quickly than expected and the Federal Reserve has estimated real GDP growth of between 2.5 and 3 percent in 2002. This favorable outlook appears to be backed by some recent economic indicators, including the clear-out of inventories and renewed consumption and investment in the same sectors that had previously accelerated the recession, such as the high technology industry. However, risk factors still exist, such as high consumer and corporate debt and a volatile stock market in the wake of egregious corporate failures and accounting scandals.

As a result of the growing convergence between the Mexican and U.S. economies, the Mexican economy is today closely linked to the economic cycle of its main trading partner. The differential between the interest rates of both countries has fallen to its lowest level in history. In 2001, inflation in Mexico was just 2 percentage points higher than in the United States.

For the first time in three decades, the Mexican economy has gone through the ups and downs of a traditional economic cycle, in the midst of unprecedented financial and price stability. The Economic Program for 2002 is intended to preserve this macroeconomic stability and lay the groundwork for orderly recovery.

Granting Mexico investment grade status is a recognition of the progress made through more transparent and accountable economic management.

Approval by Congress of the target proposed by the executive branch to maintain a fiscal deficit of 0.65 percent of GDP in 2002, fully financed with domestic resources is an encouraging sign of a growing political consensus regarding the need to continue with responsible fiscal policy and achieve a balanced budget in the medium term.

This progress is particularly noteworthy, given the growing political pluralism in Mexico today. It was in these very circumstances that Congress passed changes to the fiscal regime at the end of last year, broadening the tax revenue base.

Consistency between fiscal and monetary policy has been crucial for weathering an unfavorable international economic climate. Convergence in inflation levels with our main trading partners continues to be a steadfast objective. Lower inflation brings lower interest rates and therefore lower financing costs, which will lead to a recovery in lending by banks.

The Mexican banking system is facing the challenge of becoming a driving force for economic growth. The changes made in recent years have consolidated sound, more competitive and better-regulated banks. According to an evaluation made under the financial sector assessment program sponsored by the World Bank and the IMF, private banks have ceased to be a risk factor for the stability of the Mexican economy.

I would also like to touch briefly on the importance of this assessment—known as FSAP in English—in promoting a package of financial reforms approved last year, which will strengthen the Mexican financial system and spur domestic savings:

- First, we sought to establish a new operating framework for banking institutions, while reforming bank regulation and supervision to make it more effective and less expensive;

- Second, we passed legislation to strengthen the stock market and make it a solid alternative source of financing for enterprises. The promotion and development of investment companies and the introduction of better corporate governance practices, including enhancing the rights of minority shareholders, are worth mentioning;

- Last, we passed a new Public Credit and Savings Act and created the National Savings and Financial Services Bank (BANSEFI). These two instruments will extend the coverage of financial services to the entire population, particularly lowincome Mexicans, through different non-bank intermediaries that we have grouped under the concept of people's banks.

Today, relations between the IDB and Mexico are closer than ever and have taken on particular relevance. The Bank has supported the process of economic and social change in our country, responding to the changing needs of an economy that is consolidating macroeconomic foundations, boosting competitiveness and seeking to overcome social lags to offer better development opportunities to its people.

From the start of President Vicente Fox's administration, Mexico's operations with the Bank have focused on improving and consolidating a social safety net that offers health, education and housing benefits to the most vulnerable groups in our country. We have also worked to support job training, promote productive activities in the countryside and strengthen the capacity of states and municipalities to make productive investments. All this by focussing the allocation of public resources in a transparent, accountable and effective manner.

Today, we seek in the IDB a partner to support us in the design and development of innovative projects to strengthen public institutions and provide legal assurances, with a view to promoting a context that fosters private investment, higher levels of savings and more accessible financial services that are better regulated and more competitive.

I would like to turn to the Bank's internal work and express our satisfaction over the recent approval of a new lending framework for the Bank. The agreement is the result of intensive analysis and consultation by the Board of Executive Directors and the Committee of the Board of Governors in compliance with a resolution we approved one year ago in Santiago, Chile.

The decision permits our institution to continue offering loans to support policy reforms, maintain and increase the level of investment operations, reinforce the development effectiveness and impact of Bank operations and begin to establish a culture geared to measurement of results.

Another particularly important aspect of the new lending framework is institutionalization of the Emergency Lending Facility. It should be a clearly differentiated and defined financial product intended to cushion the impact of international financial crises, protect social programs and avoid setbacks in economic reforms of the member countries that make use of it. These loans will complement the funds provided by other multilateral lending agencies for macroeconomic stabilization programs endorsed by the International Monetary Fund.

Mexico has pointed out the importance of expanding the Bank's portfolio of financial products to include innovative instruments that are responsive to the development priorities of our countries. Products that will reduce the vulnerability of countries to external shocks through contingent lines of credit that include the private sector are of particular interest. Instruments that help to mitigate our countries' financial and exchange risks, based on the Bank's credit worthiness, are equally necessary.

It is particularly important for the IDB to make progress in this direction, owing to the well-known fact that capital inflows to the emerging countries have been declining since 1999, and in 2001 they became net exporters of resources.

In a context of scarce resources and pressing social demands, our region needs to substantially improve the efficiency and transparency of public spending. We therefore urge the IDB to intensify its work in this area by providing technical assistance and training, in addition to financial resources. To raise the subject of the current debate on the provision of what has been called global public goods, in our opinion, this area should be recognized as a regional public good.

It is our understanding that the Board of Executive Directors is about to embark upon an orderly process of detailed review of proposals for these and other new financial instruments, which are intended to expand the Bank's capacity to serve the development needs of its member countries. This process complements and enriches the recently approved lending framework and we urge the Board to arrive at concrete results as quickly as possible.

In parallel to the negotiation of the agreement I have just referred to, and under the coordination of by the External Advisory Group established by President Enrique Iglesias, the IDB carried out an exercise to examine the challenge of how to continue being a relevant player in the region's development. In this regard, I would like to underline four issues that are included in the group's report and which merit a more detailed analysis by the Bank.

The first refers to the support that the IDB can provide for boosting the competitiveness of our countries, in a climate of financial stability and integration into the world economy. Particularly important are actions to establish a predictable and transparent regulatory framework that is conducive to public and private investment.

The second is to strengthen the Bank's interventions during economic crises in the countries of the region, by designing preventive mechanisms that include private sources of financing.

The third is to step up the Bank's activities with the private sector, focusing on the development of domestic capital markets and the expansion of activities to mitigate risk. More work on new types of guarantees would also be desirable.

The fourth refers to the support that the Bank provides for regional integration processes. I would like to point out here that the IDB has accepted the challenge of turning the Puebla-Panama Plan, launched by President Vicente Fox and the seven Central American presidents, into concrete projects to create a meso-American corridor of economic development and political cooperation. We applaud the recent approval of the first regional operation under the Puebla-Panama Plan, which is a project to interconnect the electric grids of the Central American countries, also to be connected to the Mexican electric grid.

I would like to turn briefly to the other two components in the IDB Group: the Inter- American Investment Corporation and the Multilateral Investment Fund.

The Corporation is an indispensable complement for financing small and mediumsized enterprise in the region. The current economic context has placed some of the enterprises financed by this institution in a difficult position. We believe that the Corporation should seek creative formulas to enable it to maintain its financial returns, without losing sight of the development objectives of the entrepreneurial sector it serves.

The Multilateral Investment Fund has developed innovative projects in Mexico in areas such as consolidation of the people's savings system, the productive use of remittances and the creation of risk capital funds for productive projects in marginal areas. We are therefore pleased that the Donors Committee has decided to extend the Fund's mandate, allowing it to use up its resources and adequately evaluate and disseminate its operations. We invite the Bank's members who are still not part of the fund to join this innovative and valuable instrument for promoting private sector development in our countries.

In 2001 we unanimously approved the plan that formalized the Bank's participation in the Heavily Indebted Poor Countries Initiative. This has allowed the beneficiary countries to begin to individually present their debt reduction requirements with the IDB and with subregional financial institutions. We urge the Bank to continue this process with a view to channeling these resources in a suitable and timely manner.

Last, I would like to reiterate the solidarity of the Mexican people and government with Argentina at this difficult time. We support the Bank's participation in the efforts to enable Argentina to return to the path of economic growth as quickly as possible.

The Bank has built channels for action and discussion, acting as a true partner in the transformation of our countries and as the main source of multilateral funding to finance the region's development.

In these last years, the IDB has clearly demonstrated its commitment to adapt to the new needs and challenges facing Latin America and the Caribbean. President Iglesias, allow me once again to acknowledge your efforts and dedication in consolidating the leadership role of the IDB as a model regional development bank.

THIRD PLENARY SESSION

MARCH 12, 2002

I. INTRODUCTION

It is a great pleasure for me to address the Forty-third Annual Meeting of the Inter-American Development Bank and the Seventeenth Annual Meeting of the Inter-American Investment Corporation in Fortaleza—a city with positive signs of growth as the development center for the Northeast of Brazil. On behalf of the Government of Japan, I would like to express our gratitude to our hosts, the Government of Brazil and the people of Fortaleza, for their generous hospitality.

The Japanese Economy

The Japanese economy is in a difficult situation. To restore its vitality, it is essential to implement fundamental structural reform, and to bring out its potential to the fullest. That's why our government has made it a rule to leave no stone unturned in reviewing our expenditure, and to implement the reform with no reservations.

At the same time, we must also address the immediate economic challenges, the most important of which is to counter deflation. It is in this context that our government announced emergency measures to fight deflation two weeks ago. While respecting the overarching policy goal of creating sustainable private demand as early as possible, the latest initiative is designed to promote the disposal of nonperforming loans, and to stabilize the financial system.

II. IDB AND THE DEVELOPMENT ISSUES IN THE REGION

The Regional Economy in 2001 and Poverty Reduction

In 2001 a series of adverse external shocks had a negative impact on Latin America and the Caribbean: a serious drought in Central America, declines in tourism due to the events of September 11, a sharp drop in coffee prices, and the Argentine crisis. These difficulties the region faced have revealed the structural vulnerability of the regional economy.

The most vulnerable to such external shocks in particular are those who live in poverty. Indeed, in Latin America and the Caribbean, the fight against poverty and social inequity is far from over. This is due to insufficient investments in the social sector and the weak social safety nets.

The crisis that started to unfold in Argentina last year is a source of concern in Japan, too, as there are a number of Argentine bondholders. While collaborating with the IMF and other international organizations, the government of Argentina needs to quickly come up with macroeconomic stabilization measures including the fiscal and foreign exchange policies to restore international confidence. International financial institutions should make their utmost efforts to prevent the contagion of the crisis to other emerging economies.

The Argentine crisis has also revealed the fact that, in the medium term, macroeconomic stabilization and liberalization of the economy per se did not lead to greater competitiveness of domestic industries. Macroeconomic stabilization and liberalization of the economy are no doubt necessary but not sufficient to achieve economic development. It is imperative to build the environment that helps strengthen competitiveness. In fact, without going through institutional reforms, no country can make progress in economic development. These institutional reforms include building a financial system that allows for efficient use of private capital, and establishing a flexible labor market that efficiently links demand and supply of the labor force, fostering innovative entrepreneurship and creating more credible and transparent government.

This applies to many countries in the region, not just to Argentina alone. For sustainable growth of the economies in the region, it is imperative to promote structural reform from a medium- to long-term viewpoint, while building upon the progress already made in macroeconomic stabilization, trade liberalization of the economy, and poverty reduction.

In this context, it is timely that the latest edition of the Report on Economic and Social Progress in Latin America has made a proposal to strengthen competitiveness in such areas as the financial sector, human capital, and science and technology.

Japan's Contribution to the IDB

Whether to make organizational and institutional improvements, to fight against poverty, or to increase institutional capacity for foreign exchange and fiscal management, the key lies in human resource development and institutional capacity-building. For its part, Japan has continued to help develop human resources in the region via the Japan-IDB Scholarship Program. While our extremely severe fiscal situation forces us to reduce the ODA budget, we will remain committed to providing intellectual contribution, for example, via the Japan Program, which promotes the exchange of knowledge regarding development between Asia and the Latin American and Caribbean region.

III. REFORM FOR FUTURE ACTIVITIES OF THE IDB

International financial institutions have long played instrumental roles in economic and social development. Take the financial roles that range from providing funds for development to catalyzing private capital inflows. Or, the nonfinancial roles, such as having policy dialogue with each government and designing development strategies. Nowadays, however, these institutions are required more than ever to focus on operational efficiency and development effectiveness. The Inter-American Development Bank is no exception. It must increase its development effectiveness even further. In this regard, I would like to draw your attention particularly to the following three points.

First, as the regional multilateral development bank, it is essential for the IDB to operate more selectively based on its comparative advantages. For that, the Bank has to identify those areas where it can apply greater leverage than the World Bank or other institutions, and target its limited human and financial resources to these areas. Regional integration would be certainly one such area.

Second, in order to increase the effectiveness of development, the Bank should clearly set objectives and establish measurable monitoring and evaluation indicators in its operations. We strongly urge the borrowing countries to internalize monitoring and evaluation systems together with proper financial management systems so that they can demonstrate their use of development aid in an accountable and transparent manner.

Third, the Bank should review these operations, while strengthening harmonization and coordination with other institutions. Closer coordination among the institutions in designing individual country assistance strategies and formulating new lending policies will indeed be indispensable for effective aid and alleviation of the borrowers' burden.

In this context, I welcome the new lending framework established recently after a series of discussions since the Santiago meeting. We hope that the new measures to improve quality at entry and the portfolio quality will be promptly put into practice. In this respect, it is particularly essential that the Board of Executive Directors and Management quickly materialize the recommendations in the latest OVE (Office of Evaluation and Oversight) report. As to the proposals made by the External Advisory Group, our government will take an active part in discussion with other Members.

IV. OKINAWA AS A CANDIDATE FOR HOSTING THE MEETINGS

Japan stands ready to serve as a bridge between Asia and the Latin American and Caribbean region, to help achieve the progress of the regional economy on both financial and nonfinancial fronts. In this context, I would like to announce again our intention to host the 2005 Annual Meetings in Okinawa. Located at the southwestern tip of Japan, Okinawa is a subtropical prefecture that consists of over 160 islands.

Many in Okinawa emigrated to various corners of the world, including the Latin American and Caribbean region, to become an integral part of each community. It is a place that successfully hosted the 2000 G-7 Summit.

Combined with the islands' spectacular natural environment, the heritage of crossroads of different cultures, people, and goods, should make Okinawa the ideal place for us to exchange our views on development. With your support, I hope that the IDB meeting in Okinawa would be a great success.

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

It is a great pleasure for us to gather once again in Brazil, three years after celebrating the fortieth anniversary of the founding of the Inter-American Development Bank here. Brazil inspired the establishment of the Bank, and is the country where the Agreement Establishing the Bank was concluded. At Fortaleza, we are also in an area of intense Bank activity. All of this augurs well for our meeting.

Since we met last year in Santiago, Chile, the Hemisphere has been shaken violently by crises of various kinds. In the United States, there have been attacks the political, economic, and certainly geostrategic impact of which is not yet fully known. Latin America, Central America, Mexico, and the Caribbean have experienced a serious economic blow associated with the slowdown in world growth precipitated by the events of September 11, which is affecting the region's countries in varying ways. Finally, particularly in Argentina, a number of severe shocks have struck this large economy in the region.

First I should like to offer a few words, two in fact, that characterize France's view of the actions to be taken regarding the situation in Argentina.

The first of these words, clearly, is *solidarity*. The people of France are well aware of the crisis in Argentina, a country close to us historically, culturally, and economically. We sympathize with the Argentine people. We wish to take part in the international effort that will enable the Argentinians to overcome these serious difficulties and will help that great country to give its people renewed hope. We must give ourselves the means to achieve this solidarity. Our international financial institutions, the International Monetary Fund, the Inter-American Development Bank, and the World Bank, must put that solidarity into action, as they have in recent months. The situation today gives us reason for hope because of these international institutions and the actions that we, collectively, have asked them to take.

Clearly we must go further in this solidarity. This effort requires dialogue among all the parties involved: the Argentine government, the other executive bodies of that country, the international financial institutions, and other partners that have helped finance the Argentine economy. This dialogue must make it possible, quickly, to find the difficult path that leads out of the present lack of understanding, in which the Argentine economy is deprived of the international financing that it was so successful in raising.

My second word regarding Argentina is *stability*. How can these obstacles be overcome without political and economic stability? Political stability first. I know that I speak for many when I stress the importance of democracy as a guarantee of stability. It is also a clear prerequisite for sustainable economic development. Economic stability also. This means that in the crisis resolution scenarios, we must find conditions that will enable Argentina to resume its long-term relationship with its economic partners, in the broad sense of the term.

What is at issue here is a complex economic relationship among the Argentinians, their government institutions, their businesses, their banks, their investors, and public and private international lenders. Clearly this means that Argentina's relationship with the international financial institutions must remain unchanged. It also means that the way in which the various partners are dealt with, in terms of the efforts that each is required to make, must be deemed acceptable by all. The first priority is to restore the credibility of the banking system, which the crisis has damaged.

The confidence of private international lenders, on which the economy is largely based, must be restored. This does not mean taking a hands-off approach. It means that each stakeholder must act in accordance with an appropriate schedule and in a credible manner. I am confident that, together, we will be able to find conditions to support this solidarity and stability. Nonetheless, each partner must play its part.

The situation in other countries in the region today is more varied, but at times equally disquieting.

It is reassuring that the Argentine crisis, thus far at least, has had a limited contagion effect on the rest of Latin America. Of course the MERCOSUR economies (Uruguay in particular) have suffered or continue to suffer the consequences of this crisis. Yet by holding the course with sound macroeconomic policies during this ordeal, the economies of Latin America on the whole have coped well with the impact of the various shocks that struck the Hemisphere in 2001. In Brazil, the economic outlook is taking a more encouraging turn. Chile and Mexico are held in increasingly high regard by international investors. Nevertheless, we must take care not to become overly optimistic: the risk of contagion has not subsided and must be controlled. Without our joint effort, other types of contagion may arise, resulting in a contraction of direct foreign investment flows to the Hemisphere or even to all emerging countries.

Then there are difficulties that affect certain countries in particular, which, although not systemic, are serious nonetheless. I am thinking specifically of the Caribbean region, which has been hit hard by the events of September 11. The countries of the subregion drew a substantial portion of their revenues from tourism, which has been disrupted. This situation is evolving, to be sure, but will take time. Moreover, a return to stability will certainly entail an increase in the institutional capacity of some countries to address the laundering of drug money and transactions relating to the financing of terrorism. This is a priority for the French government, one that it is pursuing in all multilateral venues. This applies to security, as well, particularly at airports. A few weeks ago, France provided a specific financing package to the Bank that will allow concrete action to be taken on this front. In addition, the French Development Agency will have a similar line that it will manage in coordination with the Bank, specifically for countries that are not members of the Bank.

Fortunately, the Bank has adopted new financing instruments that will enable it to respond more effectively to the needs of borrowing countries.

In addition to the central role that the Bank has played this year in managing crises in the region, recent months have been marked by reform of the Bank's lending instruments. Last year we approved the principle of limited reform of program loans, because it was necessary to put an end to the Bank's ambiguous situation. I should like to thank the Chilean government, and Mr. Mario Marcel in particular, as well as the Management of the Bank for their diligence in carrying out this work.

I believe that we have reached a good solution—giving the Bank three types of instruments (crisis lending, program lending, and project lending) that enable it to respond to requests for substantial sums under sufficiently transparent conditions. We will thus avoid having to seek room for interpretation in our documents, as we have too often had to do in the past. Obviously this reform is an experiment for us, and within the context of this experiment I wish to underscore three challenges:

The challenge of reducing poverty and inequality. The effectiveness of this new set of lending instruments will be judged by its capacity to better mobilize resources that target the poor. This challenge arises during crises, because the weakest populations are hit hardest by them. We would like social spending to be largely protected in the course of crisis management. The challenge also arises with conventional financing. Program loans are not often used today for the social sectors. The Bank's new capacity in this area should allow it to take increasing action in this respect.

The challenge of maintaining the Bank's financial equilibrium. The current situation is tense. On the one hand, risk is heavily concentrated on the three largest borrowers. On the other hand, the Bank's capacity to intervene in crisis resolution "packages", while legally greater, remains financially constrained. In particular, we run the risk of quickly ending up in a situation in which the Bank would not be able to deal with a subsequent crisis. Of course the current situation is intrinsically very good because our institution is managed prudently. Nonetheless, the study to be conducted this year on capital adequacy and the Bank's capacity to intervene is vitally important.

Finally, the challenge of ensuring better coordination among international financial institutions. It is the view of France that intervention by international financial institutions in a country must be guided first by the choices and demands of that country. But in order to achieve long-term results in this respect, the services offered by the international financial institutions must be sufficiently coherent and readily accessible. Consequently, we view the harmonization of procedures and mutual recognition of preintervention studies as practical and expedient. It is particularly inappropriate for each institution to conduct its own environmental impact studies and perform analyses of government spending patterns, etc., independently. Similarly, in my view an institution's country strategies should take the strategies of other organizations into account, although this certainly does not mean that country strategies must be common.

The evaluation of these new measures, the principle of which we have already adopted, will enlighten us as to their pertinence and the pertinence of their implementation.

Beyond that, we must think constantly about what the future relationships between the Bank and the region's economies will be.

I will not attempt to give an exhaustive response to this issue today. However, I should like to offer some initial reactions to the ideas that are circulating that lead me to believe that this meeting in Fortaleza is the starting point of strategic thinking which is essential for the region.

During discussions of the Committee of the Board of Governors, countries of the region proposed that the Bank establish new and more complex instruments. President Iglesias wisely decided to seek recommendations from an advisory group chaired by Mr. Ángel Gurría, which placed these concerns within a broader context. I am particularly grateful to President Iglesias for informing us of the group's main recommendations prior to our meeting in Fortaleza. I would like to note that France is open to such considerations. To approach this discussion, I would first like the President, in coordination with the new Chairman of the Board of Governors, to present proposals regarding our method. In view of what is at stake, we must take care not to react precipitously or to engage in endless debate.

With respect to the issues, I would like to emphasize our development assistance policy objectives. Changes at the Bank should take into account the global context within which they take place. I shall mention four principles which, I believe, we all share:

Development effectiveness is a central factor in global development financing. We are a few days away from the Monterrey Conference. The reciprocal commitments to be made there and formalized in the "Consensus of Monterrey" must guide the thinking of the Inter-American Development Bank on this issue. Specifically, the Bank must plan to help the countries of the region adopt domestic policies that are better suited to optimizing development financing flows. This certainly means greater capacity to promote reforms, and the tools needed to do so.

Economic development must be designed with a view to sustainability. From Monterrey, we move on to Johannesburg, 10 years after the Earth Summit in Rio de Janeiro. The Inter-American Development Bank now plays a major and recognized role in the environment sectors, and in the related water sector. It would be expedient for the Bank to forge further ahead on this issue, contributing to the development of "global public goods" in areas where its expertise makes the Bank a leading institution.

We must set up mechanisms to deal more appropriately with the constant threats that weigh on developing countries. Ideas concerning new approaches to sovereign debt restructuring are of particular interest to us. France, which chairs the Paris Club, will provide its assistance and support. It would seem expedient for the Bank to participate as well.

I would also like to note in passing that one of the lessons in recent weeks, resulting particularly from the sometimes strong reactions of civil society to the phenomenon of globalization and from the collapse of the Enron group, is that good governance and transparency are essential for sustainable economic development. I should like to emphasize, in particular, that setting up complex mechanisms and efficient financial instruments that respond increasingly well to client needs constitutes progress only if appropriate regulations are in place. This means, at a minimum, that the nature and implications of the new risks that are created must be clearly identified, directly or indirectly, by all partners involved. Moreover, the potential shocks to which these new mechanisms may be subjected must be studied in advance. We must also take such considerations into account as we modernize our international financial institutions.

In conclusion, on behalf of the Government of France, I would like to acknowledge the remarkable work that President Iglesias and his teams have accomplished over the past few months with the diligence and presence of mind that make the actions of international organizations effective.

Finally, as we approach the Monterrey Conference, I would like to emphasize how important it is that, at a time when private flows to developing countries are no longer rising, public flows become an even stronger factor in international solidarity. While seeking increased development effectiveness, we must also help bring about an increase in public aid flows. France, first among the donor countries of the Group of Seven in terms of relative effort, intends to set an example along these lines. Consequently, for the first time in many years, the French government plans to increase the country's contribution to global assistance by 20 percent between 2000 and 2002, from 0.32 percent to 0.36 percent of our national wealth. Together with the countries of the European Union, we encourage other donor countries to forge ahead in this regard.

Can I begin by joining previous speakers in thanking the Government of Brazil for hosting this Annual Meeting here in Fortaleza, and the Bank and its staff for making the arrangements.

We meet here six months and one day after the events of September 11, which cast such a shadow over us all. At the time many people said: "the world will never be the same again".

In one sense that was true. We now understand, better than at any time in human history, just how interdependent we have become as a world, and how events in one country affect those of us who live in another.

And yet, in another sense, it was not true, because many people's way of life has not changed since September 11. Poverty, poor health, a lack of education and little hope still blight their lives just as they did before.

The gap between rich and poor is a problem we share. We have it in the United Kingdom. You have it here in Brazil, as I saw yesterday when I visited the Pirambu favela, and across the region.

And that is why the most important legacy of September 11 must be a determination to tackle poverty, injustice and inequality wherever they are found. Not because they excuse terrorism—they do not—but because they provide a breeding ground in which ideas and beliefs that are the enemies of our democracies can prosper. Therefore, if we are going to defeat terrorism, we also have to defeat poverty, injustice and inequality.

So what progress are we making?

Latin America and the Caribbean region are on course to reach—or to nearly reach—most of the Millennium Development Goals by 2015. For example, here in Ceara infant mortality has halved in the last five years, which shows what can be achieved where the political will is strong. But the region should be achieving much more. In most countries, the indicators for the poorest groups are comparable with much poorer countries in the rest of the world. It is inequality, in particular, that is holding back development. The region still has the worst distribution of income in the world, and it has increased in many countries since the 1990s. Poverty is becoming more urban (though rural poverty remains worse); it is increasingly prevalent among women; it is transmitted from parent to child and it is concentrated among certain ethnic and racial groups. Unless we take action, globalisation could make these inequalities worse. That is why the Bank has an important role to play in advancing understanding of the challenges and opportunities which globalisation presents to the region. Economic growth matters, but on its own it is not sufficient.

Argentina—not a country any of us thought of as poor—is an example of how fragile prosperity can be. The UK is following developments there closely, and we are looking to an agreement with the IMF which will enable further support from the Multilateral Development Banks and send a positive signal to foreign and domestic investors. We are particularly concerned about the poor and unemployed in Argentina, and will be supporting the efforts of the IDB, as well as those of the World Bank, to reduce the damaging effects of the crisis on the poor through support for social protection, health and education.

Following the lead provided by the Heads of State and Government at last year's Summit of the Americas held in Quebec City in publicly endorsing the Millennium Development Goals, can I say how much we welcome the commitment made at this Annual Meeting by you, President Iglesias, to incorporating the Millennium Development Goals in country programming. We greatly look forward to seeing that happen.

Next week, all eyes will be on the Financing for Development Conference in Monterrey. This will be the world's opportunity to show its commitment to achieving the Millennium Development Goals. There are three things we need to do if it is to succeed:

The first is to ensure a substantial transfer of additional resources from the richest to the poorest countries, in the form of investment for development. Increases in aid must be accompanied by measures to increase the effectiveness of aid, such as untying, greater use of budgetary support, targeting of aid on countries with large numbers of poor people, and harmonising donor procedures in support of country-owned poverty reduction strategies. The special needs of the middle-income countries, including for greater access during crises or downturns to resources on softer terms than the market provides, must also be addressed.

Secondly, we need to work for trade rules that help developing countries participate on fair terms in the world economy. Progress on trade alone could be worth \$150 billion a year to the poorest countries, which is three times the amount of development assistance they receive today.

And thirdly, we must improve the terms on which the poorest countries participate in the global economy, through: strengthening the international financial system; codes and corporate standards that all countries and businesses can sign up to; creating investment forums in developing countries between the public and private sectors; and building developing countries' capacity to take part in discussions about trade rules.

Finally, there are two particular issues that we would like the Bank to address. For all of us working in development, there are particular difficulties in measuring our effectiveness—does what we do make a difference?—but it is becoming increasingly important that we should do so. Development agencies, including the IDB, are under pressure to account better for expenditure. Agencies need to know what they have achieved, and to understand why, if performance is to be improved.

We work in a very diverse range of countries, sectors and activities, often in unstable environments where the statistical data is not very good, and it can often take many years for the full impact of our work to be seen. For the IDB, a very important aspect of its work programme over the coming year will be to improve its development effectiveness. We look forward to contributing to this work.

The issue of poverty reduction in middle-income countries must also be a priority for the IDB's work. And here, the UK believes the Bank's role would be enhanced—and its effectiveness improved—by having country representation at a level, and with appropriate delegated powers, to be able to influence governments and carry authority with other donors. In this way, we believe we can contribute to the process of developing partnerships locally. And partnership is vital if development really is going to succeed.

Finally, Mr. Chairman, we in the UK look forward to working with you to attain our shared objectives of reducing poverty and inequality in Latin America and the Caribbean. We will be judged on our ability to make that difference. It is a huge task, but if we succeed then we will truly be able to say that the world has changed, and changed for the better.

It is an honor for me to address you in this beautiful and hospitable city of Fortaleza, on the occasion of the Forty-third Annual Meeting of the Board of Governors of the Inter- American Development Bank and the Seventeenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation.

I wish to salute President Enrique Iglesias for his indisputable leadership in combating poverty in our countries. I also salute the entire professional staff of the Bank for their work in implementing the guidelines for the antipoverty campaign laid down by President Iglesias and the Board of Executive Directors.

I would like to speak for a few minutes about recent political and economic trends in Ecuador, which can be analyzed in two, clearly identified stages. The first relates to the Ecuadorian economy before dollarization, which we may call "the old economy", including the economic and political events that took place during and up to the end of the 1990s.

The second stage relates to the Ecuadorian economy after dollarization, which we call the new Ecuadorian economy, and which began approximately in January 2000. At that time, an official decision was announced to adopt dollarization, after the Ecuadorian people had gradually but inexorably decided unofficially to conduct their transactions in dollars.

The first stage, that of the old economy, has already been sufficiently reviewed, and is very well known internationally. The idea of the new economy, however, has not been sufficiently analyzed and understood and therefore deserves a brief explanation.

In the old economy, the problems were not significantly different from those that affected other Latin American countries: poor economic and political management and the resulting instability. In our country, for example, we suffered the impact of a war with Peru during the 1990s, as well as the problem of El Niño, which destroyed much of our infrastructure, and a sharp fall in international prices for our principal exports. Unfortunately, the measures that were taken to deal with these problems only made the situation worse. Thus, the disorderly and accelerated growth in currency issues was the prelude to a sharp devaluation such as we had never before experienced. This in turn precipitated a crisis in the country's productive and financial sectors, resulting in the bankruptcy of thousands of firms and dozens of financial institutions and pushing unemployment figures to their highest level in our history as a republic.

Ecuador needed a radical change in economic policy. Dollarization constituted a "confidence shock" that meant a significant transformation for our country.

This is how the process was implemented. In the first place, it is important to recognize that there had been an informal, unofficial and spontaneous process of dollarization during the 1990s, so that when the official and essentially political decision was made to move to the dollar, roughly 80 percent of transactions were already being conducted in dollars. In the second place, between January 9, 2000, when the dollar was officially adopted, and December of that year, the process of exchanging sucres for dollars delivered by the Central Bank was completed. Official dollarization of the economy thus took place in an orderly manner in less than one calendar year.

What is the hallmark of the new Ecuadorian economy? We have economic and financial stability. With the new monetary system, we adopted a policy that guarantees economic agents that monetary creation will never again be used as a policy for promoting economic activity, and neither will devaluation be used as a weapon for competition. Ecuador, then, has renounced the possibility of issuing domestic currency in order to finance fiscal deficits, and it will not distort the terms of trade through devaluations. The drop in the inflation rate from 90 percent in 2000 to 14 percent in February of this year sends a clear signal to economic agents that we are converging towards international inflation rates, which means that our goal of a single-digit change in the price index by the end of the year is clearly within reach.

The Ecuadorian government is committed to promoting wealth creation through a market economy, with a price system that adequately reflects changes in macroeconomic variables. A stable economic system allows economic agents, including national and foreign investors, to have realistic expectations about the future. At the same time, consumers are in a better position to choose when they can examine various alternatives to maximize their earnings. This is why we are convinced that dollarization is an irreversible step towards a real economy.

Under the dollarization system, our gross domestic product has grown at a rate of 5.4 percent, the highest rate in Latin American and one of the highest in the world, thanks to the stimulus it has given to investment and the confidence it has inspired among economic agents. Our public finances ended the fiscal year with a surplus for the second year in a row, and for the first time in 18 years we were able to complete a program with the International Monetary Fund successfully. It is clear that dollarization, while it represents a straitjacket in monetary terms, also helps to establish sound public finances.

We never believed that dollarization would be a panacea or magic wand for solving all our economic problems. Nevertheless, it has been very useful in correcting the many distortions that have riddled our system for decades. It is a necessary but not a sufficient step towards achieving sustainable economic development that will help improve the well-being of the Ecuadorian people. It is an option that Ecuador adopted to address an unprecedented crisis, and one that we are keeping in place because of the results it has produced.

Yet while we have made great progress, we are aware of the need to press ahead with structural reforms. We are working actively to privatize the electricity and telecommunications sectors and to contract all customs services to the private sector under concession. The National Competitiveness Agenda, which is a priority of our government, seeks to reduce the "Ecuador cost" through measures that will eliminate red tape and high interest rates in order to promote exports and foreign direct investment.

In keeping with the foregoing, the program that we are negotiating with the International Monetary Fund for the year 2002 calls for growth in gross domestic product of 4 percent, a reduction of inflation to the single-digit level by the end of the year, and a balance in the public accounts, under the assumption of US$17 per barrel of oil. However, we expect to be able to end the year with another surplus, since the assumed oil price is considered conservative, and because there will also be the impact of higher non-oil revenues, which in the first months of this year exceeded initial forecasts. In addition, we are sending to the National Congress, through the "economic emergency" route, a unified draft of the Fiscal Accountability Act, which includes elements of fiscal discipline and the creation of an Oil Stabilization Fund, in order to prevent the additional oil revenues that we will start to receive in 2003 once the heavy crude pipeline (OCP) is in service and the new proven oil reserves in the ITT region and other fields come on stream from being used to cover current expenditures.

The new Ecuadorian economy, as we have seen, is quite different from the old. We have made enormous progress in the last two years, and this deserves to be properly reported to international analysts, investors and opinion leaders, who still highlight negative historic events that occurred in the old economy and that cannot be repeated under current circumstances.

In light of the upcoming Monterrey Summit, where the presidents of more than 30 countries will be discussing the future of international financial organizations, I want to offer a few thoughts about how we in Ecuador view this challenge, and in particular the role of the IDB.

In light of the calls from various forums to rethink the very existence of multilateral institutions, the Ecuadorian government would like to take this opportunity to say that the IDB as an institution is too important not to continue strengthening it. In this respect, I want to highlight one of the many interesting proposals contained in the Report of the External Advisory Group headed by former Minister Angel Gurría, and which has been submitted for our consideration at this Annual Meeting. In particular, incentives should be strengthened to encourage more active participation by the private sector, for example by establishing a new institution in which the IDB would be associated not only with other international organizations but also directly with private firms and institutions.

Lastly, I would like to recognize the supremely useful work performed in recent years by the Multilateral Investment Fund (MIF), the member of the IDB group dedicated to promoting the private sector in Latin America. The MIF has been playing a key role in introducing new approaches to develop markets and innovation. We believe that the MIF has planted a seed that must be preserved and nourished, and accordingly we fully support the generous initiatives to replenish its resources.

I would like to convey our gratitude to our hosts, the Brazilian government and in particular the authorities of the city of Fortaleza and the state of Ceará, for their warm welcome. I would like to share with you in this forum, on behalf of Her Excellency Mireya Moscoco, President of the Republic of Panama, and the government of my country, some highlights of Panama's economic policy and social development.

The Panamanian economy has not evaded the effects of the global economic slowdown, which has had an impact on the countries of the first world as well as on newly emerging economies. Over the last two years, 2000–2001, we have been able to withstand this situation thanks to a sound macrofiscal policy, which had to manage the severe effects of the economic downturn in many of the Panamanian economy's main sectors, such as the drop in domestic demand for goods and services, which in turn caused a job market decline.

The aftermath of the terrorist acts of September 11th had an impact on Canal activities and air transportation. By year-end, total exports had dropped by 3.8 percent. Nevertheless, despite these circumstances, the tourism sector grew by 8.7 percent and nontraditional exports recorded an increase of 18 percent. Overall, our economy grew 2.7 percent in 2000 and 0.3 percent in 2001.

The significant economic slowdown in the year just ended was caused by the internal effects of the withdrawal of the United States' bases, which cut revenues by US$160 million, the US$200 million allocated to finance variations in oil prices, and the completion of large infrastructure projects financed by foreign direct investment, all of which began to have an impact in 1999. The effect of the dropoff in bank credit (from 20 percent in 1998 to 7 percent in 2001) would be yet another element that contributed to the downturn.

The message is clear: there can be no letup with respect to economic and fiscal policy. Some economic models are gaining currency, but great caution is needed when not all variables are positive. I am referring to the cyclical and countercyclical effects that apply at difficult junctures like these. Nevertheless, in the case of our country, our fiscal accounts are the key to combining and applying these measures without triggering the economic traumas they can sometimes entail.

In connection with the above, a policy of balance was duly implemented, striving to maintain domestic demand without increasing the fiscal deficit beyond 2 percent and controlling, streamlining, and containing public spending where necessary. In addition, aggressive measures were applied in the area of tax collection, and tax administration improved. As a result, the fiscal deficit at the end of 2001 was 1.4 percent.

The dynamic we observe among plans, targets, and results in the current environment requires us to revise them at shorter intervals than usual, which is why the government has unveiled its "2001 Updated Plan for Economic, Social, and Financial Development with Investment in Human Capital". The main principle that underlies the plan is support for a market economy, a balanced fiscal policy, and macroeconomic and juridical stability.

Our country's public debt plays an extremely important role in public finances and is the object of particular attention in view of the high ratios of public debt to GDP. However, we have set ourselves the task of managing debt levels in accordance with our economic growth and payment capacity, aiming at reducing our indebtedness. The debt/GDP ratio has remained at manageable levels, despite our having to finance a fiscal deficit of around 1.4 percent of GDP at the end of 2001.

The confidence of investors in external capital markets shows that our effort and aggressive management of the debt have been appreciated, giving us timely access to those markets with returns and pricing beneficial to Panama. Witness the four timely and successful operations involving access to external capital markets during the year, which included advancing funds to retire US$500 million in bond debt with a February 13, 2002 maturity. This has been directly reflected in country risk perceptions, in turn enabling us to maintain our BB+ credit rating from two agencies that rate Panamanian debt and our BB rating from another.

In order to achieve consensus on issues that fall into the sphere of the State, the government asked organized society, in the political, labor, and economic realms, to sit at the same table for the "National Dialogue for Economic Recovery", which was welcomed by these groups. The implicit benefit of analysis and discussion with society at large of real issues, based on technical elements that can help achieve a reasoned meeting of minds, is that dogmas and sectarianism are steadily overcome and consensus-based solutions can be found that represent the genuine national interest.

It is no easy task to rebound amid uncertainties, weaknesses, and limitations, but the leaders or those who hold political and economic power in our nations must join efforts and fight poverty for the benefit of human welfare, and particularly to better the lives of the poorest.

Putting human beings at the hub of development efforts, pursuant to the paradigm of sustainable human development, means creating opportunities and resources to ensure that groups that experience any type of exclusion are able to participate fully—as subjects and not objects—in every area of civic life. In the context of this imperative, Panama has just launched the first "National Human Development Report (INDH)—Panama 2002", with support from the country's main institutions and organizations. To achieve the desired sustainable human development levels, INDH-Panama 2002 breaks new ground and serves as a compass to navigate it, by helping to create at least three basic conditions: (1) a culture of human development; (2) a body of policies for human development; and (3) a new managerial paradigm for the State. These conditions must intersect on the centrality that should be given to people, with their diversity, needs, potential, and skills.

I would now like to turn to the work of the Bank's Board of Executive Directors and Management.

The emphasis on greater development effectiveness through the IDB's work will in the future be reflected in country papers that are more effective and in line with the strategies of the countries themselves and of the Bank, with due attention also to inputs from the consultation process with each country's civil society.

In particular, I would like to refer to and commend the efforts of the Bank's team as catalyst and coordinator of the Puebla-Panama Plan proposal. It has been very important to the subregion and is already bearing fruit, with the formulation of the SIEPAC project (Electrical Interconnection System for Central America).

Lastly, on behalf of the Government of Panama, I would like to thank President Iglesias and the Inter-American Development Bank for its support in making the multiphase program for institutional transformation of the health sector a reality. This project, aimed at the social sector in the Government of Panama's development program, fits perfectly within the work program that can be summarized in the following critical elements: fiscal discipline, orderly economic integration, and effective social programs.

I would like to start by expressing my gratitude to the Government of Brazil for their superb efforts in staging this Annual Meeting and to the Brazilian people, the city of Fortaleza, and the state of Ceará for their warm and hospitable welcome.

The Economic Situation in Latin America and the Caribbean

Our region finds itself today in one of the most difficult moments in recent decades, a period in which tremendous work has gone into establishing stability and democracy. Diverse factors have conspired to create a particularly complex scenario. The worldwide economic slowdown is taking a heavy toll on countries in the region, exposing the vulnerability of our economies to external shocks.

In 2001, worsening economic conditions throughout the world had a negative impact on exports and the terms of trade of many countries in the region. This was one of the worst years for world trade, as growth plunged from 12 percent in 2000 to less than 1 percent this year. At the same time, the terms and conditions of external financing have become less favorable. Capital flows shrank sharply and the cost of such financing increased overall although fortunately this situation is already beginning to turn around in some countries of the region. Flows of foreign capital into the region declined from US$100 billion in 1999 to just over half that figure in 2001, while portfolio investment plummeted from US$45 billion to US$1 billion.

Although growth in the region was an encouraging 4 percent in 2000, it failed to touch even 1 percent in 2001 and for 2002 the IMF is forecasting 1.1 percent.

Slow growth is more serious still for countries like ours, which need high rates of expansion to reduce the untenable burden of poverty and marginalization. Growth needs to be higher, more stable, and distributed more equitably. Only through regular sustained growth will we be able to put an end to poverty and inequality, areas in which little headway was made in 2001.

Thus it has been a dispiriting year as far as improvements for the majority of the population are concerned. Latin America and the Caribbean is presently the region with the highest rates of inequality in income distribution. In absolute terms, poverty has continued to grow. Social inequality is a source of instability that the region must overcome. It must deploy efforts at redistribution, concentrating on the 200 million inhabitants mired in poverty, who are trying to subsist on less than two dollars a day.

Argentina

Argentina is experiencing difficulties that will require exceptional and sustained economic efforts to resolve, along with a political commitment by the country itself and the support of the international community. Steps must be taken to restore confidence in national and world financial markets so that support from all international financial institutions can crystallize as soon as possible.

Economic reforms should be transparent and not discriminatory for certain sectors. The solidarity of all Latin American countries is a reality that attests to the existence of a genuine community.

The European Union, whose presidency will be held by Spain for the present 6-month period, demonstrated its willingness to support the Argentine nation in a policy statement issued by the Council of Economics and Finance Ministers last January.

So far, the economic policies adopted by the Argentine government have been steps in the right direction. However, some very important aspects of the economic program still need to be clarified. Now is the time for deepening negotiations with the IMF in order to complete the design of a coherent economic plan. This is the moment to lay the foundations for sustained future growth, based on a stable, open, and flexible economy.

Progress in Latin America and the Caribbean

Despite the economic developments of the past 12 months, the region has made great strides in recent years, introducing responsible monetary and fiscal policies that have brought inflation to record lows with moderate budgetary imbalances. The structure of our economies has been recast and modernized, making them increasingly competitive and integrated into the international arena.

However, there is still work to be done. In the 1990s, average per capita income in Latin America rose by only 1.5 percent and the differences between the developed countries and countries in the region widened. To ensure that the policies applied have the desired effect and continuity, a majority of the inhabitants must be able to reap the benefits of these policies; otherwise, the reforms will generate a feeling of frustration in the population and come under growing opposition.

Democracy is now the norm in our countries, the major triumph for Latin America and the Caribbean in recent years. Yet, work still needs to be done on this front too. Democracy is a prerequisite for progress. We need modern and efficient States with credible institutions that have the trust of all their citizens. To accomplish this aim, we must build and defend democracy on a daily basis.

Conclusions on Latin America and the Caribbean

The Bank has a historic responsibility. The work carried out since the mandates of the Eighth Replenishment has not borne the fruit that was expected. In a situation like the present one, there is a great temptation to reverse stride on reform, and that is the danger.

The only model that ensures a path of sustained stable growth is one based on prudent fiscal policy and orthodox monetary policy. All of this in a framework that permits a more balanced distribution of income with growing numbers of the population having access to education, which will in turn bring higher productivity and increased saving, which now stands at just 16 percent of GDP. In this setting, market confidence reigns and in the presence of a stable political and legal framework, domestic and foreign investment becomes an engine of growth.

Against this background, we feel the need to insist that the overall lines of the present economic model be maintained, avoiding a return to the failed policies of the past. It is also essential to deepen the fundamental aspects of the development model that we have been using in the region so that it becomes acceptable to the great majority of the population and in this way the objectives set can be attained.

Spain and Latin America and the Caribbean

I would like to reiterate the remarks I made at last year's Annual Meeting when I declared that never in the last two hundred years has Spain been so firmly committed to the future progress of Latin America and the Caribbean. Our companies are betting resolutely on the region. It is a long-term investment, a direct investment, a productive investment, to create a permanent partnership, working together in unison.

From 1996 to 2000, Spanish investment in Latin America and the Caribbean exceeded 50,000 million euros. Spain is now the region's second largest investor. In 2001, amid problems and declining capital flows, Spain invested more than 3,000 million euros in the region, with Brazil, Mexico, Chile, and Peru being the principal countries of choice for Spanish investors that year.

Also, in 2001, Spain formalized its contribution of 70 million euros to the multilateral HIPC initiative, announced last year, with US$50 million of its contribution going to the countries of Latin America that were eligible to benefit. Our country has been supporting this initiative in amounts well above our share in multilateral financial institutions, contributing more than 4 percent of its overall cost.

In the area of bilateral relations, in 2001 Spain honored its commitment to assume Nicaragua's debt with Guatemala in the amount of US$506 million, of which Spain has forgiven US$369 million. In addition, under the umbrella of the Paris Club, Spain forgave US$5 million in Bolivian debt. Spain's contribution to the HIPC initiative reflects our firm commitment to the war on poverty in the region.

On February 8, I had the honor of signing agreements of accession to the Andean Development Corporation (ADC) whereby Spain becomes the institution's principal nonregional partner, a further sign of our commitment to the region through a presence in those institutions that work actively to improve the well-being of the region's people.

In October 2001, Spain hosted the meeting of the Support Group for the Peru Emergency Program, making commitments of US$271 million, with US$9 million in debt forgiveness, US$212 million in concessional financing, and US$50 million in grants. The country also expressed its unswerving support for the democratic process undertaken by President Toledo's administration.

Over the past year, we have started up the General Cooperation Fund announced at the last meeting and have contributed 50 million euros to it to finance technical cooperation projects for modernization of the State, institutional reform, and increased competitiveness. We have set up a new Technical Assistance Fund with the ADC in the amount of 5 million euros. Through these funds, we would like to make available to the countries in the region all our recent experience with economic liberalization and institutional reform for consolidation and regulation of a market economy.

Presidency of the European Union and the Region

The Presidency of the European Union passed to Spain on January 1. One of our priorities for the present mandate is to tighten still further the links binding Europe and Latin America and the Caribbean.

The launching of the euro that same day is a source of pride for all Europeans. The euro is a symbol of European unity and a reality that we hope will contribute to the stability of the international financial system and serve as an example for the region. Since March 1, it has been the only legal currency for more than 300 million Europeans.

The Second European-Latin American-Caribbean Summit will be held in Madrid on May 17–18. It is our hope that the Free Trade Agreement between Chile and the European Union will be signed at that time. Spain has spurred this agreement, the second of its kind following the one signed with Mexico. We also hope that during this half-year period meaningful progress can be made with the agreement of association with MERCOSUR. As Mr. Eyzaguirre noted yesterday, the costs of protectionism in the industrial nations are equivalent to double the development assistance total.

We have invited the Bank to take an active part in this Summit. Having an accomplished interlocutor like the Bank is bound to contribute to the meeting's success and will make it possible to have a program of activities in which collaboration between both continents can materialize.

In a few days' time, the International Conference on Financing for Development is to be held in Monterrey. This represents a historic opportunity to secure a comprehensive commitment between the developing and the developed countries to attain, before 2015, some of the Millennium Goals such as reducing poverty by one half and universal primary education.

From its vantage point in the Presidency of the European Union, Spain has supported, and is supporting, initiatives geared to mobilizing financial resources for reaching these objectives, improving the efficiency and effectiveness of official assistance, and ensuring that world trade benefits the developing countries and, ultimately, that we succeed in making progress toward a fairer and more equitable international economic system.

The Role of the IDB in 2001–2002

The Bank must come to grips with the new challenges stemming from the economic crisis afflicting the region, increased poverty, and shrinking private international financial flows, and must also play a leading role in the review and strengthening of the financial architecture for development.

To address the present economic situation, we are pleased to see that the volume of lending increased from US$5.507 billion in 2000 to US$8.15 billion in 2001, thus strengthening the anticyclical function that the Bank should be performing.

Last year in Santiago, we backed the request submitted to the Committee of the Board of Governors that it consider proposals to enhance the Bank's response capacity. The discussion was lengthy but fruitful and the Committee eventually reached agreement that was satisfactory to all parties.

Reinstituting an emergency program, raising the ceiling on Private Sector Department operations from 5 percent to 10 percent, and increasing the ceiling on policy-based lending will help the Bank better adapt to the region's needs. We are pleased that the Bank has decided to evaluate its activities on the basis of results. Ascertaining the development impact of the Bank's activities must be the touchstone for future initiatives.

Now we must complete the internal processes that make it possible to maximize this potential. The private sector is the engine of growth; its development will enable us to move forward on a path that converges with the developed countries. In addition, progress has been made in coordinating the Bank's different private "windows", something that was pending and tempered the impact of many Bank activities.

Collaboration between the three windows, the Corporation, the MIF, and the Private Sector Department, and between those and the Bank's other departments, is sure to be extremely beneficial. We are aware that inadequate access to credit is perhaps the factor that most limits the growth of our companies. The Bank enjoys some comparative advantages here that need to be put to good account.

This has been a very difficult year for the Corporation. Circumstances beyond its control such as the recession, trends in interest rates, and the Argentine crisis have made it necessary to establish special provisions, which have had a negative effect on the bottom line. I would like to reaffirm our support for the Corporation's team. The institution has improved considerably although a perfunctory glance might give the opposite impression.

We have approved the extension of the Fund to December 2007. Few resources are available for commitments and soon consultations will begin on a future replenishment. For us, the MIF is one of the most unique and useful institutions in the service of development in the world. Spain has decided to support a new Fund and we encourage the member countries to support MIF II and those not members of the MIF to join this undertaking, particularly our European partners and the European Commission.

The year 2002 is going to be, in fact it already is, an important year for the Bank. We concur with the analysis of the situation made by the External Advisory Group concerning the challenges that lie ahead for the Bank. Additional efforts will certainly be needed to apply the Group's conclusions and implement the new lending framework.

So that the Bank can maintain its position of leadership in the region, it must bolster all of its activities, both nonfinancial products and loans. More than ever before, dialogue with and between countries in the region is of the essence, and the Bank needs to be flexible and bold, effectively serving our countries' needs to promote development that benefits all of their people. It needs to be a Bank that serves as a reference point for the region, with renewed commitment to growth and poverty reduction.

In keeping with the commendable approach that was adopted to include representatives of the private sector and civil society in the work of this Annual Meeting, the Haitian presence in Fortaleza includes commercial bankers, journalists, and members of human rights organizations in addition to the Governor of the Central Bank and myself. I would ask that you express our deep appreciation to the Brazilian government and people for their warm welcome. I would also like to take this special opportunity to express to the people of Brazil the enthusiastic admiration of the people of Haiti for Brazilian soccer. Should our two teams ever meet in competition, some Haitians would surely be hard pressed to decide which one to cheer on.

When I last addressed this annual forum, I discussed the political situation in Haiti at the time, which was dominated by a dispute over irregularities and consequently the validity of the senatorial elections held in May 2000. To enable the disputing parties to reach a compromise, the Organization of American States and later the Caribbean Community agreed to conduct a considerable number of mediation missions. Throughout last year, these missions yielded a series of advances and setbacks resulting in a fairly disappointing overall outcome, at least with regard to the mediators' efforts to reconcile the parties.

However, I am able to report today that 2002 has begun well, with much reason for hope. Just a few days ago, on March 1, the Assistant Secretary General of the OAS and Haiti's Minister of Foreign Affairs signed an agreement establishing a special OAS Mission to Haiti, in keeping with Resolution 806 that the OAS Permanent Council passed on January 16. The aim of the Mission is to support Haiti in strengthening its democratic institutions, specifically in the areas of human rights, governance, institutional development, justice, and security.

All fair-minded observers recognize that the Mission's objectives correspond to needs felt by the entire population. They welcome this agreement, and hope that the Mission will be able to accomplish its work under conditions conducive to opening a path to negotiations among the disputing parties, putting an end, once and for all, to a political crisis that for the past 20 years has kept our nation from moving forward.

But let us not have any illusions. This Mission's task will not be easy. Today's crisis is not the same as yesterday's, which in essence was fairly straightforward, pitting those who wanted democracy against those who did not. The expectation was that this disagreement could be settled by holding free and fair elections, in a word, by giving the people an opportunity to be heard. Today the crisis is more complex, because it places in opposition those who dream of representing the will of the people through institutions and those whose ambition is to embody the will of the people and to express it directly when necessary. Consequently, what will play out over the next few months is not, in the absolute, merely the fate of democracy but the search for a viable solution to a problem that we Haitians have been unable to resolve for 200 years: that of deciding which sort of political and institutional system will best ensure respect for the sovereignty of the people while providing predictability, stability, and efficiency, with tolerance and transparency, for economic and social progress, particularly in light of globalization and its challenges.

The stakes are high, and those of us who are hopeful and ready to work to ensure that the Mission succeeds are many.

Unfortunately, present economic conditions are not favorable. During the past four years, real GDP has increased by an average of only 1 percent per year, a rate consistently lower than population growth figures.

This trend was not reversed in 2000 and 2001. On the contrary, real GDP declined by an estimated 2 percent last year, for a variety of reasons: the adverse climate created by the political crisis, which discouraged investment; negative expectations resulting from the large government budget deficit, itself caused by the lowest level of public revenues in history; a rate of inflation of approximately 16 percent of GDP for most of the year; unaffordable interest rates of 27 to 30 percent, the consequence of stringent monetary policy; and the dramatic collapse of lending to the private sector, which was down by 11 percent.

Far from offsetting the inadequacies of Haiti's domestic economic performance, the international environment has, in fact, made their impact worse. Owing to the slowdown in orders in the U.S. market and the decrease in world prices for cocoa and coffee, our two main agricultural export products, exports in dollars have declined by 3 percent. Although we have managed to limit imports to some extent, owing to the drop in economic activity, the same cannot be said with regard to Haiti's public external debt. Service of that debt will soon require transfer abroad of approximately US$45 million, US$34 million of which will be transferred to the Inter-American Development Bank, the World Bank, and the International Monetary Fund. Each of these institutions has halted disbursements to Haiti—the Inter-American Development Bank and World Bank because of payment arrears, and the International Monetary Fund—owing to unsatisfactory performance under the Staff Monitored Program.

It should be noted that the International Monetary Fund program, even if implemented, would not have led to growth and that the volume of humanitarian aid, the only form of assistance that has survived the vicissitudes of the political situation, has decreased, by as much as one half from one leading donor. As everyone here is aware, Haiti is the poorest country in the Western Hemisphere, and the continent's only nation to figure among the least developed countries. Per capita income stands at US$500, and 80 percent of the population lives below the poverty line. As was true of the embargo in the 1990s, the "silent sanctions" now affecting the people of Haiti, with a view to bringing about a settlement of a political crisis over which the people have no control, merely makes their hardships worse. If pushed too far and continued for too long, these sanctions run the risk of driving democracy out, particularly since democracy has yet to show convincingly that it holds the key to resolving the issues of unemployment, the boat people, and AIDS. Therefore, in our view the conditionalities associated with international assistance, as necessary and indispensable as they may be, should be specific and targeted toward poverty reduction, rather than broad and indiscriminate and likely to further exacerbate poverty.

As one commentator has recently remarked—I believe it was Nicholas Stern—the international community should recognize and endorse the fight to reduce poverty as a global public good. He is right, and we should begin with Haiti. An extremely poor nation, Haiti has already launched and implemented practically all the first-generation reforms. The International Monetary Fund has ranked us at the top of the list—limited though it may be— of countries that have achieved the maximum degree of openness to international trade. In this respect, it was with considerable interest that we took note of President Bush's proposal that international financial institutions should increase the share of grants in the assistance they provide.

I will conclude my remarks on a note of pragmatic optimism. It is my fervent hope that when the Organization of American States meets next March 31 to assess progress made in execution of the resolution of January 16, it will be unanimous in considering the Agreement of March 8 a positive step that warrants the normalization of financial cooperation with Haiti without further delay, as the country sets in place progressively the elements for a rekindled political dialogue.

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

The Region

Latin America has faced a difficult year in 2001 and the outlook for the next year is mixed. The recent signs of improvement of the global economy and in particular in the United States make us hopeful that a recovery is possible in the next year at least for those countries with sound fundamentals—and these are not few.

The situation is more protracted in Argentina, and the recent capital flight in Venezuela demonstrates that international investors still remain sensitive to political instability and the associated insecurity about a country's economic policy. This should also be a sign for those countries where elections are impending.

Access to capital markets will remain constrained and recourse to external finance will also be limited by relatively high fiscal deficits. In this situation private sector lending for long-term investment becomes particularly important. The countries of the Region will have to make a particular effort to regain the trust of private investors and to attract financial flows that will not burden their households. For this, economic policy makers must pursue more decisively the improvement of the institutional and legal frameworks and the general business environments in their countries, and renew their commitment to trade liberalization.

After Doha, I am hopeful that the integration efforts of the region will regain momentum. Cooperation within MERCOSUR as well as between MERCOSUR and the EU or the FTAA should be renewed. Regional integration is particularly important for Latin America and the Caribbean. For one, it benefits also smaller and medium-sized companies and thus will most likely have a greater impact on employment generation and poverty reduction. But it also provides the countries of the region with a stronger negotiating position vis-à-vis their trading partners in the North. Thus, I also encourage to accelerate integration efforts in Central America and the Andean countries. Moving forward from Doha, all participants, be it in the North or in the South, must demonstrate a greater commitment to the framework and procedures laid out by the WTO. The importance of this point has been underlined yet again by the recent trade dispute on steel.

Productivity gaps between the Region and the industrialized countries, as well as within the Region, are on the rise. Latin America and the Caribbean must still find its way towards more inclusive and equitable growth. In support of this process, the Bank must promote institutional and legal reform, the development of small and medium-sized business as well as affordable and universal access to social services, including health, basic education and vocational training. While infrastructure remains an important goal of the Bank, its operations need to place greater emphasis on productivity, opportunity and social development. It is against this background that we will have to discuss the new lending framework, the demand for new instruments and the Bank's role in private sector development.

Argentina

I am deeply concerned about the situation in Argentina. While a solution to the crisis is primarily in the hands of the Government, the international community needs to stay engaged and stand ready to support Argentina if necessary and feasible. The Bank can play a key role in mobilizing international know-how and advice from within and outside the Region as well as financial support for a viable economic stabilization package.

We also need to learn from the case of Argentina. What has triggered the collapse of the Argentinean economy and what role can the Bank play to avoid that such a scenario reoccurs in the Region? What are the policy implications for other countries in Latin America and the Caribbean with a fixed exchange rate or dollarized economy? And what can Argentina learn from its neighbors that initially followed the same course, but eventually took a different approach? I encourage the Bank to analyze these issues carefully and to prepare a corresponding Report for Governors that we can discuss next year. Evidently, any attempt to look into the past must also take into account the important achievements of Argentina over the past decade in terms of modernizing its economy.

Development Effectiveness

Public institutions throughout the world are increasingly scrutinized for effectiveness and are asked to demonstrate the results of their actions. The international financial institutions are not exempt from the quest for greater accountability for the development impact they achieve (or do not achieve) in cooperation with borrowers. I welcome the current, intensified debate about development effectiveness and what it necessarily implies: greater emphasis on outcomes and impact in lieu of inputs and outputs, better measurability in favor of professional and systematic evaluation, and—last but not least—a change of the corporate culture and incentive framework in many international institutions, including the IDB.

Evaluation is an indispensable aspect of results-based public management. It is to the public sector what accounting and auditing are to the private sector. It can play an important role in guiding the selectivity for which we must strive in the pursuit of results on the ground. The Bank's shareholders have recognized this when, some two years ago, they redefined, reorganized and strengthened the evaluation function in the Bank, creating the independent Office of Evaluation and Oversight. The Office is delivering on an ambitious work program. I hope that the debate engendered by the products of the Office begins to be reflected in the design of Bank programs and projects. Both programs and projects should increasingly include explicit results frameworks in order to facilitate evaluation and thus accountability. The IDB has made major strides forward in putting the issue of development effectiveness on the table. I think the Bank is on the right track in this regard, Mr. President, and I would like to congratulate you and your colleagues on this achievement.

The Report on Development Effectiveness submitted to Governors contains some important recommendations to Management. In particular, the Bank should incorporate results-reporting in its annual portfolio review by the Regional Operations departments and create a separate Development Effectiveness Assessment Unit that would review independently all projects under preparation and report directly to the Executive Vice President. The mere creation of such a unit would not be sufficient to change the Bank's behavior. The operational units would also have to be willing to take on board any recommendations by such a unit, and this requires the endorsement by Senior Management.

A New Lending Framework and Proposed New Instruments

Switzerland supports the proposed measures to enhance the response capacity of the Inter-American Development Bank. The new lending framework represents a significant breakthrough in modernizing the Bank's lending approach and adapting it to the changed financing needs of the Region. The challenge will be to implement the framework by developing new and more flexible lending instruments that can be reconciled with the core mandate and financial integrity of the Bank and to put in place a system to strengthen IDB's development effectiveness in the region. These matters should be discussed by the Board of Executive Directors and not be referred to Governors.

At this stage, my only comment relates to the preferred creditor status of the Bank. This is not something that can be unilaterally proclaimed by the charter of any institution, but must be recognized de facto by a majority of the international community. Sovereign guarantees are a crucial ingredient for the preferred creditor status to be respected. IDB member countries have already made a major concession towards loosening the preferred creditor status when they raised the ceiling for private sector operations to 10 percent of the Bank's portfolio. It would therefore be irresponsible to further weaken the Bank's position by allowing the Bank to lend to subnational entities without central government guarantees. This is not to say that the Bank should not expand its cooperation with subnational entities.

Private Sector Development

The increase of the cap on private sector lending needs to be seen as part and parcel of the modernization of the Bank's instruments. The main issue here is additionality. We must not replace private capital, but mobilize it. IDB operations should pay greater attention to employment generation if we want to place private sector development at the service of equitable growth and poverty reduction. Risk management needs to be scaled up quickly and a regular reporting system on the status of the private sector portfolio should be put in place. This is all the more important, given that a substantial portion of PRI's portfolio has come under pressure due to the economic deterioration in Latin America and the Caribbean.

Coordination between PRI, IIC and MIF has improved during the past year. Yet, there remains significant scope to increase cooperation at the strategic level. To create a new affiliate for private sector activities would be premature, however.

Mr. President, I am concerned about the performance of IIC, which has been adversely affected by the global economic downturn and the crisis in Argentina in particular. But in addition, IIC did not meet our expectations regarding business generation, which is lagging significantly behind the projections made during the General Capital Increase. This leaves IIC with a less diverse and more vulnerable portfolio. Management must rapidly develop a response plan to address the situation.

IDB and the Environment

In light of the upcoming Environmental Summit in Johannesburg, the review of the Bank's environmental activities is timely. The strategic work in this area should go beyond environmental management and also look at issues relating to sustainable development as well as prevention and management of natural disasters, such as earthquakes, flooding and desertification. In this connection, I encourage the Bank to further elaborate its specific role and comparative advantage vis-à-vis other multilateral organizations.

While IDB has made good progress towards the goals set out in the Institutional Strategy, lending for the environment and natural resources has decreased from US$485 million in 1990 to US$408 million in 1998. While structural causes may also have been in play, I call upon the Bank to reverse this trend and ensure that it will once again become a lead player in promoting environment and sustainable development in Latin America and the Caribbean. It would also be opportune to review the classification of environmental lending. A large-scale water and sanitation infrastructure rehabilitation project, for example, is a completely different story from an income generation project for indigenous people in the rain forest. This differentiation is necessary, if we want to be fully able to grasp the Bank's efforts in this field.

Whenever possible, the Bank needs to treat the environment issue in the broader context of poverty, and ensure that there is a clear link between environmental protection and poverty reduction. Last but not least, the Bank can make an important difference by more rigorously incorporating environmental aspects in its traditional work. Emphasis should be on indicators, harmonization of standards and procedures and enforcing EIA compliance. This needs to be supported by an incentive framework that encourages staff to take a proactive attitude to environmental issues in their daily work.

Conclusion

The Bank has made significant progress at the strategic level to modernize and adapt its instruments to the new needs and requirements of the Region. The challenge will be implementation. The Bank needs to be flexible and pragmatic, and review progress after two years. Despite the shift towards more policy based lending it should not neglect its traditional work. Social development and environmental management are key domains in which the Bank must maintain the lead and spearhead new initiatives that will lead to more inclusive and sustainable growth.

Is there a way to address the needs of those living in critical poverty and not be considered a populist?

How can we strike a suitable balance between resources to finance programs and projects aimed at the real sector of the economy in the short and medium terms and resources needed to finance education and health programs, considered long-term, when resources are scarce?

What can we do when faced with a child on the street, extending his hand in hopes of a handout to assuage his hunger, or the death of an infant due to a lack of medical attention, or an elderly person whose pension is not even enough to cover his most basic needs, or a father who commits an offense to feed his family, because he cannot find a job?

These are the dilemmas and questions, for which there is no effective or immediate answer, that are the source of my ulcer and sleepless nights. I am sure you share my concerns.

Over the last few days, we have heard the Presidents of Brazil, Ecuador, and Peru, and President Iglesias express their concern that the key issues affecting all our countries are intrinsically related to poverty and the great differences in the distribution of wealth.

These are some of the problems that Venezuela is handling in a climate of high expectations, limited budgetary resources, and a very modest outlook for economic recovery at home and abroad.

Legal Reforms

Starting in 1999, Venezuela embarked on a process of legal reform that began with the approval by referendum of the Constitution of the Bolivarian Republic of Venezuela on December 15, 1999.

This constitution establishes that the socioeconomic regime of the "Republic of Venezuela will be based on the principles of social justice, democracy, efficiency, free competition, environmental protection, productivity, and solidarity, in order to ensure comprehensive human development and a decent and meaningful existence for the members of society."

It further establishes that "fiscal management will be governed and executed on the basis of principles of efficiency, soundness, transparency, and accountability." These principles will be balanced in the multiyear budget framework, a method that will enter into force in 2005 and will guarantee that current revenues are sufficient to cover current expenditures.

The Central Bank of Venezuela's autonomy in designing and implementing monetary policy and its involvement in planning and executing exchange rate policy, are embodied in the Constitution, along with the obligation to coordinate macroeconomic policy with the Executive Branch, represented by the Ministry of Finance, under an annual policy agreement approved by the Legislative Branch, that will take effect in 2002.

These reforms, which are embodied and instituted in the Public Sector Financial Administration Act, are making it possible to speed up the process of modernizing public finance in terms of methodology and operations. The main change to be noted here is the elimination of the "supplemental 6-month period " which allowed budget performance in 18-month cycles that undermined and weakened execution of the current budget. Also of note is the modernization of the National Treasury Office, which permits bank drafts to be issued electronically and sets up a master treasury account, to come into effect in the second half of this year. With respect to national public debt management, the SIGADE System will permit an ongoing evaluation of securities and instruments and within a few months a technology platform will be introduced to support the primary and secondary markets by linking brokerage firms together with the national financial system.

In this same vein, a Macroeconomic Stabilization Investment Fund has been established, with contingency resources that now amount to approximately US$6 billion.

Medium-term Policy

A social and economic development plan was adopted to guide the policy implementation process and the use of public resources for the medium-term development of a productive economy with social participation through a synchronized annual budget execution under the "Annual Operating Plan", a document which is submitted together with the National Budget to the National Assembly for approval.

On the tax front, the restructuring of the system got under way with the modernization of the customs system, reform of legislation that included the Tax Code, the Value-Added Tax Act, and the SENIAT (National Tax and Customs Administration Service) Act. These reforms and improvements in revenue collection will reduce tax evasion and tax avoidance, with an estimated increase in tax collection of more than 1 percent of GDP.

Not all the news is encouraging, however. The second half of 2001 was not a particularly good period for Venezuela. Distinct signs of an economic slowdown in the three leading industrial nations sent a clear message that oil exports and oil prices could not be expected to match the levels recorded in the first part of the year. That is why budget calculations were originally based on a low oil price of US$18.50 per barrel despite an average price for the year of around US$22 at the time.

These extremely conservative and careful estimates of revenue, in conjunction with the public finance reforms mentioned earlier, enabled us to present a draft budget in October 2001 that represented a 5.7 percent reduction with respect to the estimate at year-end 2001.

As has been mentioned repeatedly in this forum, the horrendous and appalling acts of terrorism that took place on September 11th and their immediate effects, as well the subsequent economic crisis in Argentina, drastically changed the assumptions on which public accounts had been based, casting doubt on fiscal soundness and the ability to maintain public spending, compelling us to evaluate adjustment measures to address the crisis.

At about the same time, the currency came under strong pressure, leading to further capital flight and the loss of reserves that the Venezuelan Central Bank was unable to control despite efforts to alter the midline slope of the exchange band. Approximately 21 percent of operating reserves were lost between November 2001 and February 2002 as a result of this situation.

Against this background, following an extensive assessment of available options, the Executive branch and the Central Bank of Venezuela decided to implement a series of fiscal and exchange rate policy measures to stimulate production and strengthen social programs, which were announced by President Hugo Chávez Frías on February 12, 2002. These measures include:

Fiscal

Reducing by 50 percent fiscal revenue targets funded through borrowing.

Reducing selected budget item lines by 7 percent with minimal impact on social programs. Such a reduction would apply to current spending and to programs with low levels of execution.

Implementing a bank debit tax, effective March 16, 2002, that is expected to boost collection by and estimated equivalent of 1.1 percent of GDP

Provision for the use of US$2 billion in resources deposited in the Macroeconomic Stabilization Investment Fund and US$450 million in special financing from other sources.

These measures which are designed to impose fiscal discipline and improve the quality of spending will be introduced gradually once the macroeconomic variables have been reevaluated, and are to be announced in the next few days, once our expectations of currency stabilization have been met.

Exchange Rate

As an adjunct to these fiscal measures, the national government and the Central Bank have decided to allow the bolivar to float freely so that the exchange rate can be determined by supply and demand. This will be an important incentive for strengthening the real sector of the economy. With the Central Bank managing oil-generated foreign exchange earnings, its role as a supplier of foreign exchange to ensure the normal functioning of the economy is a distinguishing feature of the country's foreign exchange market. To carry out this mandate under the new system, it has been decided to hold auctions of predetermined daily amounts of dollars in this market in a move to improve overall transparency in the setting of prices. Since this regime started functioning a few weeks ago, the exchange rate has shown a strong tendency to stabilize and the process has begun to deepen owing to the clear rules issued by the Central Bank. The level of foreign exchange supplied daily to the market serves a dual purpose: it permits the domestic economy to evolve normally while maintaining sufficient funds to ensure that the country is able to make good on its external commitments. Going hand in hand with foreignexchange policy, monetary policy now has the task of generating enough liquidity to lubricate the productive process while containing the strong inflationary pressures and promoting interest rates that are conducive to the level of economic growth targeted by the authorities.

Within 30 days after these measures were introduced, the results are extremely heartening. Currency stabilization is in sight with an adjustment of approximately 17 percent, a gradual reduction of 10 percent in the foreign exchange supplied daily by the Central Bank, and stabilization, with a slight upward bias in international operating reserves.

As to incentives for the productive sector and for the strengthening of social programs, the following successes have been achieved:

Incentive programs for the productive sector now include the strengthening of guarantee funds to provide more leverage to small and medium-sized industry, the buildup of cooperatives, and the activation of special zones.

Under the direction of the social sector authorities, efforts of the different actors are being coordinated so that the use of resources can be concentrated and overlapping eliminated, with an eye to improving the efficiency and quality of spending. One social program that stands out is the Bolivarian School Program, under which 750 new educational establishments will be added to the present program in 2002. This will accommodate 183,728 more students, and create 12,750 new jobs in the building sector, as well as direct employment for 1,500 and indirect employment for 3,000 to operate the new schools. The addition of these 750 new schools will bring the total this year to 2,979.

The policy is to guarantee social investment by adhering to the targets originally set in the budget and maintaining social investment in the states and municipalities.

In conclusion, and taking into account some of the issues discussed at this meeting, I would like to mention the report of the External Advisory Group (EAG), and specifically the experimental program for subnational governments without sovereign guarantees. Here, I would like to take this opportunity to refer briefly to two words President Iglesias used in his outstanding address at yesterday's inaugural session of this Forty-third Annual Meeting of the Board of Governors, two words that I found extremely moving.

"Caution and Modesty"

Caution and prudence to acknowledge that granting loans to subnational governments and other entities were the root cause of the administrative turmoil that triggered Venezuela's financial crisis in the early 1980s and propelled the nation's external debt to such high levels, that we are still paying the consequences.

Caution and prudence to acknowledge that lending of this kind has been a major influence in the last two crises in the region's principal economies.

Caution and prudence to acknowledge that enormous asymmetries exist in the hemisphere that need to remedied before innovative ideas engendering expectations that are hard to fulfill, can be implemented or made available.

Modesty to acknowledge that despite our willingness to integrate, each of us will continue to have our own vital interests, so essential to our identity and sovereignty.

Modesty to acknowledge that although this is certainly "an issue too important to be ignored by the region's principal development bank", it is also true that granting loans without sovereign guarantees calls for much deeper study in order to determine an appropriate financing system based on individual consultation with each of the member countries.

Aware as we are of the importance of the process of decentralization and in our case of conferring powers and obligations on regional governments, and without denying the possibility that ideas such as these may be implemented, Venezuelan law imposes strict standards of evaluation and control to prevent distortions in our public finances caused by the inability of these governments to shoulder their economic and social responsibilities.

Let me thank the government and the people of Brazil for inviting us here and for organizing this year's Annual Meeting of the IDB and the IIC in such a professional way. I am particularly pleased that we are meeting here in Fortaleza, a city that is beautifully situated by the sea in a region with a rich historical and cultural heritage. Here in the Northeast of Brazil, the government of the state of Ceará—also in cooperation with the IDB—continues very successfully its efforts to promote a more diverse economy.

I would also like to thank you, Mr. President, and all your staff for the same perfect organization and staging of our meeting as every year.

Only recently, the importance of the countries of Latin America for Germany was underlined when Chancellor Schröder visited Mexico, Argentina and Brazil and Foreign Minister Fischer visited Peru, Chile and Argentina. These visits were part of our long-standing and intensive relation with the countries of the region.

We are, of course, all following the situation in Argentina with great concern, particularly because the present social situation could plunge the country into an even deeper crisis. Despite being, in essence, an economically strong country, Argentina will be depending on international support to cope with its present difficult situation. The IDB, the IMF and the World Bank could be the most important institutions at the moment in terms of assisting the country on the right path. Of course, this can only support the own efforts of Argentina.

During the German Chancellor's visit, together with the Brazilian government, an "Action Plan for German-Brazilian Partnership" was endorsed to intensify bilateral cooperation especially in the field of environmental policy. Given the severe trends that are to be observed in Latin America and the Caribbean with respect to urban environmental problems and the sustainable use of natural resources, this can be an important initiative. In this context I would like to mention that within the IDB, we must also try to rapidly overhaul our strategy on environmental policy.

I am particularly pleased that you, President Iglesias, have already emphasised on several occasions how important this task is in the light of the Rio Plus 10 conference being held in Johannesburg this autumn. I can only endorse that position. Since 1992, "Rio", and thus also our host country Brazil, has become a synonym for sustainable development; it was here for the first time that economic, ecological and social issues were integrated within a development strategy. The Rio process has become irreversible over the last decade and we have no doubt that future administrations act in the same spirit. I welcome the broad consensus also on the interlinkages between economic growth—which is necessary no doubt, social justice and ecological sustainability as well as poverty reduction. Tangible improvements in environmental policies and their implementation within the region have to be reached.

It is the rapid pace of urbanisation that is the cause for increasing environmental degradation in the towns and cities. As regards natural resources, the main problems are deforestation, erosion, land degradation, water shortages and water pollution and the decline in biodiversity. Given this, it seems to me vital that the IDB acknowledges its responsibility and that the Bank, which has already made the preservation of natural resources an overarching goal of its institutional strategy, at last accord it the priority it deserves in its operational activities.

I am pleased that IDB and Germany were able to stage a seminar on "Development of Rural Economies in Latin America and the Caribbean" in the run-up to our meeting. The main issues for discussion were the connection between the reduction of rural poverty and sustainable management of natural resources and also the need for stable financial options in rural areas. Among other topics it has been discussed how to support efforts that land is distributed fairly and that financial support is available for the purchase of land, thus making it easier for a broader section of the population to gain access to farmland.

In the light of the forthcoming Rio Plus 10 conference, it is high time to continue the dialogue and forge alliances to adopt a change of trends in lending policy. Germany would like once again to call on all concerned to specifically incorporate programs for the preservation and sustainable utilization of the tropical rainforest into their efforts to protect natural resources. We would therefore welcome the participation of the IDB in the "Pilot Program to Conserve the Rainforest", the PPG7, and in the complementary initiative for the countries bordering on the Amazon region.

When I look back over the time that has passed since our last Annual Meeting, in Santiago de Chile, a number of positive developments in the work of the IDB are obvious. The Report of the External Advisory Group just has been presented, with its proposals on how to better equip the Bank to face its constantly growing challenges.

When further scrutinizing this report, this has to happen in light of the ongoing discussion on "development effectiveness". Especially in today's world, it is becoming more and more difficult to live up to these standards we have set ourselves. Yet it is precisely for this reason that we have an obligation to be unceasing in our efforts and to improve the development effectiveness of all our activities of the IDB. Here, we can make use of the special comparative advantages offered by a regional development bank. Bank policy should also incorporate the aims adopted by all the UN member states at the Millennium Summit in September 2000 and expressed in the Millennium Declaration.

By following this policy, the IDB, with its development mandate, will be better able to perform its special role in integrating Latin America into the world economy. In addition to this important continuing discussion, I particularly welcome the IDB's efforts to reform its lending instruments. It is important that we reintroduced fast disbursing loans. I am pleased that the decisions were based on a consensus. As a result, I feel that we can, to that extent, look with confidence to the challenges of the future.

In closing, allow me to look ahead briefly to an event that will also be of great importance for the IDB: The Mexican city of Monterrey, and thus the region as a whole, will next week be playing host to the United Nations International Conference on Financing for Development. Together with our partners in the European Union, we have taken all efforts to play a constructive role in the preparation for this important conference. Of course, we also wish to contribute to make it a success. When implementing the Monterrey agenda the IDB will have to play an important role.

May I assure you, Mr. President, of our full support in all your efforts to face the objectives and challenges with which the Inter-American Development Bank is being confronted in a complex world. Germany will continue to be a serious partner.

It is both a pleasure and an honor for me to address this annual meeting on behalf of the Portuguese government, especially because the meeting is being held in Brazil, a country with which we have so many historical, cultural, political and economic ties that we genuinely consider it our "sister country". I would also like to express my sincere congratulations to everyone who participated in the excellent organization of this annual meeting in Fortaleza, in the state of Ceará.

Everyone agrees that the past 12 months have been particularly difficult, and we all know the political and economic reasons for the situation. We have gone through a year of economic slowdown, which has had an adverse impact, such as a decrease in world trade, deteriorating terms of trade, and international financial conditions that have been particularly hard on developing countries. Nonetheless, although risks remain, the latest figures coming out of the United States and Europe point to a recovery that gives us reason to be optimistic about the future.

Sustainable economic growth needs to go hand in hand with effective steps to strengthen social cohesion worldwide. We must therefore redouble our efforts to create conditions to enable developing countries to enjoy greater capital flows and larger volumes of private investment, so that they can also benefit from the recovery ahead.

In order for such capital and investment inflows to occur, developing countries must adopt the right policies for sound macroeconomic management, without yielding to populist temptations. Otherwise, it is unrealistic to expect the financial markets to regain confidence in those countries.

The good results achieved by the IDB in recent years (and may I take this opportunity to congratulate Management and the Board of Directors on this performance) clearly demonstrate the Bank's role as the region's leading multilateral lender, and thus the catalytic function of the financial flows and investments the region needs.

Despite the good results obtained, there is always a need to consider new ways of supporting the beneficiary countries, in order to pursue the Bank's objectives ever more effectively.

On this point, I would like to commend Management and the Board of Executive Directors for their work since the last annual meeting of the Board of Governors to provide the Bank with flexible lending instruments and to express any appreciation for the analysis and reflection on the development effectiveness of the assistance provided.

I would also like to thank the Bank for the two reports on development effectiveness and the report prepared by the External Advisory Group (EAG) on the future role of the IDB.

We urge the Bank to keep working on these issues, with a view to introducing the reforms needed to improve assessment of performance in terms of both quantity and quality and the development impact of assistance provided.

The EAG report seems to provide an excellent basis for future work, although some of its recommendations should now be considered jointly, with due deliberation and realism.

Some of its recommendations should be considered priorities. These include enhancing the Bank's risk management approach, deepening its involvement in regional integration, and streamlining public sector instruments.

Another promising idea, in my opinion, are the national competitiveness programs, run by beneficiary countries themselves, underpinned by dialogue with the Bank. Nonetheless, we should not lose sight of the Bank's prime objectives of poverty reduction, social equity and sustainable economic development.

As the region's main multilateral partner, the Bank is in a position to maintain privileged dialogue with the Latin American and Caribbean countries and to play a catalytic role in such an initiative, mainly in the context of the International Conference on Financing for Development, to be held next week in Monterrey.

The international debate that has been taking place on the need for greater efficiency and accountability in the use of aid for development. Better coordination of aid will lead each partner to focus its efforts and enhance those activities in which it has greatest comparative advantage. Accordingly, some of the recommendations of the External Advisory Group, such as expanding the private sector program and creating an affiliate, while attractive ideas in themselves, require detailed study from the standpoint of the actual benefits they could generate.

Lastly, I would like to stress Portugal's policy to support cooperation for development, with an open attitude towards new, more creative solutions, and to promote private investment for developing countries in general, but particularly for Brazil and for Latin America and the Caribbean—regions with which my country has special ties of closeness and affinity.

To conclude, I would like to reaffirm that Portugal will continue to collaborate actively in strengthening the IDB Group. This commitment has been expressed recently through our government's final approval of our membership in the Inter-American Investment Corporation (IIC)—an unequivocal sign of our commitment to development in this region of the world, in which we have great faith, and to the crucial role of the IDB Group in attaining our common objectives.

ADDRESS BY MR. JAN WILLEM VAN DER KAAIJ, TEMPORARY ALTERNATE GOVERNOR FOR THE NETHERLANDS

I would like to take this opportunity to thank the Brazilian government, the Ceará government and the people of Fortaleza for hosting this 2002 Annual Meeting of the Inter-American Development Bank Group. It is a pleasant change to move from the windy North Sea coast to the tropical beaches of Fortaleza.

In my address, I will focus on two issues: the role of the private sector in development and development effectiveness. First, however, I would like to start with a little bit of history.

In a way, I feel at home here because, as some of you may know, this is a region with which the Dutch have some important historical ties. In the 17th century the Dutchman 'Maurício de Nassau' was Governor of this part of Brazil for the Dutch West India Company. Here in Fortaleza this private company built the Fort Schoonenburgh. I was told that in Brazil Maurício is still remembered for his progressive policies. Maurício protected the interests of the local people, made them participate in the public administration and stimulated the development of the North Eastern region. Unfortunately, his governorship did not last long. It was because of Maurício's long term vision for Brazil and his negligence of the short term profit demands of the Company that the Company sacked him and forced him to go back to the Netherlands.

The story of Maurício shows us that the private sector can play an important role in development, and that, in this respect, a long-term vision is crucial. It also shows that adhering to a long-term vision is not always an easy task.

On the issue of private sector, we all know that this sector plays a crucial role in the development of a region or a country. The private sector creates the bulk of economic growth. Private firms and entrepreneurs operating in competitive markets generate jobs, contribute to income growth and alleviate people from poverty. But of course it is important that the right conditions are created for the private sector to operate in competitive markets.

Competitive markets suppose the creation of a level playing field for firms of all sizes in which there are well-defined property rights and a sound judicial and contracting system. Also, a good physical infrastructure and a well-functioning financial sector need to be in place. And, of course, the interaction with the government and the public sector is important: good governance, macroeconomic stability and a reasonable level of quality of and certainty about government policies are all vital. Such policies should include measures to protect the weakest parts of society.

Competitive markets should also exist on the international level. International trade is, just as national trade, essential for sustainable growth and poverty reduction. It generates earnings which in turn create new jobs and new investments. For international trade to flourish, trade liberalization in both developing and developed countries is therefore a crucial element. Trade barriers, be they tariff or nontariff barriers, should be abolished.

In our view, the Inter-American Development Bank has an important role to play in the development of the private sector. It can and should contribute to develop an enabling environment, both through lending and technical assistance. In doing so, the Bank should always bear in mind not to overstretch itself: financial soundness is of crucial importance to the Bank and having the right knowledge skills is no less important. Competitiveness and economic growth—and I would like to stress inclusive growth—are two elements of the institutional strategy the Governors agreed upon last year. On these issues, we believe that the report of the External Advisory Group can help to implement the institutional strategy, although some of its suggestions need further discussion.

I would like to turn now to the issue of development effectiveness. The OVE report reveals a difficult reality. After more than four decades of development cooperation still differences of opinion exist about what development is. However, the goal of development cooperation is in our view beyond any doubt. Development should first of all result in poverty reduction. We want the Bank to continue working on this objective.

It goes without saying that the policies of the IDB on poverty reduction should be effective. An increasing number of countries, including the Netherlands, are aware of the importance to measure the results achieved. Taxpayers around the world, who are in fact also shareholders of this Bank, must be able to see how their money is spent, and what results have been achieved with that money. Therefore, we strongly support measures to increase the development of indicators and evaluable projects.

This drive for results-based management should be incorporated in all the activities of international financial institutions. This means setting measurable targets and establishing performance indicators in order not only to know the results at the end of a project or program, but also to monitor projects and programs in execution. In that way possible deviations can be corrected timely.

In order to achieve this, the Bank needs a change in thinking. All players in the Bank must get used to think in terms of results. In the Dutch budget process we say it is all about the following three questions:

- What do we want to achieve?
- How much can we spend on that?
- What are we going to do to achieve it?

A change in thinking means also a change in organizational culture: from an input-oriented organization to an output- and outcome-oriented organization. We believe that implementation of the recommendations of the Development Effectiveness report, including the idea to modify the Bank's incentive system and the *establishment of a Development Effectiveness Assessment Unit, will be a step in the right direction.*

For this process to succeed, it is important that it is not just the Bank that changes its culture. In this field the element of 'ownership' is vital: borrowing countries should underwrite this approach, so that, ideally, they will carry out effectiveness evaluations themselves as well. In this respect, the PRSP approach offers a good opportunity, since in this approach clear development targets have to be defined. This is of great importance both for the country and the IDB, as it ensures that poverty reduction will be measured and evaluated.

In conclusion, since the days of Maurício de Nassau, the continent has developed enormously, but still great challenges lie ahead. Through the involvement of the private sector and through effective development policies, amongst others, the IDB will continue to play its role in addressing these challenges together with other multi- and bilateral donors. At this point, I would like to express the Dutch commitment to the development of the Latin American and Caribbean region.

I have the great pleasure and opportunity to address this distinguished audience today on behalf of my Government. I would like to join my colleagues in expressing my delegation's gratitude to the city of Fortaleza, the state of Ceara and the Government of Brazil for their hospitality and warm reception.

There is no need to repeat how much the world has changed during the past year, we heard it loud and clear from the three Presidents yesterday. However, the recent developments have yet again exposed the Latin American vulnerability to economic shocks. Unfortunately, economic growth and the structural reforms implemented in the 1990s have not produced a solid economic standing, nor have they led to a reduction of poverty in the region. As the assets and economic growth in general in this continent are unequally divided, so are also the negative impacts of economic and other shocks. This unfair distribution is often particularly evident for women and the poor, who get even poorer, the indigenous remain excluded, and the gains made earlier continue to be lost when a new disturbance arrives.

Turning to the Bank's role, the Governors reached a consensus to improve IDB's response capacity. We welcome the new framework. Now that the proposal has received the necessary quorum for approval, we should focus on its timely implementation. Taking into account the Bank's stable but limited resource base, we feel that the most important element of staying relevant to its shareholders is to enhance the development effectiveness of the operations, even without additional resources. We welcome the work done by the Management and the Office of Evaluation and Oversight in order to clarify and enhance the process. However, further and fast action is needed inter alia to introduce specific measures and mechanisms; first to link IDB's assistance more towards national development needs and goals, secondly to change its corporate culture towards results-based management and increased result-orientation especially in Country Programs and operations. Thirdly, to improve the capacity to measure progress and learn from results, and finally to stress the ownership and accountability of governments.

In parallel with the Governors' process, President Iglesias commissioned another group to study the art of being relevant. The External Advisory Group under the leadership of Mr. Gurría has recently presented its report. We welcome the fresh thinking and especially recommendations related to creating an enabling environment for private sector development and upgrading the Bank's risk management. We welcome also the outline from President Iglesias on how the thinking that has gone into the report could best be incorporated into the new lending framework, as it is translated into programs and actions. My Government attaches utmost importance that new ideas on staying relevant cover all countries irrespective to their size or global importance.

During the last year, the Bank's funding limit for the private sector strategy was raised. Yet, the discussion is going on how the Bank could be more relevant particularly in reversing the flow of private investments to the region. One proposal is to institute new instruments that would reduce the risks for private investors, and another suggests setting up new institutions to attract private sector funding for bankable activities in high-risk countries. We believe that the private sector in the region continues to be the driving force for economic growth, but it needs right incentives to make long-term productive investments. This applies equally to both domestic and foreign investors.

In our view this discussion on the right incentives, and on the role that the IDB could play, should be broadened. It is not enough to deal with the level of instruments that would provide additional comfort to the private sector, but the discussion has to cover policy and strategic issues. We believe that for action and results, comprehensive strategy is needed.

I can only add my voice to those millions and millions of poor peoples' voices who would be willing to participate in productive activities and earn their way out of poverty, rather than rely on public sector welfare programs. At the same time, I feel that there is another set of voices that we, as representatives of governments and international organizations, should be listening to more carefully—the private sector itself. We should be in dialogue with multinational corporations, SMEs and small private entrepreneurs, to hear what are their perceptions about the appropriate incentive framework. We might be surprised that there is more to incentives than just the financial ones. But also in the area of financial incentives, the IDB could particularly look more closely into developing further the kinds of Public-Private Partnerships that Chile and some other governments in the region have been experimenting, with increasingly positive results.

Private sector and the financing it provides is one of the elements for a coherent development approach to be discussed very soon in the context of the Financing for Development conference. We regret that the Bank, until recently, has been merely a bystander in the FfD process. We urge the Bank to clarify its position towards the UN system in order to gain visibility and access to the global forum.

We were heartened to hear from President Iglesias that the Bank is now incorporating the Millennium Development Goals in its planning, programming and monitoring processes. The Bank should also help its member countries to put poverty reduction at the center of their economic and social policies.

Poverty reduction is the first MDG, and the most important one. Halving the proportion of people living in extreme poverty by 2015 is an enormous challenge. This challenge requires firm national commitment, rethinking of priorities and reformulation of current policies. Any conceivable amount of external assistance could not help the region to reach its goals without profound reforms in incentive systems that encourage domestic savings and long-term investments on the one hand and taxation and income redistribution on the other. The poverty goal can only be reached if the poverty problems are effectively tackled in Middle-Income Countries. Here the Bank can make a difference. It has been mentioned that poverty reduction is a moral issue. For sure it is. It is also a question of justice, justice for those who cannot defend themselves. No doubt about that. But besides all this, we must not forget that poverty reduction is also a question of pure economic calculation, because, my dear colleagues, increasing opportunities for the poor also leads to economic growth.

By way of concluding, I should like to mention two areas where we see potential for enhancing partnership. First, Finland has great confidence in the IDB as a promoter of economic and social development in Latin America and the Caribbean. As a Member of the EU, Finland is also committed to strengthen the trade links between the EU and Latin America, and firmly support the ongoing negotiations between the EU and MERCOSUR, as well as between EU and Chile. The second EU-Latin American Summit, which will be held in Madrid in May, also offers new opportunities to strengthen even more the ties between these two regions for mutual benefit. Even now, the major countries in South America export more to Europe than for example to the U.S.

And secondly, I want to point out the utmost importance of social inclusion in economic growth. Finland, together with other Nordic countries, has been active especially in promoting the social agenda of the Bank. Last January we organized a fruitful Poverty Gender seminar between the Bank and Nordic countries. (*See http://www.iadb.org/sds/soc/publication_2547_e.htm*) We have also been cofinancing seminars on social issues during the Annual Meetings. This year the Nordic countries co-sponsored the inspirational HIV/AIDS seminar.

Finally, let me express my heartfelt thanks to President Iglesias and his entire staff for the progress made since last year, but also for the positive and constructive spirit in which our collaboration and dialogue has been conducted.

ADDRESS BY MR. EDUARDO MONTEALEGRE R., ALTERNATE GOVERNOR FOR NICARAGUA, ON BEHALF OF THE CENTRAL AMERICAN COUNTRIES AND BELIZE

On behalf of the delegations of the Governments of Guatemala, Belize, Honduras, El Salvador, Nicaragua, and Costa Rica, I would like to convey our sincere gratitude to the Brazilian authorities and to the people of Brazil for the warm welcome we have received here in the city of Fortaleza, a delightful venue in which to hold this year's Annual Meeting.

We wish to express our appreciation once again to the Inter-American Development Bank for its institutional presence and, especially, to commend Mr. Enrique Iglesias, its President and our friend, for his leadership and vision that have done so much for Central America by way of development initiatives both on a regional scale and in each of our countries. This leadership and commitment, ever manifest in normal circumstances, have been even more in evidence when our countries have weathered crises. In these difficult situations the IDB's support has translated into timely, concrete actions that have been vital for our countries to achieve quantitative development gains for our people and quality improvements as well.

The HIPC Initiative is a fundamental mechanism for supporting countries in our region which, owing to their respective sets of circumstances, have become impoverished and are laboring today under a heavy medium-term financial burden, with scant prospects of achieving sustainable economic growth.

We are grateful to the IDB for its work to arrange the retroactive interim relief for which we qualified upon attaining the decision point, and we are grateful to the member countries for their resolute support to see this relief delivered.

Our countries have been buffeted by natural disasters and external economic shocks, among them the coffee crisis and drought, that have shaken our economies. The effects of last year's September 11th tragedy and the recession in Central America's primary export markets have further hampered our efforts to rekindle economic growth.

It thus is imperative to establish mechanisms tailored to the smaller, more vulnerable economies, to be able to respond expeditiously to natural disasters and external shocks.

Our countries are moving forward on trade liberalization and are strengthening economic integration. Thanks to major strides made on these fronts, Central America is becoming more competitive as a region and is promoting transparency and stability, enhancing the business climate, facilitating investment, and removing tariff and nontariff barriers.

Nevertheless, we are in need of support to avoid the asymmetries that favor rich countries over poor countries. In this sphere we very much welcome the negotiation of a freetrade agreement between Central America and the United States, which will also bolster the trade integration process on which we have already embarked with other partners in our own larger region.

Improving competitiveness is a key requirement of this irreversible trade liberalization process. That will require greater access to education, training, and technology transfer. To rise successfully to globalization's challenges the Central American countries will need to take a regional approach, to enhance our negotiating position vis-à-vis the industrialized countries.

As we strive to become more competitive we must not forget that our investments need not just to yield returns but also to complement our ongoing initiatives to combat poverty, particularly in rural areas.

In that spirit, we are looking to the Central American Power Grid System (SIEPAC) as a pilot project to lead off this integration process.

Central America is grateful for the IDB's important work in making available funding to foster development programs. However, we believe that in order for us to energize our economies and quickly realize the benefits of more unfettered trade, operations would need to be prepared and resources disbursed more rapidly. To that end we would ask that the Bank review the procedures for compliance with conditionalities so these will not end up impeding economic progress. Streamlining conditionalities and stressing the attainment of objectives should be guideposts for the concerted efforts of the Bank and the region's countries to achieve development.

We reaffirm our commitment to continue deepening structural reforms, maintaining macroeconomic stability and fiscal sustainability, reducing poverty, preserving the rule of law, modernizing public institutions and taking aim at corruption in order to strengthen global transparency. Our efforts thus far on these fronts are strengthening our democracies. We must also acknowledge that implementing the reforms has been a complex process that has exacted high social costs. There have been some failings, which we are striving to remedy.

Any relaxation of discipline in the public finances or missteps in monetary policy management would set us back many years. Knowing, as we do, that our people have neither the time nor the patience to start over again on the path to economic stabilization, we will have to move very prudently and draw only from those experiences that can help improve the lives of our people.

We understand that all these initiatives to consolidate democracy, assure macroeconomic stability and increase our participation in world trade will only achieve the objective of improving living standards for the peoples of Central America if they are accompanied by consistent efforts to promote productive investment. The focus of our governments' commitment in this area is to institute a stable, transparent regulatory framework that will instill confidence and create an enabling environment for investment.

We also would like to highlight the important contribution of the Multilateral Investment Fund (MIF) to our countries, through its support for the high priority task of fostering private enterprise. We call upon the member countries to support the reactivation of the MIF, to see its replenishment approved soon.

We have every confidence that the Bank will continue to support our countries as firmly and with the same sense of commitment as always, in the form of funding, technical assistance, and the sharing of experiences, to help Central America become a fully integrated region in which peace and sturdy democratic systems hold sway, and thereby attain the level of development to which all of us aspire.

Let me start by joining others in thanking the Brazilian Government, the State of Ceará and the City of Fortaleza for hosting this meeting. We thank you for your warm hospitality and the excellent arrangements provided for this Forty-third Annual Meeting of the Inter-American Development Bank.

Denmark commends the IDB for its work and achievements. For the eighth consecutive year, IDB is the largest multilateral creditor in the region. 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.

Other speakers have already addressed the crisis in Argentina and the question of restoring macroeconomic stability, so I will not dwell on this issue. However, it is important to recognise the lessons as they emerge from the Argentinean crisis. It has put into perspective the volatility of the region's economic and social development as a whole. All efforts must be made to contain the crisis and to prevent and mitigate negative social consequences in Argentina and in other countries. In our view, the Bank continues to have an important role to play in supporting and consolidating social, economic and institutional reform throughout the region.

We will continue to do our part to promote a more just economic world order, in which Latin American and Caribbean countries have better access to the global economy and on more equal terms. In July this year, Denmark will assume the Presidency of the EU. One of our main priorities for the Presidency will be to underscore the important link between trade and development and the need to expand this agenda. The ability to benefit from the multilateral trading system greatly affects a country's prospects of ensuring sustainable economic development. Therefore, the new round of trade negotiations initiated in Doha last November must be a true development round. The recent meeting of Trade and Finance Ministers of the Americas and the Caribbean, which addressed the trade capacity of the region, is a positive step in this direction. We hope to see these efforts as well as the Doha Development Agenda reflected in IDB's trade priorities.

More than 200 million people in the region live in poverty and 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 unfair and a main cause of political instability, it is detrimental to social development as well as economic growth. We believe that IDB has a twofold role to play in reversing this situation. Firstly, poverty reduction and social inclusion should be the focus of all operational activities of the Bank. In this respect, we welcome the preparatory work undertaken by the Bank to define the strategies for its work on the two objectives and the four priority areas (2+4) and look forward to the coming discussions of the Board of Directors. Secondly, IDB must continue to strengthen its support to the countries of the region in their pursuit of social progress through accountable and responsive government. The development of PRSP is an important example of national poverty reduction drives and we welcome the steps taken by IDB to support the preparation of these in the region. We encourage the Bank to expand its involvement in the next phase of implementing the PRSPs. Equally as important, we welcome efforts to further emphasise national poverty reduction efforts in all countries in the region, including the middle-income countries. It must be stressed that all poverty reduction efforts should be country-led, should critically address inequality and should provide for effective integration of all ODA.

IDB should be commended for exceeding the indicative targets set at the 8th Replenishment for poverty-focused loans. At the same time, we need an open dialogue on how to reach and verify targets. To this end, we would welcome further work on the system for classifying the poverty focus of operations. This exercise should be framed within the development effectiveness discussions currently taking place in the Bank and consolidated by the recent adoption of the resolution on Enhancing the Response Capacity of the Bank. We urge the Bank to continue its work in this area and to seek solutions in cooperation with other MDBs and bilaterals, in particular through the DAC Working Party on Aid Evaluation.

IDB should be instrumental in assisting countries in achieving the Millennium Development Goals, confirmed by our Heads of State and Governments at the Millennium Summit. The agreed targets should be translated into action through all areas of the Bank's activities. The aforementioned strategies provide an excellent opportunity for the Bank to elaborate visions and to monitor progress with regards to the fulfillment of the MDGs.

Allow me to congratulate the Bank for its endeavors to mainstream the gender perspective into its operations and promote targeted initiatives, such as in the area of domestic violence. Inclusion of women and men in the social, economic and political process is a prerequisite for sustainable human development and economic growth and prosperity. In this respect, we commend the Bank for an inspiring seminar on gender equality and poverty reduction recently held together with the Nordic countries in Paris. Likewise, we'd like to congratulate the Bank for a well-organized seminar on HIV/AIDS held here in Fortaleza last Friday. Amongst a range of issues we addressed the question of elaborating gender-sensitive tools for HIV/AIDS programming. Denmark was pleased to join the Nordic countries in contributing to this event. Women like men are agents of development, but have not yet been able to bring their full potential to bear on the process due to the social, political and developmental constraints they face. We can only effectively combat poverty or promote sustainable economic development if women are seen as agents of change rather than merely targets of specific gender interventions. Gender equality is both an end in itself and a means of enhancing development effectiveness of the Bank's operations. Hence, IDB must commit itself to ensuring equal participation of both women and men in all Bank-related activities. We encourage the Bank to be even braver in its ambition and embrace and promote the internationally accepted rights-based approach as outlined in the United Nations Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), ratified by most of the countries present here today. Through our legal and political commitments—the CEDAW Convention as well as the Platform of Action agreed in Beijing in 1995—we are obliged to treat gender equality as a must and not an option.

The main objective of Danish development assistance is sustainable development through poverty-oriented economic growth and to this end we contribute to poverty reduction in the poorest countries and communities in the world. Denmark remains a leading donor in the world in terms of development aid as a percentage of GNP. We 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.

Similarly, we are working alongside IDB, the World Bank, the United Nations and all other partners in development to ensure the success of the Financing for Development Conference in Monterrey. Monterrey can pave the way for all countries to enter a "global deal" at the Johannesburg Summit in September. The global deal would have two elements: (1) Developing countries undertake to build the domestic framework for an economically, socially and environmentally sustainable development; and (2) The international community commits to remove market barriers and other obstacles that hamper developing countries in their efforts to benefit from trade, and rich countries will commit to provide the aid and other external resources necessary for them to succeed. The summit must focus on all three dimensions of sustainable development: the environmental, the social and the economic. IDB has an important role to play in contributing to the success of the Summit.

Let me conclude by assuring you, President Iglesias, and the Inter-American Development Bank, of our continued support to meet the challenges of the Latin American and Caribbean region in the years to come.

I would like to begin by thanking the Brazilian people and authorities for the warmth and hospitality they have demonstrated during this meeting. I would also like to congratulate President Iglesias and the Management of the Bank and the Corporation for their commendable performance in today's difficult economic climate.

The message we would like to send today is that the Bank should continue to cooperate with the countries of Latin America and the Caribbean in working towards sustained development. The loans that support policy reforms are crucial to this task, particularly for countries like ours, which are in gradual transition toward the use of domestic and international capital markets. Such access, which is always tenuous, does not mean that the Bank should provide less cooperation for countries in transition. Hence, I echo the remarks by the Governor for Colombia.

Another very important area is private investment. We believe that the Bank should provide more support and devote more funds to this task, similar to what the European Bank for Reconstruction and Development is doing. The Gurría Report contains many ideas that merit study and development. We should not be timid. Without private investment in the twenty-first century, neither growth nor employment will be possible.

I would like to express our support for the agreement reached recently on the IDB's new lending framework for its borrowers. We believe that the situation in the region requires an appropriate and firm response from the international community to preserve the great transformations that have been made in recent years, which have placed the region, once again, on the long road to sustainable development. Given the context, we have greater need than ever for a Bank that gives its borrowers sufficient flexibility to respond, in a relevant and timely fashion, to the new demands arising in the region.

We are pleased that the IDB's new lending framework maintains the policy-based loans (PBLs) as a tool to help preserve economic stability in our countries and combat poverty by deepening structural reforms in our economies. At a time when the effectiveness of many reforms is being questioned in some sectors, must be shown that it is precisely a lack of depth and perseverance in applying these reforms that has made it impossible for some economies to increase their productivity in a globalized world, which has led to lower levels of well-being.

I firmly believe that in order to restore sustained growth in the region we must intensify structural reforms and implement the so-called second-generation reforms. This will raise our productivity to enable us to compete in a globalized world and will extend the benefits of the market economy to large sectors of our population. Therefore, when I talk about sustained growth, I am not simply referring to ongoing growth in our economies. I am also referring to inclusive growth.

It is highly important for the IDB to continue to support us in implementing these reforms, both financially and with technical assistance. We hope that the caps we have approved for the different categories of loans do not become a constraint on the Bank in achieving its development objectives in the region. We urge Management and the Board of Executive Directors to continue to seek new lending instruments that respond to the countries' new and growing demands, maintaining its relevance for its borrowers while watching over the institution's financial health.

I would like to emphasize that the IDB plays another very important role in the region related to the development of the private sector in our countries. The various Bank facilities should be reinforced to give the private sector in our countries access to long-term financing on appropriate terms.

We are pleased with the increase in the cap on private sector lending from 5 percent to 10 percent and the removal of the restrictions on nationality that had formerly been placed on the Inter-American Investment Corporation in lending to small and medium-sized industry in the region. We hope that the Private Sector Department can continue providing financial support for the private sector that invests in infrastructure, channeling its own resources and encouraging private banks to participate in its projects. We also hope that it can play an important role in developing our capital markets, which is a determining factor for increasing savings in the region. The private sector is the engine of growth and its relative importance has increased in relation to the public sector, which must use its scarce resources to combat poverty and promote suitable conditions to enable private investment and lead to sustainaed growth.

The IDB has played an important role in promoting these conditions in the countries and we believe that this is the time to step up the Bank's role in support of the region's private sector. The upcoming negotiations on free trade areas make it a priority to boost the region's competitiveness. The IDB has much work to do in promoting the use of new technologies through new foreign investment, training for human resources and, in general, mobilizing external financing for the region.

We commend the establishment of a task force to facilitate replenishment of the Multilateral Investment Fund, whose mandate has recently been extended to 2005. It would also be advisable to use this replenishment exercise to give it a new mandate that responds to our countries' new needs, particularly in areas linked to international trade.

With regard to the Inter-American Investment Corporation, we understand Management's efforts to comply with the Charter's mandate, which calls for promoting development by lending long-term capital to small and medium-sized enterprises in the region, while obtaining returns on its operations. The Corporation's current structure undoubtedly makes it difficult to comply with this mandate. Making relatively small loans to mid-sized enterprises in a region where market volatility often leads to instability, with an administrative structure based in Washington, means that administrative and monitoring costs are considerable and complicates the project identification process. We urge the Corporation's Board of Directors and Management to tackle these problems, drawing on the experience of successful institutions that lend to SMEs.

Much has been said recently about the impact of the IDB's programs on the region's development. It is important for the benefits of these reforms to reach our poorest citizens. This task is a shared responsibility of the countries and the Bank. In this regard, I would like to acknowledge and firmly support the Bank's efforts to improve its tools for measuring the impact of its projects on country development and the fight against poverty.

In conclusion, I would like to renew the invitation that Peru has extended at recent Annual Meetings to host the Annual Meeting of the Board of Governors in 2004. It would be a great pleasure for the Peruvian people and government to receive you in our country.

ADDRESSES

FOURTH PLENARY SESSION

MARCH 12, 2002

INTER-AMERICAN INVESTMENT CORPORATION

REPORT BY MR. JACQUES ROGOZINSKI, GENERAL MANAGER OF THE INTER-AMERICAN INVESTMENT CORPORATION

The Annual Meeting of the Board of Governors is particularly important to us because it provides an ideal forum for informing our member countries about the progress our institution has made and the challenges it faces. The Inter-American Investment Corporation is honored to be holding this meeting in Brazil, which stands out among the countries of Latin America and the Caribbean because of its dynamic economy, its geography, its boundless natural resources, and its cultural contribution to the entire region. Today, Brazil is also opening its doors to enable a discussion on how to spur the development of small and medium-size companies in this important region of the world. We would like to thank the country for its hospitality and its authorities for hosting our annual meeting.

At its outset, the twenty-first century has brought the world—and especially Latin America and the Caribbean—many problems and dangers. But it also holds the promise of change and challenge. Last year, we came together to discuss various scenarios that would enable, spur, or hold back the development of the small and medium-size enterprise sector.

Unfortunately, of the three scenarios set forth in last year's report, the one we called the "worst case scenario" is the one that has come to pass. The economic and political climate is unfavorable for small and medium-size companies, which have suffered a significant setback due to the combined effect of a shrinking global market and the resulting serious recession in the region's countries.

Economic activity in Latin America and the Caribbean has been flagging since mid-2000. The international situation does not favor the region: the terms of trade have worsened, global commerce has slowed, and the flow of capital to the region has fallen off sharply. Our region saw a decrease in the price of raw materials and oil, as well as a drop in employment—all in a climate of financial uncertainty and growing insecurity.

It is in this climate that we report on our institution's results for the year and confirm our commitment to our developmental goals of creating jobs, protecting the environment, and working towards a region with less inequality.

Operating Results

The IIC's effectiveness in 2001 was uneven: there has been progress as to the means available to us, but our report on the end results is not what we would have hoped for. The IIC approved 19 operations in 10 countries for a total of US$128 million—23 percent in equity investments and 77 percent in loans. These operations will make it possible to channel funds to more than 100 small and medium-size enterprises in the region by means of our financial intermediation and equity fund programs. Management is stepping up its efforts to increase its project pipeline, which is one of its priorities.

Two of the equity investments were in developmental investment funds, national and regional, with a total capitalization of US$350 million. As for the loans, three will be cofinanced and will use US$25 million in IIC funding to mobilize a total of US$60 million in financing from banks and other sources.

The dollar amount of approvals grew 9.7 percent between 2000 and 2001. Commitments increased 6.9 percent in 2001, reaching an aggregate total of US$876.4 million. And one more year of operations brought to 2,590 the number of companies financed—a 6-percent increase since year-end 2000. Disbursements during 2001 totaled US$762 million, which is 11.4 percent more than in 2000.

Total approvals since the IIC began operations in 1989 stand at US$1.449 billion. These figures and achievements make the Corporation a significant feature on the developmental funding map of Latin America and the Caribbean. In its 12 years of operations, the IIC has approved a total of 266 direct projects. Throughout

2001 we continued to work on laying institutional groundwork and improving the Corporation's methodologies and tools.

Financial Results

Our financial results for 2001 were not satisfactory; our total income was US$31,525,000. As for expenses, we spent US$14 million of the US$16 million administrative budget—achieving a 12 percent saving.

However, there was a significant difference between the US$9 million in provisioning expected for 2001 and the US$25 million in actual provisions for the year. The US$16 million difference is due chiefly to the effect of recent events in Argentina. The considerable increase in provisions is reflected in a US$15,329,000 loss for the year.

It should be noted that it is best to follow conservative accounting standards in such times of high economic and financial uncertainty.

The IIC is responding with precaution and transparency to the inherent risk of its target market. So, in order to strengthen the risk analysis process, a Credit Unit and a Credit Committee were created in 2001 as part of the effort to improve portfolio quality by means of stricter and more independent evaluation of the credit risk of each and every potential project company.

We are working to improve our provisioning process by fine-tuning the supervision function and carefully identifying and quantifying the value of our investment portfolio.

Our efforts to recover loans to and investments in problem projects continue to yield positive results. The Special Operations Unit constantly exchanges information with the operations areas, allowing rapid and appropriate response.

Achievements in 2001

IIC membership grew in 2000 with the admission of five more countries: Belgium, Finland, Norway, Portugal, and Sweden. We are pleased to tell you that as of today, Sweden and Norway have completed all of the legal requirements for entry. Belgium, Finland, and Portugal are at varying stages in the process. We are honored to welcome these new member countries.

Last year we had the pleasure of informing you that the rating agency Standard and Poor's gave us an AA rating. This year, we had the additional satisfaction of receiving an Aa2 rating from Moody's, recognizing our ability to honor our obligations.

The results of the FINPYME methodology pilot program in Bolivia and Chile have opened the door to implementation in other areas of the region. FINPYME could thus become a permanent IIC program.

As for the environment, we remain committed to our mission of improving and supporting environmental protection as an integral part of development. In this regard, we continue to require that our projects provide for this significant component. This year, we held an environmental protection workshop for our clients, cosponsored by the Andean Development Corporation and the International Finance Corporation.

Our effort to reach a greater number of small and medium-size companies is reflected in the change in the IIC's strategy regarding its regional offices. This year the three regional offices, which had been focusing on project supervision, targeted business development and new project identification. This strategy was reinforced by reassigning positions from Washington to the field offices.

Development of New Initiatives

We continue to bring new sectors into the IIC's portfolio. In addition to providing support in the manufacturing, service, equity fund, and agency line sectors, among others, this year the IIC financed projects in education and housing. Both have a marked impact on job creation and are strategic areas of activity for social progress at the local and regional level alike. We will therefore continue to look for projects in these sectors.

The IIC financed its first project in the education sector, with a loan to the Universidade do Sul de Santa Catarina in Brazil. This university has low, competitive tuition rates, processes government aid for qualifying students, and has created its own student loan program. As for housing, the IIC approved the Brazilian Mortgages and Brazilian Securities project, which is helping introduce mortgage securitization in Brazil's secondary market.

We are also working in the area of infrastructure. In Uruguay, we approved our first toll road project. The *Ruta 8* project is bringing us opportunities to work with small and medium-size, infrastructure-related companies where we have a clear catalytic role to play.

Cooperation among Institutions

The IIC's relationship with the rest of the IDB Group continues to grow stronger. This year as well, we participated in country strategy and programming activities. The IIC participates in the Bank's Private Sector Coordination Committee, and our Senior Credit Officer advises the Office of the IDB's Executive Vice President regarding private sector projects and the Bank's loan committee for private sector operations. We have also cooperated on IDB regional strategies.

We continue to look for and work toward greater integration and better communication with the IDB country offices so as to achieve our goals more consistently and draw on field office staff experience. We also continue to work closely with the MIF, evaluating and advising on equity investment related operations. In 2001, we evaluated 10 operations for the MIF, which were both domestic and regional in scope.

Spurring Latin American Competitiveness

We must stress the need to create a climate conducive to growth and competitiveness, grounded in a sustainable, ethical Latin American small and medium-size enterprise sector that can benefit from ready access to new technologies and powerful mass and virtual communication media.

We are working to identify and analyze strategic areas that could help the countries in the region become more competitive, because we are firmly convinced that nations are more competitive when they can support small and medium-size companies by mobilizing creative, enterprising investors.

Promoting Small and Medium-Size Enterprise

We know that in order to flourish, small and medium-size companies need policy, legal, and good governance environments conducive to development that are sustainable and equitable and strengthen institutions. Governance and public policy are thus key items on the Latin American and the Caribbean agenda for promoting small and medium-size enterprises by fostering a fertile business climate, savoir-faire and creativity, timely restructuring during economic downturns, and transparent, trustworthy corporate governance.

As an institution we have made progress in areas that are key to the growth of our organization: additionality, governance, and transparency vis-à-vis fraud and corruption.

Developmental additionality has systematically been made a part of our projects, in response to the Board of Directors' concerns regarding our developmental added value. Governance is still one of our main concerns. We know that the IDB Group's role and presence in the region can be essential in fostering more transparent, responsible management practices among small and medium-size enterprises. In 2001 we submitted to the Board of Directors an initial report on governance and legal frameworks in Latin America. The second and final part of the study will be ready by the second half of 2002, and its findings will enable us to determine the areas in which the IDB Group as a whole can support our effort to extend good governance among our clients.

Our commitment to transparency in the fight against fraud and corruption remains strong. In 2001 we submitted to the Board of Directors a proposal for the establishment of an independent oversight mechanism charged with investigating claims of fraud and corruption. Ethical operation and transparency continue to be our fundamental commitments, so we have made sure that the IIC has internal and external procedures for avoiding and, if necessary, evaluating the risk of corrupt practices in its operations.

Looking Ahead

Our mandate to promote the development of our countries has not changed. This year, we will face head on the challenges confronting Latin America and the Caribbean, and we will buttress our efforts to achieve the desired results by working smarter, harder, and more creatively. The outlook for 2002 is such that we will be very careful to approve financing that fosters sustainable development. But we must acknowledge that this will be a difficult year for some of the companies that have already received our support. They, too, will be affected by the adverse climate we discussed earlier. We will doubtless have to provide them with support in the form of restructurings that will require both good faith and imagination on our part. That is our commitment, and we are going to honor it.

Small and medium-size companies are the largest source of productive jobs in Latin America today. Irrefutable proof of this lies in the fact that they generate more than 50 percent of the region's GDP. We must therefore construct institutional networks that provide them with support and viability, especially in times of recession and uncertainty when access to credit becomes much more difficult. The challenge lies in building solid and far-reaching trade, productive, logistical, service, and financial networks that are conducive to versatile, innovative new development in Latin America and the Caribbean. We must support small and medium-size enterprise with stronger incentives in the current adverse environment.

The entire staff of the IIC is grateful to Mr. Enrique Iglesias, Chairman of the Board of Directors, for his trust, motivation, and support, and we once again acknowledge his invaluable contribution to the well-being of the countries of Latin America and the Caribbean. I want to thank each and every member of the IIC Board of Directors for the support and guidance they gave us during 2001.

The difficulties facing Latin America and the Caribbean are such that, today more than ever, we need your ideas, guidance, and directives for setting our course in the spirit of constructiveness and commitment to progress in the region.

In Spanish, there is a wise saying that goes, "*en la multitud de consejeros hay dirección sabia.*" Many advisors mean good advice. We will need that good advice for building peace in the face of terrorism; prosperity instead of poverty; good sense against confusion; and commitment to our region in difficult, uncertain times.

FIFTH PLENARY SESSION

MARCH 13, 2002

On behalf of the State of Israel, I am greatly honored to address the Forty-third Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Seventeenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation. Our delegation extends its thanks to the City of Fortaleza and this amazing country, Brazil, for hosting us here today. I also wish to extend a personal welcome to the representatives from Norway, which has just recently become a member of the Inter-American Investment Corporation.

The setting for this year's meeting is more somber than in the past. This past year has been beset by crisis in the Americas and around the globe. The down side of global integration is being experienced, as for the first time the world's largest economies have stalled concurrently. The burden on emerging economies trying to carve their place in the international competitive landscape has been made all the more heavy as a result of the economic slowdown.

The destructive actions of September 11th have shown us how much difference a day can make. The events of that day have affected not only the personal lives of its victims, but the political and economic lives of nations as well. For the first time in the modern era we are experiencing the "down side" of globalization. The major economies are simultaneously experiencing recession in a manner that affects all countries around the world. World trade and cross-boundary investment have slowed down. Nations appear to be stepping back from previous initiatives for international and regional integration.

At the same time, the manifestation of international terrorism has placed a renewed focus on the problem of poverty and the prevailing gap between developed and developing economies. While policies designed to spur economic growth provide long-term solutions, here is a growing realization that the social and economic dimensions of poverty throughout the world must be addressed immediately. We must not let poverty and despair fertilize future terrorist activity.

Some analysts suggest that the tragic events of September 11th and its aftermath signal the beginning of the end of modern globalization. In my opinion, this assessment is premature, although these events have ignited a great deal of timely reflection and reexamination. There is, however, a heightened awareness of the mutual dependence between nations that has emanated from globalization. We must now mobilize this awareness to find our way out of the current economic situation towards a period of renewed prosperity and growth.

At the present time, the world is drawn together to combat terrorism and its aftermath. Israel, like a number of Latin American countries, has been engaged in the ongoing struggle against terrorism for some time. On the economic front, we endeavor to face this problem in a manner that minimizes adverse consequences to the economy and promotes confidence in it, especially regarding the ability of the private sector to conduct business.

The importance and viability of the Inter-American Development Bank and its affiliate, the Inter-American Investment Corporation, is demonstrated in its ongoing programs to promote social and economic development and regional integration. Together these institutions interact with the private sector to generate capital formation by cofinancing long-term projects and by advancing the creation of small and medium-sized enterprises. The role of the IDB is highlighted, however, during times of crisis. Its actions demonstrate unusual agility and creativity in dynamically responding to new needs and challenges. In times of natural crisis the IDB underwrites reconstruction. In times of financial volatility, it provides the tools to restore stability. Today the IDB is expanding its Emergency Reconstruction Facility to include unanticipated events that cannot be directly tied to natural phenomena or market movements. Israel applauds this measure.

Events in Argentina point to a crisis of another sort. Argentina's economic collapse comes after a decade of liberalization and structural reforms designed to foster growth and forge integration into the global economy.

Many view Argentina's current woes as an indictment against the market system. Fueled by frustration, the temptation to revert to centrally directed economic systems and "statism" is great.

Others do not see Argentina's predicament as an outcome of structural reform, but rather as the result of specific macroeconomic policies or of the failure of Argentina to take structural reform far enough. To date, the crisis in Argentina has not precipitated any substantial economic contagion, either within Latin America or abroad. Unlike the "Asian flu" experienced a few years ago when the Russian and many Asian economies experienced financial crises, Argentina's fortunes have not affected surrounding economies thus far. This to some analysts and policy makers indicates the resiliency of the international system that appears capable of withstanding the slings and arrows of world events and local economic crises. Rather than being undone, the global economy is in fact maturing.

Israel agrees with the approach taken by the IDB and other international organizations. While history shows that political events have unraveled international economic integration in the past, this does not appear to be the case now. The prospect of possible disintegration, however, underscores the importance of regional and multilateral organizations, such as the IDB, IMF and WTO, especially during crisis periods. The contributions of these organizations in creating new frameworks for partnership and initiating new forums for ongoing dialogue cannot be overstated. As proactive facilitators, these bodies enable nations and governments to promote domestic programs, encourage investment and trade, and more effectively confront new challenges precipitated by dynamic exogenous events.

A retreat from structural reform is not the solution for emerging economies. Economic introversion can only lead to isolation, which serves ultimately as an impediment to long-term sustainable growth. Governments can help bridge market failures and encourage private sector growth, but they cannot replace the private sector as the main engine of a modern economy.

Israel also favors an approach that goes beyond financial engineering to address economic problems. It is necessary to look beyond the mere mechanics of structural reform and focus on content. Structural reforms are necessary but insufficient ingredients for economic development. While the introduction of liberal policies provides the framework, the soul of reform ultimately lies in the ability to build competitiveness. For this, one must look beneath the surface of administrative measures and focus on the "fundamentals behind the fundamentals." Good governance, education, human resource development, capacity building and technology are key in fortifying a resilient economy and reigniting economic growth.

These tenets have been part and parcel of the Inter-American Development Bank since its inception. A comprehensive approach is reflected in the scope of the projects in which the Bank is involved, as well as in the focus on developing entrepreneurial culture and regional integration. The strength of the IDB must be safeguarded. A strong regional Bank can help governments better attend to fundamental socioeconomic needs that bolster economic fundamentals. Close ties and coordination with other international organizations can only contribute to this end.

The Inter-American Development Bank has stood at the forefront of proactive partnering. Together with governments, the IMF and other institutions, the Bank is constantly seeking innovative approaches to development. It places poverty and social needs front and center. Even during times of crisis, the IDB attends to fundamental as well as immediate needs. Its programs are designed to ensure that poverty will not keep children from attending school or keep the needy from receiving health and other essential social services. To stem the damages brought about by prolonged recession, projects sponsored by the Bank create badly needed jobs. The Bank is constantly seeking new ways to address ever-changing economic challenges. Its ability and agility to accommodate change is one of the Bank's primary strengths. Even today, as the world is preoccupied with the present, the IDB looks to the future. New directions and focuses for the Bank are being explored. We look forward to learning about the new ideas under consideration to ensure that the IDB maintains its vitality. Responsiveness, diversity and an openness to change have long been the hallmark of the Inter-American Development Bank. We trust that the Bank's future endeavors will continue to address the challenges encountered in the Americas in a dynamic and constructive manner.

Like many transitional economies, we in Israel instituted a program of far-reaching structural reforms and entered enthusiastically into the burgeoning global economy. Entrepreneurship and innovation have been the primary drivers of Israel's economy for more than a decade. Today, with the rest of the world, we struggle with the global slowdown. Despite the current situation, we remain committed to the reforms and policies instituted in the previous decade. We are committed to maintaining sound fundamentals and to investing in building a society and economy in which enterprise can thrive.

Albert Einstein reminds us that: "in the middle of difficulty lies opportunity". In these difficult times, we cannot let opportunity elude us. A concerted effort between nations and multilateral organizations, between developed and emerging economies, with a focus on consolidating fundamental strengths, will enable us to collectively "turn the corner" to a future of renewed growth and prosperity.

I would like to begin by joining others in thanking Brazil for hosting this year's annual meeting in these beautiful and friendly surroundings.

Latin America and the Caribbean region (LAC) is at a crucial stage of development, and ahead of them are both challenges and opportunities. The ongoing modernization and reform process, in which the IDB is actively involved, should provide a sound basis for the macroeconomic stability and higher rate of investment necessary to lift the region out of recession and unemployment. Compared with the other developing regions, LAC has a better qualified human resource base, which is an invaluable asset. On the other hand, recent events have revealed that the obstacles are many and that the regions' economies are particularly vulnerable to external shocks.

The crisis in Argentina, which has both internal and external causes, has been a focus of attention in recent months and during this Annual Meeting. The initiative now lies with Argentina, which needs to carry out basic economic and political reforms in close collaboration with the IMF, IDB and the World Bank. Fortunately the crisis has so far not spread to neighboring countries and the rest of the region, which indicates that the region may hopefully embark on the path to recovery in the near future.

Let me now turn directly to the Bank's role in the Region and how we see its past achievements and future challenges. Norway welcomes the new lending framework which should enhance the Bank's response capacity to emergency situations. In this regard we underline the importance of complying with the Bank's development mandate, as well as close coordination with the IMF and the World Bank. We believe that emergency loans should primarily be used to mitigate the effects of the crisis on the poor and to protect funding for social programs targeted at the poor. In the light of the recent worrying decline in investment lending, efforts should also be devoted to strengthening the borrowing countries' capacity to take up investment loans. Finally, we attach great importance to the decision that all lending instruments will be subject to the same criteria of poverty reduction and development effectiveness.

We are pleased to see that the IDB is committed to development effectiveness and that quality enhancement has been put on the top of the Bank's agenda. Norway attaches great importance to the work the Development Effectiveness Report recently prepared by the Office of Oversight and Evaluation. The findings in this report clearly show the need for the Bank to put in place monitoring and evaluation systems, in order to increase the effectiveness of its lending and nonlending activities. Incentives that reward quality rather than quantity are vital elements of this new concept. Strengthening the evaluation capacity of the borrowers and ensuring adequate managerial and technical skills in the country offices and executing agencies is yet another area that must be given high priority.

Development assistance is under constant scrutiny and the demand for results is greater than ever. We therefore noted with satisfaction that President Iglesias in his opening remarks to the Board of Governors underscored that the priorities embodied in the Millennium Development Goals (MDGs) must be translated into specific targets at the country level and consequently be incorporated in IDB's and other development partners' country programming. The attainment of these development goals is based on the principle that the countries themselves must lead the national processes to develop comprehensive Poverty Reduction Strategies. We strongly encourage the Bank to actively take part in the devising of these strategies when called upon by governments, and to use the PRSPs when they exist as a basis for its own work. It will be particularly important to align the new lending framework with the country-owned development strategies. We firmly believe that strengthened country ownership and the establishment of common goals will enhance the effectiveness of our investments.

As you have previously heard, the Nordic countries and representatives of the Bank met in Paris in January to discuss the Bank's work on poverty reduction and gender mainstreaming. It was emphasized that the implementation of the institutional strategy, and consequently the Bank's ongoing review of sector strategies, policies and guidelines, provides a unique opportunity for the Bank to mainstream cross-cutting concerns such as social inclusion, gender, poverty and environment into the four pillars of the strategy. Norway believes that these perspectives are vital for reducing poverty and promoting development that is environmentally, socially and financially sustainable.

The Bank has placed HIV/AIDS on its annual meeting agenda this year, and rightly so. This regional development concern requires urgent action before the epidemic spreads to the general population. The IDB is well suited to helping its borrowing members find effective solutions to this problem. In this regard, we warmly welcome the collaboration with UNAIDS and PAHO.

Norway is pleased to support the Bank's active role in placing ethics on the development agenda for LAC. Decision-makers at all levels in the development process including in the Bank itself are continuously confronted with problems and challenges that have ethical dimensions. It is therefore important to establish ethical reference points that can guide decision-making. We look forward to further collaboration with the Bank on this issue.

We are looking forward to the coming discussion on the new Comprehensive Private Sector Strategy dealing with the three private windows of the Bank Group. We assume that some of the most interesting recommendations of the Gurría Report will be considered in this context, but would like to stress that the Bank's future role in the private sector should be based on and guided by the two overarching objectives of the institutional strategy.

Norway has recently joined the Inter-American Investment Corporation (IIC). We will seek to influence the IIC to become more development-oriented and more focussed on results, especially on poverty reduction. The Corporation's efforts to enhance the quality of its operations through increased transparency and new efforts to combat fraud and corruption are indeed welcome.

The forthcoming UN Conference on Financing for Development in Mexico will be yet another opportunity for the world's nations to agree upon adequate resources and the most efficient financing mechanisms for attaining the Millennium Development Goals. As you are well aware of, Mr. Iglesias, Norway attaches great importance to strengthening the role and voice of the IDB and the other regional development banks in the international discourse on development financing. We hope that the Regional Development Banks will be able to put their mark on the upcoming Conference, and we look forward to further collaboration in this and other areas.

ADDRESS BY MR. FRANCISCO M. GUERRERO PRATS, GOVERNOR FOR THE DOMINICAN REPUBLIC

On behalf of the people and the Government of the Dominican Republic and our President Hipólito Mejía, I want to say how pleased we are that one of the first annual meetings of this millennium is being held in the beautiful city of Fortaleza, Brazil. This is a land of valiant men and women who have been pioneers in the struggle for liberty and racial equality. As head of the Dominican delegation, I would like to express our gratitude for the excellent hospitality we have enjoyed at the hands of the city and the organizers of these meetings.

Over the past year, the world economy has suffered a profound slowdown that some analysts have called the "first global recession of the twenty-first century." The growth rate was cut in half from its 2000 level, when it reached 4.7 percent. For the first time in more than 25 years, the world's three largest economies, the United States, Japan and Germany, fell simultaneously into a recession that was compounded by the events of September 11.

At the same time, the developed economies of the Organisation for Economic Co-operation and Development saw their growth rates decline to roughly a quarter of the 4.3 percent achieved in 2000. The worldwide repercussions of this widespread crisis were felt in nearly all the emerging market economies. The widespread of international trade collapsed from 12.5 percent to less than 1 percent, and foreign direct investment (FDI) flows fell by about 40 percent worldwide.

In Latin America and the Caribbean, the impact of the world slowdown meant a decline in the growth rate from 4.1 percent in 2000 to 0.5 percent in 2001. This is the third crisis in the last ten years, and represents a decline of 1.0 percent in per capita GDP and 10 percent in net FDI, in addition to the 16.2 percent fall in 2000, while exports—which in 2000 had driven our growth with a rise of 20 percent—contracted by 3.5 percent. Yet unemployment remained at 8.4 percent, and inflation continued its downward trend of the previous three years.

Despite the climate of uncertainty that prevailed throughout the world last year, the countries in the hemisphere continued their efforts to establish the Free Trade Area of the Americas, keeping up a steady pace of work even after the terrible events of September 11. This determination underscored our countries' recognition of economic integration and open trade as vital elements for their development.

On this point, we must recognize the efforts made by the Inter-American Development Bank as a member of the Tripartite Committee of the FTAA through its many valuable contributions to the necessary research and its technical assistance in helping member countries participate in the process.

Because the Dominican economy is so open and is so closely linked to the United States economy, the sharp deterioration in the international economic environment and the recession in the United States have also affected our economy, although to a lesser degree, since we were able to take a series of timely economic measures to restore macroeconomic stability and underpin it more solidly.

Since August 2000, the rising fiscal deficit has been corrected, and we ended the year 2001 in virtual balance, which is highly significant if we consider it against the backdrop of low economic growth. As well, while we finished the year 2000 with a current account deficit of 5.2 percent of GDP, the external imbalance was reduced in 2001 to 4.0 percent. International reserves rose to their highest levels in the history of the Central Bank of the Dominican Republic, and helped thereby to maintain the stability of the exchange rate.

Our balanced internal and external accounts and our exchange rate stability allowed interest rates to fall by as much as 8 percentage points, and inflation was reduced from 9 percent to only 4.4 percent. Overall, while the fiscal and monetary constraints adopted to preserve macroeconomic stability caused the economy to contract in the first quarter, since that time we have seen a notable rebound in economic activity, and we finished the year with a growth rate of 2.7 percent, which is among the highest in Latin America and the Caribbean and more than five times the average growth rate in the region.

The pace of structural reform in the country picked up in 2001, with a tax reform that guarantees revenues to maintain the fiscal balance, a customs tariff reform that brings our average tariff level close to that of the region, and reforms in social security and the pension system. We also eliminated widespread subsidies such as the one for propane gas, which is the main household fuel in use, and replaced it with a subsidy that is targeted at poor families and is designed to ensure that they keep their children in school.

Thanks to these indicators of macroeconomic stability and reform, the Dominican Republic was awarded a three-level promotion in its investment rating by the country risk rating agencies: Moody's moved us up two levels (from B1 to Ba2) and Standard & Poor's from B+ to BB-. Another sure sign of the confidence that international investors have in the Dominican Republic its sound fundamentals and its favorable prospects is our country's successful first foray into the international capital market, with the issuance and placement of US$500 million in sovereign bonds, valued at par and yielding 9.5 percent for five years, in an operation that took place on September 27, 2001, only a few days after the fateful events in New York and Washington.

We would like to congratulate the authorities of the Inter-American Development Bank for the steps they have taken in pursuit of the idea of making the Bank a relevant institution that can meet the needs of our countries, as expressed by President Iglesias at the Forty-second Annual Meeting of the Board of Governors last year in Santiago.

To this end, the IDB has proposed the following guidelines: (a) achieve greater efficiency in pursuing the measures adopted in the region; (b) meet the need for policy-based lending, (c) provide funding in support of countries facing economic or financial crises; and (d) maintain the Bank's financial soundness.

In addition, the Committee of the Board of Governors is now examining a proposal to increase the Bank's responsiveness to the new needs of its members, as requested at the 2001 annual meeting, including three financing modalities: investment lending; quick-disbursing policy-based lending; and emergency lending.

With respect to the counterpart financing matrix, the decision proposed by the Committee of the Board of Governors to increase the caps on IDB financing by 10 percent for each category of countries represents a real breath of fresh air, financially, for our economies at a time when they are being strongly affected by an unfavorable international environment.

These measures by the IDB constitute solid support for several countries in the region that depend on certain sectors, such as tourism, as major sources of foreign exchange and that have no other alternatives to make up for the losses caused by the unforeseen and exogenous circumstances that have adversely affected their economies.

Let me now turn to three institutional policy issues that I would like to highlight at this annual meeting. One is the need to replenish the resources of the Multilateral Investment Fund (MIF), a member of the IDB family that has been playing a growing and unique role in channeling financing for the development of small enterprise, improving operation of the market and the regulatory environment, and consolidating our financial systems. The second issue is the importance, both for the Bank and for the beneficiary countries, of continuing to assign priority to investment lending. The third is the need to ensure the effectiveness of the Bank's efforts for the development of our countries, particularly now that international conditions have become adverse.

We welcome the assurances of President Iglesias with respect to the policies contained in the Bank's institutional strategy, where a significant role is assigned to increasing competitiveness and the Bank's commitment to give us all the support necessary in preparing our own national competitiveness strategies and plans.

Lastly, I would like to take this opportunity to pay tribute to the invaluable, extraordinary work that our President has accomplished at the helm of the Bank. During these years, the IDB has become the principal source of multilateral financing for the region, with innovative and diversified lending programs that place special stress on reducing poverty, developing the social sectors, modernizing the State and expanding basic infrastructure.

If the 1980s were branded as the "lost decade" in terms of development in Latin America and the Caribbean, this first decade of the new millennium—despite its inauspicious beginnings—will need to be characterized by our capacity to overcome adversity and to turn challenges into new opportunities for relaunching our economies, promoting social reform, modernizing our institutions and consolidating regional integration. This is our hope, and it is in this direction that we must channel our efforts.

Let me start by joining others in thanking the authorities of Ceará and the city of Fortaleza for the excellent organization of this annual meeting. It is a true pleasure to be here in Brazil, enjoying your pleasant atmosphere and hospitality.

I would like to offer a few comments on some of the main themes addressed in this annual meeting which are of particular importance to us. These are related primarily to the discussion of the Bank's future role and the issue of development effectiveness. I will also touch briefly on the upcoming conference on Financing for Development to be held in Monterrey next week.

Looking back on events during the past year provides a very mixed picture of the economic and social progress in Latin America and the Caribbean. The international, regional and national environments in which the Bank operates are continuously changing. As recently shown by developments in various parts of the region the conditions range from relatively stable growth in some countries to economic crisis or natural disaster in others.

As the most important provider of developing financing in Latin America and the Caribbean, the IDB is a key partner in addressing these diverse situations and we strongly support it in this role, both as a source of capital and owing to its thorough knowledge and experience of the region. The Bank needs to continuously adapt to changing circumstances. We welcome the decision on the new lending framework, which should go a long way in responding better to the needs and development challenges of the countries concerned. We also see the need for further discussions on the Bank's future role, starting out from the report by the External Advisory Group. In this context, a crucial question is how the IDB can contribute to higher growth and a strengthened private sector in the Region.

Just a few years ago there was a general optimism about the flow of private capital for advancing the social and economic development of Latin America and the Caribbean. We have since then seen how financial crises and a general slow down of the global economy have had a major negative impact on the confidence of investors. It is important to discuss how this sensitivity to external shocks can be reduced and how the Bank's catalytic role for generating private capital flows can be strengthened.

We do however think it is important to keep in mind who is the final beneficiary in this process. Unless the Bank activities contribute to long term social and economic benefits for the majority of the people, we have not achieved the objectives set out in the Bank's mandate. In order to reduce poverty by half, as stated in the Millennium Development Goals, we must mobilise additional financial and human capital. There is a need for raising both public and private capital, and putting it to work in such a way that each makes its proper contribution to society's needs as a whole.

Much of the responsibility for creating a good business climate lies in the public sphere, such as proper education and health facilities, infrastructure and a well functioning judiciary. We could do more to explore the possible ways of increasing the private sector involvement in these areas. The IDB today provides much needed funding for many of the public sector activities which are of fundamental importance to private business development and growth. However, given the indicators of increasing poverty levels and social needs in the region, much still remains to be done. We look forward to the discussion of the Bank's future role with this thinking in mind, that is how can a stronger focus of IDB activities in favour of growth and private sector development translate into social and economic improvements for the majority of the people.

Next, I would like to touch upon the subject of development effectiveness.

Our government, along with many others, places increasing importance on being able to show results. We need to provide evidence on how our tax payers' money has contributed to visible improvements in people's lives. We therefore strongly welcome Management's commitment to working on strengthening effectiveness and tracking operations for the evidence to show it. We are also encouraged by the work carried out so far by the Office for Oversight and Evaluation (OVE) in addressing these important issues and look forward to the Board discussions on how to proceed. In this context, we would also wish to stress the importance of providing the incentives for project managers to improve quality and creating a culture of transparency where there is encouragement for building on lessons learned.

As shown by statements from fellow governors these last days, it is also crucial that borrowing countries themselves take an active interest in monitoring the execution of the projects so that results can be followed up or, if need be, adjustments made during implementation in order to arrive at good end results. We would encourage the Bank to further develop its activities in strengthening borrower country capacities in this respect.

Finally, the Financing for Development Conference starts next week in Monterrey, Mexico. It addresses central questions on the financing of social and economic development in the decades to come, which are of obvious relevance also for Latin America and the Caribbean. In this context we warmly welcome the President's stated aim to undertake an analysis of how the Millennium Development Goals relate to the region's situation and needs. Clearly, the IDB has an obvious role too in this process.

The conference will also bring up a number of other aspects such as regional integration and the provision of regional public goods. These are issues of common interest to the Bank, its borrowers and nonborrowing members alike, and we look forward to cooperating with the IDB during the conference and in its follow up.

It is a great pleasure to address this annual meeting of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation on behalf of the Republic of Paraguay.

I would like to begin by thanking the Brazilian people and authorities, particularly those of the state of Ceará and the city of Fortaleza, for their constant demonstrations of hospitality during our stay in this very beautiful spot on Brazil's Atlantic coast.

Overview and Macroeconomic Performance

The year 2001 ended for Paraguay with an economic performance which, although still preliminary, points to a reversal of a difficult cycle during the three-year period from 1998 to 2000. The figures indicate growth in GDP for the year of 2.5 percent, thanks mainly to better performance in the agricultural and financial sectors, despite the drop in international prices for soybeans and cotton, which make up over 40 percent of our exports. Inflation has been in the single digit range for the third consecutive year and the central government's fiscal deficit has fallen to 1.2 percent of GDP, compared with 3.7 percent in 2000.

We believe that these figures should be seen from the perspective of a year of recession in the international economy and a year in which the tragic and painful events of September 11 have led all peace-loving people to reexamine their own security and that of their loved ones. As a nation, we are ready to do whatever is necessary to play an active role in eradicating these manifestations of violence and to launch a frontal attack on those who allow such events to take place.

We expect a MIF technical cooperation project to be approved in July to improve the transparency of our financial sector. It will be the first Bank operation of this kind and we are certain that more will follow.

In 2001, for the first time in my country's history, we undertook a Staff-Monitored Program (SMP) with the International Monetary Fund. The program was successfully completed, achieving its goals for public indebtedness, international reserves, and the expected fiscal deficit.

In light of this experience, which the parties consider sufficient, and keeping the current regional and international economic climate closely in mind, we are negotiating a standby arrangement for the first time in more than 40 years, which we hope to sign during the first half of this year. Negotiation of this arrangement confirms the political will to consolidate the reform process, minimizing possible external shocks and providing strong support for achieving the established goals. We hope that this demonstration of openness will also open up options for financing, which are indispensable for implementing the necessary changes.

Public Sector Reform Program, Role of the IDB, Policy-based Lending

The central government is making steady progress in internal restructuring.

The program for modernization and strengthening of the fiscal administration that we are carrying out with financial support from the IDB will help the Ministry of Finance: (i) improve the legislative and regulatory framework; (ii) improve organizational structures; (iii) enhance internal processes and procedures and establish management control systems; (iv) expand the coverage and productivity of audits; (v) broaden the taxpayer base; (vi) integrate the information systems of the tax and customs administrations; and (vii) provide training for civil servants.

In addition to our earlier work, which we described in our address to the meeting in Santiago, Chile, we have continued to build the regulatory structure needed to carry through with the reform program. A number of bills were submitted to our National Congress last year.

Five of them are for restructuring the social security system. Others seek to reform the Central Government Organization Act and make changes in the tax structure. Still others are designed to improve transparency in government procurement and the administration of goods and services.

In the coming months, a new bill will be submitted on public bank reform, as well as a regulatory framework for the entities that will comprise the voluntary pension fund administration system.

Our social security reform program covers the pensions of civil servants and private sector workers and will demonopolize the system by incorporating private administrators.

Under the central government reform, the functions of the different agencies in the executive will be reorganized to increase their efficiency and transparency and reduce their relative weight in the national budget.

The recent progress in modernization and transparency in the central government has been fundamental. For example, judicial proceedings have been reformed with a new Criminal Code and Code of Criminal Procedure, which came into effect only a few years ago. We also have a new Government Financial Administration Act that will be supplemented with an act on government procurement and administration of goods and services. The procurement act is designed to streamline government procurement and make it transparent, while the goods and services administration act will reorganize the entire system of records and ensure accountability after goods have been procured.

Another line of action that should be mentioned as an example on account of its scope, implications and urgency is reform of the public banks which, for the reasons I have mentioned, is a priority on our current agenda.

With the support of international organizations, particularly the IDB and the World Bank, we intend to consolidate the seven public financial institutions that exist at present into a first-tier bank and a second-tier bank. The purpose of the reform is to improve the efficiency and transparency of this instrument, which is indispensable for our development, since, taken together, the sectors targeted account for more than 40 percent of national GDP.

These developments clearly indicate that our country still has a long way to go with respect to reforms. Accordingly, we firmly support the recent decision adopted by this meeting to clarify the financial instruments available to the Bank. We are convinced that this exercise has been very important, particularly with respect to the policy-based lending, and we hope that the new system will translate into greater support for reforms in our countries. We applaud all the efforts to ensure that the policy-based lending will have the desired development impact and welcome initiatives to evaluate this instrument and all of the other areas the Bank uses.

Role of the Private Sector

Today more than ever, we need to promote investment, reactivate the productive apparatus and boost productivity and competitiveness. Slow growth in GDP, its impact on revenues and rising social costs place very heavy pressure on our fiscal structure, creating constantly opposing forces.

Accordingly, every initiative to promote private sector participation in our economies should receive strong, decisive support.

The central government has been making efforts along these lines in the various areas over which it has direct and indirect control.

Privatization of the state-owned telephone company is at the final stage and is expected to be completed next month. Concession of the water supply is planned for the second half of this year. As one more example, at this meeting we signed a loan contract with the IDB that opens the door for US$10 million in financing for business development for small and medium-sized enterprises in Paraguay.

With respect to the Bank's other windows, we firmly support the increase in the intervention capacity of the Private Sector Department, particularly since it will be accompanied by a plan of action to address the needs of Group C and D countries, which is currently being discussed by the Board of Executive Directors. We urge the Board to make every effort to come up with an effective plan that contains targets and objectives that can be measured in the short and medium terms. We are aware that the problems in establishing the domestic conditions that are indispensable for private sector participation in our economies are true obstacles and are willing to work hard to overcome them.

We believe that the Inter-American Investment Corporation, given its special target market and internal strengths, has the potential to play an even larger role in our smaller economies. We must find creative alternatives for it to do so. One clear example that this can be done is the recent IIC operation in Paraguay, under which, with an excellent group of local investors, a prestigious international hotel chain will open in our capital city, an unprecedented milestone in my country.

Along the same lines, a special word on the Multilateral Investment Fund. In our address last year, we supported the extension of the MIF's mandate, which has now been discussed and approved by the Donors Committee, as well as the initiation of talks on its recapitalization. I would like to stress, once again, our conviction that the MIF still has a very important role to play. We therefore expect to participate in the near future in a round of talks on continuing this invaluable support for the private sector of our economies.

Last, I would like to highlight the importance of the decisive support provided by the Inter-American Development Bank, through the tireless work of President Enrique Iglesias and all of his dedicated and well-qualified staff.

It is a great honor for me to represent the Republic of Austria at this year's Annual Meeting of the Board of Governors of the Inter-American Development Bank. First of all, I would like to thank the people of Brazil, in particular those of the city of Fortaleza, for the warm welcome and hospitality they have extended to us, as well as their work hosting these meetings.

Since last year's Annual Meeting of the IDB in Santiago, Chile, the world and the perspectives for Latin America and for the Inter-American Development Bank have changed dramatically. To a certain extent, the Governors at the annual meeting in Santiago, by commissioning the Committee of the Board of Governors to consider proposals to enhance the Bank's capacity to respond to new requirements in its borrowing member countries, have shown their ability to take into consideration changing circumstances. However, nobody could have foreseen the kind of incidents that have taken place in the last twelve months. Moreover, President Iglesias established an External Advisory Group (EAG) to review Bank activities and reflect on the future role of the IDB in the region.

The report presented by the EAG presents a very serious, frank description of the situation of the countries and their people in the region. It is worthwhile to quote the most noteworthy parts regarding the current situation:

> *"As the Region proceeds into the twenty-first century, the extent of its social and economic needs can be gauged with reference to a few selected indicators. The 1990s brought to the Region, for example, an increase in unemployment and further deterioration in income distribution, which was already one of the worst in the world. Net external capital inflows experienced significant volatility over the decade, while domestic savings rates, capital accumulation and growth in total factor productivity stagnated. These were but some of the factors that contributed to a per-capita income growth that averaged only 1.5 percent a year, an improvement over the 1980s, but substantially below the 1960s and 1970s. The impact of these and other factors meant that by the end of the 1990s, 35–40 percent of the population was living in poverty.*
>
> *If the Region is to bring about an effective reduction in poverty, it will have to attain average growth in per capita income of 3.5 percent per year. This is more than double the Region's recent performance, and will be achievable only through substantial increases in productivity, competitiveness and innovation policies, capital accumulation, and institutional reform.*
>
> *This goal will be even more difficult to achieve, given the deterioration of external conditions facing the Region and which were already underway before the economic downturn in the U.S. and Europe and before September 11 and the Argentine crisis. It will take a concerted effort to restore the confidence of international investors, as well as to ensure against protracted economic decline and an erosion of the support for reforms that could trigger a downward economic and social spiral."*

This is a rather depressing account of developments over the last decade, in particular when compared with the optimism and positive attitude of the countries, their political leadership, and international institutions like the IDB, the World Bank, and the IMF with respect to the changes that took place during this period and the positive results those changes were expected to deliver.

Similarly, the most recent IDB Board document on profiles for sector strategies states in the section on growth for reduced poverty:

> *"Yet, the economic growth record of Latin America and the Caribbean has been disappointing. In the last five decades, all major regions of the world, with the only exception of Africa, have outperformed*

the region. As a result, the relative position of Latin America and the Caribbean in terms of per-capita income has fallen from second only to the developed world, to fifth place currently.

In the 1990s, average annual income per-capita growth in Latin America reached only 1.5 percent. At this rate, it would take about a century for the region to achieve the average income levels similar to the current levels of the developed world. Also, at this rate, the advances in poverty reduction would be clearly insufficient. Due to the economic growth levels of the 1990s, among other factors, in this decade the number of people living in poverty (with incomes under US$2 per day in purchasing power parity) increased by 8 million. It is clear that the region has not grown enough to meet the social demands and the poverty challenges it faces.

For the near future, the average annual growth of per-capita income in the region would have to reach 3.4 percent to reduce the percentage of people in poverty by half by the year 2015, which is one of the International Development Goals subscribed by the Heads of State. This is more than double the average per capita growth registered in the last decade. In fact, annual per capita growth rates of between 2 percent and 6 percent would be required for the attainment of the goal, depending on the country. In countries where the incidence of poverty is high, much greater effort will be required. For example, to achieve this goal in Central America, average annual per-capita growth will have to be 4.5 percent, three times the average for the Central American Isthmus in the 1990s."

Why are we underscoring these accounts of the situation after many years of serious efforts to improve people's living conditions and to give them a positive perspective for themselves and their children? We believe it is of the utmost importance to acknowledge that the volatility of net external capital inflows and the stagnation in domestic savings rates, capital accumulation and growth of total factor productivity are not natural disasters like hurricanes or earthquakes. These problems are basically man-made and identifying the underlying reasons for them should lay the foundation for remedial action.

What is the purpose of "protecting the reform process" if that process did not produce the results desired or expected, in particular with regard to poverty reduction, equitable growth and political stability of democratic government systems? To maintain or regain the credibility of future policies, we need to analyze what the problems with this process have been and take corrective measures regarding the reforms themselves and their sequencing.

What does that mean for the IDB Group operationally and institutionally? We fully subscribe to the notion that "the Bank focus on areas where it can play a key catalytic role so that its own limited resources can have a significant multiplier effect on the mobilization of other flows." This approach has to include a careful assessment of the role each of the instruments the IDB has at its disposal including their potential impact in the context of existing and projected policies.

Just before this year's annual meeting, the Governors approved a new set of policies, which, according to the annex to the respective resolution, will be developed by the Board of Directors and Management. We believe that flexibility provided by this approach is particularly important at a time when we have to seriously reconsider whether the policies that have been unquestioned and basically unquestionable for more than ten years have produced the expected results.

The primary focus of the Management and Board of the IDB will be to make sure that the public funds provided by the shareholders are put to the best use, as mentioned before. This certainly has to be done in close cooperation with the other institutions active in the region. However, the IDB's distinctive role should be to enter into discussions with the governments, the IMF and the World Bank to ensure that the right policies are introduced at the right time and that the appropriate supporting measures are taken so that the institutional and regulatory frameworks are in place for successful implementation of the new policies.

Taking the most recent example of Argentina, there are certainly a number of externalities that contributed to an economic downturn over the last five years or so. However, one can have reasonable doubts about the sequencing of reform policies if one takes into consideration the weak capacity of institutions at the state or municipal level to perform their duties when at the same time a large portion of public sector responsibilities were being transferred to them.

It is in this context that we would like to express a word of caution regarding two issues in particular:

- We would argue against the introduction of loans to subnational public authorities without a sovereign guarantee. The question is not whether IDB should extend loans to subnational entities or not; rather, such loans should be extended only with the consent and guarantee of the national government. For us, it does not make sense for an international institution like the IDB, whose exposure is guaranteed collectively at the end of the day by each and every member country, for the government of the country concerned to distance itself from the financial activities in any particular part of that country;

- The second issue has to do with IDB's private sector operations. Last year we approved the resolution increasing the cap on the IDB's private sector operations 5 percent to 10 percent of the overall volume of IDB's loan portfolio, as we agree that privatesector development is very important for the overall development of the countries and their people. The crucial question in this context is: what are the best instruments that should be used by IDB, whose financial capacity is created basically through guarantees by the public sector of member countries? What is the leverage of one dollar spent through an IDB loan

  - to improve public sector institutions;

  - to improve the regulatory framework; or

  - to invest in one single private sector entity, respectively?

We are convinced that a lot more remains to be done for the IDB and the World Bank to improve the public sector in terms of both the institutional and regulatory frameworks at the federal, state, and municipal government levels in the borrowing countries. Sometimes such improvements might be more useful than upfront privatization of services. Therefore, we welcome very much the strings attached to this increase in the cap on private sector lending.

In conclusion, we would like to thank the staff, Management and members of the Board for their good work since the last annual meeting. Let us emphasize that we strongly believe that the Inter-American Development Bank and the Inter-American Investment Corporation (IIC) should continue to do their best in supporting the countries in the region and their people to improve their living conditions.

SIXTH PLENARY SESSION

MARCH 13, 2002

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

First I would like to express my thanks to President Fernando Henrique Cardoso and the Government of Brazil, to the state of Ceará, represented by Governor Tasso Ribeiro Jereissati, and to Juraci Vieira de Magalhães, Mayor of this beautiful city of Fortaleza. I would also like to thank and acknowledge the Governor and Chairman of the Boards of Governors of the Bank and the Corporation, Minister Martus Antonio Rodrigues Tavares, for his valuable contribution to the success of this meeting.

I would now like to refer to the outcomes of our meeting, attended by over 4,000 people, including delegates from the 46 member countries of our institution, observers from four countries, and representatives of forty international and regional organizations. The number of participants who gathered for this meeting is truly exceptional.

The discussions held during this meeting centered around three main activities:

- the seminars that were held;
- the policy messages put forward during the plenary sessions; and
- the recommendations by the Committee and the Board of Governors as to the work of the Bank.

Once again, the seminars proved to be a significant part of our annual meeting. They provide an opportunity for dialogue with representatives of civil society, the private sector and academia, without detracting from the main purpose of these meetings, which is to provide an appropriate framework for the deliberations of the Governors. Seminars were conducted on economic, social and political issues. In the economic and social areas, our constant aim is to select issues of special relevance and topicality, particularly with respect to the country and region in which each meeting is held.

In the economic field, we held a seminar entitled "Reforming Reform," in which we examined the structural reforms of the past decade. It is important that we address this issue, now the subject of intense debate among our governments, in the academic world, and in public opinion. Here in Fortaleza, we have seen protests by individuals who are apprehensive about globalization and concerned about what institutions such as ours do. These are voices to which we must listen, and concerns that in some way we must incorporate into our analysis. Reviewing reforms is one way of responding to this critical scrutiny in an intellectually honest and open way, giving those of us with responsibility for the management of our institutions an opportunity to reflect on the institutions' role in addressing these issues. The seminar questioned why reforms have worked well in some countries but not in others. What lies behind such success or failure? These are fundamental questions that will remain a topic of debate for some time to come.

A second seminar entitled "The Resurgence of Macro Crises: Causes and Implications for Latin America" focused attention on the immense social and economic cost of the crises that several countries in Latin America regrettably have suffered over the course of the past ten years. These crises have gone hand in hand with balance of payments problems, decreases in production and employment, higher levels of poverty, and a rise in social exclusion. This new breed of crisis, as Michel Camdessus has termed it, has been extremely burdensome for Latin America. It is important to reflect on why they come about and how we can protect ourselves from external instability, in addition to the instability stemming from deviations in our countries' domestic economic policies. Naturally the issue of the resurgence of macro crises such as the one now affecting Argentina had to be included in the discussion.

A third economic seminar entitled "Looking beyond Our Borders: Opportunities and Challenges of the New Regionalism" dealt with another major challenge in Latin America that includes a deepening of its regional integration, the FTAA negotiations, and negotiations by countries or groups of countries with the United States and with Europe. It is extremely important to learn lessons from past experiences and to understand the close relationship that exists between these negotiations and domestic politics. This is a very topical issue with vast implications for the future. Accordingly, we must contribute to thinking on the topic, and assist countries in preparing themselves for these negotiations, as was made clear during the seminar.

A fourth seminar on economic issues was entitled "Physical and Regional Integration: the Puebla-Panama/South American Plan." Moving forward with the economic and political integration processes in Latin America is a key issue. In recent years, these processes have been supported largely through two initiatives: the initiative of President Cardoso of Brazil concerning physical integration in South America, and the proposal of President Fox of Mexico on the integration of Mexico and the Central American isthmus. These initiatives open an even wider window for regional physical integration. The Puebla-Panama Plan is just one example. The cooperation fostered by this plan made it possible for an initiative that had been under discussion for over 30 years to go forward: the Central American electric interconnection system. This topic also opens up significant opportunities for the Bank to expand its regional development cooperation efforts. I believe that it is important for us to continue to support the infrastructure sector, as our institution has done since its founding.

Another major economic theme was addressed in a seminar entitled "Sustainable Tourism Development," which is of special interest to Brazil's Northeast, particularly the state of Ceará. A total of 2,800 people participated in this seminar, including 500 staff members of the Banco do Nordeste, which has so often partnered with us, and over 2,000 individuals from the nine states of Northeast Brazil, who participated via teleconferencing. The meeting was attended by all the Governors of the states of Northeast Brazil, and of other states throughout Brazil. Tourism development was identified in the seminar as a powerful engine for economic growth. Also cited was the successful experience of Brazil's Northeast, promoted by the Bank-supported PRODETUR project, which is one of the most concrete and important economic development factors in this region.

In terms of social issues, with the cooperation of the governments of the Nordic countries and the participation of the Executive Director of UNAIDS, for the first time we reflected on the problem of AIDS in the region. The seminar entitled "HIV/AIDS and Development: Challenges and Responses in Latin America and the Caribbean" examined issues deriving from this epidemic that have not been studied in depth, such as gender, the effect of stigma and discrimination, and the formulation of a public policy outside the health sector. The seminar also examined critical aspects of the economic impact of the epidemic and financing for HIV/AIDS programs, as well as the formulation of strategies to address the epidemic among the most vulnerable groups. The Bank has begun to address this issue as a central theme in the health sector, to which we provide our wholehearted support.

The second social issue was discussed in the seminar entitled "Development of Rural Economies in Latin America and the Caribbean: Sustainable Management of Natural Resources, Land Access, and Rural Finance," which was held with the support of the Government of Germany. The seminar's general objective was to analyze specific regional experiences to reduce rural poverty through sustainable natural resource management. Rural development has been one of the Bank's focuses of activity since its inception, and is an area of action that needs to be revisited, to which the efforts of all cooperation agencies involved in the sector should be committed.

A third seminar in the social sector was entitled "Strategic Issues of Water Use and Management in Latin America and the Caribbean: An Action Agenda." Seminar participants analyzed potential solutions for the problem of water in our region and discussed the importance of having the IDB, the World Bank, other financial and technical assistance institutions, and the private sector join together to support the countries of the region in implementing and financing these solutions, within an action and financing plan; and how that plan could be integrated into the financing initiatives that will be presented at the Third World Water Forum to be held in Japan in March 2003.

A fourth topic was covered in the seminar entitled "Higher Education and Science and Technology in Latin America and the Caribbean: Responding to Expansion and Diversification," in which the rectors of a number of universities participated. The seminar emphasized the consolidation of evaluation and accreditation systems as the greatest trend in the reform of higher education in the region, along with the expansion of distance learning and non-university higher education. With regard to the science and technology sector, note was taken of the clear trend toward establishing strong ties among the productive sector, research institutions, and the government to promote innovations relevant to social and economic development.

One of the debates enriched by Brazil's intensely interesting experience was covered in a seminar entitled "Social and Environmental Dialogue: Learning from Brazil's Councils on the Environment." The experience of Brazil's Councils on the Environment reveals that cooperation between national and subnational governments and NGOs is feasible, and results in environmental policies supported by popular commitment to their implementation, making these policies realizable and sustainable.

The seminar entitled "Young Leaders in the 21st Century" enabled young people and specialists in youth issues to share lessons learned regarding successful strategies and practices in youth entrepreneurship, learning, and volunteering. Our first meeting on youth development took place at the Bank's annual meeting in Israel, in 1995. Some 150 youths took part, the first of a network that now numbers 12,000 young people interested in discussing the experience of youth entrepreneurship. This year we also had the experience of youth volunteering, and we rewarded twelve initiatives of youths involved in social ventures and volunteering.

With regard to the political sphere, this year we held a round table that addressed the issue of democracy in Latin America today, its risks, problems, and outlook for the future. Significantly, the round table was attended by President Cardoso of Brazil, President Toledo of Peru, President Noboa of Ecuador, former President Aylwin of Chile, and Mr. Formigoni, President of Italy's Lombardy region. Hundreds of people who share a deep concern for the functioning of democracy took part in the discussion. The question at issue is how to strengthen democracy by resolving social problems. Overcoming the social deficit in Latin America, which compromises social, economic, and political stability, remains a primary unfinished task and a significant challenge for Latin America.

In the social sector, we also held a meeting on Bank programs that address the consolidation of peace. We are very pleased that the presidents of Ecuador and Peru were able to participate in this event. These countries had been estranged as a result of a border dispute that affected them for 50 years and has now been successfully resolved. In that context, a support program was established with the cooperation of various governments and multilateral organizations, including the Andean Development Corporation. On the occasion of this meeting, we were able to renew our commitment and that of other institutions to the consolidation of the Ecuador-Peru border.

I would also like to mention other activities that enriched our meeting, such as the magnificent cultural exhibition of modern art arranged by the state of Ceará and the city of Fortaleza. I would also like to cite the presentations by the Youth Ballet and Children's Ballet, the embodiment of a very interesting initiative by the state of Ceará to include children, some from the most deprived segments of society, in education through art and social involvement. This is a valuable social contribution and we appreciate it being shared with us.

Now I would like to turn to the remarks that the Governors delivered during this meeting, and thank them for their active participation and expressions of appreciation for our work. I shall focus on some particularly important messages, some regarding policy and others addressing the work and workings of the Bank, issues raised during the discussions of the Committee of the Board of Governors and in the Governors' addresses during the plenary sessions.

First I will refer to concerns involving the current economic and social situation of Latin America. In our region, practically without exception, we are seeing a deepening of the economic recession. Stagnation for two consecutive years certainly has serious social consequences evidenced by increases in poverty, exclusion, and unemployment. Concern for this problem was a shared point of departure in the addresses delivered this year.

Accordingly, we must think about how the Bank may contribute to the efforts of Latin America to make its way out of this stagnation.

In terms of these efforts it is important to note, as President Toledo stated so clearly, that faced with moments of crisis, the region's countries are demonstrating a will to avoid the temptations of easy populist fixes. This shows the political maturity of Latin American leaders who are opting to face these problems in keeping with an orthodox macroeconomic approach.

Secondly, a central issue in our deliberations was support for regional integration and all that the positioning of Latin America in the global economy means, a point that will be a focus of the Bank's attention in coming months.

A third topic in our discussions was poverty and exclusion. We were reminded repeatedly that this is the central focus of the Bank, and there were calls to make this the pillar on which cooperative relationships are built with our countries. We understand how imperative it is to fight for the protection of social conditions now that the adverse global circumstances we face are so different from those of the 1990s. We must identify appropriate policies, such as those mentioned with respect to microenterprise and social safety nets. These concerns of the Governors are mandates for the Bank that reaffirm its commitment to combat poverty and exclusion.

A fourth message concerned an increase in productivity and support for growth. The Governor for the United States reminded us that in Latin America, productivity grew at an average rate of 0.7 percent during the 1990s, in contrast to the countries of Asia where the rate stood at 2.0 percent to 2.5 percent. He invited the countries of Latin America to make an extraordinary effort to increase productivity, an important message that supports the Bank's desire to work with the countries on activities to promote competitiveness. We will work with countries that aim to identify and resolve productivity problems affecting the competitiveness of their economies. Next month we will hold an initial seminar with the countries of Central America in El Salvador, specifically to discuss competitiveness. It is important to note that social problems will deepen if we are unable to improve productivity significantly.

A fifth message from the Governors concerned the commitments of the United Nations Millennium Declaration. Governments have committed themselves to a series of goals, some of which are within reach while others are not, as is the case with reducing critical poverty by 2015. We must take up this issue in dialogue with the governments. To that end, we have proposed that the issue be included in the preparation of country papers, and we intend to discuss this with the Board of Executive Directors. The Board is making adjustments in the guidelines for country papers, to make them an instrumental element in the dialogue with each of our borrowing member countries.

A sixth message related to the Bank's work in support of the private sector. The need to promote an atmosphere favorable to the development of this important sector was underscored. The issue is not merely one of resources, but also of bringing about a legal and regulatory framework that inspires confidence in the private sector and among foreign investors.

Seventh, the Monterrey Conference was also discussed. We will take part in that conference next week and will work with the ministers to ensure that the conference attains its objectives. This is an important conference that puts forward an initial call for cooperation towards development. Yet it is not the only forum to do so, because here, too, clear messages are being sent concerning the role of international trade for developing countries and the need to step up the mobilization of internal resources. The issue is one of a comprehensive vision of development financing, a task in which we play a significant role.

Lastly, in another significant policy message, the Heads of State and the Governors affirmed the support of their governments for the Argentine Republic with respect to the difficult situation that the country is now experiencing. I would like to acknowledge this gesture of solidarity from the countries in the region, and express the desire that the negotiations under way with the International Monetary Fund may soon reach a felicitous conclusion. Our decision, clearly, is to take part in the joint efforts within our sphere of competence, once negotiations with the IMF are concluded.

With regard to the Bank's work, one significant theme was confirmation of the resolutions of the Committee of the Board of Governors, which the governments validated at this meeting. These resolutions give us the frame of reference for the Bank's cooperation activities over the next three years. In accordance with this frame of reference, US$26 billion has been allocated for these purposes, of which US$15.5 billion is earmarked for investment project lending.

Based on these resolutions, the Bank has three major paths to follow in the coming years: (a) investment lending, (b) policy-based lending, which has made significant contributions to the region in recent years, and (c) the emergency line of credit. While the latter functions in conjunction with an IMF agreement, its purpose is to inject resources into areas of the economy that help alleviate the social costs of the adjustment process and maintain reforms in progress.

The social area will therefore be the entryway for any emergency program that the Bank supports in the future. It is important to note that we are not the International Monetary Fund. Our function is distinct, we are a development institution that must support adjustment programs to the extent that it is able, because without adjustment programs there is no orderly economy, and without an orderly economy, there is no development. The Governors have given us a very clear mandate, for which I am most grateful. We now know the role of each window with which we work.

A second issue along these lines relates to the effectiveness of development cooperation, a central concern that will dominate the work of Management and the Board of Executive Directors in the coming months. It is rightful for the governments to question us about what we are doing, and for us to question ourselves about what we wish to achieve. The Executive Vice President gave a presentation on this topic to the Committee of the Board of Governors, and we have already submitted a report from the Office of Evaluation and Oversight on this issue for consideration by the Board of Executive Directors. The message we have received at this meeting is very important, in my view, and one that we interpret in the broadest possible sense, concerning the need for all Bank operations to have clear targets that make it possible to define benchmarks to assess our institution's effectiveness.

On a related topic, reference was also made to results-based management. We heard, once again, that we must move away from an approval-based culture and adopt a results-based approach. This is a most important issue, in my view. It is a central condition of our cooperation with member countries.

Another key message involved the issue of capital adequacy and risk analysis. A report on this issue, currently in preparation by the Finance Department, will soon be presented to the Board of Executive Directors. For now, the Bank must continue its traditional policy of extreme prudence and transparency, which gives us credibility in the international capital markets. This is an issue that we will be addressing seriously in the coming months.

The report of the External Advisory Group was also submitted to the Board of Executive Directors and the Committee of the Board of Governors. The Governors had an opportunity to express their views on various aspects of the report. This was a thought-provoking exercise undertaken by individuals of recognized authority, who have set out a series of issues that do not replace the institutional strategy that you approved but offer us another perspective for thinking about what the work of the Bank could be, and what instruments it will use in coming years. Some Governors welcomed these ideas with interest while others expressed doubts, but it is important that we discuss them and that they invigorate the debate. The Board of Executive Directors will address these ideas in the months ahead.

Another message we have noted refers to support for the Inter-American Investment Corporation. The Corporation has shown that it is performing a very useful task in the region. The admission of new members has been welcomed by all, and the increase in its capital is a sign of the governments' appreciation for what the Corporation does. Countries that have not yet benefited from a more active presence by the Corporation have signaled their interest in receiving particular attention. The creation of an External Group was proposed for considering future avenues for the institution's activity, and I welcome this initiative.

The Multilateral Investment Fund was highly praised as a valuable tool for cooperation. The countries have shown appreciation for its work and have supported the idea of maintaining the Fund in the future. The Donors Committee of the Fund is considering a possible future replenishment of its resources. The Fund has earned the right to continue in operation, and I am very pleased at the Governors' expressions of satisfaction and their support for strengthening its presence in Latin America and the Caribbean.

Another important message made clear by the statements of many Governors is a reiteration of social priorities in the Bank's work. Other topics referred to include the Bank's presence in social and environmental issues as expressed in the institutional strategy.

In this very preliminary synthesis, I have attempted to bring together the richness of our discussions and the Governors' addresses. I would like to thank all of you for your support of our institution, for your suggestions, and of course, for your continued interest in the work of the Bank.

I will conclude with two final comments:

As became clear during this meeting, Latin America and the Caribbean are going through difficult times and in some cases these experiences are painful. Gains made in years past by the countries of the region have helped them to better defend themselves under the current circumstances. On a previous occasion, I said that if Latin America had had to face today's international situation with the macroeconomic circumstances that existed ten years ago, it would have been a catastrophe. The improvement in political maturity has prevented a return to authoritarianism as might have happened in the past. However, we still face external vulnerabilities and a considerable social debt. All of this certainly constitutes a great challenge for us all, particularly with regard to ensuring that the social debt can be addressed through a significant increase in the efficiency, competitiveness, and above all, the economic growth of the countries in the region.

My second comment concerns the Bank, which today plays a much more significant role in the region. While the Bank has been useful over the past forty years, it must continue to be so in coming years. To that end, the Board of Executive Directors and Management are analyzing new instruments for reaffirming the targets of the institutional strategy. We must be capable of positioning ourselves in the situations facing the world and the region, and we must strive to maintain the relevance of the Bank. Institutions such as ours legitimize the appreciation of the States in public opinion by the extent to which they are able to get out in front of present circumstances and resolve the problems facing governments and society. For all these reasons, I say untiringly to my colleagues at the Bank that we must maintain the spirit of our institution. We are an institution of service, of service to governments and society, and we must reaffirm the sense of ownership of the Bank on the part of its borrowing member countries. We must continue to call for dialogue, and for the analysis required to learn from these difficult times that the countries and the region are now experiencing. Of course, we must continue to offer nonfinancial services that are extremely important and fundamental, and we must continue to lend, which is the Bank's main work. These are the tasks arising from the Forty-third Annual Meeting of the Bank here in Fortaleza.

Once again I would like to thank the Governors for their presence, and all those who have contributed to the success of this meeting.

REPORT 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-second Meeting in Santiago, Chile, on March 18, 2001.

During the period since the Forty-second Annual Meeting of the Board of Governors, held in Santiago, Chile, in March 2001, the Committee of the Board of Governors met on July 2–3, 2001, November 28–29, 2001, and January 17–18, 2002, in Washington, D.C., United States of America.

I. Eighty-second Meeting (Santiago, Chile, March 18, 2001) (document CA-427)

Summary of the Eighty-first Meeting of the Committee

The Committee approved the summary of the Eighty-first Meeting of the Committee, held in New Orleans, Louisiana, United States of America, on March 26, 2000 (document CA-419).

Introductory remarks by the President of the Inter-American Development Bank: Building a more responsive Bank

The President of the Bank, Mr. Enrique Iglesias, gave a presentation in which he discussed the institutional strategy, the lending policy, and private sector operations,[1] topics that were developed separately in three documents presented to the Governors.[2] He indicated that the role of multilateral development banks was currently being discussed at forums such as the Development Committee, in the context of the new international financial architecture. He stressed that the Eighth Replenishment objective of poverty reduction would continue to be the central focus of the institution and, together with governance, competitiveness, integration, and the environment, must be part of a comprehensive development agenda for the countries in the region. Lastly, with regard to instruments, Management's proposal sought to enhance the Bank's response capacity in relation to the countries' demands arising from the new realities.

The Governors for Nicaragua, Mexico, the United States of America, Spain, Italy, the Bahamas, Canada, Japan, the United Kingdom, France, Argentina and Brazil made statements on this matter.[3]

Enhanced HIPC Initiative. Status report on the IDB's participation (document CA-420-2)

The Secretary of the Bank reported that, as of March 16, 2001, sufficient votes had been received to fulfill the provisions of the Agreement Establishing the Bank with regard to quorum and majority in favor of the proposed resolution contained in document AB-2086 (concerning the agreement on the Highly Indebted Poor Countries Initiative), which had been submitted on February 14, 2001 for consideration by the Board of Governors by the procedure of taking a vote without calling a meeting.

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[1] For more details, see document CA-425.

[2] Institutional strategy implementation (document CA-422); Selected lending issues (document CA-423); Response to the Report on Private Sector Operations by the External Review Group (document CA-421).

[3] See paragraphs 3.2 to 3.13 of document CA-427.

Mr. Iglesias welcomed the adoption of the resolution and expressed his appreciation to the Governors of the member countries that had made it possible to reach such a solution.

II. Eighty-third Meeting (Washington, D.C., July 2–3, 2001) (document CA-431 Rev.)

Summary of the Eighty-second Meeting of the Committee

The Committee approved the summary of the Eighty-second Meeting of the Committee, held in Santiago, Chile, on March 18, 2001 (document CA-427), to which the suggestions of the Governor for Austria were added.

Issues and outcomes

The Chairman of the Committee, after extensive discussion among the Governors, synthesized the issues that had been raised and the outcomes of the meeting:

Development effectiveness

The Governors underlined the critical importance of improving the mix of instruments to optimize the development impact of the Bank's action and to ensure that development objectives were properly safeguarded under an expanded policy-based lending (PBL) program.

Distributive concerns

A number of Governors expressed concern about the potentially negative impact of a higher PBL cap and new lending modalities on the distribution of operations among countries and sectors. Management reaffirmed that the benchmarks for lending among countries according to poverty reduction objectives would still determine Bank lending.

Financial implications

The Governors noted that, from 2002 forward, the binding constraint would be the lending authority and not the reserve-to-loan ratio, and that the speed of disbursement of operations would drive the sustainable lending level.

Tasks to be performed

To support the work of this Committee in relation to Resolution AG-5/01 as adopted by the Governors in Santiago, the Committee requested that the Board of Executive Directors continue to provide information and analysis it considers relevant, and to examine in this regard the following areas:

(i) Investment lending. Legal issues related to eligible expenses in the application of the matrix with regard to counterpart financing;

(ii) Financial projections using the historical disbursement profile for PBLs;

(iii) Analysis of Mexico's proposal;

(iv) Mechanisms to improve dialogue with and monitoring of borrowing countries, and evaluation of the effectiveness of lending instruments;

(v) Evaluation of the emergency lending program;

(vi) Presentation of IDB lending instruments in the form of a matrix stating purpose, disbursement profile, eligibility, monitoring mechanisms, etc.;

(vii) Indication of the relationship between the proposed instrument and the institutional strategy;

(viii) Quantification of the effect of different lending scenarios on the Fund for Special Operations.

III. Eighty-fourth Meeting (Washington, D.C., November 28–29, 2001) (document CA-440)

Summary of the Eighty-third Meeting of the Committee

The Committee approved the summary of the Eighty-third Meeting of the Committee, held in Washington, D.C., United States of America, on July 2–3, 2001 (document CA-431 Rev.).

Communication sent on October 5, 2001 by the multilateral financial institutions to the International Monetary and Financial Committee and the Development Committee (document CS-3387)

The President of the Inter-American Development Bank, Mr. Enrique Iglesias, described the process of coordination underway among the various multilateral financial institutions in response to recent developments affecting the world economy, and in particular economic recession in the developed countries and the September 11, 2001 terrorist attacks in the United States. This coordination process was the subject of a communication sent by these agencies to the International Monetary and Financial Committee and the Development Committee on October 5, 2001.

Enhancing the response capacity of the Inter-American Development Bank (document CA-434)

As requested by the Board of Governors in the 2001 Annual Meeting, the Committee of the Board of Governors received proposals to increase the Bank's capacity to respond to the countries' new requirements for assistance.

One proposal put forth three modalities: crisis lending, conventional lending, and fast-disbursing lending.

This proposal was an important contribution to the discussions and was generally received with interest by the Governors, who reacted favorably to the idea of creating a crisis modality. The Governors also received with interest a proposal for greater flexibility regarding the foreign exchange matrix caps. However, before a final decision could be made, additional analysis by the Board of Executive Directors and Management was required.

The Committee also received a proposal from Japan that would require further analysis.

The Committee requested that the Board of Executive Directors and Management, on the basis of all of these proposals, analyze options to increase fast-disbursing lending with special attention to maintaining the financial soundness of the Bank. The Board of Executive Directors and Management would prepare a paper for consideration by the Governors at the next meeting of the Committee.

The Governors agreed that it was crucial to ensure that development objectives were properly safeguarded in all of the Bank's operations. In this respect, the Committee instructed the Board of Executive Directors to prepare a report with Management on enhancing the development effectiveness of all the Bank's lending operations.

The Committee also instructed the Board of Executive Directors to analyze new lending instruments and to provide recommendations at the next Committee meeting.

The Governors reaffirmed the validity of the conclusions contained in the summary of Eigthy-third Meeting of the Committee. In this respect, the Governors emphasized the importance of evaluation and monitoring of Bank programs.

IV. Eighty-fifth Meeting (Washington, D.C., January 17–18, 2002) (document CA-444)

Summary of the Eighty-fourth Meeting of the Committee

The Committee approved the summary of the Eighty-fourth Meeting of the Committee, held in Washington, D.C., United States of America, on November 28–29, 2001 (document CA-440).

Management's proposal to enhance the response capacity of the Bank given the changing needs of the borrowing countries[4]

After an extensive informal discussion, the Chairman of the Committee reported that agreement had been reached to submit a proposed resolution to the Board of Governors that would put in place a set of measures to enhance the response capacity of the Inter-American Development Bank.

Lending framework

A new lending framework would be approved, consisting of three categories of lending: investment lending, policy-based lending, and emergency lending, subject to the specific limitations and requirements set forth below.

The lending framework would be implemented as of January 1, 2002. The Board of Executive Directors will review the results of implementation of the lending framework, report on the findings, and provide recommendations for consideration of the Board of Governors at the Annual Meeting of the Board of Governors to be held in 2005. This review would also include the implementation of: (a) measures to enhance the Bank's development effectiveness; (b) measures to enhance the development effectiveness of each lending category, particularly policy-based and emergency lending; and (c) the establishment and utilization of new lending instruments.

The Bank would adopt measures to strengthen the development effectiveness of all the instruments of its lending categories. These measures would address the following aspects to improve quality at entry and the quality of the Bank's portfolio: (a) operative aspects of programming and project preparation and execution; (b) internal organization and approval procedures for operations; (c) monitoring and evaluation systems; (d) continued efforts to strengthen country programming; and (e) continued efforts to strengthen coordination and harmonization with other bilateral donors and multilateral financial institutions.

Investment lending

The Bank would focus on increasing borrowers' capacity to use investment lending.

The policy regarding the percentage of foreign exchange financing of total costs established in paragraphs 2.91 to 2.94 of Document AB-1704 would be modified as indicated in the "proposed text" included in document CS-3400 of January 11, 2002.

Conventional investment loans would have a minimum disbursement period of three years.

The existing emergency reconstruction facility would be expanded to include non-market, unnatural, and unanticipated emergencies.

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[4] Outline of Management's proposal (document CA-439); Management Proposal—Lending Framework (document CS-3399); Scenario analysis of the tradeoffs in the amounts of investment, fast-disbursing, and special lending (document CS-3404).

Policy-based lending

The percentage limit on the amount of policy-based lending established in paragraph 2.55 of document AB-1704 would be replaced by nominal lending limits of: (a) the equivalent of US$4.5 billion of Ordinary Capital resources during any consecutive three-year period, and the equivalent of US$1.5 billion of Ordinary Capital resources during any one-year period; provided, however, that such annual limit may be increased by up to an additional 15 percent; and (b) the equivalent of US$300 million of the resources of the Fund for Special Operations during the period between January 1, 2002 and December 31, 2004.

All policy-based loans must have clear goals and objectives and include measurable indicators approved by the Board of Executive Directors. Measures would be introduced immediately to enhance the instrument's development effectiveness.

Policy-based loans would have a minimum disbursement period of 18 months.

Emergency lending

Emergency loans would be designed to address financial emergencies in the region. A revolving aggregate amount of up to the equivalent of US$6 billion of the Ordinary Capital resources could be approved for such loans starting in 2002 and continuing thereafter.

The Board of Executive Directors would seek mechanisms to ensure that emergency lending resources would be available to all borrowing member countries in need of such resources.

The primary objective of emergency lending would be to provide financial support to help address the effects of international financial crises on the region's economic and social progress, to mitigate the effects of crisis on the poor and vulnerable, protect funding for social programs that benefit the poor, and avoid reversal of policy reforms.

All emergency loans would fit within a macroeconomic stabilization program endorsed by the International Monetary Fund.

The Board of Executive Directors would be authorized to define the financing terms (on a premium basis), conditions and eligibility criteria of emergency loans, taking into account the need to maintain the financial soundness of the Bank, the lessons learned from the 1998–99 emergency lending program, and the terms established by other international financial institutions that would participate in such efforts.

Proposed foreign exchange financing (the matrix) (document CS-3400)

The Committee recommended that the proposal set forth in document CS-3400 include the proposed resolution and the annex thereto that were to be submitted to the Board of Governors for a vote.

For information

- **IDB development effectiveness (document CS-3401)**
- **Summary of OVE work on development effectiveness (document CS-3402)**
- **Progress report on the status of the proposed new lending instruments (document CS-3403)**

The Committee took note of the documents distributed for information.

Other distribution: Board of Executive Directors, Managers, Representatives

REPORT 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-third Meeting in Santiago, Chile, on March 17, 2001. No meetings have taken place since then.

I. Twenty-third Meeting—Santiago, Chile, March 17, 2001 (document CII/CA-80)

Summary of the Twenty-second Meeting of the Committee

The Committee approved the summary of the Twenty-second Meeting of the Committee, held in New Orleans, Louisiana, United States of America, on March 25, 2000 (document CII/CA-78).

General Increase in Resources of the Inter-American Investment Corporation. Status of subscription of shares and payment of installments, and admission of new members. Progress report

The General Manager presented a summary of the Corporation's activities in 2000, reporting that the Board of Executive Directors had approved 19 projects in eight countries and three regional projects, for a total of US$143 million. The Corporation had closed the year with positive financial results, and its sound financial position and favorable outlook were acknowledged by Standard & Poor's, which had assigned it a credit rating of AA in December 2000.

Although the Board of Governors had approved a US$500 million capital increase in 1999, only 45 percent of the total to be paid by the member countries against the first installment, which fell due on October 31, 2000, had been received.

The Secretary reported that, on March 16, 2001, sufficient votes had been received to consider adopted the three draft resolutions attached to document CII/AB-685-9 (concerning modification of the capital structure; the admission of Belgium, Finland, Norway, Portugal, and Sweden to membership; and the amendment of the Agreement Establishing the Corporation).

Statements were subsequently made by the Governors for the United States of America, the Netherlands, Spain, Nicaragua, El Salvador, France, Mexico, and Japan.[1]

Lastly, the Chairman of the Committee welcomed Belgium, Finland, Norway, Portugal, and Sweden to the Corporation.

Other distribution:

Executive Directors, IDB Managers, IDB Representatives

[1] See paragraphs 3.3 to 3.9 of document CII/CA-80.

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