INTER-AMERICAN DEVELOPMENT BANK
INTER-AMERICAN INVESTMENT CORPORATION

PROCEEDINGS

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

Sixteenth Annual Meeting of the
Board of Governors of the Corporation

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FOREWORD

This publication contains the official record of and additional information on the Forty-second Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Sixteenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation, held jointly in Santiago, Chile, from March 19–21, 2001. It includes the resolutions approved between the Forty-first and Forty-second Annual Meetings of the Bank and those approved during the latter of these meetings, as well as the resolutions approved between the Fifteenth and Sixteenth 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 Temporary Alternate Governor for the United States, Mr. William E. Schuerch. The Agendas of the meeting of the Bank and the meeting of the Corporation (see page 3) 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. Nicolás Eyzaguirre Guzmán, Governor for Chile, was elected Chairman of the Boards of Governors.

The Inaugural Session was attended by His Excellency Mr. Jorge Batlle, President of Uruguay; His Excellency Mr. Fernando De la Rúa, President of Argentina, and His Excellency Mr. Ricardo Lagos, President of Chile.

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 189.

2. The Annual Report of the Bank and financial statements for 2000

   During the Second Plenary Session, the President of the Bank reported to the Board of Governors on the activities conducted by the institution in 2000 and on the current situation of and prospects for Latin America and the Caribbean.

   During the Second Plenary Session, the Governors adopted Resolutions AG-1/01, AG-2/01 and AG-3/01, 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 31 December 2000.

   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$34.5 million in convertible currencies from the General Reserve of the Fund for Special Operations, as set forth in Resolution AG-2/01.

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

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1 Documents AB-2088 and CII/AB-742 contain the text of these reports.

2 Document AB-2101, CII/AB-752 contains the text of this address.

During the Fifth Plenary Session, the Board of Governors adopted Resolution AG-4/01 concerning the sites and dates of future annual meetings of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation, whereby appreciation was expressed for the invitations extended by the Governors for Brazil, Italy, Peru, Belgium, The Bahamas, Japan, Panama, Mexico and Costa Rica. The Board of Executive Directors was asked, in accordance with the procedure for determining the site of the Annual Meeting appearing in Resolution AG-1/76, to submit its recommendations in due course to the Board of Governors, pursuant to the terms of reference set forth in document AB-476-2.

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

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

At the Inaugural Session, the Board of Governors 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 193.

2. Annual Report of the Corporation and financial statements for 2000

During the Fourth Plenary Session, the Governors adopted Resolution CII/AG-1/01, approving the financial statements of the Inter-American Investment Corporation for the financial year ending December 31, 2000, 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]

Carlos Ferdinand
Secretary of the Bank and of the Corporation

[3] Document CII/AB-742 contains the text of this report.

AGENDA OF THE FORTY-SECOND 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 2000:

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

4. 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 SIXTEENTH ANNUAL MEETING OF THE BOARD OF GOVERNORS OF THE INTER-AMERICAN INVESTMENT CORPORATION

1. Election of the Chairman of the Board of Governors

2. Report of the Committee of the Board of Governors on its work since the Fifteenth Annual Meeting

3. Annual Report of the Corporation. Financial statements for 2000

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

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

RESOLUTION AG-5/00

REGULATIONS OF THE BOARD OF GOVERNORS

The Board of Governors

RESOLVES:

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

"(a) The Board of Governors shall hold a regular meeting annually at such date and place as the Board itself may determine. The site shall be determined by rotation among the member countries, with meetings being held in a nonregional country once in every three-year period and in regional countries the other two years. However, the Executive Directors may change the date and place of the meeting when there are circumstances or reasons justifying such action."

The effective date of this resolution shall be January 1, 2004.

(Adopted June 9, 2000)

RESOLUTION AG-6/00

REMUNERATION OF THE PRESIDENT OF THE BANK

WHEREAS:

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

The Board of Governors

RESOLVES:

To accept the recommendation of the Committee and, pursuant to Article VIII, Section 2(b)(iii), of the Agreement Establishing the Bank, to increase by 8.2 percent the remuneration paid to the President of the Bank, representing a 10.3 percent increase in his salary and a 4-percent increase in his representation expenses, effective July 1, 1999.

(Adopted June 29, 2000)

RESOLUTION AG-7/00

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 the Committee and, pursuant to Article VIII, Section 2(b)(v), of the Agreement Establishing the Bank, to increase by 3.5 percent the remuneration paid to the Executive Directors and by 4.1 percent the remuneration paid to Alternate Executive Directors, effective July 1, 1999.

(Adopted June 29, 2000)

RESOLUTION AG-8/00

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

The Board of Governors

RESOLVES:

That the Forty-second Annual Meeting of the Board of Governors will be held in Santiago, Chile, from March 19–21, 2001.

(Adopted August 28, 2000)

RESOLUTION AG-9/00

SELECTION OF OUTSIDE AUDITORS

WHEREAS the Board of Executive Directors has established that Bank Management use international competitive bidding procedures as the basis for making a recommendation to the Board of Governors for the selection of outside auditors;

WHEREAS Bank Management conducted an international competitive bidding process for audit and related services for the five fiscal years 2000 through 2004;

WHEREAS the firm of Arthur Andersen LLP was selected as a result of the international competitive bidding process and has agreed with the Bank to a contract for external auditing services for the five fiscal years 2000 through 2004; and

WHEREAS the Board of Executive Directors has recommended to the Board of Governors that the firm of Arthur Andersen LLP be selected to serve as outside auditors of the Bank with respect to each of the fiscal years 2000 through 2004.

The Board of Governors

RESOLVES:

That, pursuant to Article VIII, Section 2(b)(x) of the Agreement Establishing the Bank, the firm of Arthur Andersen LLP is selected, with respect to each of the fiscal years 2000 through 2004, to serve as outside auditors to certify to the general balance sheet and the statement of profit and loss of the Bank, in accordance with Section 10 of the By-Laws.

(Adopted September 26, 2000)

RESOLUTION AG-6/01

AGREEMENT ON HEAVILY INDEBTED POOR COUNTRIES (HIPC) INITIATIVE

The Board of Governors

RESOLVES THAT:

1. The Report of the Working Group of the Committee of the Board of Governors on HIPC Debt Relief which is set forth in Document CA-420 of June 30, 2000 (the "Report") is hereby approved.

2. The Board of Executive Directors is hereby directed and authorized to take all necessary steps to implement the Conclusions and Recommendations of the Report.

3. In order to implement the debt relief contemplated in Section 9 of the Report, the Board of Executive Directors may defray interest and principal payable on Ordinary Capital loans with payments from the Intermediate Financing Facility in amounts that the Board of Executive Directors may determine necessary.

(Adopted March 16, 2001)

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

RESOLUTION AG-1/01

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, 2000, containing the general balance sheet and the statement of profit and loss, are approved.

(Adopted March 19, 2001)

RESOLUTION AG-2/01

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, 2000, 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 of the equivalent of US$54,500,000 in convertible currencies of the General Reserve of the Fund for Special Operations.

(Adopted March 19, 2001)

RESOLUTION AG-3/01

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, 2000, containing the general balance sheet and the statement of changes in fund balance, are approved.

(Adopted March 19, 2001)

RESOLUTION AG-4/01

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

WHEREAS:

The Governors for Brazil, Italy, Peru, Belgium, The Bahamas, Japan, and Panama have, prior to the Forty-second Annual Meeting of the Board of Governors, offered their countries as sites for annual meetings of the Boards of Governors of the Bank and the Corporation to be held in 2002 and subsequent years; and

During the Forty-second Annual Meeting of the Bank's Board of Governors, the Governors for Mexico and Costa Rica offered their countries as sites for future annual meetings of the Boards of Governors of the Bank and the Corporation;

The Board of Governors

RESOLVES:

1. To express its appreciation for the invitations extended by the Governors for Brazil, Italy, Peru, Belgium, The Bahamas, Japan, Panama, Mexico, and Costa Rica, as well as such other invitations as may be extended during the course of the Forty-second 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 21, 2001)

RESOLUTION AG-5/01

PROPOSALS FOR ENHANCING THE RESPONSE CAPACITY OF THE INTER-AMERICAN DEVELOPMENT BANK

WHEREAS:

It is necessary for the Governors to be able 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; and

In light of the President's address included in document CA-425 and of the documents submitted to the Governors in this Annual Meeting relating to the institutional strategy, lending instruments, and private sector (Resolution AG-1/99 of February 22, 1999), as well as addresses delivered by the Governors at this meeting that have reflected viewpoints of the shareholders;

The Board of Governors

RESOLVES:

1. To ask the Committee of the Board of Governors to follow the discussions in the months ahead on the needs of the shareholders and the role that the Bank should play in light of the new international financial architecture;

2. The Committee of the Board of Governors shall consider proposals to increase the Bank's capacity to respond to new requirements in the countries, while preserving its financial soundness as well as its fundamental mission of promoting economic and social development, regional integration and reducing poverty in Latin America and the Caribbean;

3. The Board of Executive Directors may submit information and analysis it considers appropriate to the Committee of the Board of Governors to serve these ends.

4. The Chairman of the Committee of the Board of Governors shall determine the sites and dates of future Committee meetings that will be open to all member countries. The first of these meetings shall take place within three months.

5. It is expected that the Committee will submit to the Board of Governors its recommendations by September 1, 2001.

(Adopted March 21, 2001)

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

RESOLUTION CII/AG-2/00

DESIGNATION OF EXTERNAL AUDITORS

The Board of Governors

RESOLVES:

That, pursuant to Article IV, Section 2(c)(vii), of the Agreement Establishing the Inter-American Investment Corporation, the firm of PricewaterhouseCoopers LLP is selected, with respect to the fiscal year 2000, to serve as external auditors to examine the general balance sheets and the statements of profit and loss of the Institution, in accordance with Section 8 of the By-laws.

(Adopted September 29, 2000)

RESOLUTIONS ADOPTED AT THE SIXTEENTH ANNUAL MEETING OF THE CORPORATION

RESOLUTION CII/AG-1/01

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, 2000, containing the balance sheet and the statements of income and retained earnings and of cash flow, are approved.

(Adopted March 20, 2001)

RESOLUTION CII/AG-2/01
(Amendment of Resolution CII/AG-5/99)

INCREASE OF US$500 MILLION IN THE AUTHORIZED CAPITAL STOCK AND SUBSCRIPTIONS THERETO

WHEREAS, the Board of Governors of the Inter-American Investment Corporation (the "Corporation") approved Resolution CII/AG-5/99 on December 14, 1999, which provides for an increase in the authorized capital stock in the amount of US$500,000,000;

WHEREAS, Resolution CII/AG-5/99 entered into effect on March 22, 2000, when sufficient member countries had deposited with the Corporation appropriate instruments as required under Section 1(b) of said Resolution;

WHEREAS, on March 28, 2000, at the meeting of the Board of Governors held in New Orleans, an Interim Agreement for the Admission of New Member Countries into the Corporation was approved, setting forth allocations of shares for Belgium, Finland, Norway, Portugal and Sweden, and the reallocation of shares to Japan and Spain;

WHEREAS, to allow admission of the five new member countries and to increase the participation of Japan and Spain in the capital stock of the Corporation, existing member countries have agreed to release shares by not exercising their rights to subscribe to shares to which they are entitled according to Resolution CII/AG-5/99. The group of Latin American and Caribbean member countries, except Venezuela, will not exercise their rights pertaining to 1,146 shares, Germany to 828 shares and the United States to 18 shares;

WHEREAS, Chile and Colombia have expressed their desire to reduce their respective rights to subscribe to some of the new shares allocated under Resolution CII/AG-5/99 in order to provide additional shares for subscription and payment by Peru; and

WHEREAS, Resolution CII/AG-5/99 was approved pursuant to Article II, Section 2(c)(ii) of the Agreement Establishing the Corporation, which required a majority of the Governors representing at least three-fourths of the votes of the members, which included two-thirds of the Governors, the same majorities would be required in order to amend Resolution CII/AG-5/99.

The Board of Governors

RESOLVES THAT:

Section 1. *Amendment of Resolution CII/AG-5/99*

Subparagraph 2(a) of Resolution CII/AG-5/99 adopted December 14, 1999, shall be amended to read as follows:

" (a) In accordance with Article II, Section 5 of the Agreement Establishing the Corporation, each member may subscribe to the respective number of shares as follows:

Member country	Capital shares	Total subscriptions (Expressed in US$)	Percentage
Argentina	5,440	$ 54,400,000	10.88
Bahamas	101	1,010,000	0.20
Barbados	71	710,000	0.14
Belize	71	710,000	0.14
Bolivia	437	4,370,000	0.87
Brazil	5,440	54,400,000	10.88
Chile	1,313	13,130,000	2.63
Colombia	1,313	13,130,000	2.63
Costa Rica	220	2,200,000	0.44
Dominican Republic	294	2,940,000	0.59
Ecuador	294	2,940,000	0.59
El Salvador	220	2,200,000	0.44
Guatemala	294	2,940,000	0.59
Guyana	84	840,000	0.17
Haiti	220	2,200,000	0.44
Honduras	220	2,200,000	0.44
Jamaica	294	2,940,000	0.59
Mexico	3,502	35,020,000	7.00
Nicaragua	220	2,200,000	0.44
Panama	220	2,200,000	0.44
Paraguay	220	2,200,000	0.44
Peru	1,583	15,830,000	3.17
Suriname	71	710,000	0.14
Trinidad and Tobago	220	2,200,000	0.44
Uruguay	580	5,800,000	1.16
Venezuela	3,063	30,630,000	6.13
Latin America and Caribbean	**26,005**	**$260,050,000**	**52.01**
United States	12,500	$125,000,000	25.00
Other countries			
Austria	245	$ 2,450,000	0.49
Belgium	169	1,690,000	0.34
Denmark	761	7,610,000	1.52
Finland	393	3,930,000	0.79
France	1,536	15,360,000	3.07
Germany	708	7,080,000	1.42
Israel	123	1,230,000	0.25
Italy	1,536	15,360,000	3.07
Japan	1,767	17,670,000	3.53
Netherlands	761	7,610,000	1.52
Norway	393	3,930,000	0.79
Portugal	182	1,820,000	0.36
Sweden	393	3,930,000	0.79
Spain	1,767	17,670,000	3.53
Switzerland	761	7,610,000	1.52
Subtotal – Other countries	**11,495**	**$114,950,000**	**22.99**
Grand Total	**50,000**	**$500,000,000**	**100.00**

(Adopted March 16, 2001)

RESOLUTION CII/AG-3/01

ADMISSION OF BELGIUM, FINLAND, NORWAY, PORTUGAL, AND SWEDEN TO MEMBERSHIP IN THE CORPORATION

WHEREAS, Article II, Section 1(b) of the Agreement Establishing the Corporation (the "Agreement") provides that member countries of the Inter-American Development Bank (the "Bank") that are not founding members of the Inter-American Investment Corporation (the "Corporation") may accede to the Agreement and become members of the Corporation on such date and in accordance with such conditions as the Board of Governors of the Corporation may determine by a majority of at least two-thirds of the votes of the members, which shall include two-thirds of the Governors;

WHEREAS, Belgium, Finland, Norway, Portugal and Sweden, all of which are member countries of the Bank, have applied for admission to membership in the Corporation and have confirmed their respective requests to join the Corporation;

WHEREAS, the Board of Governors of the Corporation approved Resolution CII/AG-5/99 on December 14, 1999, which provides for an increase in the authorized capital stock in the amount of US$500,000,000;

WHEREAS, on March 28, 2000, at the meeting of the Board of Governors held in New Orleans, an Interim Agreement for the Admission of New Member Countries into the Corporation was approved, setting forth allocations of shares for Belgium, Finland, Norway, Portugal and Sweden; and

WHEREAS, pursuant to Section 9 of the By-laws of the Corporation, and after consultation with representatives of each of the Governments of Belgium, Finland, Norway, Portugal and Sweden, the Board of Executive Directors of the Corporation has recommended to the Board of Governors to admit Belgium, Finland, Norway, Portugal and Sweden as members of the Corporation pursuant to the applications submitted by them.

The Board of Governors

RESOLVES THAT:

Section 1. *New Member Countries*

Belgium, Finland, Norway, Portugal and Sweden, which are member countries of the Bank, may accede to the Agreement upon complying with the following conditions:

(a) On or before October 31, 2001, or such later date as the Board of Executive Directors shall determine, each of the above countries shall:

   (i) sign the Agreement and deposit with the Bank an instrument setting forth that it has accepted and ratified the Agreement in accordance with its own laws and has taken the steps necessary to enable it to fulfill all of its obligations under the Agreement; and

   (ii) represent to the Corporation that it has taken all necessary actions to authorize its subscription to the number of shares set forth in subparagraph (b) below, and shall furnish to the Corporation such information thereon as the latter may request.

(b) Each of Belgium, Finland, Norway, Portugal and Sweden shall subscribe to the respective number of shares set forth below:

Country	Capital shares to be subscribed	Subscriptions (Expressed in US$)	Percentage of shares after payment for shares
Belgium	169	1,690,000	0.24
Finland	393	3,930,000	0.56
Norway	393	3,930,000	0.56
Portugal	182	1,820,000	0.26
Sweden	393	3,930,000	0.56

(c) Payments for subscriptions of shares by Belgium, Finland, Norway, Portugal and Sweden shall be made according to the following schedule:

	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Total
Belgium	$ 459,680	$205,053	$205,053	$205,053	$205,053	$205,053	$205,055	$1,690,000
Finland	$1,068,960	$476,840	$476,840	$476,840	$476,840	$476,840	$476,840	$3,930,000
Norway	$1,068,960	$476,840	$476,840	$476,840	$476,840	$476,840	$476,840	$3,930,000
Portugal	$ 495,040	$220,827	$220,827	$220,827	$220,827	$220,827	$220,825	$1,820,000
Sweden	$1,068,960	$476,840	$476,840	$476,840	$476,840	$476,840	$476,840	$3,930,000

(d) The first payment of the subscription, at least in the amount indicated in the payment schedule set forth in subparagraph (c) above shall be made on or before October 31, 2001, or such later date(s) as may be determined by the Board of Executive Directors. The six remaining installments of the subscription, each at least in the amount indicated in the payment schedule set forth in subparagraph (c) above, shall be made on or before October 31, of each of the years 2002 through 2007, or such later date(s) as may be determined by the Board of Executive Directors.

(e) At the end of each payment period for the existing member countries of the Corporation, as set forth in subparagraph 2(c)(iv) (a) of Resolution CII/AG-5/99, each new member shall be issued one share for each US$10,000 paid in cash by the new member according to the minimum payment schedule set forth in subparagraph (c) above, regardless of any advance cash payment that is made in excess of such minimum payment.

(Adopted March 16, 2001)

RESOLUTION CII/AG-4/01

AMENDMENT OF THE AGREEMENT ESTABLISHING THE CORPORATION

WHEREAS, Article II, Section 2(c)(i) of the Agreement Establishing the Corporation (the "Agreement") provides that the Board of Governors may increase the authorized capital stock of the Corporation by two-thirds of the votes of the members, when such increase is necessary for the purpose of issuing shares, at the time of initial subscription, to members of the Inter-American Development Bank (the "Bank") other than the founding members, provided that the aggregate of any increases authorized does not exceed 2,000 shares;

WHEREAS, the Board of Governors exercised its authority under Article II, Section 2(c)(i) of the Agreement by increasing the authorized capital stock and issuing shares to members of the Bank other than founding members, at the time of the incorporation of Belize, Denmark and Suriname as members of the Corporation;

WHEREAS, in March 1999, at the meetings held in Paris, an Agreement for the Increase in Capital of the Inter-American Investment Corporation (the "Paris Understanding") was approved setting forth the foundations for an increase in the Corporation's share capital, as well as for the incorporation of new member countries;

WHEREAS, the Board of Governors approved Resolution CII/AG-5/99 on December 14, 1999, providing for an increase in the authorized capital stock in the amount of US$500,000,000;

WHEREAS, all other members of the Bank were invited to join the Corporation and Belgium, Finland, Norway, Portugal and Sweden have accepted such invitation;

WHEREAS, on March 28, 2000, at the meeting of the Board of Governors held in New Orleans, an Interim Agreement for the Admission of New Member Countries into the Corporation (the "Interim Agreement") was approved, setting forth allocations of shares for Belgium, Finland, Norway, Portugal and Sweden;

WHEREAS, after implementation of the Paris Understanding, the Interim Agreement and Resolution CII/AG-5/99 the Corporation shall have a new capital structure, the provision in Article II, Section 2(c)(i) of the Agreement is deemed to be no longer necessary, thus requiring the Agreement to be amended by deleting such provision; and

WHEREAS, Article VIII, Section 1(a) of the Agreement provides for the amendment thereof.

The Board of Governors

RESOLVES THAT:

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

1. Section 2(c)(i) of Article II is hereby deleted.

2. Section 2(c) of Article II shall be amended to read as follows:

" (c) The Board of Governors may increase the authorized capital stock by a majority representing at least three-fourths of the votes of the members, which shall include two-thirds of the Governors."

II. Entry into Force

This resolution and all the provisions thereof shall entry into force on the date to be indicated in the official communication to be addressed to all members, as referred to in Article VIII, Section 1(c) of the Agreement.

(Adopted March 16, 2001)

Wednesday, March 14

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

Thursday, March 15

8:00 a.m. to 6:30 p.m.	Registration of participants
8:30 a.m. to 6:00 p.m.	Seminar: "Towards Competitiveness: The Meso and Microeconomic Level"
9:30 a.m. to 1:30 p.m.	Seminar: "Good Government and Development"

Friday, March 16

8:00 a.m. to 6:30 p.m.	Registration of participants
9:00 a.m. to 5:30 p.m.	Seminar: "Towards Competitiveness: The Institutional Path"
3:00 p.m.	Meeting of NGOs with the Executive Vice President of the IDB (closed meeting)

Saturday, March 17

8:00 a.m. to 6:30 p.m.	Registration of participants
8:30 a.m. to 6:30 p.m.	Seminar: "Women at Work: A Challenge for Development"
9:30 a.m. to 6:00 p.m.	Social Equity Forum (closed meeting)
10:00 a.m. to 7:00 p.m.	Seminar: "New Partnerships for the Twenty-first Century: Latin America and the Caribbean and Asia-Pacific"
3:00 p.m. to 5:00 p.m.	Preliminary Session of Heads of Delegation to the Sixteenth 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 18

8:00 a.m. to 6:30 p.m.	Registration of participants
3:00 p.m. to 5:30 p.m.	Preliminary Session of Heads of Delegation to the Forty-second 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 19

8:00 a.m. to 5:30 p.m.	Registration of participants
10:00 a.m. to 12:30 p.m.	Inaugural Session (First Plenary Session)
3:00 p.m. to 6:30 p.m.	Second Plenary Session

Tuesday, March 20

9:30 a.m. to 1:00 p.m.	Third Plenary Session
1:30 p.m.	Executive Vice President's luncheon with high-level women (closed meeting)
3:00 p.m. to 5:30 p.m.	Fourth Plenary Session (IIC)

Wednesday, March 21

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

FIRST PLENARY SESSION

MARCH 19, 2001

INAUGURAL SESSION

ADDRESS BY MR. WILLIAM E. SCHUERCH, OUTGOING CHAIRMAN OF THE BOARDS OF GOVERNORS OF THE BANK AND THE CORPORATION, AND TEMPORARY ALTERNATE GOVERNOR FOR THE UNITED STATES

I would like to begin by thanking the Chilean authorities and Minister Nicolás Eyzaguirre for hosting this meeting and on behalf of President Iglesias and fellow Governors to say how pleased we are to be in the beautiful city of Santiago.

The United States would like to express its appreciation for the honor of chairing the Board of Governors during a challenging and successful year for Latin America and the Caribbean and for the Inter-American Development Bank.

During the campaign, President Bush promised to look to the South "as a fundamental commitment" of his presidency and to make the next hundred years the "Century of the Americas." Increased trade, free markets and democracy are at the heart of President Bush's strategy to achieve this goal. President Bush desires an equal partnership with all of the countries in Latin America based on mutual respect and trust. Secretary O'Neill and the entire Treasury team are strongly committed to working with each partner country to make the Inter-American Development Bank even more effective at development and poverty reduction. The U.S. has always played an important role in the success and effectiveness of the IDB, and the new Administration will continue its leadership and support for reform and growth.

Last year in New Orleans, we reflected on what the previous decade had meant to Latin America, on how it was a period of reform, a period when governments began to embrace free markets and global integration. Even during times of difficulty, when reform historically has waned, many governments pushed forward.

And the reward for this reform was growth. Latin America's GDP grew just shy of 4 percent per year in the 1990s, well above the 2.2 percent of the 1980s.

- Brazil's balance of payments crisis just two years ago was greatly diminished due to appropriate and quickly implemented policies that reassured both investors and consumers. Today, Brazil is expected to have one of the highest growth rates and lowest inflation rates in the region.

- In 1998, when sinking oil prices jeopardized Mexico's budget deficit target, the government cut spending on three different occasions. Market confidence increased, and Mexico received an investment grade rating in March 2000.

- And of course, Chile stands out as an example of how appropriate policies can alter the course of an economy. I first visited Chile in 1981, when the face of economic hardship could be seen in the empty shops and closed down businesses. That is clearly not the case today. Now we see a vibrant economy nurtured by extensive, sustained economic reforms.

Unfortunately, there is a danger that governments will think that the reforms undertaken and the economic resiliency achieved over the past decade need only be maintained, that increased market openness is unnecessary or, even worse, at odds with social development. This is particularly relevant as elections approach in many countries in the region. If there is one lesson we should have learned from the efforts made over the past several years, it is that prudent macroeconomic policies, an open trading environment, and healthy financial markets are necessary conditions for strong and sustainable growth. We have also learned that growth, if it is to last, can be—and must be—accompanied by policies that ensure that benefits are shared by all segments of society.

Fiscal and Monetary Discipline

Highlighting the importance of prudent fiscal and monetary policy to an audience such as this is stating the obvious. Many countries in the region have had to undertake painful but necessary steps to compensate for a history of fiscal or monetary excess. Yet, even as fiscal deficits shrink throughout much of the region, even as inflation continues to decline to levels generally on a par with many industrialized nations, the markets still require a premium for past digressions. Only by continually showing progress will this premium be reduced. To backslide now would be a tragedy.

Trade and Integration

Trade with this hemisphere is a priority for President Bush. As the former governor of a major border state, he has seen the free exchange of goods and services across borders spark economic growth, opportunity, dynamism, fresh ideas and democratic values. He understands that trade liberalization can enable countries to benefit from expanding regional and global trade and can help boost our collective recovery from the present economic slowdown. For these reasons, President Bush has recently reaffirmed the United States Government's strong commitment to trade negotiations such as a Free Trade Agreement with Chile and renewal of the Andean Trade Preference Act. The Bush Administration is also looking forward to upcoming discussions on the Free Trade Area of the Americas at the Buenos Aires Trade Ministerial and the Quebec Summit of the Americas.

National Balance Sheets

But prudent fiscal management is not a sufficient condition for economic growth and resiliency. Governments need to focus beyond their own balance sheets, to the economic health of the private sector and the nation overall.

International capital flows, particularly to the private sector, can greatly increase productive capacity by directing resources optimally. But with such benefits come risks, namely the exposure of banks, finance companies and individual firms to a loss of investor confidence or a sudden drying up of capital. Government authorities must develop policies and regulations that maintain the benefits of international capital flows while discouraging risky private sector behavior.

Strengthening Financial Systems

Efforts to strengthen financial sectors are also vital. Latin American countries were ahead of the curve when they committed in 1997 to implement the Basle Core Principles. This relative strength of Latin banks is one reason the region survived the financial turmoil of the past years with less damage than elsewhere.

But more can and needs to be done. Latin American financial markets are, by and large, relatively small and underdeveloped. Investment in domestic financial institutions has often been limited by inadequate legal protection for property rights or by less than robust regulatory and supervisory frameworks. These changes will take time to develop but must begin now if the financial systems are to encourage rather than impede growth.

Countries must work to implement high quality international standards to bring their economies in line with best practices. Assessing where each of us stands through the IMF and World Bank Report on Observance of Standards and Codes (ROSC) programs is a good start.

The Financial Sector Assessment Program (FSAP) can also provide an even more detailed assessment of the overall financial sector, including potential vulnerabilities and potential development needs.

CHFI

The Committee on Hemispheric Financial Issues was established in 1994 as a forum where Finance Ministers of the Hemisphere could meet and discuss relevant economic and financial issues. We will meet in Toronto in early April to discuss surveillance, globalization challenges, and the continuing work needed in good governance.

Sound Policies, Transparency and Corruption

As our economies become more integrated with one another, there is an increasing need to work individually and jointly to improve governance and transparency of national institutions to foster greater growth and stability. More can be done to deal with corruption, which adversely affects investment, public revenues, growth, and development.

Role of the IDB

The United States regards the IDB as a key player in promoting sound, sustainable economic growth and improvement in living standards. We strongly support the role that the Bank plays in promoting national and regional development. Working with all its shareholders, the IDB has a tremendous opportunity to help shape the way in which its borrowing members address the common goals of sustained growth and poverty reduction.

Important progress has been made in the past few years in achieving key goals of the Eighth Replenishment. We agree with focusing implementation on four areas: social sector reform, modernization of the State, competitiveness and regional integration. Implementation, however, must promote our fundamental goals of poverty reduction, social equity and environmentally sustainable growth.

The Bank's contribution to private sector development also has been enhanced. The Inter-American Investment Corporation (IIC), reinvigorated through the recent replenishment, is now welcoming five new members. Its promotion of small and medium enterprise is important to the Bank's poverty reduction mission. The Multilateral Investment Fund (MIF) plays a unique role by financing small, targeted programs that play a critical role in improving the environment for private sector growth, particularly for small and micro enterprises.

Review of Policies and Instruments

Just as the region continues to face challenges, so too does the Bank. Looking to the future, we need to be sure that the IDB's range of policies and lending and nonlending instruments are meeting today's needs and are ready for tomorrow's challenges. We welcome the recent discussion papers and are ready to consider these and related MDB reform issues in the context of a Governors' working group. We must keep in mind that the world increasingly asks if development assistance really works. Taxpayers are increasingly skeptical and frustrated with development programs that fail to achieve results. "Are we getting what we've paid for?" is a legitimate question that needs a solid answer, particularly as we consider new lending programs, which propose to move even further away from traditional investment approaches.

Appropriate Instruments. The appropriateness of existing instruments to meet borrower development needs is an important question which includes consideration of the need to increase the policy-based lending guidelines beyond the current 15 percent. Some countries increasingly seek loans with extremely short disbursement periods—substantially less than three years. These accelerated disbursement patterns themselves pose special challenges for prudential financial management of the Bank.

Country Programming should be the key mechanism for identifying needs, setting priorities, and defining the Bank's role. While the process has been strengthened, more needs to be done to ensure the relevancy of the Bank's Country Papers and to make them more accessible to those affected by Bank programs.

Governance and Corruption. Another fundamental challenge to the Bank is to strengthen accountability, transparency, due diligence and performance of fiduciary obligations. In all areas of its operations, the IDB must be above reproach. We expect quick and aggressive implementation of the recently approved anti-corruption strategy and action plan. More work should target improved transparency and accountability of public sector management.

IDB Role in Higher-Income Countries. We also believe that the Bank needs to review its policy regarding borrowing by high-income countries that have strong likelihood of market access and have social and economic institutions comparable to those of developed countries. Such countries should rely primarily on market finance. We call upon the Bank to set out a spectrum of options for consideration—including selective access and establishing price differentiation.

HIPC Debt Relief

Finally, let us recognize that the Bank and shareholders have made important progress this past year in ensuring the financing for the IDB's full participation in the enhanced HIPC initiative. We now have an agreement fostered by the Bank providing a financial framework that covers not only the IDB's HIPC costs but also much of the needed assistance to subregional financial institutions. President Bush's commitment to this process is reflected by the inclusion of the full United States contribution in our current budget proposals. The broad participation in this agreement by institutions and shareholders celebrates our solidarity to assist the poorest countries.

The United States ends this year as chair of the Board of Governors, pleased with the good progress made in the Bank's work and continuing in its commitment to the Western Hemisphere. We look forward to working with Chile as the next chair to continue the important work of the Bank —an institution that greatly benefits from the leadership of President Enrique Iglesias and Executive Vice President Burke Dillon.

ADDRESS BY MR. NICOLÁS EYZAGUIRRE GUZMÁN, CHAIRMAN OF THE BOARDS OF GOVERNORS OF THE BANK AND THE CORPORATION, AND GOVERNOR FOR CHILE

I. PRESENTATION AND THE IDEA OF DEMOCRACY

A few weeks ago in Washington, at the IDB, an exhibition was opened to display works by the great Chilean creative talent, Violeta Parra. On that occasion, Enrique Iglesias said that the event marked the beginning of the road to Santiago: and now here we are, we have reached our destination. Following on Enrique's words, let us recall that this is not the road that led the pilgrims to Santiago de Compostela during the past millennium. But Santiago, Chile, is the same city that welcomed you 27 years ago when, in 1974, the IDB Governors last met in our country. Santiago is today the capital of a country that has returned to the road of progress and peace.

I would like to share some thoughts concerning political institutions and economic and social development. It has been 11 years since democracy was restored to Chile, and as we can see, it has unquestionably contributed in many and varied ways to economic and social progress. The indicators confirm this; freedom, tolerance, and the unleashing of our society's creative forces attest to it, as do our better and more equitable economic and social priorities.

Democracy in Chile has swept away the ghosts of our past and taken its proud and rightful place as the natural terrain on which to confront the economic and social challenges we face today and will face in the future. We must never forget that democracy is the asset on which development strategies are founded.

Only in the context of democracy can civil society nourish and legitimize the strategic options selected by our political leaders. Only in democracy can we aspire to be guided by our most brilliant leaders. Only in democracy can we correct our errors, adjust our course, limit the powerful, strengthen the weak, and build a common destiny.

II. THE IDB TODAY

The IDB has also experienced profound change during the last quarter century, particularly in recent years. It could not be otherwise: Latin America and the Caribbean have changed as knowledge and experience have been gained in the economic, financial, and social fields. Let us be clear: the most promising economic policies today are not the same as those of the 1960s or 1970s.

A good illustration of the changes that have taken place in the IDB can be found in the breakdown of its lending by sector. In 1974, about 38 percent of all loans went to the productive sectors; by 1999 that figure had dropped to 17 percent. Similarly, infrastructure loans fell from 38 percent to only 11 percent at the close of the century. In other words, the combined share of total lending represented by these two categories fell from 76 percent—three out of every four dollars if you prefer—to slightly more than one-fourth.

Now the social sectors are gaining ground in the Bank's activities: accounting for about 19 percent of all loans in 1974, their share rose to 45 percent in 1999. And those who might doubt the IDB's new direction should consider that in 1999, financing for reform and modernization of the State represented one-fourth of the institution's lending operations. We might also add that 25 years ago there was no Inter-American Investment Corporation, nor an IDB Private Sector Department.

The IDB has supported and kept pace with the reform and modernization process in our region, always attentive to the principles of equity and social progress. The Bank has thus remained true to itself, to its mission of addressing the priorities and challenges that the region itself has identified, a region where, as we regrettably all know, basic needs remain unmet and cause us to redouble our commitment to better management of the institution and its loans. Inevitably, and for the better, the IDB has diversified, just as our economies have diversified and become more complex.

In recent years, progress in Latin America and the Caribbean has gone hand in hand with a process of profound reform. We made progress before the reforms, clearly, but in a rapidly changing world, we could not stay on an unchanging path. The tension created by change and the reforms themselves have meant sacrifice for the countries in the region, as we are all too aware. But the IDB reacted in time, and it is certainly no exaggeration to affirm that the institution placed itself quickly at the vanguard in confronting the challenges of our times. The job is being done and lessons are being learned: those of us whose responsibility it is to implement and define economic and financial policies—many of whom are here today—must remain ever mindful of the constant updating and new agendas of the regional multilateral organizations.

III. ECONOMIC POLICY CHALLENGES FOR COUNTRIES IN THE REGION

Despite the profound process of reform we have carried out, we must recognize that some of the challenges to our hemisphere a quarter century ago remain, regrettably, still before us today, placing demands on our energy and capacity. We know these challenges only too well: eliminate poverty, put an end to exclusion from the benefits of growth, provide access to proper education, healthcare, and housing, provide equal opportunity, protect the environment, etc.

To meet these challenges we must very clearly define and prioritize the tasks still pending in the economic and financial design of our own countries. I refer, for instance, to the fragile revenue and tax collection systems that still fail to ensure sound and sustainable financing for social priorities. Such deficiencies also cause microeconomic distortions that sap growth potential. In addition, fiscal policies with a markedly procyclical bias are still being applied because of the lack of intertemporal transparency between revenues and expenditures and the resulting lack of credibility of countercyclical efforts.

Social policy needs to be more effective. We often use the excuse that we lack adequate resources. But frequently, we suffer from serious management problems which, if corrected, could free up a significant volume of resources. Our countries must increasingly evaluate and redesign social programs so that incentives for the proper allocation of ever limited resources can be correctly identified.

As for investment in infrastructure—proven to be essential to growth—governments play an irreplaceable role in organizing the provision of capital, whose cost largely exceeds the limited budgetary funds available. We need to be creative in the design of mechanisms to engage private funds for infrastructure financing, while seeking to ensure a high social rate of return on new works and the prevention of monopoly pricing for future services.

Capital markets represent an extremely complex, and unfortunately weak, link in most of our economies. The challenge, I would say, is it to achieve a delicate balance between eliminating and updating regulations where necessary. This is an ongoing effort. For the time being, we must deal with incomplete capital markets, which provide financing neither to small and medium-sized entrepreneurs, nor to innovative, untested projects, nor in some cases for the purchase of such basic goods as housing. Much remains to be done to improve and modernize financial regulation and thereby reduce the risks of systemic crises and promote the development of venture capital, factoring in all of the associated costs. Finally, institutional deficiencies, particularly in the area of corporate governance, are limiting progress in the development of deeper and more liquid capital markets.

IV. INTERNATIONAL FINANCIAL INTEGRATION AND MULTILATERAL ORGANIZATIONS

Is it enough to deepen domestic reforms in order to achieve our objectives and overcome such challenges? Certainly not. We need the external context in which the region operates to be more friendly to the consolidation of reforms, to support the changes under way, to encourage the completion of new tasks, and to provide a source of stability, not disruption.

Today, we must be more aware than ever that instability and adverse conditions in external markets threaten the progress we have made. There are two crucial aspects to this question: first, international financial integration and its effects on the economies that are importing financial resources—like those in our region—and second, the role of multilateral development institutions in this new global era.

One of the key components of the reforms is greater economic openness to trade and capital flows. Liberalization has increased the potential for growth by promoting exports, access to new technologies and knowledge, and the diversification of investment financing sources.

And yet, this greater integration of the international economy calls for certain basic disciplines, both locally and globally. A fundamental aspect of this is the need for consistency between monetary and currency exchange policy in a globalized context. All too often, our countries have designed rigid interest and exchange rate structures, allowing ample room for speculation at no risk. This rigidity has contributed significantly to the volatility of capital markets.

It is also necessary to build an effective supervisory structure for the financial system, allowing in particular for effective control of the open positions of the financial intermediaries and their debtors and limiting implicit and explicit public guarantees to an indispensable minimum.

It is easy to observe, however, that even when macroeconomic and financial policies adhere to the strictest standards of consistency and supervision, it is in practice impossible to avoid reoccurrences of instability. The problem is rooted in the characteristics of our emerging economies and in the operation of global capital markets.

We must recognize that the crux of our economic problems is the lack of confidence in our currencies. This lack of confidence becomes apparent, to take the most extreme case, when economies are dollarized, or in the best of cases, when local currencies are used only for internal transactions. There are no examples in our region of international transactions, real or financial, effected in local currencies.

As a result, our economies are inevitably exposed to the cyclical situation of the economies that issue reserve currencies. During periods of recession in those economies, when accompanied by a significant reduction in interest rates, financial flows shift to the emerging economies on a scale that far surpasses their absorption capacity. The result of this excess financing has frequently been the emergence of current account imbalances, real currency appreciation, and asset price inflation.

When the cyclical position of the industrialized economies shifts, or there is a sudden change in export or import commodity prices, either the bubble bursts in one of the emerging economies, or the same economies that had been enjoying abundant financing suffer a sharp reversal in capital flows. These reversals, at least in the short term, have tended to occur indiscriminately.

This lack of confidence in our currencies would not be a problem if economic cycles in the industrialized and emerging economies were perfectly synchronized. But we know they are not. Consequently, capital flows tend to accentuate, rather than soften, cycles in the resource-receiving economies.

The situation is aggravated by the growing influence exercised on international liquidity by private, highly leveraged financial institutions and by "herd" investment behavior. The former magnifies variations in the monetary policy of countries issuing reserve currencies and makes it more difficult to monitor and control global liquidity. The latter can drag fundamentally healthy economies into problems originating abroad.

It is therefore not surprising that macroeconomic and financial policymakers should have apprehensions about increasing international financial integration, even though they consider it fundamental for investment and economic progress. Our history shows that these apprehensions are legitimate insofar as the lack of a global financial order fosters resistance to globalization within our civil society, given the social costs generated by economic crises.

The problem appears to me to be sufficiently central that multilateral institutions should give urgent and significant attention to improving the external environment for capital flow-receiving economies.

Before going into that, however, I want to reiterate that from a domestic standpoint, we too must move forward. The establishment of structural macroeconomic policy rules, for example, can help to boost credibility in our economic management, mitigate or eliminate the often procyclical character of our policies, and avoid inconsistencies that serve to aggravate instability.

With respect to the international order it is clear, first of all, that in requiring a national counterpart, the financing provided by multilateral development institutions has a procyclical effect. The need to maintain credibility during periods of crisis requires us to limit growth in public spending, which often precludes recourse to the multilateral banks. The solution lies in the development of new instruments and/or greater flexibility in the counterpart requirement, for instance by making it inversely proportional to the cyclical position of the borrower.

Second, if the contraction of liquidity is a function of contagion, then multilateral institutions must play a proactive role in armorplating economies with solid policies. The IMF Contingency Credit Line (CCL) is a good step in that direction. But we need to do much more.

Third, we must discuss the issue of fluctuations in global liquidity. A global central bank may still be a long ways off, but that does not mean we must content ourselves with institutional architecture created 50 years ago, when all the economies were virtually self-contained in terms of financial capital flows. As a region, we are prepared to contribute to this necessary debate. But to do so, we need a forum in which to explain our points of view.

Fourth, the multilateral institutions can contribute to greater private sector involvement. A week ago, when the activities for this Annual Meeting began, detonation work was performed for a new tunnel on the Valparaíso Highway, for which a concession was recently awarded. The IDB's private sector window provided a guarantee which attracted international companies as coinsurers. This made it possible to obtain an investment grade for the bonds issued so that institutional investors and pension funds could participate in the financing of these works. This is a good example of the innovative instruments and financing being provided by the IDB.

Despite the importance of private sector involvement, we must be realistic about the possibilities of this approach in resolving the structural problems that are undermining confidence. It seems difficult if not impossible to design simple contingent contracts between individual countries and the private sector without involving the multilateral organizations. Without guarantees, the contingent liquidity schemes will have a hard time changing the net ex ante exposure of creditors in our countries.

V. THE IDB IN THE FUTURE

When I began, I pointed out that the IDB is not the same as it was 27 years ago. Nor is the world. The economies of Latin America and the Caribbean form part of a global economy. Globalization requires a constant updating of economic policy instruments and a continuous search for new instruments reflecting the variety of situations confronted by economies in the region and the external events affecting them, including natural disasters.

When we think about the Bank of the future, we must not forget that the purpose of the IDB, and here I will read from the Agreement Establishing 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." And its functions include, "...to cooperate with the member countries to orient their development policies toward better utilization of their resources, in a manner consistent with the objectives of making their economies more complementary...".

For economies in the region, access to IDB financing has taken on a procyclical character, for the same reasons I explained earlier, precisely when these economies, as a result of greater financial integration, confront greater instability in private capital flows. It is therefore indispensable for the IDB to address the situation creatively.

As we know, the IDB is not only a financial resource-providing institution. The IDB constitutes an important source of technical knowledge and experience in economic and social policies gained from its operations and research. This knowledge and experience must be transferred to our countries. Advisory services must take on greater importance in the activities of the Bank.

In accordance with the IDB's objectives, we must seek to expand the range of instruments in such a way as to prevent recurrent external disturbances from threatening progress toward our development objectives. The new phenomena that affect the region require a more finely tuned response, whereas the social effects of crises are very negative and long-lasting. This gives special relevance to measures of a preventive order as instruments in the fight against poverty and social vulnerability.

Not only must we evaluate individual progress in the region's economies, but it is also fundamental to have an overall picture. That is why economic integration in the region has been at the center of the IDB's concerns from the start. The economies of Latin America and the Caribbean have not only deepened regional and subregional integration, they have also initiated ambitious integration projects through free trade agreements: on the one hand with the United States and Canada in the Free Trade Area of the Americas, and on the other with the European Union. Now more than ever, the Bank must take these integration processes into account in its projects, and evaluate them at the supranational level where appropriate.

In a few weeks the Third Summit of the Americas will be held in Quebec. We believe that in this same spirit of support for the region as a whole, the IDB can contribute to initiatives approved by the Hemisphere's 34 Heads of State in its areas of competence.

VI. CLOSE

To conclude, I wish to thank the Governors for their confidence in selecting me to preside over this Annual Meeting and the Board of Governors over the next year, when we will be concluding discussions in the Committee of the Board of Governors on the matter of new instruments. This is a matter with a variety of dimensions and a very important priority in maintaining the relevance of our institution and continuing the open and frank dialogue that benefits all our peoples.

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

I. INTRODUCTION

Ladies and gentlemen: Twenty-seven years have gone by since the Bank's Governors last met in Santiago. As we open this year's Annual Meeting, I would like to convey our heartfelt gratitude to the government and people of Chile for their warm welcome and for the dedicated effort that has gone into the staging of this gathering, to help assure that it will be a productive one.

Our host country is the perfect embodiment of the changes that have swept through Latin America and the Caribbean in the past 30 years. With an exemplary democratic system and orderly economy as a backdrop, Chileans have succeeded in forging broadbased consensus around fundamental objectives and values. Chile has become, quite rightly, a benchmark for our region and for the world.

The Bank, too, has changed a great deal in these past three decades, and not just in size. Its operations and its lending and other instruments are quite different now, as are the challenges before it. What has not changed at all is our institution's social mission and commitment to integration, the legacy of the illustrious Chilean who served as its first president, Felipe Herrera Lane.

May our work during this Forty-second Meeting of the Board of Governors be guided and inspired by the example of Chile and by Felipe Herrera's precepts, above all his commitment to social issues and our Americas that so characterized his work.

Let us turn now to the issues that have brought us here today.

As Latin American and Caribbean nations move into the twenty-first century it is imperative, now more than ever, that they find ways of propelling economic growth to improve the lot of their people, rearranging priorities to push poverty reduction, and social progress concerns generally, to the top of the list. Our region has a vast store of human and material resources to devote to that quest and can tap into a wealth of experience built up through a continuing search to improve the lot of its people. There could be no better instruments with which to tackle today's challenges of dizzying technological change, globalized markets, and a heavily interdependent world economy.

A necessary condition of such progress will be firm political resolve in each of the region's countries to marshal and give a voice to every sector of society, to effectively absorb external cooperation resources, and to give priority to social advancement and welfare policies that leave no group on the sidelines. The ultimate goal is not merely quicker growth but better quality development. This will mean harnessing synergies to achieve more stable growth that is sustainable and socially equitable.

It will be crucial for the region's countries to breach some yawning social gaps and move poverty reduction to the top of their agendas, as a central focus and integral part of development plans in the coming years. Quite apart from the ethical and moral exigencies, we know from universal observation that poverty—and particularly a widespread increase in poverty—can hold back economic growth, imperil democracy, and wreak havoc on the environment. It is a scourge on the Latin American conscience that some 220 million of its people are living in poverty, nearly 45 percent of them utterly destitute.

A nation's income distribution, as a measure of how equitably the fruits of economic growth are being shared, is a key determinant of a society's well-being and of how motivated each segment of the population will be to join in the collective national development enterprise. Lamentably, the income distribution in the vast majority of Latin American and Caribbean countries is so severely skewed that the region now has the worst distribution of income of any corner of the developing world.

The wealthiest 10 percent of the population account for 40 percent of national income; the poorest 30 percent receive a mere 7.5 percent of the total.

However somber this picture, in the process we should remember and celebrate the real improvements achieved in a host of social welfare and human development indicators in the region over the course of the twentieth century. The impressive progress made in education is one of many examples we could cite. In 1900, on average, 71 percent of the region's people could not read or write. By 1950 the rate had dropped to 47 percent; by last year it had plummeted to 11 percent. The region's performance on this front compares very favorably with experiences elsewhere in the world, the industrialized nations included.

Another human development yardstick is life expectancy at birth. In Latin America, this measure climbed from 29 years, on average, in 1900 to 47 years in 1950 and 70 years in 2000. The key to these improvements is of course reducing infant mortality. A century ago, 291 infants of every 1,000 live births did not survive beyond their first birthday. According to 2000 statistics, the ratio is now 25 per 1,000.

Fertility rates in Latin America and the Caribbean have trended down, mirroring socioeconomic and cultural shifts. The region's 1950–1965 average was about six children per woman of childbearing age; today the figure has come down to about 2.6.

Declining mortality and fertility rates also have been key determinants of overall demographic shifts and have shaped the present profile and makeup of the region's population.

First, population totals in Latin America and the Caribbean have risen more swiftly than anywhere else in the world, the mean annual increase having climbed from 1.9 percent in the first half of the twentieth century to 2.5 percent in the latter half—2.1 and 3.1 times higher, respectively, than OECD averages. At the dawn of the twentieth century, the region made up barely 4 percent of the world's population. Today the figure is closer to 9 percent: our region is home to almost one in every 10 people on the planet.

Second, the region's diminishing mortality and fertility rates are shaping not just overall population growth but the age distribution of the population as well. This will have some very weighty social and economic consequences as far as demand for education services, pensions, health care, and job creation are concerned.

Third, along with its robust population growth the region is witnessing a staggering increase in the ratio of urban to rural dwellers. This is placing unprecedented demands on countries that are trying to advance their economies and is jeopardizing social progress. In 1900 only 24 percent of Latin Americans lived in cities; by the end of the century the urban share of the population had soared to 79 percent. The forecast for 2025 is 85 percent.

II. A NEW MILLENNIUM, A NEW CENTURY, A NEW DECADE

Latin American Economic Progress in the Twentieth Century: A Search for Paradigms and Globalization

Just how far has the region's economy come, and why have Latin America and the Caribbean still not managed to address the demands of a rapidly growing and increasingly urbanized population, to ease and ultimately eradicate extreme poverty and set the stage for improvements in well being in which every sector of the population can share fairly?

I think it would be worthwhile to look back for a moment at some highlights of Latin American economic history, since there are valuable lessons to be learned from the region's successes and failures alike.

1950–1980: Growth and Restructured Economies

The prevailing economic and social policy in Latin America in the 30-year span beginning in 1950 looked essentially to the New Deal experiment that had proved successful in the United States and to the Keynesian paradigm.

In the wake of the collapse of the international monetary and free-trade systems and sharply curtailed capital and investment flows, after two world wars and the Great Depression, nations on either side of the north Atlantic formed into closed, discriminatory blocs. Latin America was left with only one option: look to its own markets for growth, adopting the so-called "inward-looking" approach to development whereby a nation sought to make the most of its own resource potential. At the heart of the process was a proactive State, the engine of economic and social progress and direct administrator of part of the nation's production apparatus.

This economic policy model prized import-substitution industrialization as a way of boosting and diversifying output, modernizing the technology base, creating employment (notably in urban areas), and supplying the domestic demand for goods.

On balance, the region gained from the process, with undeniable improvements in the economy and in social conditions. Regional GDP growth was rapid and steady, edging up from 5.1 percent annually in 1951–1960 to almost 6 percent in 1961–1980. Overall regional production of goods and services increased nearly fivefold during those three decades as an expanding manufacturing industry came to contribute a growing share of total output.

Institutional advances in the region took the form of new central banks, a savings and loan association system for housing finance, national development planning systems, modern higher education institutions, national science and technology systems, and tax system overhauls.

In the post-war era, industrial capital formation was the focus of Latin American economic development, to fuel sustained growth and help countries restructure their production apparatus and technology base. On average, gross domestic investment as a percentage of GDP all but doubled in Latin America and the Caribbean between 1950 and 1980, from 17.7 percent to 29 percent. Until 1973, internal saving kept pace with investment, the cumulative figures for savings and investment being virtually identical. From 1974 to 1980, however, investment increases outpaced the rise in savings, leaving a shortfall equal to about 3 percent of GDP annually. The region turned to external capital to bridge the gap.

Despite the region's generally positive showing over this period, there were signs early in the 1970s that the post-war development model was losing currency and that some moves to achieve its main targets were at odds with others. The central aim of efficient import substitution was proving to be elusive. Countries stiffened trade protection, making it expensive to produce goods for the home market and leaving the region's products at a competitive disadvantage abroad. In the process, the balance of payments became increasingly more vulnerable. By the early 1980s Latin American and Caribbean exports accounted for only 4 percent of world trade, down sharply from their 12 percent share three decades before. What is particularly dispiriting about this slide is that the world economy was soaring at the time. In the end, while the newly industrialized nations of Southeast Asia were making the most of this historic opportunity, our region let it slip by.

Economic Turmoil in the 1980s: The "lost decade"

The 1980s were a true prime meridian, marking the closing of one fundamental chapter in Latin American economic development and the opening of another. The post-war development paradigm, already on the wane, broke down completely when Mexico's external debt crisis in September 1982 spilled over into the rest of the region. Meanwhile, the region was taking the first steps toward a new model that would give rise, in succession, to drastic recessionary adjustment measures, ever more sweeping structural reforms, and external debt rescheduling agreements in countries behind on their payments. The breadth and depth of the debt crisis varied considerably from one country to another, taking a heavier toll on some economies and domestic finances than on others. Likewise, some countries were quicker than others to launch adjustments and reforms. Nevertheless, there were certain common threads that can serve us as regional points of reference.

The external debt crisis was the turning point for the post-war economic growth policy. The abrupt drop in aggregate demand on world markets that had preceded the crisis, triggered by oil price hikes that raised the cost of oil tenfold, in constant terms, between 1970 and 1980, coupled with rapidly mounting interest payment obligations, left countries unable to pay back the debt they had amassed through external borrowings since 1973 to finance a growing share of capital projects, budget deficits, and private consumption. Net inflows of external capital to the region skyrocketed to a peak of 5.8 percent of GDP in 1980–1981, after which, in 1982, the flow stopped altogether.

As a result of the debt crisis and countries' macroeconomic adjustment moves, gross domestic investment declined 1.7 percent annually, on average, in the 1980s. Prospects for economic growth, improvements in technology, and sustained improvements in social welfare dimmed considerably, particularly for the region's poorest. This explains the slide in annual GDP growth to barely 1.6 percent in 1980–1990 and the 0.4 percent annual drop in per capita output over that same interval. Inflation became an endemic ill, and more than one country had to grapple with hyperinflation. The manufacturing sector that had spearheaded economic expansion in preceding years reported very lackluster growth, trailing overall GDP increases. Meanwhile, unemployment and urban poverty hit critical levels, attesting to the high social cost of balancing the macroeconomic accounts in the early 1980s.

Despite these difficulties, Latin American and Caribbean countries honored their debt commitments. Between 1982 and 1990 the region transferred somewhere on the order of US$230 billion to external creditors—the equivalent of two full years of exports, or 50 percent of the cumulative debt stock at year-end 1982.

The orthodox reaction

The so-called "lost decade" left a mixed legacy in the region. On the minus side were the heavy toll taken on Latin American and Caribbean economies and the huge sacrifices asked of their people. On the plus side were some definite gains and a series of lessons learned on which the region's countries built as they moved on to a new phase of economic and social development. The international environment also changed enormously over those years as the production and finance sectors joined in the process we would soon come to call globalization, the allocation of economic resources was turned over largely to the marketplace, and the all-powerful State apparatus was dismantled accordingly.

As more and more countries implemented economic adjustment programs they launched sweeping structural reforms. The scope and content of the reform moves mirrored ambivalencies in economic and political debates in the region about how best to resolve the crisis of the 1980s. By the end of that decade there was, at least in some measure, a meeting of minds in Latin America as to the soundest course, particularly in government policy circles.

The structural reforms set in motion in the 1980s and deepened in the 1990s by a growing number of the region's countries focused initially on combating inflation and easing controls on prices and markets. Subsequent targets were financial, currency, and trade systems. The sequencing of the reforms and their magnitude varied considerably from one country to another.

As the structural reforms advanced, the region moved resolutely to reinstate democracy, and budding democracies everywhere in the region began to flower. Over the course of these years countries set about strengthening the institutions of democracy.

Let us take stock of the region's economic progress in the 1990s. A first very significant achievement was economic stabilization. By the close of this period the vast majority of countries had brought inflation down to the single digits, in sharp contrast to the situation in 1990.

Second, economic growth has been lackluster and unsteady, averaging just 3.3 percent a year. The region's economies are expanding far too slowly to create enough jobs, reduce poverty, and propel long-term growth. Per capita output edged up only 1.5 percent a year during the decade. At that rate, it would take nearly 50 years to double per capita GDP, an economic growth timeframe that is unacceptable for the present generations.

Third, balance-of-payments deficits widened alarmingly. In the last two years the current account balance of the region as a whole barely topped 3 percent of GDP.

A fourth feature of the 1990s was a return to hefty net capital inflows to the region, but the makeup and financing terms of this highly volatile influx were not suited to Latin American and Caribbean development needs. These inflows soared in the early years of the decade, from US$5.7 billion in 1989 to US$68.7 billion in 1993, and the region made the most of them to put through anti-inflation policies and structural reforms.

The influx became extremely unstable in subsequent years, in the wake of the 1994 Mexican financial crisis and turmoil in Asian economies in 1997 and in Russia in 1998. In no time these crises spilled over into many other nations' currency and financial markets, threatening the stability of the international financial system at every turn. A sizable share of the funds flowing into Latin America took the form of foreign direct investment, which countries tend to welcome because it is relatively stable and brings with it technology, organization, and market entrées. However, the bulk of this investment went to the larger and more advanced countries in the region where it was used largely to acquire existing assets, typically privatized State enterprises, or for bank or other corporate mergers and acquisitions.

All these experiences pointed up just how much external factors can influence the region's growth, and how vulnerable its economies are to events beyond their borders. The main lesson we can draw from the experience is that countries are far more financially fragile than we thought, and that the impact of a financial crisis on their growth and prosperity will depend on how deeply indebted each country is and how much it relies on inflows of volatile or short-term capital from abroad. Since external factors are such a strong determinant of growth, it is clear that many of the most effective policy measures for Latin American growth will be closely tied to the reconfiguration of the international financial architecture.

The Forces of Globalization

Latin America and the Caribbean have no choice but to "go global". For countries in our region, globalization is the avenue to unprecedented growth and a modern technology base, but it is not without serious risks. The challenge will be to seize all the opportunities while endeavoring to diminish and, ideally, avoid the down side.

The task awaiting Latin America and the Caribbean is as difficult as it is inescapable. The most pressing challenges will be to: (i) boost internal saving and narrow external financing gaps to shield economies from outside financial turbulence; (ii) entrench macroeconomic stability and stabilize domestic finances; (iii) assure the continuity of core economic policy tenets; (iv) craft medium- and long-range national and sectoral economic development strategies to help optimize the contribution of external savings; and (v) deepen reforms and bolster the oversight apparatus to enhance local capital market transparency, information, and competition.

The region also needs to strengthen its export capacity, redoubling efforts to develop its dynamic comparative advantages and diversify its products and export markets. One key requisite for export development is an increase in value-added content in tradable goods production. Coupled with productivity gains, such improvements can check, in the medium and long run, the secular decline in terms of trade. Moves to expand and deepen regional and subregional economic integration arrangements and trade accords with other parts of the world, in pursuit of "open integration", offer Latin American economies another very promising way of girding themselves against adverse external events.

As Dani Rodrik has pointed out, globalization also needs solid "institutionality" in countries committed to the process. This means government institutions equipped to make and administer public policies with a long range view, along with political stability, strong democratic institutions, and input from the citizenry into State decisions. Other requisites are judicial and political processes that are predictable and credible, including an enabling legal framework for the growth of private enterprise, protection of property rights, government accountability, and honest, transparent, efficient administration of the State. A final institutional requirement is a social safety net for the most vulnerable groups who are displaced as nations modernize and restructure production, or are buffeted by business cycle swings that are the inevitable corollary of market liberalization and globalization.

III. UNCERTAINTY AT THE DAWN OF THE TWENTY-FIRST CENTURY

Formidable Strengths, Serious Frailties

Our region's nations are stepping into a new decade armed with some major strengths—democracy, stability, fiscal and monetary responsibility, more open economies, and tightened regional integration ties, to name but a few. Some critical weak points are high poverty rates; lags in long-term growth; markets that have yet to integrate fully into the global marketplace; the relatively small number of products that are accounting for most export sales and the low value-added content of those products; high unemployment and low saving and domestic investment; the vulnerability of the region's economies to instability outside their borders; an extremely lopsided income distribution, and flagging productivity.

The Challenge of Competitiveness

There are some undeniable challenges ahead as the region moves into the twenty-first century. Our countries are producing far below their potential when one considers the economic resources at their disposal and current productivity prospects. Especially discouraging is the opportunity cost in terms of social advances that this is entailing for our countries. But we should look at these same circumstances as a window for growth, which will open even wider if our economies redouble their efforts to become globally competitive. No one is claiming that this enterprise will be short or simple: ultimately, it will put to the test the region's true desire for progress.

What triggered this huge gap, and how can we make up for lost time?

We do not need a rigorous formal analysis to discover the main reasons for the region's lag. First and foremost was the dip in long-range growth rates which, adjusted for high population growth, has pushed per capita income back 20 years. Across most of the region the economic recovery of the 1990s was shaky at best, nowhere near robust enough to take employment, real wage, or productivity growth back to pre-crisis levels.

One formidable challenge for Latin America's economies is to achieve more efficient production and make more efficient use of economic and human resources. Productivity gains are imperative if the region is to step up economic growth and equip itself for global competition. Achieving this goal is the true desideratum of the collective economic and social development enterprise. Productivity is not everything, but in the long run it is almost everything, as Krugman phrased it. A just and progressive society expects the fruits of productivity improvements to be shared equitably among workers and business and capital owners. Let us look briefly at the productivity issue in our region and the associated challenges.

The region has fallen behind, for a number of reasons, in the race to global competitiveness. Some are part and parcel of countries' own economic performance, the nature and pace of technological innovation, and the efficacy of current policies. Other factors are more complicated, having to do with too little schooling and poor quality of education, low labor productivity (the result of meager investment in human resources and inadequate technical and management training), the high cost of capital owing to operating inefficiencies and too little competition in the financial sector, gaps in access to basic energy, transportation, and communications infrastructure, and shortcomings in the institutional apparatus and its operation, political stability, and social equity.

One of several firm obstacles to overall economic growth and productivity improvements is investment, which has been languishing in the region. In the last two years, overall regional investment rates were barely 20 percent of GDP, on a par with averages posted in the throes of the economic crisis of the 1980s, and not far off the 1990s average. This is in striking contrast to the 1970s' average of 28 percent of GDP. Boosting annual growth to 6 percent in the region in the coming years will require a hefty increase in productive capital formation on the order of 1970s numbers, that is, around eight additional percentage points of GDP. The productive capital base needs to be expanded to supply economic and social infrastructure needs, augment and restructure export capacity, help businesses replace plant and equipment to bring in modern technologies, and so on.

But this is only one facet of the challenge. If we aspire to an equitable society we need economic growth robust enough to remedy the problem of unemployment and create gainful employment for a growing workforce.

Technology lags in the production sectors and pronounced disparities between sectors—and between companies operating in the same sector—are relatively common features of underdevelopment in the region. Because they have been slow to bring in, adapt, and disseminate technologies, many of our businesses are nowhere near the international technology threshold and have instilled few international best practices. This is widening the technology divide between the region's nations and their industrialized counterparts.

Technological progress in industrial centers has rewritten longstanding rules on comparative advantages that, prior to the Second World War, dictated the specialization of commerce. Productivity gains more than offset differences in cost associated with abundant (or scarce) labor or natural resources. Expanding and diversifying the region's exports in today's globalizing economy is therefore a challenge requiring extremely close attention and support, to narrow the technology gap that is keeping productivity down in the region and harming its chances to compete internationally.

Another determinant of competitiveness is economic stability, which means not only achieving and maintaining monetary, fiscal, and currency exchange balance but also assuring the rule of law and respect for the laws. Our countries have made considerable strides in this regard over the past 15 years that they can build on down the road. We must acknowledge, however, that external threats to stability persist and that we lack the checks and capacity to stave them off or cushion their aftermath.

Redoubled efforts thus are needed to reduce these economies' external vulnerability. In addition to expanding and efficiently diversifying market and export structures, domestic savings need to be boosted and financial systems improved. The recent international financial crises have proven to be extremely virulent and rapidly contagious, with pernicious effects even in the region's fastest-growing and most stable economies. But in order to lessen external vulnerability, aside from expanding internal savings and investing them better, adjustments are needed in the magnitude, makeup, and terms of the external capital flows required to augment domestic savings.

Thus, the challenge for regional development is to spur growth and economic transformation by improving productivity. The object of policies to enhance competitiveness is to: (a) promote technology development, adaptation, and dissemination; (b) encourage businesses to improve their organization and management and bring in modern production methods and technologies; (c) foster investment and production of tradable goods; (d) provide small and mid-sized businesses with opportunities to upgrade their technology and improve their organization and management; (e) promote the modernization and expansion of transportation and communications infrastructure; and (f) improve the quality of human resources, with an emphasis on technical and job skills training.

To accomplish these goals we need to overcome current policy constraints and find better tools. Neither the mature industrial powers nor the newly industrialized Asian countries managed to grow, modernize institutions, or advance technologically without a good dose of sectoral policies and targeted incentives. Why should Latin America and the Caribbean, with their enormous development gaps, remain defenseless and passive, wasting their production potential and chances for progress?

The Social Challenge

To reduce poverty and enhance equity countries need stable, sustained long-term growth. But cause and effect flow in the other direction as well. There can be no sustained economic growth without social development. The result of unequal access at the starting line—to education, land, or credit, for instance—is slow growth. When there are no social protection systems in place, people are reluctant to take the kind of risks that can improve economic returns, not to mention the deleterious effect of the lack of a social safety net on the physical and human capital of the poor.

Growth that fails to extend opportunities to the masses can end up interrupting or even reversing economic reform gains, give rise to populism, and weaken democracy and social tranquility. Social ills also have a heavy economic cost, associated for example with law enforcement and security services to curb crime, high student dropout rates, and broken homes. To achieve economic and social development, countries need policies to provide more equal opportunity, including measures to level the playing field from the start.

Participation and social inclusion at the country and local levels are essential to ensure shared growth and break the vicious cycle of poverty. The population needs to feel that it has a say in, and some responsibility for, national and local decisions. Alienation breeds discontent and violence. A real voice in decisions and processes of change are necessary ingredients in any effort to make institutions more transparent and responsive—these being keys to economic and social progress.

All of this was explicitly acknowledged by the Bank's Governors in the Eighth Replenishment document.

Prospects for poverty reduction are particularly threatened by economic upheavals and instability. Over the last 20 years there have been more than 40 episodes in which annual per capita income fell by more than 4 percent. This shows us that economic crises strike hardest at the poor and defenseless, and that per capita consumption and real wages in these communities plummet in times of crisis, as unemployment rises.

Coming to grips with poverty therefore requires a general strategy and policies designed to:

- Create opportunities for the social and productive integration of the poor and the excluded. This means continuing with the traditional social reforms: education, health care, nutrition, improving poor neighborhoods, rural social infrastructure, microenterprise, etc. But it also means creating equal opportunities for access to productive assets.

- Build a social dimension into economic policy. This means addressing the distributional implications of policy measures, and not just policies expressly designed to protect the poor, promote adjustments with equity, prevent crises, etc.

- Establish social protection programs, for instance allowances to dispossessed families as incentives to keep their children in school or as a way of augmenting their income now and strengthening the human capital of future generations.

The Integration Challenge

After a decade of turmoil, Latin America and the Caribbean saw a dramatic surge in regional integration moves in the 1990s within the framework of the so-called "New Regionalism", underpinned by considerable political momentum.

However, as the new millennium approached, upheavals in the world economy, natural disasters, and domestic political problems began to place strains on some regional processes, particularly in the major subregions. There is a perception now that regional integration in Latin America and the Caribbean has come to a crossroads.

That said, we should not lose sight of the real progress made over the past decade to advance the region and heighten its competitive edge in a globalized economy.

- Most goods traded in the region are now duty-free or circulating under agreed tariff phase-out timetables.

- The surge in regional trade has made our economies very heavily interdependent. One interesting fact is that regional trade has a much higher knowledge content than extraregional trade. Regional markets have provided an outlet for exports such as food products and textiles that face stiff protection elsewhere in the world.

- A number of regional economic accords are laying the groundwork for gradual economic coordination and have already facilitated productive joint negotiations in regional and hemispheric forums.

- Today, our nations are actively pushing for economic integration with industrialized nations—a move that would have been inconceivable 15 years ago—as reflected in NAFTA, the Canada-Chile Free Trade Area, ongoing free-trade talks between Canada and Central America, Canada and CARICOM, the United States and Chile, the European Union and MERCOSUR and Chile, and, of course, the Free Trade Area of the Americas (FTAA).

- The increase in intraregional trade and the accompanying investment have prompted demands for improvements in regional infrastructure and the abolition of national rules and requirements that have been holding up those processes. The South American regional infrastructure initiative launched by the Heads of State in Brasilia last year with technical and financial support from the IDB, CAF, and FONPLATA, is a testament to the positive spillovers of the New Regionalism, as is the "Puebla Panamá" plan unveiled in Mexico City a few days ago, with IDB and CABEI backing.

- Regionalism and the awareness that the region's governments share common concerns have helped forge partnerships to cement peace, further development on our borders, and entrench democracy. The democracy clauses in MERCOSUR and Andean Community instruments have inspired discussion of similar commitments within the framework of the hemispheric summits.

This list of achievements is long and impressive. Why, then, the feeling that regional integration is losing momentum?

Changes in government, external turbulence, and foreign trade competition can slow the launching of new integration arrangements and make it more difficult to sustain existing ones. The region's history is replete with initiatives that started out promisingly, only to fail. After nearly a decade, the "easy" stage of the New Regionalism in Latin America and the Caribbean may well be over, and a bolder political vision may be needed to push through more sweeping collective commitments. The regional accords of the 1990s were put together by dint of a heavy expenditure of political capital that has paid off handsomely. It would be a tragedy to forfeit that investment. The core challenges that lie ahead could be summed up as follows:

- **Eliminating nontariff barriers**. As border barriers or tariffs are lowered, nontariff barriers are revealed to be a second significant tier of obstacles to trade and investment. These impediments, coupled with the regional partners' own market rules and policies, are politically difficult to remove because this impinges more directly on the domestic sphere. However, leaving these obstacles in place will make it that much more difficult to reap the benefits of regional integration and will raise the economic and political costs of any new initiative.

- **Transparent dispute settlement mechanisms**. Intraregional trade and investment should be a handmaiden of economic transformation. As the volume of trade increases among intraregional partners new disputes will arise as well. As we have seen in trans-Atlantic trade, even the best of trading partners can have rancorous disputes over small fractions of total trade. It is important, therefore, that there be formal, transparent dispute settlement and contingent protection mechanisms to regulate the regional market.

- **Liberalizing** trade **in services.** Accelerating the liberalization of services is essential to achieve closer integration. This will permit greater specialization and efficiency in the service sectors, which in turn will make for efficient goods production and trade.

- **Macroeconomic and monetary cooperation.** The increasing interdependence of members of regional groupings demands closer macroeconomic and monetary cooperation to mitigate episodes of instability. The prime goal in this area is country convergence around sustainable macroeconomic positions that can make intraregional economic relations more predictable, boost regional trade, and enlarge markets. Later on, this goal could be combined with heightened macroeconomic and monetary cooperation.

- **Modernizing institutions.** Two other requisites for deeper Latin American and Caribbean integration are modern institutions and capable staff. Efficient institutions are needed to oversee rights and obligations and ensure an equitable political voice and distribution of benefits among partners.

- **Intangibles.** Three intangible elements are required to successfully deepen integration: (i) political vision and commitment, particularly on the part of the dominating market country; (ii) a collective commitment to promoting equitable distribution of benefits and costs among partner countries as well as encouraging a better distribution within countries; and (iii) public understanding, participation, and ownership of the integration process.

- **Further structural reforms.** The role of integration as a preparatory process for globalization requires that member countries comply with their Uruguay Round obligations and plan for further gradual unilateral liberalization as part of the ongoing structural reform process.

An important backdrop to our regional integration process is the FTAA, which is scheduled to take center stage in 2005. This process has progressed steadily since its inception in 1995, first with a very successful preparatory stage, and then with a fairly advanced stage of negotiations that have produced bracketed texts of an agreement that will be submitted to Trade Ministers next month in Buenos Aires.

We should all be proud of this progress. It is clearly one of the major achievements of the hemispheric summits. This success would not have been possible without the political commitment of all 34 governments and the resolute and fiscally costly dedication of delegations who have negotiated nearly continuously in the FTAA Secretariat.

As I mentioned to the trade ministers at their Toronto meeting in November 1999, even while we wait for an agreement to be penned by 2005, the FTAA process has been generating tangible and important benefits since its inception. To mention just a few: the creation of an esprit de corps among our trade units that has facilitated bilateral agreements in other fields; increased transparency of hemispheric trade-related rules and trade data; important business facilitation measures, especially in customs procedures; promotion of a hemispheric business community; and hands-on experience in many complicated regional and WTO-related trade issues.

But the main payoff will be an agreement by 2005. A successful agreement must advance trade liberalization in the areas of the region's comparative advantage—agriculture, for example—and those of special interest to the more advanced partners, such as services. One major impact of the agreement would be institutional modernization propelled by competition, the need to attract foreign investment, and the adoption of trade-related disciplines and institutions. All this will be encased in a set of rights and obligations that ensure more secure market access not only between our region and North America but between subregions as well.

What effect will the FTAA have on existing agreements in the regions? Some agreements with limited objectives will undoubtedly be absorbed by the FTAA. This would not necessarily be bad, as it will help harmonize trade-related rules in the hemisphere and simplify the mélange of different agreements and rules in the region. The more solid and deeper arrangements should coexist with the FTAA. Thus the urgency of significantly deepening the agreements that exhibit political commitment and economic relevancy. Indeed, the FTAA itself might indirectly support deepening by constructing a more solid foundation of discipline to support current regional agreements.

We also should bear in mind that the FTAA and subregional agreements are two very different products. The FTAA is akin to a hypermarket, attending to the tastes of a broad hemispheric clientele. Subregional integration is the neighborhood store. The services provided by both the hemispheric and regional stores are essential if our countries are to successfully confront today's challenges for development, equity, and good governance in an era of globalization.

It is therefore reasonable to expect some countries and blocs to pursue a two-track or even multiple-track strategy in regional integration. This explains why countries and blocs in Latin America and the Caribbean are not limiting their horizons to the region and hemisphere but also are actively pursuing agreements with the European Union and Asian countries while awaiting another round in the WTO.

The prospects for an FTAA in 2005 seem good. The negotiation process is advanced and a few delegations even support moving the closing date for negotiations. It would be my view that focusing on concerted procedures for moving forward as quickly as possible, while ensuring that negotiations address substantive concerns for a balanced agreement, is more important than a formal advancing of the closing date as such.

The Challenge for Institutions and Democracies

Despite institutional advances and the strengthening of democracy in recent years there still are difficulties, constraints, and uncertainties that pose challenges for the region in the decade ahead. The heartening democratic climate in the region cannot mask certain effectiveness and credibility problems of institutions. Shortcomings in the political, institutional, and regulatory spheres are limiting their capacity to serve and respond to the needs of the citizenry and are dampening domestic saving and investment, thereby slowing economic growth.

As progress has been made in economic reforms, our region's countries have found that the workings of the marketplace sometimes come up against the traditional structure of State institutions, changeable government management approaches, the absence of modern public policies, obsolete legislation, weak democratic checks and balances, and limited avenues and institutions for public input, negotiation, and consensus building.

These persistent institutional and democratic shortcomings notwithstanding, there is no question in the region that democracy is a sine qua non for development. Without the solid and democratic rule of law, it is impossible to build the institutions that the market requires to run efficiently or to have a State that discharges its core responsibilities—fostering competition, promoting justice and equity, and narrowing the gap in our societies between those at the forefront and those who are bringing up the rear.

Our history and the history of the industrialized nations teaches that the effectiveness of a State's actions does not depend solely on its technical capacity and the instruments at its disposal. It is equally crucial that such actions be detached from private or corporate interests and seek the common good. In a democratic system, public policies tend to pool, process, and respond better to the demands of the citizenry. Government officials can also be made accountable for their actions. People living in a democracy expect there to be no dramatic changes in the ground rules without the benefit of democratic debate by representatives of all walks of society. This instills the kind of certainty and trust in political and legal systems and processes that sets the stage for sustained savings and investment. Only this will assure that a broad consensus exists when it comes to shaping and implementing State, rather than simply government, policies that provide a sense of direction and continuity.

The consolidation of institutions and democracy also demands solid public management capacity in central governments and, particularly, in local governments, since they have been shouldering an increasing share of responsibility for the delivery of public services.

It is not surprising, therefore, that in recent years a strong consensus has emerged regarding the importance of democratic institutions for promoting solid policies for sustainable and equitable development. This awareness has broadened the sphere of action of international cooperation agencies where governance issues are concerned, and we can say proudly that the Bank has been in the forefront of this movement in development thinking and practice. Since the Eighth Replenishment, we have been supporting the region's democracy-strengthening efforts, providing financial and technical backing for projects for justice system reform, modernization of legislatures, and more effective oversight and compliance monitoring agencies, among other democracy-building focuses.

IV. INCOMPLETE ECONOMIC AND SOCIAL PROGRESS: SOME QUESTIONS

Have the reforms failed?

In view of the insufficient progress made in the reforms undertaken in recent years, we should not be surprised that opinion polls reflect the public's disappointment, frustration, and often anger. In particular, these exercises indicate that the public's main worries are unemployment, job instability, economic uncertainty and vulnerability to economic crises, escalating violence—including domestic violence—and crime, lack of access to basic services, rural isolation owing to inadequate infrastructure, the breakdown of families that comes from migration to the cities and abroad, and mistrust of State institutions.

In these circumstances, the following questions become inevitable:

- Have the reforms failed?
- Is the region's disappointing economic performance an inescapable consequence of globalization?
- Do we need to construct a new paradigm to guide relations between the State and the marketplace?

These are the main issues on which it is worth reflecting, to guide the debate.

The first point is to recognize that we know what the reforms have cost but not what the costs would have been had the reforms not been carried through. The Bank's estimates suggest that, without the reforms, annual average growth in regional GDP would have been almost 2 percent lower than at present.

The second is to remember that not all countries in the region have proven to be equally vulnerable to upheaval on international commercial or financial markets. These differences teach us valuable lessons on how to design more efficient mechanisms to protect against external shocks.

The third is to note that our countries have learned from the experience and are exploring new ways of overcoming failures by markets and governments. These new approaches are based on the recognition that the State has a key role to play in market growth and in enabling citizens to capture the private and social benefits that ensue when markets run efficiently.

An Agenda for Collective Action

What are the central issues on our countries' development agendas? Despite widely differing conditions from one country to another, some common features can be extrapolated from an overview of economic and social progress in the region. The picture points to five major areas of vulnerability.

Poverty

The region's top priority should be combating poverty and the widespread inequality, unemployment and exclusion in our countries. Comprehensive strategies are required to address these problems, targeted to:

(i) creating economic opportunities for the poor; (ii) attacking structural inequities in asset distribution, and (iii) improving access by the poor to economic and social infrastructure. A comprehensive strategy should include mechanisms to cushion the impact on the poor of catastrophes associated with disease, natural disasters, economic crises, violence, etc., and initiatives that respond to the needs and priorities of the poor; to promote investment in social capital, and to combat the social and political exclusion of indigenous and Afro-Latin peoples.

Competitiveness

Latin American and Caribbean countries need to significantly step up the pace of growth if they are to reduce poverty and rise to the demands of their citizens for jobs and social progress. To tackle this formidable challenge, the countries must boost their capacity to compete internationally, making the most of their resource base. This will mean continuing and deepening reforms to strengthen financial systems, education and job training systems, national innovation systems, and labor markets. It also means fostering private enterprise and helping microenterprise and small and medium-sized businesses grow, investing in infrastructure, and striving for broader regional economic cooperation.

In this context we must recognize the role that has been played by the Multilateral Investment Fund in fostering private sector development throughout the region as well as faster economic growth and social development in regional member countries, based on sound economic policy and increased private investment. It is prudent, then, that we consider the need to resource the Fund such that it may continue to support ongoing work by broad-based economies to develop their economies.

Good Governance

It will not be possible to design or execute effective growth, poverty reduction, or macroeconomic stability policies and programs or to achieve greater domestic social integration in a context of political and institutional weakness. Modernization of the State, understood as the political and institutional apparatus of our countries, is therefore an inescapable task. The fragility of our State and civil society institutions is the true Achilles heel of our development efforts. To conquer this weakness there need to be continued efforts by countries to bolster their macroeconomic and microeconomic management capacity, continue with justice system and legislative reform, improve the workings of local government, foster social dialogue, civic coexistence, and citizen security, combat corruption, and promote transparency. The Bank has firmly supported regional efforts to curb corruption. Its initiatives to this end are embodied in the new anti-corruption policy recently approved by the Board of Executive Directors.

External Vulnerability

The region is vulnerable to external events as a result of its relatively modest levels of domestic saving, the fragility of the fiscal balances of the consolidated public sector, shortcomings in financial regulation and supervision, the excessive concentration of our exports, and our high dependency on primary commodity prices. One way of confronting this vulnerability is to continue strengthening integration moves. This means that our countries will need to cooperate more closely in steering their development policies toward better use of their resources, in a manner that is compatible with the objectives of greater complementarity in their economies.

The Environment

Without doubt, one of the most serious challenges for the region is to manage its natural resources in a way that is consistent with economic growth, social equity, and environmental sustainability. Latin America and the Caribbean are among the world's leading producers of agrifood, forest, fish, and mining products. Rational use of these resources requires public policies designed for their sustainable management and a strategic vision that can make them a springboard for the transformation of production patterns.

To respond to these five challenges, development policies need to be designed and implemented to:

- Ensure the maintenance of an enabling environment for market operations, creativity, and the restructuring of production, and for equitable distribution of the fruits of economic growth.
- Guide the actions of economic and social agents by identifying long-range objectives, including poverty reduction targets, and proposing a strategic vision for coordinated action by the private sector, civil society, and the State.
- Contend, as necessary, with externalities that hobble optimum market behavior.

The Inter-American Development Bank

The changes in the economies of the Bank's borrowing member countries in the last decade and the different kinds of demands that governments and societies are posing today present challenges for our institution as we embark on this new century. Our proposal for addressing those challenges, which has been described in detail in the document presented yesterday to the Committee of the Board of Governors, can be summarized in ten conclusions:

- The current international debate on the role of the multilateral development banks is both timely and necessary. The Bank will have to adopt clear positions to enable the Governors to participate actively and constructively in that debate.
- The rethinking of the Bank's role should take due account of changes in the member countries' economic and social structures in the last decade and the impact of the globalization of the region's economies. These factors have led to renewed demands on Bank action.
- A rethinking of objectives to underpin a new cooperation agenda should be based on ratification of the objectives already marked out by the Governors during the Eighth Replenishment and on a sharper focus for some of them, in areas linked to the new realities and demands of the countries.
- The Eighth Replenishment objective of a frontal attack on poverty should continue to be the cornerstone of our action, as part of an ambitious social development agenda that calls for efforts for greater equality in employment opportunities and the inclusion of groups that have been on the sidelines of economic and social progress.
- The new approach to the Eighth Replenishment aim of modernizing public and private institutions will be a focus on issues of governance and competitiveness. Good governance is a compelling objective of all structural changes and development policies in our countries. Competitiveness is a fundamental tool for faster and better quality economic growth, in whose absence real social progress would be impossible.
- Integration lies at the heart of the Bank's mission and has become a fundamental objective of the individual and collective actions of countries in the region. This objective should be a high priority in institutional cooperation policies.
- Environmental considerations should continue to inform a comprehensive sustainable development agenda for the region's countries.
- The Bank's new action fronts based on the foregoing considerations should be focused, sustained, and prioritized by the Governors.
- The Bank already has a toolkit for action arising from the Governors' mandates. It would be highly desirable for the Board of Executive Directors to make these instruments more flexible.

This would, of course, be accompanied by suitable arrangements to enable Management to evaluate results.

- The entire exercise should keep in mind the comparative advantages of an institution such as ours, which has been present in the region for over forty years. Among these advantages are the borrowing member countries' sense of ownership of the Bank, our institution's ongoing contact and open, candid discussions with governments and public and private stakeholders in the development process, and its commitment, since its inception, to social issues, integration, and other concerns.

In consultation with its member countries, the Bank has always come up with innovative responses to challenges. I hope this list can serve as a starting point for discussions in the Board of Executive Directors and the Committee of the Board of Governors, who are called upon to steward our institution in responding to the challenges it faces today. Our goal is clear: to identify institutional changes that will better equip the Bank to serve the development needs of the peoples of Latin America and the Caribbean today.

Ladies and gentlemen: These are the same peoples, the same earth, once evoked by one of Chile's illustrious sons and citizens of the world. Who better than the celebrated poet Pablo Neruda to paint a picture of our region in words:

Primordial America
Your purple-hued lands guarded
by two oceans
Centuries of quiet industry,
pyramids, the potter's craft,
rivers of blood-red butterflies,
amber volcanos
and silent races,
Shapers of vessels,
carvers of stone.

I would like to begin by echoing the viewpoints expressed by the Board of Governors and confirming our confidence in the Government of the Argentine Republic and its President, Mr. Fernando De la Rúa. In his actions and in his words, he has always manifested very clearly his resolve to follow along a path that we all agree upon and on which we have all embarked. We have no doubt but that, in pursuing the concepts and precepts articulated here, Argentina—as well as the other countries of MERCOSUR—will honor its commitments and overcome the difficulties that have arisen recently, and return to the levels of the not-so-distant past, which we are sure that we can attain.

I am not an economist, so speaking to a meeting of bankers is no easy task, especially from the vantage point of a debtor. I have little to say that is new and will therefore be brief. Uruguay has always endeavored to be a stable country, one with continuity in its conduct where, during the last three administrations, we have been effecting change and where Uruguayan society today is much more accepting of change and ready to take change in its stride, in its day-to-day life and its institutions.

Over the next four years, I intend to accept Mr. Iglesias's invitation to attend the annual meetings of the IDB—assuming they are held every year, though I am not entirely certain about this because these matters are new to me. It is important not that you know necessarily what Uruguay thinks but at least what the President of Uruguay feels is necessary and what he is committed to.

There are a number of points on which I think we all agree. We cannot abide fiscal deficits or inflation: they are demoralizing for individuals and families, and detrimental to the economy, saving, and the day-to-day obligations that we must all honor as members of society. We cannot abide a closed economy: those who advocate a closed economy are asking for suicide by asphyxiation. We cannot abide high tariffs and also aspire to an open economy.

In today's world, we cannot live without deregulation and demonopolization, and we must persevere in our efforts to achieve true, practical, and swift modernization of the State if we are to have a State not like the ones that pursued secondary objectives such as came into being after the first world war, fundamentally in Europe—but a much smaller State that is far more professional and able to form a corps of professionals. This has been one of the major shortcomings of our modern-day State, which pays low salaries and is thus unable to build an efficient, smart, professional civil service that can work effectively to get things done, rather than a "doing" State built upon monopolies that today have lost their raison d'être.

Uruguay intends to continue its tradition of an open, transparent financial market, which it has had for many years. Our central bank performs control and regulatory functions for all activities. Except for Banco de la República Oriental del Uruguay, which operates in the retail financial system, all the other banks in Uruguay are international banks. These banks, the central bank, and the government are committed to honoring all international obligations with regard to central bank oversight.

We believe in the need for international lending agencies. Recently we have heard calls from uninformed quarters demanding that such agencies be done away with. In the nineteenth century, we lived off Baring Brothers, which looked to the British Crown. Today, we prefer to look to the IDB: we are its owners and it is the agency that contributes the best and the most to making up our savings gap.

I would ask these naysayers what we would do without lending institutions such as the IDB. How would we meet the needs that we all naturally have? When I was born, there were perhaps 2 or 3 billion people in the world; now, there are 6 billion. To think that we can survive without international lending agencies, be it the Fund, the IDB, or some other organization, is not only an illusion but an invitation to chaos. And from chaos, no one emerges unscathed, especially those who bring it on.

We firmly believe that all our countries should embrace globalization actively. To a certain extent, this phenomenon was not a decision made by governments but by Bill Gates and CNN. Be that as it may, globalization is a reality. In this regard, we would like to make a few brief comments concerning the asymmetries that we feel are especially dangerous because they have an impact on the general citizenry as well as on bankers.

Regional integration is enshrined in our Constitution, and has been at work for ten years in the form of MERCOSUR. However, a number of elements are still lacking. While it is true that our regional integration has a capital, Montevideo, it is also true that this is an empty structure. There is no technical secretariat and there are no permanent tribunals. In other words, it exists in the form of conversations between ministers and telephone calls between presidents. That is not what the region needs. We need institutions like the ones set up under the Treaty of Rome for the European Economic Union. We also endorse the FTAA agreements, and are fervent supporters of a market that would unite us from Alaska to Tierra del Fuego. And if negotiations look like they might be difficult, the sooner we begin the better.

Chile, for instance, will be moving in this direction next week in Miami, and we are curious to see how the issue will play out. Ultimately, Chile is helping us all since these discussions affect us all, because we all agree on 2005. I expect that Mr. Bush would like it to happen earlier, because in 2005 he will not be there; hence, perhaps, the incentive to make progress in this area.

By doing so, likewise in Asia and with the European Union, we will be able to do all the things for which people elect governments: raise living standards, improve education, improve housing, and improve health. This accounts for 85 percent to 95 percent of our discourse, which—if it is to become reality—must be translated into actions. These may be a bit more opaque and may not have an apparent causal relationship with the benefits being sought, but without them—and let us recognize this—there is no possibility of giving people that which they claim by natural right: justice, equity, and free access to education. In other words, the right not only to a life built upon ethical and moral values but also the right to have their basic needs met in such a way as to allow them and their families to grow in peace and in freedom.

Before closing, I should like to say a few words about globalization, which has caused quite a bit of commotion in some quarters. At the meeting in Prague, for instance, the bus carrying Uruguay's Minister for Economic Affairs was attacked by protesters who were very much against globalization.

In my opinion, whoever is against globalization is against the people, and they are wrong. They should not be against globalization. They should be against the lack of globalization. This is not the first time that globalization has existed in the world. Look at ancient Rome, for instance—what could have been more "global" than that empire? Or think of the Atlantic civilization, America in the late nineteenth and early twentieth centuries—if this was not "global", what is?

The globalized world of today, however, displays very marked asymmetries. In a word, it is a one-way globalization; benefits do not flow both ways. While we have low tariffs for goods provided by Europe, North America, and Japan in the industrialized world, we are unable to sell our products at convergent market prices. Some years back, in 1963, I took part in the last round of meat negotiations in England, as a member of the Uruguayan delegation. From 1963 to 2000, the situation has remained unchanged. Nominal values are the same, but calls are now being made for fairness, openness, and lower tariffs so that goods—including patents and intellectual property rights, inter alia—can reach our markets; at the same time, we are kept out of markets that are totally restricted, quota-based, and protected. This makes globalization look more like a setback, since it has not brought us sustained growth. Perhaps I could ask our friend Enrique Iglesias, who has always had excellent ideas and the resources to conduct studies, to commission a study to establish what primary commodities would be worth in the absence of the US$350 billion in subsidies that are spread around the G7 or G8 countries and totally distort our markets. I wonder what bankers would think about lending to Uruguay, or to Argentina, or to Chile, if we received—rather than the nominal prices that we received in 2000 for our goods—prices adjusted for the 37 years that we have been receiving the same nominal prices. This is an explosive mixture: asymmetrical globalization, or globalization with fierce protectionism. Leaders in both the public and private sectors need to listen and have a clear vision of reality; they cannot stand by silently as if this absurdity were admissible. We are not talking about mad cow disease here: we're talking about quotas, about the closing of markets, the distortion of third markets, and manipulated export prices. I am talking about the goods we produce. Comparatively speaking, we are unable to sell them in today's world because the same people who are calling for openness are the ones who are closing the outlets for the fruit of our people's labor, and this cannot be. Although it is a political issue and not one for bankers to decide, it will have an impact on bankers but also on us, since you will not be able to lend to us and we will be unable to pay you. However, if we received fair prices for our goods, perhaps we would need to borrow less from bankers. Let's hope that the situation will have improved by the next time we gather in such a forum.

I think I should begin with a word of thanks for the invitation to attend this event and to extend a greeting on my own behalf and on behalf of all Argentinians to the participants in this Annual Meeting of the Inter-American Development Bank. I am pleased that this visit to the Bank's Annual Meeting gives me an opportunity to share this day in Santiago, Chile, with our friends. Thanks are also due to this beloved city of Santiago, the noble people of Chile, and to their distinguished President, Dr. Ricardo Lagos Escobar.

I would like to congratulate Mr. Enrique Iglesias for the address he just delivered in which he paints a realistic picture of the situation of Latin America and the Caribbean. During his term as President, Mr. Iglesias has given priority to the situation in the region spurring social programs to help eradicate poverty and reduce inequality.

First, I would like to express my sincere wish that the work conducted in the sessions commencing today will be fruitful. I am convinced that our concerted efforts will enable us to find more effective means of consolidating the Bank's work in the year ahead and move the institution another step forward in achieving its future goals.

The Government of Argentina believes in the strategic role that the Bank is playing in the processes of integration under way in the region. Through the determination and efforts of their governments, our countries are creating a more suitable area for trade, investment, economic growth, and ultimately the well-being of our people. This phenomenon is borne out by the experiences among the countries of Central America and the Caribbean, those of the Andean Community and the MERCOSUR countries. We see in MERCOSUR a crucial project, the strengthening of which would enable us to tackle the FTAA negotiations from a stronger position and also to move forward in relations with other countries and trade blocs, particularly with Europe.

This is particularly opportune time to mention that 2000 and until May of this year Argentina has been at the forefront of the FTAA negotiation process. During this period, with the active participation of all concerned, an initial draft of an eventual FTAA agreement was drawn up, to serve as a suitable basis for laying the foundations of the hemispheric integration process. You are all aware of the efforts that this task involves. However, I do not know you are aware that this task in which a singularly important responsibility fell to Argentina, received the support of the IDB, which acted as Technical Secretariat of the working groups. All in all, MERCOSUR, the FTAA, and negotiations with the European Union are the most ambitious international projects in which Argentina is taking part. In the process of integration, I believe that without a doubt the IDB will continue to fulfill a privileged role.

The Bank's potential influence in the future goes beyond this dimension. I think it is safe to say that the IDB will help us significantly with the process of economic reform and modernization and particularly with the longstanding, almost historical, challenges facing the countries in the region, to reduce poverty and to seek greater social equity.

In the year and few months since I took the helm of the Argentine government, we have encountered an extraordinarily difficult situation. I took office in the midst of persistent recession, high unemployment and a large fiscal deficit. External conditions were not promising either during most of these past months: high interest rates, poor terms of trade, and depreciation of the euro.

This situation forced us to implement reforms that no government in our country had attempted before, guaranteeing the operation of our institutions and adhering resolutely to our objectives: improving the living conditions for our people and embarking on a path of sustained growth with equity. We are carrying out a program based on recognition of the fact that growth can only be achieved by building a truly competitive economy integrated into the world economy, with a reformed State and sustained growth. In recent decades, this is the path taken by all countries that have achieved successful development.

We responded firmly, building our short- and medium-term fiscal solvency within the available margins, honoring our debt obligations, promoting reform that would increase the competitiveness of key sectors of the Argentine economy, such as energy, telecommunications, and transport. We are moving ahead with structural reform to produce the necessary changes for the benefit of our people. We are carrying through an already ratified labor reform, with associated regulations and decrees that will make it possible to streamline the rigidities of the labor market, which are not only unfair but cause inefficiencies and unemployment. With this same zeal, we are in the process of deregulating the health system and implementing social security reform to make it equitable and financially sound.

We have succeeded in controlling the fiscal deficit and for the first time in many years the federal government reduced primary spending. Many of the structural reform are posting their first successes: the Argentine economy is more competitive and our exports have been very favorably received. However, it is not enough: investment has not expanded; nor has domestic economic activity picked up. Without success on these fronts, we cannot lower unemployment and provide succor for the anguish of many Argentine families.

We have decided to respond to the adverse economic conditions with a decisive package that the Minister of Economy, Mr. Ricardo López Murphy, announced last Friday. To clarify this point, the measures that we will be implementing are a deepening of the policies launched by the present administration. We have not altered our assessment or our conviction as to the strategic solutions that we are applying. We recognize the importance of fiscal solvency, increased competitiveness, legal certainty, and the need to lower interest rates. To this end, the financial support that we have received from the multilateral community, the countries, and private banks will be used as indicated in the plans and announced in due course. We have an economic program in place and our purpose is to carry it out. We respect our commitments and will make such adjustments as are necessary to enable us to honor them. For this reason, I would like to take the opportunity offered by this invitation to the Annual Meeting to thank the Bank, its member countries, and the President for the Bank's participation in the Argentine financial program.

We are steadfastly convinced of the overriding need for consolidating the fiscal situation and deepening the country's economic competitiveness. I rest assured that the Argentine people are fully aware that the present effort will soon bring benefits.

I am optimistic about our country's possibilities to succeed in the new world dynamic. Argentina is entering the globalization process with comparative advantages and definite achievements. This view is valid despite the concerns and the problems that we must overcome on a daily basis. My optimism extends to the other countries in the region that are facing similar challenges and sharing the same expectations. To paraphrase Juan Bautista Alberdi, a great thinker who lived in Chile for so many years, "the golden age of Latin America and the Caribbean is not behind us, but lies ahead". I would like to conclude with these words full of hope and with the certainty that, with democracy in full force and the search for consensus, we will be able to build a better future.

On behalf of the Republic of Chile, I would like to extend a very warm welcome to our friends, the Governors, guests, and staff of the IDB. We are very happy to have you here under our roof.

As we have said before, Chile is deeply appreciative of what the IDB has accomplished over the years. The Bank's first president was a distinguished Chilean, Felipe Herrera, whose bold vision and eloquence helped shape a Bank that was different in more ways than one and which, to many, was an impossible dream at the start.

Some questioned the idea in writing: how could a bank be efficient if it were run by its borrowers? How efficient could it be if most of its Board members would be Latin Americans who would be the majority shareholders?

Nevertheless, in a world in the grips of the Cold War we Latin Americans were able to show those fears to be groundless. Today, our Inter-American Development Bank is a robust, powerful, and creative institution.

The IDB did indeed mark a departure from other models of the time, promoting technical assistance, training programs, and projects to build up higher education, science and technology.

When some labeled our institution an integration bank, many were surprised at the phrase. But then and now the Bank has been precisely that. This is why we are equipped today to turn to new issues, bringing to bear the same imagination and resolve that were trademarks of the Bank's founders.

The Latin American and Caribbean region is both a reality and an aspiration:

- It is a corner of the world's geography that dreams of roads and communications.
- It is a neighborhood with dreams of community and integration.
- It is a past yearning to be future.
- It is a cornucopia of diversity.
- It is a longing for freedom, as the night longs for dawn's arrival.

Development is a process in which yesterday's rules are yesterday's news, to paraphrase my friend the President of Uruguay. The one thing we can be certain of is that tomorrow will bring new surprises.

The IDB, this inter-American bank, embarked on its mission on the threshold of the 1960s. If every era is in some way its own world, the 1960s seem to be unique. A world of closed economies—initially closed from outside, by the international economy—when the Great Depression arrived in the 1930s and changed the rules, and governments of all persuasions had to push for import substitution.

Later on we made a virtue of necessity, though there were always voices that warned against raising the barriers too high.

How did we look at integration in the 1960s?

- As a pooling of our weaknesses.
- As a lowering of tariffs within our own community.
- As a possibility of complementing each other's economies in the region but with a high wall outside. We did not even contemplate the possibility of competing with the rest of the world.

That wall was a still largely unstructured world economy and also—let us not forget—the world dividing line during the Cold War. Cold though that war may have been, it heated up some of our countries more than once.

That world began to change in the 1970s and 1980s following the 1970 dollar crisis and the first oil crisis.

The transnationalization of large corporations speeded up. Financial capital galloped toward the new communications technologies. Both hurdled the barriers we had tried to erect and, in passing, they brought down the Berlin Wall.

In our region, in Latin America, we too were able to move forward, opening up new avenues that promised greater freedom and more democracy, after a long dark chapter of authoritarian governments. We gave Latin America a different face.

Today we are caught up in the globalization process referred to by President Batlle.

We could debate the definition of "globalization" but, whatever we decide it to mean, it is here to stay.

The world changed, and when we took a long hard look we found that we had to learn new ground rules and discard the ones instilled in us earlier.

The need to find ways out of the debt crisis undoubtedly helped make our economic policies more homogeneous than ever before in Latin American economic history. We had come back to an international economic scenario under new conditions. During that era of the so-called Washington Consensus it was clear what we needed to do.

In some countries, where globalization and the new approaches were broached from a democratic base, the social costs were perhaps lower. Here, we did it half under an authoritarian government and half under a democratic one. The social costs are higher under an authoritarian system.

Democracy seeks greater equity. It may not always be successful, but one thing is certain: without democracy, the costs are always shared unfairly. In that scenario one knows in advance who the winners and losers will be. In a democracy there is at least the possibility of a level playing field.

In our democracies today, despite having done our work well, stable growth continues to be elusive and equity seems to be more a quest than a certainty. Poverty is still very much among us, a harsh affront that creates injustices every day.

We knew what had to be done and we have done it. Chile's growth rate today is between 5 percent and 5.5 percent; inflation will stand at 3 percent this year. Attesting to our lowered barriers, our tariffs will fall to 6 percent within three years—with some exceptions, I hasten to add, so Jorge Batlle will not call me on this at the next meeting. We have also progressed on other fronts. We want to open up the capital markets even more and have left a welcome margin of autonomy in our monetary policies. Today we have heard President de la Rúa's bold statement on some tasks ahead.

He has clearly mapped out his government's commitment to many of these important issues, which are the cornerstone on which the edifice can be raised. We can only applaud the courage and conviction underpinning this commitment and offer our support, because Argentina's fortunes are the fortunes of each of our countries. Good luck, Mr. President, with the decision you have set out here today.

Our circumstances today bear little resemblance to the situation a decade ago. It is unlikely that we will be revisited by the tide of external savings that flooded our economies and enabled us to finance deficits in pursuit of stable growth.

Conditions today are different. We need to relearn how to grow with less external savings, how to be more productive and more efficient—the three challenges that Enrique Iglesias has placed before us.

One concern is that the otherwise welcome productivity gains that ensue as we become more efficient, producing more with fewer workers, also can set the stage for high unemployment.

This means we need to be very clear on one thing: in today's world we have no choice but to straddle two worlds without losing our balance. On the one side, we have moved deeper into the global economy, a voyage from which there is no turning back. On the other, we are Latin America: our roots, our neighbors, our brothers and sisters, our culture, our history, our future lie here.

The region's countries thus must strive to integrate against this new backdrop. As Fernando de la Rúa rightly said, thinking of current arrangements like MERCOSUR, "integration starts here, among ourselves." Having one foot firmly in this world can embolden us to position the other in the global world we want to be part of.

When I say that we have to have one foot in each of two worlds I mean that though the global economy may hold boundless promise, we still have a very inequitable income distribution at home. Our institutions that operate with the international economy are more advanced than our social development institutions.

If we intend to become partners in world trade, at some point we will be asked about our social, labor and environmental legislation. We have to be clear on these issues because we want to make our own rules, not inherit someone else's. These questions are most certainly going to come up.

Consequently, just as we must get down to work on what we know needs to be done in the spheres of economic policy, fiscal responsibility, balanced budgets, low inflation, and low tariffs in order to compete globally, we must also be capable of extending a social safety net for our people. Let no one say that because we have provided such a net we will never be able to compete.

Being a part of the advanced economy is not at odds with what we need to do here at home.

We cannot seriously pretend to compete yet have widespread tax evasion in our economies. Suffice it to say that others whose tax revenues are not that different from ours can pay US$3.5 billion in agricultural subsidies.

We want our countries to be businesslike. We know what we want to accomplish on the economic front, but we still have work to do on social tasks that need to be tackled by common agreement among us all.

I think we also need to be able to achieve genuine integration within our region. Integration means more than tariff integration, where everyone moves in a given direction. We must also integrate geographically, via infrastructure, and policy-wise, by adopting common fronts on a variety of issues. Shared objectives are what can make our integration process—our foot in this region—a key instrument to equip us to contend with future challenges.

I think it is enlightening to look at this "having a foot in both worlds" as the essence of Latin America. Our region has always straddled the two.

There are two simultaneous and mutually reinforcing tasks awaiting us: we must integrate into a globalizing world and we must do so with a homegrown common agenda.

Let us be clear: the trade agenda is converging with a broader development agenda. We will not opt for self-sufficiency without development, nor will we choose development without integration. This is the main issue we would need to tackle here.

Let us not become divided over tariff levels, since we all know where tariffs are heading. Instead let us get on with the far broader task at hand. In the end, it comes down to growth with equal opportunity for all, since this is the ethical touchstone of our times.

Here is where we need to be able to participate in today's changed world and rise to its challenges. There are pressures on all sides for us to partake of the benefits of the global economy, and the ethical implications are momentous.

As we sail into the new global economy we do not want the ship to stop, but we do want better conditions on the crossing. As Eduardo Galeano put it, we do not want to see *more travelers shipwrecked than survivors* along the way. We want everyone to emerge from the journey alive and in better shape than when they left.

Every decade, every year, every day brings with it new challenges. As all of us are aware, and as President Iglesias reminded us, today's challenge is the digital divide that will continue to widen unless we take steps to bridge it.

It is here that the Inter-American Development Bank is called upon, now as always, to energize the two-part process unfolding simultaneously in the region—intraregional integration and integration into the global economy.

The IDB is much more than a bank: it is an idea, a chord. It now is up against a tremendous institutional challenge, which is to support innovative development projects and serve as a trusted forum for dealing with complex issues of regional integration, be they new information technology networks, integration infrastructure, or how to shape a common agenda to prepare for the globalized world that awaits us.

That world has rules and regulations, as has been said here very clearly. Any attempt to change them will entail a tremendous effort and a meeting of minds on our part.

This is perhaps the core commitment that needs to be maintained. The Bank is also an ethical community. Ethics works two ways—first through the services the Bank has been providing for nearly half a century, and second through the fundamental values pursued by the IDB's founders, which remain current today no matter how much the world has changed. How to fit that era's values to today's environment is the concrete task for the here and now.

For all these reasons, I believe that this Forty-second Meeting of the Board of Governors is taking place at a critical juncture. I have every confidence that you will illuminate the path so that we can come to the next meeting with renewed energy, greater certainty, and fewer quandaries.

SECOND PLENARY SESSION

MARCH 19, 2001

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

I would like to thank the President of the Inter-American Development Bank, Enrique Iglesias, for having invited me to address this meeting of the Board of Governors. The decision to hold this meeting in Santiago, where our organization is headquartered, has enabled ECLAC and the IDB to undertake a number of important joint activities. I would also like to commend the Chilean authorities for their organization of this meeting and for the hospitality that they have extended to all the participants. For our part, we can only reaffirm, once again, our heartfelt gratitude to this beautiful country that has served as the headquarters for our Commission for more than half a century.

During the last few days we have been participating in discussions and brainstorming sessions concerning the factors that have prevented our region from growing faster and attaining higher levels of international competitiveness. The analysis of these subjects clearly has far-reaching implications for social development and this, as on earlier occasions, has also been a focus of these discussions.

Latin America and the Caribbean can lay claim to substantial economic, social and political achievements over the past decade, but the region is also faced with a number of unresolved issues within, as noted in a recent ECLAC study, a context of both light and shadow. In the economic arena, we have made major strides in correcting our fiscal deficits, increasing public social expenditure, lowering inflation, boosting exports, revitalizing existing regional integration processes and launching new ones, and attracting flows of foreign direct investment. Nonetheless, the region's average economic growth rate remains below the rates recorded for the three decades preceding the debt crisis and below the figure that ECLAC believes is necessary in order for our region to overcome the severe poverty and inequity from which it suffers. This fact, in conjunction with the presence of generally adverse distributional tensions, explains why this economic growth has led to no more than a modest reduction in poverty levels and why those levels remain higher than they were prior to the debt crisis.

In the United Nations Millennium Declaration issued in the year 2000, the heads of State gathered at the Millennium Summit spoke of the need "to ensure that globalization becomes a positive force for all the world's people." In the light of the foregoing, it is clear that this is the key challenge facing our region.

The first step in responding to this challenge is to achieve greater stability in our economic growth. The important inroads made in terms of inflation and fiscal adjustment have not, in fact, been reflected in more stable economic growth rates. This is why ECLAC has been emphasizing the importance of adopting a broader definition of macro-economic stability, one that includes not only the need to curb inflation but also the necessity of reducing the volatility of growth. The evidence in the region suggests that this volatility plays just as important a role as inflation does in generating defensive microeconomic strategies that tend to discourage productive investment. Traditional macroeconomic policy, together with the prudential regulation of financial sectors and capital flows, should take on a clearly countercyclical orientation and should be designed, in particular, to prevent imbalances from arising during booms on international capital markets, thereby providing macroeconomic policymakers with additional maneuvering room in managing economic crises.

The major constraint that the authorities have to deal with in the area of macroeconomic policy is unquestionably their increasing loss of autonomy, which, as evidenced by the current state of affairs, is particularly costly within an international environment marked by financial volatility. This is why the success of policies aimed at smoothing out international financial cycles hinges on the implementation of measures to block that volatility at its source and to develop stronger international financial institutions. I would therefore like to emphasize the importance for our region of maintaining an active presence in international debates concerning the reform of the international financial system, including those held within the framework of the United Nations. As part of this process, this past November the Government of Colombia, with the assistance of ECLAC and the IDB, organized the regional preparatory meeting for the United Nations high-level meeting on financing for development to be held in Mexico in 2002.

The consolidation of achievements on the macroeconomic front—including the advances made in attaining more stable growth—is not, however, enough in and of itself. Dynamic productive development does not, as a matter of fact, appear to be a corollary of a sound macroeconomy. The need to forge active productive development policies that make use of new types of instruments suited to open economies and that cast private firms in a principal role is therefore one of the major institutional challenges facing our region. These new instruments must be specifically directed towards achieving greater international market penetration, creating and completing markets, and developing new types of public-private partnerships at the local, national and regional levels.

I would like to point out two fundamental aspects of this challenge. The first is the importance of promoting innovation, in the broad sense of the term; this includes technological innovation, particularly in the fields of information sciences and biotechnology, but it also entails providing support for business development, financing new productive ventures and activities, conquering new markets, disseminating new management and marketing methods, and developing new sources of raw materials. The second is the need to promote a wide range of complementarities among business enterprises as a means of building systemic competitiveness. At a time when establishing a position in export markets is a priority objective and when the region has already met with some success in this regard, our efforts should be focused on increasing the national or regional content of exports with a view to ensuring that the development of our export sector will bring a faster pace of economic growth along with it.

Devising policies to foster innovation and complementarity is the core component of productive development policies for the economies of today. I would like to conclude my remarks by stressing how important it is for microenterprises and small and medium-scale businesses to play an active part in this effort. Promoting all forms of innovation in these enterprises, together with linkages that will enable them to participate, either directly or indirectly, in the development of export sectors, is therefore a clear priority. This having been said, we must also recognize that any attempt to improve distributional conditions in our societies will necessarily entail doing away with the structural heterogeneity characteristic of our production systems, which has clearly grown worse in the last decade. We are also aware that social policy alone cannot break down the patterns of social exclusion typical of our societies. In order to bear fruit, social policy must be backed up by a sound macroeconomy that will help to stabilize economic growth, as well as by active strategies for the promotion of productive development.

These brief remarks concerning economic growth and international competitiveness do not, of course, cover the entire development agenda. The results of this past decade, while disappointing in some aspects, have given rise to a constructive debate that has enriched that agenda. New areas of emphasis—such as those of institutional development, the provision of social safety nets, the "ownership" of development policies—have emerged. Most importantly, there is now a keen awareness of the fact that the objectives of development encompass much more than simply economic growth as such; they also involve human rights, democracy, social development, gender equity, respect for ethnic and cultural diversity, and environmental protection. This is the wide-ranging task that awaits the governments of our countries and regional institutions such as the Inter-American Development Bank and the Economic Commission for Latin America and the Caribbean. Be assured that we will spare no effort in contributing to this great regionwide undertaking.

ADDRESS BY HIS EXCELLENCY, MR. CÉSAR GAVIRIA, SECRETARY GENERAL OF THE ORGANIZATION OF AMERICAN STATES

At the present time, there is probably no discussion of greater economic and political significance than that concerning globalization and its consequences. In international forums from Davos to Porto Alegre, much has been said in conflicting statements that credit it with all the good things that have occurred as well as blame it for all the ills.

Without siding with those who see in globalization more dangers than opportunities, since I certainly consider it a source of many opportunities, I believe that we should pause for a moment to take stock of the lessons gleaned from an increasingly globalized world. What have we learned about the consequences? To what extent do we appreciate its implications? And what can really be done to mitigate its adverse economic, political, and social effects? Today, I would like to focus on the institutional and political impact of globalization.

One of the considerations given least attention when we talk of globalization is its capacity to unveil longstanding problems that have beset our societies since time immemorial. These may be problems which we manage to conceal at the local level for decades or even centuries, or a multitude of tasks postponed again and again, only to erupt unexpectedly before the eyes of the entire world. Globalization has pushed these problems to the surface with such intensity and even violence that many have become convinced that it is the cause of all our ills.

We have suffered the adverse effects of economic globalization, some of them inevitable, such as volatile capital movements and the contagion that can spread between countries in different hemispheres in just hours, putting at risk many of the successes that our societies have achieved after decades of great effort and sacrifice.

It has been a costly lesson to learn that today's markets are more demanding and can impose in just days corrections that in the past took months or even years. It is impossible to permit, even for short periods, fiscal, monetary, or foreign exchange imbalances. Data on economic aggregates that are late, inaccurate, or inadequate are no longer acceptable.

There is no place for gradualism in the logic of the market. Any deviation from the orthodox path is extremely costly. And even a sound economic policy may not be enough to feel sheltered from the rigors of capital volatility, since we still need to consider other factors of a political and social nature that also produce instability and volatility.

I would also say that with the passage of time many countries have begun to discover that institutional considerations, social harmony, political stability, strengthening of the rule of law, and certainty in the rules for business development eventually have a greater effect on economic growth per se that an external trade system or a tax or foreign exchange regime.

The idea that economic principles determine growth is changing and we have turned away from concepts that see the path to development as short, clear and simple. These are dreams that have been left by the wayside, optimistic views that we were all compelled to shed.

Now, I believe that we have grown used to living with the idea of assuming responsibility for the effects of economic globalization: volatility and unemployed unskilled labor; or social problems built up over decades or centuries: poverty, inequitable income distribution, and poor educational systems. These problems have become more glaring, giving rise to the worldwide call for social justice.

One facet of these developments that we have not gone into at any length are the effects of globalization on political systems and how their weaknesses are being revealed more intensely and faster than economic shortcomings.

Thanks to globalization, there is now greater participation in discussion of public policy. The agenda is open to all topics, and public problems are no longer discussed behind closed doors.

In the past it was inconceivable for the elections in one country to be observed so closely by the rest of the world, their media, and their nongovernmental organizations. Everywhere on the planet, the international community stands vigilant, ready to ensure that elections are clean, fair, and transparent. This multifaceted international vigilance is on the rise, and the OAS has documented many examples of this trend. Our role is often more than a technical one since we end up as an arbiter or mediator between the contenders. It is as though each election were a matter affecting every individual in the hemisphere or the world. Clearly, it is not enough for an election to satisfy international standards. Many values and principles come into play and new ideas as well as new objectives and parameters emerge daily in monitoring the behavior of States, their citizens, and large corporations as well.

In this regard, we could mention respect of human rights conventions. Even before the end of the Cold War and the early days of globalization, there was vigilance by the hemispheric system and the United Nations, despite the resistance of many governments, but never on the scale that we see today with the tightly knit cooperation between most governments. Worldwide respect for the rights of the individual is a matter of concern to us all. In this way, we have been witness to the rise of a new array of rights for society's most vulnerable groups: women, children, indigenous peoples, and migrants.

No doubt all are aware that judges in some nations have been given the authority to consider crime committed in other countries decades before. It is as though they considered the creation of an International Criminal Court, which is a great step forward and a consequence of the globalization of political relations, as totally inadequate or of little import.

How to respond to the universal demands for an end to corruption and for transparency in political decisions? It is as though an individual in one part of the world felt personally affected by an act of corruption thousands of miles away and were entitled to be informed and to demand that it be corrected and punished. Collective demands have certainly brought with them transparency and controls, and so many vigilant eyes have obviously had profound implications for purchasing and procurement systems at all levels within the State.

Much the same applies to the question of the independence and balance of the branches of government. Millions become offended if a government is ignorant of its judicial system, imposes undue pressure on such a system, or deviates from the decision of a constitutional court. Outrage is heard when the legislature in one nation grants itself undue benefits or a leader excessive powers.

Perhaps the area where the political consequences of globalization are most apparent is the global environment. The problem of climate change is now on everyone's agenda. Calls for protection of virgin forests, biodiversity, many animal species, and plants in danger of extinction are made by the majority in most members of the community of nations. No State is immune from intense international scrutiny in this area.

Who does not feel outrage when a world leader fails to account for his actions or refuses to acknowledge the offenses that his country committed in the past? Who does not feel outrage at someone not working to protect the rights of a given minority? In many nations, it is often much easier and faster to find leaders to champion a distant cause while awareness of a problem or an aspiration is still at an embryonic stage within the country.

Who can remain unmoved by the new forms of slavery or bondage resulting from the traffic in humans for sexual purposes? Who can remain indifferent to the sufferings of children in internal conflicts or to the use of child labor? Who can remain untouched by discrimination against women or violence against vulnerable groups everywhere?

Little does it matter whether a problem comes under the purview of a particular government. Everyone is mobilized for the same goal of demanding protection for the Kurds or the participation of indigenous peoples in the political affairs of virtually all nations. Watching the indigenous peoples march on Mexico City, we are all touched by this complex and suspenseful drama.

Another problem that has come to the fore is nationalist and ethnic violence. Is this the product of globalization or increased individual freedoms across the world? Would the countries in which problems of this kind have erupted be better off with the intolerant autocratic systems they had before? The heavy toll in human life makes it difficult to answer these questions with any certainty.

We have not yet mentioned the mechanism that has spawned the globalization of political problems. The media have done much to give an international dimension to local problems. Day in day out we are exposed to these problems in our homes, where they have heightened our sensibilities in a way that far exceeds the effects that economic globalization could possibly have on our well-being. The nightly news brings us images of the ethical problem posed by the cost of medicines to fight AIDS in Africa, of gender problems in China, of wage discrimination in South East Asia, and of violence against women in the Arab world. This development has made freedom of expression the most sacred right of all at the dawn of the new century.

NGOs and civil society with the powerful movements they have mobilized have introduced these causes to an exceptionally expanded agenda. These nongovernmental organizations enjoy much more freedom of movement; their voices have more resonance, and their calls are heard on all continents. Today there are more agents, more spokespersons, more organizations laying bare the failures of our institutions, exposing their limitations and demanding reform. In many parts of the world, their actions have clearly undermined political systems, political parties, and legislatures by exposing problems, faults, and shortcomings to public view.

In the final analysis, we have come to understand that the external trade regime and the use of market mechanisms bear full responsibility for what a government, a State, or a society does or fails to do, or did or failed to do in the past, in all areas; they are behind the distress, the pressures of intense economic, social, and political change that have taken place in lock step with globalization.

I am not exaggerating when I say that the task of designing and implementing an economic policy to prepare us for international competition is not nearly as daunting as the task of maintaining or building a political system that can withstand the onslaught of globalization and bring together participants or stakeholders.

When the man in the street is asked whether or not he is content with democracy, he usually thinks of more than economic progress. He also considers the shortcomings in the political system, in the State and its institutions, and the economic and social problems attributable to globalization.

We should begin to acknowledge that there is more than a little disagreement at stake; we must accept the fact that we need to devote more time to identifying not only economic consequences—where we have already made great strides—but also the social impact and the immense political challenges that are beginning to shape a new context and a broader, more complex and costly agenda for which we are ill-prepared.

You may be sure that I always attend these meetings because I firmly believe that the role played by the IDB in the academic sphere is increasingly relevant and pertinent in the world of today.

For nearly three decades now, Canada has been a strong supporter of our hemisphere's leading development institution, the Inter-American Development Bank. Last June, we hosted the OAS General Assembly meeting in Windsor. In two weeks, my home city of Toronto will welcome the Finance Ministers of the Americas to discuss the pressing economic issues of our hemisphere. And next month, we will welcome the leaders of the hemisphere at the Third Summit of the Americas, in Quebec City.

Canada is truly integrated into our region, our part of the world—economically, politically, and socially.

In the Americas, as around the world, we are part of a growing consensus—about policies, priorities and values. Today, we all agree that our true goal must be nothing less than poverty reduction, which we endeavor to achieve by focusing on the international development targets that form the basis of this consensus. Such a focus on poverty reduction keeps us close to the needs of real people, and, as Prime Minister Chrétien said last month to the OAS Council, "We must adopt an agenda that puts people first."

This agenda for the 21st Century is diverse, but increasingly firm, and it is integrated and unified by this central focus on people. It includes free markets and free societies, social progress, democracy and human rights, security of the person and inclusion of all people.

When we think of progress, we think of growth throughout the Americas. While our hemisphere is home to the greatest disparities between rich and the poor, we are eager to see our countries pursue the benefits of economic liberalization by moving confidently ahead to create the Free Trade Area of the Americas. Furthermore, efficient markets create prosperity but we must remember that prosperity must be shared and equitable.

In order to have a peaceful society, resources, employment opportunities, and wealth must be shared among all.

If countries can harness and manage globalization—which is an irrefutable fact of life in this century—they can seize the means to lift themselves and their citizens out of poverty.

Our investments must achieve a balance between economic and social priorities, because healthy, educated people and effective governments that respect human rights make globalization work for their citizens.

These are objectives that will be pursued at the Summit of the Americas in April.

As the leading development institution in the Americas, the IDB can support the Summit process and the Action Plan in many different ways. We encourage the IDB to review thoroughly summit initiatives and Action Plan items which correspond to the Bank's own priorities.

The Bank must advance the development consensus by working even harder to put developing countries in the driver's seat of cooperation efforts, so that a heightened sense of ownership will put new energy into development initiatives. The Bank has to work more effectively with others to support countries' own poverty reduction strategies.

To do so, the Bank will need to continuously sharpen the focus of its work on behalf of the poor. To be increasingly valuable as an agent of change in the Americas, it must spur economic growth in all the countries of the hemisphere, in support of social progress.

It is time to revisit the 15 percent limit on policy-based lending and bring it into line with reality. If that limit is to rise however, we believe there must be a tradeoff... we must insist on better quality of lending, sharper focus of IDB interventions, and better monitoring. Increases in policy-based lending must be justified by effective policy influence and higher impact, especially for sector programs. Flexible lending must mean positive benefits for the poor.

Likewise, we want to see continued and accelerated progress on the various reform initiatives endorsed last year in the Bank's corporate strategy.

We also want to be sure that increased private sector lending is indeed generating growth and having an impact on poverty. Such lending is valid if it attracts additional private resources—but not if it displaces private financing, or is unrelated to a country's poverty reduction goals. IDB lending to the private sector can and should play a fundamental role in increasing employment, economic opportunities and services for the poor.

In the Bank's activities, it is vital to ensure inclusion and equity. This is why Canada supports membership by the countries of the Organization of Eastern Caribbean States, because smallness should not be a barrier. This is also why Canada is providing, under the renewed Canadian trust fund, a specific component to spark the participation of indigenous people in development cooperation.

Economic growth is vital, yes, we must pursue it vigorously—but the benefits of growth must be broad-based and must help the people of the Americas to overcome poverty and realize their full human potential. This vision includes all the people of the Americas, especially the poor, the powerless, minorities, women, indigenous people and the disabled. We must remember, as we design policies or make decisions, that these people are the engines as well as beneficiaries of economic growth. The IDB has a special role to play in giving voice to the needs and aspirations of the region's poor, because in Prime Minister Chrétien's words, "the Summit Action Plan goes beyond economic relations between countries to questions of equal opportunity, social responsibility, and equity."

In Latin America and the Caribbean, the dawning of a new century has brought with it myriad challenges having to do with the eternal and persistent search for effective ways of achieving greater social prosperity.

As far as Colombia is concerned, we can state with pride that we are on track to fulfilling our aim of putting our public finances in order once more through tight fiscal adjustment in a setting that is truly complex and formidable. You can imagine what it is to meet each and every target of an agreement with the International Monetary Fund, as we have been doing, in an internal conflict like the one afflicting our country, with a government that has already used up much of its political capital and a Congress controlled by the opposition.

Against this stark background, we have managed to emerge from the worst recession in our history, we have succeeded in wrestling the specter of inflation to its lowest levels in 30 years, we have drastically reduced our fiscal deficit, we have overcome at relatively small cost our financial crisis and we are moving resolutely and forcefully to create conditions that enable us to regain our footing on the path to the healthy and sustainable growth that we enjoyed for 70 years.

The marked improvement in Colombia's economy in recent months is also attributable to the commitment that we undertook, and have fulfilled, to move forward with the necessary reforms. Just eight months ago, the markets had lost faith in the Colombian economy in the wake of a crisis of government. The recovery of political harmony has permitted a return to the tacit understandings between the political parties on the economic fundamentals, once a tradition that made the Colombian economy the most stable in the region in the century just ended. Through sheer perseverance, we are learning that in an increasingly globalized, interdependent world it is costly, very costly, to play politics with the economy.

With respect to structural reform, considerable headway has been made with the approval of the agenda put forward between October and December: a fiscal accountability act was passed for state finances, a tax reform that will bring the government additional resources equivalent to nearly 1.8 percent of GDP, and a constitutional reform was enacted to amend the present central government transfer payment system to the departments.

The agenda for the present year is also highly ambitious and includes approval, in a second reading, of the new transfer payment scheme to the provinces, a departmental tax reform, a social security and pension reform, and a fiscal accountability act for the central government to ensure that public finances are sustainable over the long term.

In Colombia, as in other countries in the region, there is marked interest in, and concern over, the quality of public institutions and their impact on economic and social development. This is certainly an area fraught with major challenges and problems. The gains made and efforts devoted to adjustment and economic reform are not enough for genuine recovery. Such efforts need to be accompanied by deep-seated reform in the workings of the State and its institutions.

With the help of the multilateral banks, it is essential to accept the principles of "good governance" so that public and private organizations are able to provide citizens, particularly the least favored, with opportunities for developing their potential and improving their quality of life. The workings of the State hinge on efficient government that uses its resources more productively. Latin America must be able to convince its people that a skeptical and cynical view of government, at times bordering on contempt, poses an obstacle to the success of State policies.

We must give our people good reason to feel trust and even pride in their governments. This will only be achieved through results and a frontal assault on corruption.

Fortunately, under the leadership of Enrique Iglesias, the Board of Executive Directors of the Inter-American Development Bank has been reviewing the use of a strategy to help attain these objectives.

There are no easy and obvious answers to the challenges before us. The countries of Latin America and the Caribbean find themselves in different phases of economic, social, and institutional development. The formula used in one country does not necessarily apply to another. That is why a development institution like the IDB needs flexible instruments that respond to changing needs and the individual conditions of each country. We are in need of new instruments but especially instruments that can be used promptly and effectively.

It is essential to press ahead with the reforms to the international financial architecture to promote greater stability in the flow of resources to the emerging economies. In this regard, it is important to seek the support of the IDB and other multilateral financial institutions in developing innovative mechanisms that reduce volatility in external financing such as the design and granting of guarantees. A clear illustration of the usefulness of this instrument is the recent approval by the executive board of the World Bank of a guarantee for a forthcoming Colombian bond issue that is pivotal for its financing strategy. It is also important to consider other contingent and unrestricted financing instruments such as sector loans.

The Bank recently approved a guarantee facility program for this purpose. One of its basic objectives is to make it easier for our countries to have access in special circumstances to international capital markets. Unfortunately, the criteria of neutrality in determining price were modified during the discussions and other requirements were added to change what promised to be a useful tool into an instrument of which Colombia was unable to avail itself because of its complex and restrictive structure. We urge the Bank's experts and the members of the Board of Executive Directors to review the policies and procedures of this program which could go a long way to helping the Bank, through the capital markets without risking its financial stability, to greatly expand its response capacity for our region.

It should be reiterated that it is essential to have mechanisms that ensure stable capital flows to Latin America. A system that undermines sound long-term policies during bouts of stormy economic weather is ridiculous. It makes no sense that in the midst of putting one's house in order those most concerned in shoring it up should set it on fire.

As to sector lending, the changes in the functions of central governments, their commitment to fiscal adjustment programs, inflexible spending regimes, and the need for structural reform are some of the reasons justifying the sudden increase in the 15 percent cap on the Bank's loan portfolio. Raising this ceiling has been fully justified by Management and Bank experts.

The foreign exchange financing matrix used for the last 19 years and the caps on private sector loans without sovereign guarantees must also be reformed promptly. The success of this window during its pilot period justifies expanding it to the equivalent of 10 percent of total lending and diversifying the instruments offered.

Institutions like governments and people must get used to changing, adapting, changing course, and capitalizing on new opportunities. When the President of the IDB invites us to reflect on the Bank's institutional strategy and the instruments it makes available we are being invited to present ideas and proposals, and to accept the challenge of adapting the institution to new conditions. This challenge compels both the borrowing and nonborrowing countries to concern themselves with the region and to believe in its future.

I invite you then to instruct our representatives on the Board of Executive Directors to devote themselves enthusiastically and with commitment to a review of the proposals that should be presented by early August at the latest.

As to the Inter-American Investment Corporation, we believe that the recently approved capital increase should have a major impact on small and medium-sized business financing in countries where access to domestic and external credit is difficult. Although the earnings posted this last year set a positive tone it is also important to recognize that the Corporation is not having a significant impact in the region.

The reasons for this will not be found in present regulations on eligibility of beneficiary companies but in the strategy used by the Corporation to select projects and assume risks in the poorest regions with serious problems in credit markets. We must ensure that the Corporation's resources are distributed more equitably among the member countries to ensure a meaningful impact on balanced development in the region.

I cannot conclude without extending to the President of the Bank, Mr. Enrique Iglesias, on behalf of the Government and people of Colombia, our profound admiration and recognition of his unswerving commitment to development and progress in Latin America, a promised land in which possibilities continue to be a dream, and challenges as immovable as our mountains.

Colombia and its people have always found in Enrique Iglesias a loyal friend, an advisor, a leader ready to lend his full support to all initiatives concerned with the peace that we yearn for and with our country's future economic and social development.

If we truly wish this century to be the century of the Americas, if we wish to make the stanzas of Neruda and Alberti a reality, we need to work together hand in hand to ensure that the next hundred years are not a period of solitude and frustration but one of prosperity and advancement.

Introduction

On the occasion of the Forty-second Annual Meeting of the Inter-American Development Bank and Sixteenth Annual Meeting of the Inter-American Investment Corporation, on behalf of the Government of Japan, I would like to express my heartfelt gratitude to our hosts, the Government of Chile and the people of Santiago, for their warm hospitality.

Facing difficult economic and social circumstances during the 1990s, it was necessary for Latin American and Caribbean countries to push economic and social reforms in conjunction with measures to address the adverse effect stemming from such reforms. During the last decade, the IDB has effectively supported many countries within the region. In this regard, I would like to express my sincere appreciation to the IDB under the leadership of President Iglesias for its extraordinary efforts taken to support the Latin American and Caribbean region.

Earlier this year a series of earthquakes struck El Salvador, taking a heavy toll in human lives. I was deeply saddened by the news of the disaster, and I would like to convey my most heartfelt sympathy to the victims and their families.

The swift support extended by the IDB to the earthquake victims is worthy of the highest praise. Japan also dispatched a medical team and provided $13.5 million in emergency aid immediately following the disaster. In the future, we intend to continue to provide as much support as possible. In this regard, we are currently considering extending support for disaster relief in the form of bilateral cooperation with the IDB, and also within the framework of the Japanese trust fund in the IDB.

As you know all too well, natural disasters such as earthquakes and hurricanes have struck repeatedly in the Latin American and Caribbean region in recent times. These disasters have claimed many precious lives and have caused enormous economic damage. Given this situation, it is critical that the IDB dedicates some resources to disaster prevention, including the establishment of disaster prevention infrastructure. Since Japan has a great deal of experience in this disaster prevention, we would like to offer our cooperation, including any technical assistance in our area of expertise.

Challenges for the IDB

Many people around the world today are keeping a close watch on the activities of multilateral development banks. As such, it is vital that these institutions undertake reforms that improve the efficiency and transparency of their activities. Given this need, I would like to point out three important challenges for the IDB.

First, the IDB should pursue internal reforms.

Although some Latin American and Caribbean countries can boast a relatively high per capita GDP, there is still a large number of people living in poverty. In this context, the IDB made it clear that IDB's major goal is to achieve sustainable growth, poverty reduction and social equity. To this end, the IDB needs to exercise greater selectivity in implementing operations. The IDB is currently in the process of developing the Institutional Strategy that focuses on reforming the social sectors and on reinforcing the competitiveness of the private sector.

We give high marks to the IDB for this internal reform effort to respond to the changing environment in the region.

As for the IDB's lending policy, it is important to vigorously implement selective operation in order to effectively use the IDB's resources. Along with that, careful debates should address the development of a risk management regime to ensure continued financial soundness. Furthermore, in order to analyze the IDB's contribution to the prevention of economic crises and the alleviation of their impact, it is appropriate to thoroughly evaluate the Emergency Lending Program, which ended in 1999.

Japan believes that poverty reduction is still one of the most pressing issues facing the IDB. In order to further support the IDB's efforts in this regard, Japan recently made arrangements to enhance the use of the Japan Special Fund for the purpose of poverty reduction.

Regarding the issue of the Heavily Indebted Poor Countries, we welcome the fact that four countries in the region, namely Bolivia, Honduras, Guyana, and Nicaragua, have reached the Decision Point. We hope that the IDB will also proceed with the enhanced HIPC Initiative expeditiously. Japan believes that an effective implementation of this initiative will lead to substantial poverty reduction. Under the enhanced HIPC Initiative, Japan will undertake the largest bilateral debt reductions for the HIPCs in the Latin American and Caribbean region. In addition, Japan is one of the largest contributors to the HIPC financing for the IDB among the non-regional members.

Second, strategy for the private sector development should be refined more.

Given the fact that the private sector is the source of growth for the Latin American and Caribbean economies, which are becoming increasingly market-oriented, support for this sector is critical to improving the efficiency of the overall economy and to reinforcing its competitiveness. At the same time, such support also contributes to poverty reduction through the increase of employment.

The Private Sector Department was established in 1994 in response to the rapid progress of privatization resulting from the economic development of the Latin American and Caribbean region in the early 1990s. Since its establishment, the PRI has made an enormous contribution in fields such as transportation, water, and sewerage. As a result of the remarkable structural reforms in recent years in the Region, the private sector in these countries has been gaining access to long-term capital from the market. Nevertheless, the IDB's complementary support for the private sector remains crucial for sustainable and equitable growth in the region and we therefore hope that the IDB will continue its activities in this field.

Since its creation in 1993, the Multilateral Investment Fund has supported the development of small and medium enterprises and has promoted private investment, thereby creating much employment. In Japan and other Asian countries, small and medium enterprises reinforce competitiveness of many industries, and through vigorously carrying out their activities, these enterprises have led the way to economic growth and poverty reduction. In light of this experience, it would seem prudent for small and medium enterprises in Latin American and Caribbean countries to improve their "efficiency, vitality and flexibility." With respect to this point, I would like to emphasize the important role that the MIF has played thus far and should continue to play in the future.

The IDB Group offers a wide array of windows for supporting the private sector, consisting of the PRI, MIF and IIC. It is vital that the IDB continue to promote greater coordination of these windows in the future in order to provide more efficient and effective support.

Third, it is important to share knowledge and experiences concerning development with other regions.

In 1999, Japan established the Japan Program in the IDB with the aim of sharing and exchanging knowledge regarding development between the Asian region and the Latin American and Caribbean region. Since its establishment, the Program has provided ideas for identifying new prescriptions for economic and social development by exchanging and integrating the knowledge and experience of the two regions. As such, the Program is a new initiative in the field of knowledge generation and integration.

Under this initiative, a seminar was conducted here at the Annual Meeting, and prominent participants from the Latin American and Caribbean region and the Asian region had an informative discussion. Furthermore, a seminar is also planned on the occasion of the Asian Development Bank Annual Meeting in May. We hope that these seminars will promote the reciprocal application of the lessons learned in each region to economic and social development in other regions. Through these seminars, the ADB and the IDB cooperate with each other. We encourage the continued development of this new initiative and partnership between regional development banks.

We hope the IDB will effectively utilize the achievements of the Japan Program in its main operations.

Okinawa as a Candidate for the Host of the Meeting

I would like to take this opportunity to announce our intention to host the 2005 Annual Meeting in Japan.

Japan has long aspired to be a bridge between Asia and the Latin American and Caribbean region. Given the fact that the IDB is the leading institution in the Latin American and Caribbean region, it would give us great pleasure if Japan were able to help strengthen ties between the two regions by hosting an IDB Annual Meeting in Japan.

We are considering Okinawa as the site for this meeting. As you may know, the Okinawa Prefecture has been fast becoming "a bridge to the world", as it successfully hosted the 2000 G-7 Summit. We are confident that the IDB meeting in Okinawa would be a great success.

Conclusion

I would like to conclude by saying that there is no doubt that the IDB will play an even more important role in the future as a core institution of the Latin American and Caribbean region. In this regard, the Japanese Government would like to continue its support to the IDB and we are looking forward to seeing the IDB's successful implementation of its internal reform.

It is an honor and a privilege to take part in the Bank's Annual Meeting this year in Chile, our sister nation. I am grateful to the Chilean authorities and to the Management of the Bank for the work that has gone into organizing this year's gathering, and to the city of Santiago and its people for their warm welcome.

Once again we can look back on a year of strong Bank performance. Our institution's achievements are all the more impressive when we consider the adversities that some of our countries had to weather in the course of 2000. They now are emerging from recession thanks in no small measure to the Bank's catalytic role in bolstering reforms to put their economies back on a growth path.

The member countries are not alone in recognizing the Bank's solid operating performance. That the Bank's securities continue to earn solid triple-A ratings in the capital markets is a testimony to investors' confidence in our institution. The largest bond issue in the Bank's history has been well-received, with several basis points' improvement in secondary trading.

Looking at the Bank's internal workings, we were pleased to see some significant moves in 2000 to put the institutional strategy into practice. A key step was the creation of an Evaluation Office independent of the Bank's Management, reporting to the Board of Executive Directors, with a mandate to monitor and evaluate Bank policies, programs, and projects. By virtue of one recently launched initiative, the Bank's performance will be gauged against its country work programs, by reference to benchmarks set out in country papers.

Another in-house step to implement the institutional strategy was the approval of the human resources strategy, setting criteria to update and guide the Bank's personnel recruitment and exit procedures and other issues pertaining to Bank employees' career paths in the institution.

Yet another significant development within the Bank was the apposite decision to freeze the 2001 budget in real terms, an exercise in spending discipline along the lines of the ones that our countries, the Bank's shareholders, are requiring of ourselves. This measure, the first in the Bank's history, was no doubt a difficult one. It will require internal efficiency improvements to enable the Bank to continue supporting the region's countries in an era of mounting demands.

The four pillars of the institutional strategy are competitiveness, regional integration, modernization of the State, and social development. It is gratifying to see that, on balance, the IDB Group's efforts and achievements on all four fronts have been positive this past year. On the issue of competitiveness, and particularly the nurturing of private enterprise, we firmly believe that there is a need to expand direct lending to the private sector to see infrastructure projects carried through and capital markets developed. The Bank adopted that lending mode in 1995; in 2000 it added some important innovations like guarantee facilities. This shows how well-equipped the Bank is to identify the need for, and put together, operations that can have a strong catalytic effect and additionality, bringing private capital into public services delivery. We therefore affirm our support for raising the current 5 percent ceiling for such operations, in tandem with efforts to bolster risk management capacity and tighten coordination with other areas within the Bank.

On the subject of Bank support for the private sector generally, I would like to underscore how much the MIF is doing to create an enabling environment for private enterprise, spurring regulatory and institutional reforms and providing direct support through operations chiefly to equip small and mid-sized enterprises (SMEs) to compete more successfully—these smaller businesses being a cornerstone of our economies. The year 2000 was an important one for MIF support, one highlight being the approval of the project cluster on technical standards, especially to help SMEs move into the global markets. We also would mention the MIF's key role in helping Uruguay with coordinated efforts on issues of the new economy and market operations. These are areas of strategic moves for our emerging software industry, information technology and communications business incubators, venture capital funds, the use of e-commerce technologies to modernize the government procurement system, and strengthening and supporting deregulation of the communications and energy industries.

Regional integration is another facet of the institutional strategy, this being an objective spearheaded by the Bank since its inception. In 2000 we saw a productive regional policy dialogue launched and the ensuing active regional programming exercise. We hope to see the Bank continue its firm support in this field, as evidenced in its assistance for the FTAA Secretariat and manifested at the Fortaleza meeting and subsequently at the Montevideo meeting of transportation ministers, where the Bank pledged its support for physical integration in the region.

As for the institutional strategy's other two pillars, social development and modernization of the State, we are gratified at the progress made in 2000, with operations that accounted for 72 percent of all Bank approvals that year, totaling US$3.756 billion. Bringing to bear its distinct comparative advantages in these areas, the Bank has been an able partner, providing strong support not just in quantitative terms but through dialogue.

One feature of the Bank that has proved to be extremely useful for support to these sectors is its *flexibility in coming up with new products and facilities. A case in point is the set of flexible lending instruments* it unveiled, which have already shown how well they can deliver support for lower-cost initiatives to sectors that need innovation capacity. These loans can be processed more quickly and their design provides for carefully phased borrowing as the underlying concepts prove themselves to be workable. We have only to look at the activity in this area since 2000—23 projects totaling US$230 million—to see how well this new lending approach has been received.

Keeping its products and facilities up to date is crucial if the Bank is to remain relevant. Over the past decade, as Latin America carried through sweeping structural reforms, the Bank's sector loans provided crucial support. During the Eighth Replenishment talks the Governors, particularly from their position as representatives of borrowing member countries, thought fit to pare back the need for that type of loan operations, which at times were perceived as imposing onerous reforms. Hence the decision to lower the 25 percent ceiling for such lending to 15 percent. But events have shown that we need to give continuity to the reforms and make sure they are fully implemented. For this new generation of State reforms it is once again crucial that we address such issues as transparency and efficient social programs, and we need instruments to help us through the process. For that reason we see as necessary, and firmly support, the development of new anticyclical products and facilities to cushion the adverse fiscal impacts of periods of recession by way of improvements in the quality of spending and the strengthening of social safety nets.

Uruguay's economy again found itself in difficulty last year. In late April 2000, after two consecutive quarters of growth (the four quarter of 1999 and first of 2000) the situation began to deteriorate rapidly. The difficulties stemmed from various MERCOSUR trade problems and world developments such as interest rate and oil price hikes, the euro's depreciation against the dollar, and a sharp 8.8 percent decline in our terms of trade from the previous year. Not surprisingly given the uncertainty created by this combination of factors at home and abroad, the private sector deferred consumption and capital spending decisions. This put a halt to the growth in domestic output with which the year had begun. By year-end GDP had slipped 1.1 percent and unemployment climbed to an annual average of 13.7 percent, the highest rate since the painful chapter that followed the financial crisis of the early 1980s.

Today the Uruguayan economy is seeing an orderly favorable adjustment in relative prices. The exchange rate remained without pressure within the flotation band and, even with a more than 40 percent domestic increase for petroleum fuels, year-end inflation stood at around 5 percent. The real exchange rate is recovering despite the euro depreciation I mentioned earlier, and the par of exchange has recovered much of the ground lost following the Brazilian devaluation.

There are three other positive notes:

- Export performance: exports of goods, in particular, rose almost 9 percent in real terms, shipped to a good variety of destination markets.

- Stability of the official and commercial banking systems: the financial system made it through a second year of recession with little strain and on a sound footing.

- Healthy public finances. Though revenue intakes were down and borrowing increased, risk indicators are still manageable in absolute terms, so our securities still carry an investment grade rating.

For these and other reasons, we believe that the economic policy pursued in 2000 has prepared the terrain for rapid growth. Major strides have been made on deregulation and dismantling monopolies in the energy and telecom-munications industries, ports, rail transport, and water and sanitation sectors. Toward the end of February this year we renewed our IMF arrangement. That agreement makes standby support available in extreme scenarios; we hope not to need to draw on it. Even more important, the agreement bespeaks our firm commitment to the program announced in the context of economic adjustments in Uruguay and externally.

In light of these events we are forecasting modest growth of 2 percent in total output this year, premised on increased exports and investment. We expect that the real exchange rate will continue to improve, with a 7.5 devaluation of our currency and inflation slightly above 4 percent. As for the public accounts, the forecast is for a 2001 deficit far smaller than the 2000 shortfall, based on a revenue upturn and continued spending restraint. We intend to continue with the legal process of deregulation and monopoly removal in various sectors, which we see as fundamental to lay foundations for sustained growth in the future.

As for the medium-range horizon, I would mention that toward the end of 2000 the parliament approved a five-year public revenue and expenditure budget. Assuming normal external conditions, expenditure and debt as a percentage of GDP will definitely trend down. This augurs well for the future since, as all of us understand, healthy fiscal accounts are the foundation of stable economies, stable economies the foundation of growth, and growth the foundation of employment and prosperity.

In closing, I would like to highlight the valuable support Uruguay has been receiving from the Bank to implement the government's agenda, notably to put the economy back on a fast growth path by strengthening competitiveness and through regional integration and reforms in the health and education sectors and to modernize the workings of government.

We commend President Iglesias and the Management and staff of the Bank for their dedication and professionalism that helped the institution achieve so much in 2000.

It is a great pleasure and privilege for me to address the Annual Meeting of the Inter-American Development Bank this year. It is also a pleasure to visit this beautiful host country and to enjoy the Chilean hospitality. I take this opportunity to wholeheartedly thank our Chilean hosts.

After 40 years and eight replenishments, the Inter-American Development Bank is financially mature to continue its work in the region without further replenishments. As the most important provider of development financing in Latin America and the Caribbean, the IDB is a precious partner for all of us both borrowers and nonborrowers. The Bank's future does matter to us.

I appreciate being able to participate in this discussion on the Bank's mandate and role in the region. I would actually like us to make it a habit that we as Governors on a regular basis get involved in the discussions about the Bank's future strategic direction.

In the words of its own Chairman, the working group behind the Institutional Strategy placed far more emphasis on how the IDB could do things better than on what it should do. The group did an excellent job though, and I very much appreciate the follow-up presented to us this time.

The report has an interesting Addendum, which touches on the "what" and links it with priority areas through which to achieve the objectives. I appreciate the ambition behind this Addendum. It aims at sharpening the focus and clarifying the IDB's mission, which is something we have asked for on earlier occasions. I would for instance welcome a discussion where we clarify, establish and deepen the understanding of the link between poverty and inequality, as well as the links between the objectives and the priority areas. Let me make a couple of comments on this issue:

First on the "what": As you all know, the key areas of the Eighth Replenishment were poverty reduction and social equity, modernization and integration, as well as environmentally sustainable development. If we take a look at the region today, we find that considerable progress has been made particularly in the area of macroeconomic management, economic recovery and integration into the world economy. However, many constraints remain. Because of this and the recent financial crisis, reforms have not had the desired result and poverty levels are higher now than they were in the 1980s. Social equity shows "no sustained tendency to improve," according to a report by ECLAC. In view of the potential and the expectations we all had, growth has also been somewhat disappointing.

In my view, it is therefore essential that we continue to focus the Bank's efforts on poverty reduction and social equity. As an expression of our emphasis on this Sweden supports the Bank's Social Equity Forum. The Bank can of course help countries only if they themselves make this a top priority. In this context I am greatly encouraged by the recent declaration of war against poverty by President Cardoso in Brazil. A similar, very welcome "war" lies behind President Fox's plan of "Puebla-Panama."

The countries, who turn to the IDB for help in reducing poverty and social inequality, are both Low and Middle Income Countries, both big and small economies. As an example of the great variation along the old El Camino Real, an article originating from the IDB makes a comparison between the per capita incomes of the more developed Mexico-NAFTA ($4,987), and the Central American Mexico ($2,700). In Central America proper, the per capita income is even lower ($1,600). The Bank needs to find an adequate response to all these different socioeconomic, political and institutional realities, but it has a special responsibility for the poorest countries in the region.

Part of the response is promoting high and sustained growth in all the countries of Latin America and the Caribbean. One of the most important contributions to this end is increasing the mobilization of domestic resources for investment.

However, as the example of Chile shows, in order to reduce poverty high growth has to be accompanied by carefully designed direct political interventions. Among them are tax reform and improved tax collection to be able to finance increased social expenditure. Another aspect of growth, about to be given the importance it deserves, is the link between economic progress and gender.

The earlier mentioned report by ECLAC states further that existing data does not show "clear signs that environmental deterioration in the region is being checked." The Bank needs to be a partner to the region in this area. I agree with Mr. Ocampo, the Executive Secretary of ECLAC, when he in his paper "Rethinking the Development Agenda" underlines the effective incorporation of the concept of sustainable development into production strategies, both in the form of clean production methods and technologies, and in the form of more proactive environmental policies.

Modernization is of course a broader concept than democracy, but although we can see great strides in many Latin American countries in the latter area—here I would like to mention especially the extraordinary progress made by our host country, Chile—democracy is still struggling in Latin America. There is frustration that it has not fulfilled the expectations by many of improved living conditions. The answers have to be deepened democracy and development of institutions for good governance.

Clearly, the agenda of the Eighth Replenishment is still valid. Globalization has only increased the sense of urgency as to achieving the IDB-8 objectives. Reducing poverty, increasing equity and the efficiency of the State in catering to the needs of its citizens, moving towards environmentally sustainable development, strengthening the values of democracy and solidarity—these are all keys to bridging the globalization gap for Latin America and the Caribbean.

Now, on the "how": I believe and welcome that the role of the private sector in the development process of this and other regions will continue to grow as a consequence of ongoing reforms. The question of what the IDB's role should be in this context is one of the issues raised for this meeting, closely linked with the discussion on the Bank's objectives.

I broadly agree with the list of recommendations in the thoughtful report by the External Review Group on private sector operations. However, before a specific decision is made on the recommendations, I would like to see a much broader discussion on the links between them and the Bank's developmental objectives.

As a new member of the Inter-American Investment Corporation it is of particular interest to me to see how the currently weak cooperation between the different parts of the Bank dealing with the private sector could be strengthened. The IDB needs to use its operational experience from the different areas to realize its full potential as a partner, for instance in the crucial area of promoting an enabling environment in the private sector. In particular, the Bank could act as a catalyst for the development of domestic capital markets. Without greater cohesion between the now separate parts, sequencing cannot be used as a tool, nor can potential synergies be realized.

Another issue raised before the Annual Meeting concerns lending instruments. The problem of the policy-based lending exceeding the current 15 percent lending cap is presented with frankness. Again, a number of other issues need to be analyzed before decisions can be taken. Among the issues is how the problem of the cap can be solved, not only in the short run, but rather in the longer run, so that the solution would link closely with the objectives of the Bank. Similar issues are being discussed in the World Bank. There is consequently a need to make well-informed decisions, on the basis of a careful analysis. For instance the relationship between increased policy-based lending and domestic resource mobilization has to be explored. Since the area of instruments is so central for the Bank's effectiveness as a development bank, I would like to see the Committee of Governors stay engaged and would appreciate if the issue were taken to them for further discussion.

As one of the Multilateral Development Banks, the IDB combines the interdependent elements of universality, legitimacy, efficiency and resource mobilization capability. It is therefore well-positioned to tackle the complexity of the regional challenges. Work is going on in several areas where decisionmakers from the Latin American and Caribbean countries meet in order to define their future common work agenda.

I would also like to mention some areas where the IDB can make a contribution, but where also other partners from both inside and outside the region are needed:

Financial and economic volatility. This is obviously a problem where borders do not matter. It is perhaps the single most important cause in recent years of large increases of income poverty. This is an issue we should discuss further in the conference next year on Financing for Development in Mexico.

In a region where crime and violence have become impediments to economic investments, a desirable regional public good is citizen security. Crime and violence are closely linked with the region's inequality. In this context I want to express my appreciation that the IDB so clearly talks about street children, youth delinquency and domestic violence as development issues.

HIV/AIDS is emerging as a serious developmental problem also in this region. To prevent and combat this killer disease has to be made part of our programs.

Trafficking—in drugs, people or money. Again, borders are porous. The underlying causes for trafficking tend to be complex, but poverty and the weakness of the State are certainly foremost among them. In this context I would like to express my special concern for the situation in Colombia. The promotion of dialogue and peace in Colombia is a priority for Sweden during our EU-presidency, and a key factor in this is the combat against drugs.

Promoting and financing of regional public goods are areas where the IDB has a given role and in which the Bank is developing instruments and arenas of cooperation. In fact, the IDB with its President is a regional public good! With its global membership but specific regional mandate, the IDB plays a unique role in Latin America and the Caribbean. It is well placed for close partnerships with the region and an extended cooperation with global partners.

Sweden, which after some years of economic problems, is again able to increase substantially allocations to international development cooperation, and wants to continue to be one of the Bank's active and constructive partners. We look forward to a close and fruitful cooperation with the Inter-American Development Bank in the years to come.

First, I would like to express how honored I am to be representing Brazil in the beautiful city of Santiago, Chile, at the Annual Meeting of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation.

I return to this forum to highlight Brazil's achievements over the last year.

We were able to overcome the crisis and restore market confidence in our country. Economic growth has resumed on a sustained basis.

The recovery of growth in a stable environment was the hallmark of the Brazilian economy in 2000, with growth at 4.2 percent and inflation kept firmly within the set target of 6 percent. The industrial sector was at the forefront of this recovery, with 5.5 percent growth in 2000.

Three main tracks were followed towards the successful conduct of Brazilian economic policy: fiscal austerity, monetary policy based on inflation targets, and an exchange fluctuation regime.

Fiscal policy is focused on achieving primary surpluses compatible with sustainability of the debt/GDP ratio.

Monetary policy has played an essential part in the economy's favorable performance, through the consolidation of the inflation target regime.

The result of this successful strategy was sustainability of the economy in a context of growth without inflationary or exchange pressures.

The fiscal stabilization program, instituted in 1998, represented a landmark in the process of changing the Brazilian fiscal system. Few countries in the world have seen as rapid and successful a transformation in the conduct of fiscal policy.

With support from the National Congress, we have been able to implement structural reforms. The most notable of these was the approval, last year, of the Fiscal Accountability Act, which is a code of conduct for public officials from the three branches of government, establishing a set of principles, guidelines, and limits to be observed.

It is also worth noting that the Act stipulates management transparency as a means for social control.

Clearly, stability and fiscal discipline are essential to guarantee sustainable growth. In addition, however, a strategy is needed to ensure sustainable development. In Brazil, this strategy is based on building a partnership with the private sector.

We need to expand and modernize the transportation, energy, and telecommunications infrastructure and invest more in the social sectors. This is a challenge of enormous proportions that will only be overcome if we add public investment to private, financed with internal and external savings.

Opportunities abound in the recovery and in the expansion of economic infrastructure. The multiyear plan for the 2000–2003 period, known as Avança Brazil, estimates that its economic infrastructure programs will require resources on the order of US$108 billion.

We are looking for foreign partners for these undertakings. By the way, the country has been breaking records in attracting foreign investment over the last few years. Inflows of foreign direct investment have remained at about US$30 billion since 1998, bringing Brazil to the forefront among emerging countries in this regard.

In addition, I would mention another recent fact that measures the level of effort undertaken by the Brazilian government to build an economic environment that promotes growth with stability and attracts foreign capital: research by the international consulting firm of A. T. Kearney showed that Brazil is the third most attractive country to foreign investment, after the United States and China.

Having made these observations regarding the Brazilian economic environment, I would remind you that Brazil is not the only country in the Americas to be making progress of this type.

In this spirit, the Brazilian government took the initiative to organize the South American Summit in Brasilia in mid-2000. As a concrete result of that meeting, the member States and associate members of MERCOSUR made a commitment to a cohesive and integrated South America, inasmuch as integration is essential to economic development and social prosperity.

Expanding economic integration requires strengthening the physical integration of the countries.

The world's major economic blocks—the European Union, NAFTA, and Southeast Asia—grew and fused in the wake of a modern and integrated infrastructure.

The process of physical integration in South America has taken some significant steps forward. We have made progress in identifying and establishing axes of development and key physical integration projects.

Despite this progress, fulfillment of the commitments assumed by our Heads of Government at the meeting in Brasilia is imperative.

There is no time to lose.

The task we have before us requires effective measures to take advantage of the potential that each of our countries has to offer.

The Heads of Government of South America gave the IDB—which throughout the last four decades has contributed to all the regional integration efforts—the mandate to head up the preparation of a study that will contribute significantly to the planning effort.

We must therefore attach priority to the effort to move forward with this difficult assignment. Our objective is the construction of an overall project that will provide South America with a modern and efficient infrastructure that will help attract new investment to the region.

Over the last decade, Latin America has been implementing an extensive program of reforms that include issues related to the role of the State.

These reforms have contributed to changing the region's socioeconomic outlook and have resulted in significant changes in the requests for involvement by the multilateral development institutions. In particular, fiscal constraints have curtailed the demand for traditional investment loans.

At the same time, recent international financial crises have showed that the region's economies are still significantly vulnerable to external shocks and that we need to have mechanisms to prevent and manage emergency situations.

A new financing matrix is needed that takes into account the enormous fiscal adjustment effort undertaken by the region's countries. New products and instruments with countercyclical characteristics need to be designed, which can serve in particular to prevent crises, improve the quality of public spending, and establish and strengthen social safety nets.

The Bank's profile therefore needs to be adjusted so that it can expand its contribution to addressing the new challenges facing the region. In this context, it is essential that policy-based lending, which was limited to 15 percent of the cumulative lending program under the Eighth Replenishment, be made more flexible.

Expanding lending to the private sector is also a basic requirement for regional development and vital to consolidating the privatization processes under way in a number of countries. In this regard, the Brazilian government enthusiastically supports the conclusions of the External Review Group, particularly the recommendation that the 5 percent cap on private sector operations as a proportion of total IDB lending be abolished, provided the risk management of that loan portfolio is strengthened.

In my view, the hypothesis that member countries could be involuntarily graduated should be rejected since, in practice, it would prevent the Bank from continuing to play a part as an important instrument in the region's development processes.

In 2002, Brazil will have the privilege of hosting the next Annual Meeting of the Boards of Governors of the IDB and the Corporation. It will be a pleasure to welcome you and we will do all we can to ensure that you will enjoy Brazilian hospitality.

The meeting will take place in Fortaleza, which is in the state of Ceará, in the Brazilian Northeast. This is a region in which the IDB has played an important part as the engine of economic and social development. The Brazilian government will do everything to make sure that the meeting is a success.

It is an honor for me to participate in this Annual Meeting of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation. Like those who have spoken before me, I wish to thank the Government of Chile for the warm welcome we have received and for the excellent organization of the events. I particularly wish to thank the authorities and citizens of Santiago for their courtesy and hospitality, which will assuredly contribute to the successful exchange of ideas on the future of our Bank and our Corporation.

Today, the Government of Mexico is facing the momentous responsibility of consolidating the political, economic, social and institutional reforms we have launched with the resolute purpose of achieving comprehensive, long-term develop to benefit Mexicans.

In 2000, the Mexican economy outperformed the original growth forecasts. This good performance was influenced positively by internal and external factors that helped to give a strong boost to production. GDP grew by 6.9 percent, setting a record for the last 20 years.

Growth in production in the recent past has been accompanied by a gradual reduction in inflation. After rising to over 50 percent a year in the mid-1990s, inflation fell to single-digit levels in 2000. Even more importantly, efforts to consolidate solid macroeconomic foundations were reflected in more new jobs, a higher standard of living, and better human development prospects for Mexicans.

The administration of President Fox is committed to making every effort to consolidate these advances and to lay the groundwork for sustainable growth, which will allow more leeway for attending to the pressing need to overcome the social backwardness and margination that still exists in our country.

Our economic strategy for 2000–2006 has the goal of boosting the potential capacity of the productive plant to grow at a vigorous and sustained pace, stimulate investment, create jobs, pay higher real wages, and alleviate poverty, all under a regime of price stability. The following are fundamental aspects of this strategy:

- Obtaining fiscal surpluses, to which end we will propose measures to Congress in the coming days to establish Mexico's "new public finances" program.
- Strengthening the financial system, to which end we have already begun reforms in the sector; and
- Boosting domestic savings.

It will be difficult to achieve these goals unless economic strategy goes hand-in-hand with consolidation of structural reforms. Although Mexico has made significant progress in this field, laying the foundations to consolidate growth, it is also clear that sustained growth over the long term requires additional reforms to buttress the structural changes.

This new phase of adjustments is based on fiscal and financial sector reform. Reforms in basic infrastructure and social safety nets will be an indispensable complement to the projected economic momentum.

Comprehensive fiscal reform calls for increased revenues, diversification of the tax base, discipline in public spending and higher private savings. The government plans to take steps to broaden the tax base, promote taxpayer confidence by combating tax evasion, establish transparent public management procedures, and introduce clear mechanisms for public information and accountability. It is worth underlining that the ultimate goal of the "new public finances" in Mexico is to protect the very poor, precisely by obtaining revenues that can be channeled into covering their needs.

For its part, financial reform will focus on reactivating financial intermediation on solid bases, reducing its costs, promoting higher capitalization, and improving the efficiency of the payment and savings system.

While promoting fiscal discipline, the federal government is committed to raising the historical levels of spending to combat social backwardness and marginalization, particularly in the fields of health care, education, nutrition and rural development.

We are working hard to achieve all these objectives.

Over the years, the Government of Mexico and the IDB have maintained an open and frank dialogue, which we are certain will continue to produce fruitful results during the administration of President Fox.

The IDB has supported Mexico in areas as diverse as energy, education, health care, housing, reform of the State, hydraulic infrastructure, agricultural projects and scientific and technological development. In future, we will focus our efforts on consolidating programs to modernize state and municipal governments, combat poverty in the countryside and the cities—with special attention to bypassed indigenous communities—and programs to strengthen the institutional capacity of the public and private sectors.

In this setting, the Puebla-Panama Plan, an initiative recently proposed by President Fox, which seeks to promote the economic and social development of nine of Mexico's southern states and regional integration of the seven Central American countries with our own, is particularly significant. The IDB and the region's governments are ready to support this program and to begin discussions on its design, financing and execution. The Bank's experience and knowledge will be highly important for achieving the goals and objectives of this major initiative.

Throughout its history, the IDB has demonstrated an unparalleled capacity for mobilizing financial resources and providing assistance and technical training for the countries of Latin America and the Caribbean. I congratulate you, President Iglesias, because during your term at its helm the Bank has consolidated itself as the main source of multilateral financing and the cornerstone for the region's development.

Today, one of the main challenges for international lending agencies is to renew the efficiency and effectiveness of their capacity to respond to the needs of their member countries in a globalized setting. I would like to underline the need for international lending agencies to promote crisis prevention strategies with greater determination. Mexico's experience clearly shows that the adoption of prudent macroeconomic policies is the best option. Nonetheless, support from those agencies is indispensable in the face of external onslaughts and the risk of contagion.

The IDB must modernize its financing mechanisms in order to provide novel and flexible instruments that will reduce the vulnerability of our countries in a more interdependent world and smooth the path to comprehensive and inclusive development in the region, which will give priority to the needs of the most neglected sectors of society.

It is more timely than ever today to reaffirm the fundamental mission and commitment of multilateral development banks to complement national efforts to combat poverty and lay the groundwork for comprehensive, sustainable, long-term development.

Multilateral development banks have seen a change in the needs for public sector financial support in most of their member countries. There is less demand for loans and technical cooperation for investment projects in physical infrastructure and more demand for funds for programs in the fields of social development, institutional strengthening, and structural reforms on the federal, state and municipal levels.

If the Bank is to adequately serve these development priorities, we must make its lending policies more flexible and create new financial products that respond more effectively to the credit requirements of our countries.

It is of particular interest to countries like Mexico for the Bank to continue working to develop facilities to reduce the vulnerability of their economies to external disturbances. I am referring to new products such backstop credit facilities, exchange coverage instruments, and the program operations it is currently studying. Additional efforts to introduce natural disaster insurance would also be very useful for the entire region.

We also propose to examine some of the restrictions that currently limit the IDB's loan portfolio, such as the 15 percent for fast-disbursing loans, the matrix for distributing loans among groups of countries, the local counterpart matrix and the 5 percent for private sector projects.

To enable it to serve as a suitable complement to private sector financing, we urge the Inter-American Investment Corporation to carry the plan of operations made possible by its recent capital increase to a successful conclusion. We are convinced that in the coming years the Corporation will be consolidated as a relevant source of financing for the region's private sector.

I would like to underline the efforts of the Bank's member countries, particularly the relatively less developed, to obtain the funds necessary to cover the requirements of the Heavily Indebted Poor Countries Initiative. Those funds will facilitate debt alleviation for some of the countries through the IDB and subregional entities. We urge the Bank to continue its involvement in this process, since its participation will assuredly be important in continuing to channel those funds in an adequate and timely fashion.

Furthermore, I would like to highlight the work done by the Bank to facilitate and promote cooperation for reconstruction in the Central American countries affected by different natural disasters.

Through this forum, I once again transmit the solidarity of the Mexican people and government with the people of El Salvador, in the aftermath of the recent earthquakes that have caused large human and material losses.

The subjects I have touched on during my remarks reflect Mexico's interest in the current and future strategy of the Inter-American Development Bank, whose main aim is to facilitate attainment of the development goals of Latin America and the Caribbean.

The Bank faces a double challenge. Without abandoning its concessional lending to the least-developed countries of the region, it must adjust its financial instruments and create new products to expeditiously and efficiently serve the credit requirements of the other member countries.

We are convinced that these challenges will be addressed by Management and the Board of Executive Directors in their redefinition of the institutional strategy that will guide the IDB's future path.

Mexico is ready and willing to work for a shared vision of inter-American development, whose best ally is the IDB in designing novel and effective means of sharing experiences, technical cooperation and financing, as complementary support for our respective national projects.

I would like to convey Mexico's offer to host a future annual meeting of the Bank and the Inter-American Investment Corporation. We would be very pleased to see all of you in our country soon.

The challenges are many, but the ideas and capacity to change of an institution that has been present in the development of our countries for over 40 years are equal to them. The path has not been easy and there is still a long way to go. However, we are certain that under the leadership of President Iglesias, the IDB will be able to make the changes demanded of it today.

I should like to begin by expressing my sincere appreciation to the Chilean government and the City of Santiago for hosting this Annual Meeting in such vivid cultural surroundings. I am pleased to learn that the warm historic relations between the Norwegian and the Chilean people last year entered a new era of enhanced cultural and economic cooperation.

In my intervention here today, I would initially like to touch upon a few matters the Bank has asked for guidance on—namely lending issues and the private sector, and subsequently move on to some broader development issues and initiatives—such as social exclusion, HIV/AIDS and financing for development.

Against a background of improved economic growth and macroeconomic stability for Latin America and the Caribbean for the year 2000, the Bank's operations were marked by a lower-than-expected lending volume. Whether this decrease was structural or fluctuating in nature remains to be seen. Yet, this has fuelled the ongoing debate on the strategic direction for the Bank.

The Bank's shift in focus from traditional infrastructure lending towards more adjustment lending in our view requires the introduction of some new, more flexible lending instruments. In fact, many of us are looking for new ways of financing development. However, more innovative and flexible financing from the international community presupposes clear and consistent national priorities reflected in the national budgets. There are at least two big challenges with such new types of financial support. One is the lack of adequate public expenditure monitoring systems in some of the countries concerned. We must avoid that countries with lower administrative capacity are deprived of the advantage of the proposed instruments. The other challenge is to work out long-term targets and appropriate indicators. Both challenges have to be solved by the governments themselves, in close collaboration with the international finance institutions (IFIs) and other partners.

Norway supports the IDB's efforts to foster a dynamic private sector in Latin America, complementing—through its catalytic role—the efforts of the private sector itself. Through macroeconomic reform and modernization of the State programs, the Bank plays a vital role in assisting countries to create an enabling environment for private sector development. We believe that the ongoing discussion on raising the ceiling for direct lending to the private sector from 5 to 10 percent should be based on the development of a comprehensive private sector strategy for the whole Bank Group—including the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF). Given the magnitude of private capital flows to certain countries in the region, we question the value added of increased IDB lending to the private sector at large. We believe that, if there is to be any increase in the level of the IDB's private sector operations, it should primarily benefit countries and subregions that do not have access to international financial markets.

This leads me to Norway's newly confirmed intention to join the Inter-American Investment Corporation. The final decision is still subject to parliamentary approval. Our main focus will be to work towards improving the Corporation's development impact. Norway sees it as important that both the IDB and the IIC contribute to an increased awareness of the private sector's broader social responsibility, fostering partnerships between government, private business and civil society.

Let me now turn to some of the broader development issues I mentioned earlier. Now that most development banks, the UN, donors and developing countries are reorienting their policy towards poverty reduction, it is of paramount importance to reach a common understanding of the causes of poverty. There is now overwhelming evidence that economic growth is a necessary, but not a sufficient, condition for poverty reduction. The quality of growth, including its distributional effects, requires more attention. While Latin America and the Caribbean continue to experience overall economic growth, roughly 40 percent of the population continues to live in poverty. As stated by President Iglesias on numerous occasions, this is clearly unacceptable. Reducing poverty requires coherence in all government policies affecting development, and the IDB is an important dialogue partner in key areas with potentially strong poverty reduction impact: trade, investment, agriculture, the environment, military expenditures, gender and HIV/AIDS, just to mention a few.

The limited evidence available demonstrates that the major factors accounting for social exclusion, poverty and inequality in Latin America and the Caribbean are gender, race and ethnic background. We support the Bank's efforts to broaden the regional dialogue on combating social exclusion. These efforts involve among others arranging seminars, collecting data and carrying out research on central poverty reduction issues. We are looking forward to hearing more about how the IDB plans to use the results of these initiatives to incorporate dimensions of gender, race and ethnicity more fully into the design of regular programs and policies.

One of the single most important impediments to development today is the growing problem of HIV/AIDS. According to UNAIDS, the number of infected adults and children in Latin America is estimated to be 1.4 million in the year 2000, and the number is expected to increase. The Bank's current emphasis is on increased access to treatment and prevention of mother-child transmission. However, there is an urgent need for additional preventive measures. Such initiatives are culturally sensitive. As the leading development institution in the region, the IDB should actively take part in the broad-based multisectoral efforts of the international community to prevent the spread of the pandemic.

The United Nations Conference on Financing for Development is planned to take place in Mexico in the first quarter of 2002. I would like to congratulate the host country, Colombia, ECLAC and not least the IDB, for the substantial and productive preparatory conference they organized in November in Bogota.

The preparatory conference represents a new way for the UN to prepare for a major conference. The main document of the UN Secretary General—a cooperative effort by the UN, the World Bank, the IMF and WTO—shows that the conceptual and cultural gap which has existed for far too long between the UN and the multilateral financial institutions has to a large extent been bridged. Our main regret is that the very important regional dimension has been presented to the Preparatory Committee in separate documents, and has not been incorporated into the main document. Considering the importance of the regional development banks in financing for development, these institutions should not limit themselves to cosponsoring regional meetings. This is particularly true for the IDB, which is the largest provider of financing to the Latin American region. The IDB should take an active part in the work of the preparatory committee and in the conference itself.

In conclusion, Norway looks forward to cooperating with the Bank and the other shareholders in defining the future of the Bank. It is a common challenge to us and the Bank's management and staff to ensure that the IDB maintains and even raises its current high standard.

Let me first thank the Government of Chile for its splendid organization of this Annual Meeting, and the Chilean people for their warm welcome and hospitality.

Latin America and the Caribbean

Latin America and the Caribbean are now recovering from the difficult situation that they experienced in early 1999, and that affected their economies throughout that year.

In 2000, the region posted an average growth rate of 4 percent, although with significant differences between countries, to be sure: Mexico and the Dominican Republic grew by more than 6 percent, Chile by over 4 percent, while Peru and Ecuador suffered severe recessions, and Argentina grew by barely 0.3 percent.

Net private capital inflows rose substantially, from US$51 billion in 1999 to US$67 billion in 2000, for an increase of 30 percent. Macroeconomic policy has on the whole been orthodox and rigorous and has been reflected in price stability and shrinking fiscal deficits. Bond issues remained very active, and for the first time in its history the region had five countries with investment-grade risk ratings. This progress needs to be generalized, since large parts of the region are still shut out from private capital inflows and have no access to capital markets.

The performance of Latin American economies will be determined by economic developments in the United States, Europe and Asia. Although the United States economy is fully adapted to the information age and has ample maneuvering room for fiscal and monetary policy, it will experience a slowdown year throughout that will vary in its impact on the different countries in the region.

This morning we have heard a number of very interesting speeches, including that of President de la Rúa, which was particularly timely. We are all anxious to see economic policy designed by the President of Argentina and his government prove successful. The Spanish government fully supports the economic adjustment program worked out with the International Monetary Fund, the World Bank and Inter-American Development Bank, and considers it essential to achieve broad-based political backing for that policy within Argentina, to ensure its implementation. This is the only way to maintain market confidence in the Argentine economy and ensure its recovery, an outcome that will have a positive impact on all the economies in Latin America and the Caribbean.

This morning, President Iglesias reminded us of the basic issues for comprehensive development in Latin America and the Caribbean. In the first place, combating poverty remains one of the most important challenges in the region. Today, Latin America and the Caribbean have among the greatest income inequalities of any region in the world. The region needs to grow faster and better, and it must be able to distribute the benefits of growth more equitably, focusing major efforts on helping to lift some 200 million people out of poverty. It needs growth to offset its still rapid demographic growth rate, growth that is more regular and more evenly distributed across all countries of the region. And lastly, it needs growth that is more equitable. All of this calls for active, effective policies to fight poverty.

President Iglesias also recalled the importance of enhancing Latin America's economic competitiveness so that it can take advantage of the phenomenon of globalization. It is therefore essential to continue to make progress in structural reforms and liberalization of markets so as to create a competitive environment that will foster greater productivity. In this context, I believe that it is crucial that special attention be paid to tax reform in order to guarantee fair, efficient collections to finance public spending.

In this respect, the Bank has a historic responsibility. There is still much room for improvement in implementing the mandate from the Eighth Replenishment.

We need to take a close look at ourselves and devise solutions within our own countries to change the current situation. We need to make economic development compatible with a better distribution of income. This means that we must supplement orthodox macroeconomic policies with effective social policies. Macroeconomic stability is ultimately a prerequisite for achieving greater economic growth and a more just society.

Spain and Latin America and the Caribbean

Never in the last 200 years has Spain been so firmly committed to the destiny of the Americas. Our companies have developed a decisive stake in the region. The figures speak for themselves. Spanish investment last year exceeded US$30 billion, making our country the largest foreign investor in the region for the second year running. I am speaking of direct, long-term investment, made in the midst of difficult times, and it demonstrates clearly the firm commitment of the private sector to the region's development.

These investment flows have significantly heightened the mutual dependence of our societies, through greater integration of real and financial markets between Spain and Latin America and the Caribbean. There is no doubt that financial stability and the conditions of economic growth in our countries constitute a common reality to which our interdependence gives substance.

This process highlights the need for policy coordination in order to address this common economic and financial reality, this Latin American Economic Area. Given these common interests, now is an excellent time to establish greater coordination in the international financial context. Such cooperation will be beneficial to all our countries. We need to move forward on a proposal that I made in New Orleans: to consolidate the discussion forum initiated last September, where Latin American countries can establish their own strategies for designing a "new international financial architecture," given that the Bretton Woods institutions, for historical reasons, do not reflect the real economic weight of our region.

Spain is also committed to the fight against poverty in the region. Our country has resolutely supported the HIPC Initiative, far beyond our quota in multilateral financial institutions. Spain's contribution already stands at US$1.013 billion. Furthermore, Spain has attempted to compensate for the relatively low weighting that Latin America and the Caribbean have in the overall HIPC Initiative by making additional efforts on both the multilateral and bilateral fronts. Of the US$70 million that we announced in New Orleans as our contribution to the HIPC Trust Fund, at least US$50 million will be dedicated to Latin American countries, and we will also be supporting the Subregional Institutions involved in it. Spain has consistently called for a comprehensive solution to country indebtedness problems, regardless of the institution that holds their liabilities.

From the bilateral viewpoint, Spain has taken an active role in resolving the problem that the HIPC Initiative has created in Central America. Specifically, Spain has made an additional commitment to assume Guatemala's debt to Nicara-gua: the cost of canceling that debt on HIPC terms is US$351 million, according to the IMF. With this contribution, Spain's total support for the HIPC Initiative will amount to US$1.364 billion. At the same time, debt conversion programs have been undertaken with many countries in the region. These programs include a significant debt forgiveness element (Honduras, Costa Rica, Dominican Republic, Ecuador, Peru, El Salvador, Bolivia).

Spain intends to continue its cooperation with initiatives to promote financial and macroeconomic stability in the region. From the financial viewpoint, we contributed US$1 billion to the aid package for Brazil two years ago, and were part of the package for Mexico six years ago, and I may remind you that in 2000 we participated with US$1 billion in the aid package for Argentina coordinated by the IMF. As well, in the area of technical assistance, we have cooperated in such areas as financial sector regulation, economic decentralization, judicial and administrative reform, and modernization of tax systems.

Within this framework, we believe that subregional financial institutions have an important role to play in channeling additional resources to Latin America and in consolidating the various regional integration processes underway. In fact, negotiations are at an advanced stage for Spain to participate in the capital of the Central American Bank for Economic Integration and the Andean Development Corporation.

We are solidly committed to the social and economic development of the Americas. To this end, we have already agreed on a new and more effective framework for cooperation with the Bank. Yesterday, here in Santiago, we signed an ambitious and innovative agreement whereby Spain will contribute 50 million euros to the Bank Group for undertaking projects and other activities to enhance the region's social and economic development.

Since the last annual meeting, Spain has hosted a number of events related to the region. Last October we had the honor of welcoming to Barcelona the Third International Microenterprise Forum, a highly successful event for which we congratulate the Bank. This year, the meeting of the nonregional governors was held in Las Palmas, and just 10 days ago two important consultative groups met in Madrid.

El Salvador has been devastated by two earthquakes over the last two months. El Salvador deserves special praise for its courage and vision. It has refused to ask for debt forgiveness: the only assistance it has requested is that the international community open its markets and maintain its confidence. El Salvador will overcome this tragedy and will continue to set an example for other developing countries.

The Consultative Group on Central American Integration also met in Madrid. I want to congratulate the Bank for its role in organizing that event, which represents an essential step in fulfilling one of the Bank's original mandates. Integration is a longstanding issue in the region, and one that has yet to be resolved. Indeed, there is still a long way to go. Our great challenge for the next meeting, two years from now, is to achieve real coordination between SICA and SIECA. Central America needs support, but above all, its future demands that it be able to demonstrate its advantages and attract sound investment, starting today.

Finally, we celebrated in Las Palmas in January the 25th anniversary of Bank membership for the "nonregional" countries, so called because they are geographically distant, although they have much in common. Europe and Japan have brought "new blood" to the Bank, and new ideas and approaches, and they have certainly helped to strengthen the Bank's role in the region. I believe that the nonregional presence has made an important contribution to the Bank.

The Bank Group in the year 2000

We have examined with great interest the work accomplished by the Bank Group in recent months, and the challenges now facing it. We welcome the proposal to focus our efforts in coming years on four broad areas of priority (social reform, competitiveness, regional integration, and reform of the State), but we must remember that the strategies must all be targeted at reducing poverty and inequality and ensuring sustainable growth, compatible with environmental protection.

Like other multilateral financial institutions, the Bank is immersed in a process of internal change, of adaptation to a more globalized and interdependent economy. In this context, we need to review the key role of private finance as a tool for promoting growth in many developing countries, to make it more selective and effective. We therefore support a review of the current financial instruments, and of the validity of the limits that we have placed on the institution's various policies and instruments. Because these issues are so important, we propose that a working group of the Committee of the Board of Governors be set up to decide how to handle them in the most effective and responsible manner.

We believe it essential to maintain standing coordination with other institutions, both the Bretton Woods and the subregional bodies. As well, we encourage the Bank to examine its role in financial emergencies and natural disasters.

The Corporation is on the right road. The fact that it earned a profit last year, even if minimal, is good news. Moreover, it earned an AA credit rating. We extend our welcome to the new members.

The MIF has shown itself, through a valuable analysis of its first years, to be a highly promising, innovative and open instrument for promoting private sector development in the region. We hope to see it continue, and we urge all members of the Bank to join the fund and participate in it fully.

In closing, let me stress the need to revitalize our model of development on the basis of our own experience. I assure you that Spain is firmly committed to the region, and we believe that the Bank Group is and must be capable of addressing the challenges I have indicated and restoring the region to its proper place in the vanguard of the century now beginning.

ADDRESS BY MR. OMAR DAVIES, GOVERNOR FOR JAMAICA, ON BEHALF OF THE ENGLISH-SPEAKING MEMBER COUNTRIES OF THE CARIBBEAN

I have the honour of speaking in the name of the countries of the Caribbean Constituency, which comprises the Bahamas, Barbados, Guyana, Trinidad and Tobago, and my own country, Jamaica.

All our delegations wish to express deep appreciation to the Government and people of Chile for the kind hospitality extended to us.

I also take this opportunity of conveying to fellow Governors and to President Iglesias the regrets of the Governor for Guyana and his Delegation for their absence from this Meeting. I am sure you will find his absence understandable given the elections in that country.

As in previous years, the Bank registered a somewhat mixed performance in the Caribbean Constituency countries in the year 2000. Our Constituency is gratified that the joint effort of the Bank and the Guyana authorities led to full commitment early in 2000 of that country's FSO allocation for the 1998–1999 biennium. The Guyana authorities are determined to collaborate with the Bank in a similarly strong joint effort to achieve full commitment of the country's FSO allocation for the 2000–2001 biennium.

In the case of Trinidad and Tobago, we are encouraged that there has been evidence of increased effort to advance the items in the Bank's pipeline. We look forward to an early resumption of loan approvals for this member of our Constituency.

I am pleased to place on record Jamaica's appreciation for the responsiveness of the Bank at all levels, in providing strategic and expeditious support for the country's programme of rehabilitation and reform of its financial sector. We commend the Bank not only for its own direct support for this programme, but also for its catalytic role in the coordination of related support from the IMF and the World Bank.

We are pleased that in the case of the Bahamas, the Bank approved an operation late last year to support urgently needed rehabilitation and reconstruction of infrastructure in the wake of Hurricane Floyd. We hope that the Bank will work with the Bahamian authorities to advance other items in the country's pipeline.

We are concerned that over the past two years no item in the pipeline for Barbados has reached the point of approval.

We in the Caribbean Constituency are disturbed that the Bahamian and Barbadian authorities received a direct intimation in recent weeks of a possible initiative to graduate them from the Bank's lending programme, on grounds of per capita GDP and of a presumed favourable access to private capital markets.

It is high time we carry out a more incisive analysis of the per capita GDP data of our smallest members and recognize that their struggle for growth and development is no less difficult than that being waged by others. Per capita GDP data do not adequately reflect the persistence of stubborn pockets of poverty in our societies. Nor do per capita GDP data matter when, because of smallness, their entire economies and societies are periodically overwhelmed by the destructive forces of nature. Per capita GDP does not reveal the vulnerability of small states to wild swings in the private capital markets, often in reaction to developments in other countries. Is this not one of the important reasons why the Bank was created as a common institutional asset to support fragile economies with the strength of its collective ordinary capital, and with the efficiency of its intermediation between financial markets and its borrowing members?

Unbelievably, there is also the notion that, by graduating the Bahamas and Barbados, resources would be released that could be channeled to more needy borrowers. This notion flies in the face of logic for two reasons: (i) there is considerable unused headroom in the Bank's lending capacity; and (ii) of total loan approvals of US$23.3 billion over the 4-year period 1997–2000, the share of the Bahamas was $59 million or 0.25 percent, and that of Barbados was $98 million or 0.42 percent. Clearly, these amounts cannot make any significant difference to other borrowing members.

During the past year the Bank advanced its efforts to increase its relevance and responsiveness to its borrowing members, and we hope that no member of our Constituency will be denied the opportunity of continuing to tap into the evolving arrangements of the Institution. We welcome the attention that Management and the Board of Executive Directors have been addressing to the Institutional Strategy, since the Governors last met in New Orleans a year ago.

We believe that the launching during the last year of a number of new flexible lending instruments gives practical meaning to the important commitment in the Institutional Strategy to increase the Bank's responsiveness to its members. These new instruments will furnish useful means to support borrowing countries in strengthening their project development efforts. The adoption of a Disbursement Guarantee Facility, albeit on a pilot basis, is similarly a path breaking development. We earnestly hope that by the time the Bank comes to evaluate the pilot phase of this facility, a representative mix of countries will have drawn on it, so that we can have a balanced understanding of its effectiveness across the board.

We are encouraged that even with these new lending initiatives, the drive is continuing to devise additional, or to elaborate existing, lending instruments. We have before us at this Annual Meeting a far-reaching proposal for a new mode of lending that would finance broad comprehensive programmes and ease the limitation on borrowing imposed by the fiscal constraints that many of our countries experience. The Caribbean Constituency looks forward with great interest to the follow-up work to be undertaken in finalizing the design of this instrument, which we expect will be available equally to all borrowing countries.

This Annual Meeting has also been considering the further development of the lending operations of the Private Sector Department. We only wish to repeat a refrain we have echoed in the past; and it is that we continue to look forward to the first Private Sector Department operation in our Constituency. Our Constituency believes that as private sector lending takes up an increasing share of overall Bank lending, it will be important for the Bank to work with interested national authorities in the smaller borrowing members to secure private sector lending in their countries. In this connection, we strongly endorse the recommendation in the report of the External Review Group that we increase the number of approved areas in which private sector lending can take place. This would increase the possibilities of finding viable projects in the small borrowing members.

In the general area of the functioning of the Bank's private sector windows, we also remain strongly interested in IIC financing of small and medium enterprises in our region. The special characteristics of these enterprises in our Constituency present a challenge to the IIC to find the right strategy to enhance its presence in our countries. In the context of the capital increase now being implemented in which the members of our Constituency are participating, we look forward to the Corporation maintaining and intensifying its efforts to achieve this objective.

In previous years, our Constituency has prodded the Bank to advance the matter of membership of the OECS countries in the Institution. This year we are happy to note that the Board of Executive Directors has now given a mandate to Management to actively enter into negotiations with the OECS countries on the terms and conditions of membership, so that a proposal could be submitted to the Board of Governors in due course. We urge that these negotiations be executed expeditiously, and that the Board of Executive Directors submit its recommendation early to the Board of Governors.

The IDB Group has completed one more year, working to promote the development agenda of Latin America and the Caribbean. We look forward to another year in which the Bank enhances its responsiveness to its borrowing members, and strengthens its role as our common regional Institution.

I am honored to be able to address these words to you today on behalf of the government and people of Ecuador. I bring with me their very best wishes to the Chilean people and to the city of Santiago that has so graciously welcomed us on the occasion of the Annual Meeting of the Inter-American Development Bank and Inter-American Investment Corporation.

I would like also to salute the president of the IDB, Mr. Enrique Iglesias, and the staff of the Bank and to express my gratitude for their dedicated efforts, year after year, to benefit our countries.

Our region needs to redouble efforts to duly assimilate all the events unfolding in the world economy. To rise to the challenges of globalization we will have to look to the future from a more open regional perspective, so we can proceed efficiently and share fairly in the fruits of these processes.

Ecuador is facing some distinct challenges of its own. Our success in placing our economy back on a firm footing will depend on the strategy devised to deal with these new circumstances. By virtue of the dollarization program Ecuador has rebuilt its economic fundamentals fairly quickly, thereby improving the investment climate and our prospects for progress. But there still is a huge task ahead if we are to achieve sustained development and become full partners in today's globalizing world.

One of our nation's top priorities is to make the economy more competitive. Improvements on this front need to be underpinned by public policies that set the stage for strengthening human capital, devising incentives to attract needed investment funds to upgrade production processes. To that end Ecuador needs modern technologies to help make the most of the competitive advantages our physical and human resources afford us.

To realize the nation's competitiveness goals, the public sector has invited private enterprise to join with it in a strategic partnership, and we will be making every effort to further that process. The first fruits of this initiative are already in evidence. Thanks to a contract signed recently for construction of a heavy crude pipeline, Ecuador stands to receive private direct investment equivalent to 8 percent of GDP and additional capital to boost oil production equivalent to 15 percent of output.

Our countries understand that, to attract private capital, we must be able to offer investors certainty as to our legal frameworks and assurances of an independent judicial system. Apart from affording a more secure base for the advancement of democracy in our nations, this would give the State a role in keeping with the country's investment needs to strengthen growth, creating an enabling environment for private investment with legal certainty as a backdrop.

It is on this front that the borrowing member countries should be looking to organizations like the IDB for support, so we can work and learn together, enriching each other's knowledge and experience as we come up with programs to serve our needs.

Ecuador's private sector has felt the impact of the financial and economic crisis of the past four years. What we would need from the international community, and especially from the IDB, are facilities whereby we can strengthen the productive sector's capital base as part of a medium-range growth strategy. A constraint for the businesses that have weathered these crises is that they do not have enough capital to upgrade production processes, both in terms of new technology and market entrées, so they can drive the economic recovery.

As the IDB Governor for Ecuador I would invite my fellow Governors and the IDB's Board of Executive Directors to devise a facility whereby funds could be channeled to strengthen the capital base of viable companies affected by the crisis, to spur economic growth and create employment.

I would also like to see the Bank explore ways of supporting moves to strengthen the region's legal systems, so we can rebuild confidence and thereby foster productive investment and economic and social progress in our nations.

It is a great honor for me to address this Annual Meeting of the Inter-American Development Bank and Corporation, and I wish to extend my greetings to all the Governors, authorities, and participants attending this important event in the life of our institution. Permit me also to express special thanks to the Government, President, and authorities of Chile and to the wonderful Chilean people. This occasion provides us with the delightful opportunity to visit this noble city of Santiago in the company of old friends.

But let us get down to business. As we near the end of the first quarter of the year, the latest prognoses from the International Monetary Fund indicate world economic growth of nearly 3.5 percent for the year 2001. This figure reflects a favorable panorama, but also represents a decline from the 4.75 percent recorded at the end of 2000. The timely reduction of interest rates in the United States should help to moderate declining production in that country, but external balance difficulties remain for the major industrial economies as a result of persistently high oil prices at a time when the Japanese recovery appears to be faltering.

In this international context, the anticipated growth rate for Latin America and the Caribbean is around 4 percent. This forecast is subject to a number of assumptions: a soft landing for the American economy, a slightly downward trend in prices for the region's export products, investor confidence, and access to credit markets. Another key assumption, obviously, is the application of sound macroeconomic policies by countries in the region, with fiscal results conducive to growth in private investment. It is also assumes that the structural reforms now well advanced in the region will continue.

This world and regional economic situation provides an encouraging panorama for Argentina. Our policies are designed to create the conditions necessary for production and employment to increase on a sustained basis. National savings and investment are rising, and we are making every possible effort to modernize the State and enhance the competitiveness of the Argentine economy.

During the course of 2000, our country was unable to emerge from the prolonged recession now over 30 months old. A variety of negative factors has been at work. In terms of the external environment, the rise in U.S. interest rates in the first quarter of 2000 and financing difficulties faced by most of the emerging markets were particularly significant. Internally, President De la Rúa's administration, immediately upon taking office a little over a year ago, was obliged to implement an initial package of policies, particularly with respect to the budget, provincial finances, and an agenda of reforms necessitated by the economic situation at that time. Those measures were effective in correcting the earlier trends, but did not produce the expected response from consumers or international investors.

Despite the difficulties, the Argentine economy has proven to be flexible, with a reduction in internal costs, a decline in consumer prices, and a moderate rise in wholesale price indices stemming from a recovery in traded goods. As a result of this improved competitive position, manufactured exports rose by 12 percent relative to 1999. A positive trade balance of more than US$1.1 billion not only erased the red ink from the previous year but also helped to offset increases in the foreign debt interest account. The fiscal situation was kept under control. Although the fiscal deficit could not be reduced to the extent desired, because of lower-than-expected revenues and higher interest on the public debt, the imbalance of 2.4 percent of GDP was similar to that in 1999. During 2000, primary spending by the national government declined and the primary surplus rose by the equivalent of half a percentage point of GDP. Provincial governments, to markedly varying degrees, also reduced their deficit by 0.4 percent of GDP, and their primary expenditures by 3.6 percent since 1999. This situation can be attributed to provincial policies promoted by the national government and the responsibility demonstrated by a good number of governors, who acted appropriately given the difficult circumstances imposed by the recession.

To get the Argentine economy growing again we need to move quickly to restore sustained internal and external confidence. We need to continue enhancing our competitiveness and productivity as a means to create desperately needed jobs. We are convinced that this general course of action will depend on three central factors: preservation of the convertibility regime, sustained application of policies to consolidate fiscal solvency in the short and medium term, and the expansion and acceleration of structural reforms to modernize the State, deregulate vast sectors of productive activity, as appropriate, and open up our economy.

The measures announced by the Minister of Economic Affairs last Friday are designed to achieve these objectives and represent an intensification of this administration's policies. We have not altered our diagnosis of the situation or our commitment to the strategic solutions we have been applying. This program is consistent with the agreements Argentina signed with the International Monetary Fund last January. In that respect, I want to express our appreciation to the Bank and its President for the institution's participation in this process, as well as the countries that have expressed their support through the multilateral agencies. We wish to make particular mention of the support provided by Spain to this program. The Bank's role in this so-called "armor-plating" process is helping to advance the reforms that will be essential to meet our targets.

I would now like to share some reflections on institutional matters, which represent the main focus of this Annual Meeting. Once again, the Bank has turned in a fruitful effort to Latin America and the Caribbean. Its watchful presence and involvement in the challenges we face are emblematic of the institution. This has unquestionably been a result of the leadership provided by President Enrique Iglesias and a harmonious partnership between the Board and Management. And we are confident that this dynamic pace will be maintained.

We would now like to share a number of particular thoughts which, together with those expressed by the other Governors present, will help to guide the daily work of our institution. First, we attach great importance to the Bank's regional dimension, which ensures its relevance for each and every one of our countries. We imagine a Bank active in the process of integrating Latin America and the Caribbean, and we cannot conceive of such a role without the inclusive character this institution has maintained since its inception. To put this in clearer terms, let me say this: the "graduation" concept, in our view, will only divert us from our objectives.

That said, it remains clear that the Bank faces a challenge in working with strikingly different national situations. We believe the institutional strategy represents an apt instrument with which to concentrate the Bank's activity on key issues for the future. But the strategy must be practically and fruitfully embodied in our daily work and shaped through a process of fluent dialogue which above all else must characterize relations between the Bank and its member countries. The strategy must generate results in the short and medium term and enable countries to derive the greatest benefit from the institution's financial and nonfinancial products.

Third, we believe it is time to think creatively about the application of our new lending instruments. We must frankly recognize that traditional investment projects, the Bank's main financing vehicles since its creation, have served their purpose. Their use today is confined to situations no longer as general as they once were. New needs have arisen and require new approaches. If our Bank is to remain relevant, supported by the active commitment of its members, we must calmly review the situation. Economic and social reform policies, which with slight variations represent a common theme in the region, call for new financial products. Perhaps with greater emphasis now than in the past, the Bank must combine programs and reform policies designed to create better conditions for economic growth and social development. In that vein, I believe there are several initiatives requiring our attention.

Since their creation in the 1990s, policy reform loans have applied mechanisms centered on the prerequisites for such reforms. We believe it is time to think about linking financial resources to the specific results of policies and programs. It could also be useful to design mechanisms for allocating Bank support to the prevention of crises, preserving our identification with the commitment to social realities in the region. We could also be more imaginative in finding ways to use multilateral financing for the design and operation of social safety nets. We have noted with satisfaction that over the past year the Bank has applied new operational modalities, such as multiphase loans and sector modernization facilities. We must also point out, however, that the pilot guarantee program has still not resulted in concrete operations, a situation which calls for attention to the program's design and suggests that adjustments may be advisable.

In this same vein we would suggest that the Bank's private sector window expand its operations to meet the growing demand for new infrastructure projects, taking the obvious precautions with respect to risk and the organization of such operations.

In short, the Bank cannot and must not act as a substitute for functions performed by the financial markets. And we are fully aware of the complexities introduced by the so-called new architecture of the international financial system in the context of the globalized economy. We simply wish to point out that the Bank has a singular function, with its own value-added, which derives from the limits established in the Agreement Establishing the Bank. These ideas, as well as others that may be identified and that we would like to analyze, do not signify an abandonment of the principles underpinning the Eighth Replenishment. What is required, rather, is a healthy reassessment of lending policies adopted many years ago in order to adapt them to current needs.

Since the last Annual Meeting, as we all know, the Bank has been seeking financial resources for the Heavily Indebted Poor Countries Initiative and attempting to apportion them among the members—no minor task. A general solution, based on the resolutions adopted at last year's Annual Meeting, is now near. As a member country of the Latin American and Caribbean group (GRULAC) we are pleased that the respective contributions have been decided upon. However, we wish to stress that Bank participation in the remaining stages is indispensable to a comprehensive solution, encompassing the situation of the subregional organizations. On the other hand, the lessons learned must be applied to the future. Given the regional character of our institution, these initiatives have a significant impact on the Bank's portfolio and require it to perform a function for which it is not properly equipped. Our opinion is that an objective such as the one pursued by the Initiative calls for different instruments that the Bank is not in a position to offer.

As regards the Inter-American Investment Corporation, we are pleased to know that we have been joined by new members. The capital increase we have agreed to will provide a welcome opportunity to revitalize the Corporation on a new scale of operations, with particular emphasis on developing the productive potential of small and medium-sized enterprises in the region. This expansion of activities, however, calls for a review of the activities conducted and the preparation of internal organizational programs and resources adapted to the new times. Let me say now that we are prepared to provide support to initiatives designed for this purpose. In the same vein, we support the expansion of activities using our other instrument for supporting innovative private sector initiatives: the MIF. But here, as well, we believe an assessment of past experience is in order to enable the Fund to the draw on the support provided for specific projects and transform it into an instrument for broader policy and institutional development.

To conclude, the message we wish to convey to this Annual Meeting of Governors is Argentina's determined commitment to the work and objectives of the Inter-American Development Bank. It is our aspiration to expand the presence of an institution already relevant to the lives of our countries, but which, to remain so, must take action proportionate to the realities we face. We must therefore work to ensure that the Bank can offer the instruments and services needed to meet the demands of this complex but worthy effort: the modernization and transformation of Latin America and the Caribbean.

ADDRESSES

THIRD PLENARY SESSION

MARCH 20, 2001

I would like to begin by offering a special word of thanks to our Chilean hosts for the excellent organization of this meeting. Chile's offer to host our meeting here in Santiago was no doubt intended to pay tribute to the Inter-American Development Bank, but may also have sought to promote the country more generally by introducing us to its beautiful scenery. This objective has been attained, indeed: several members of my delegation have already made discreet inquiries into the many ways of justifying a return to Chile. Our delegation will return to Paris with a great desire to visit Chile again.

Aside from allowing us to meet in pleasant venues, development institutions serve to mobilize capital to promote development.

Since generations of economists have labored to define just what development is, I will not attempt to do so on this occasion.

I will instead offer a global definition. For us, development, as such, cannot be summed up merely as the opening up and liberalization of economies, or even as growth. Development pursues a single goal: to enable individuals to be masters of their own destiny, and to have an opportunity to express their talent without their place of birth or socioeconomic background constituting insurmountable obstacles.

While the opening up of economies indeed promotes growth, it is not sufficient in and of itself, as portions of this hemisphere unfortunately demonstrate.

Growth helps to reduce inequalities and poverty, yet it, too, is not sufficient by itself. Once again, Latin America and the Caribbean bear sad witness to this fact, so vast is the gap between its richest and poorest citizens.

Growth alone has never reduced inequalities. Mechanisms for redistributing wealth are needed, as are controls that afford opportunity to all and prevent the abuses to which the concentration of economic and financial power naturally leads.

Similarly, effective regulation provides a necessary framework for the free interplay of market forces. Regulation of competition, for example, prevents public monopolies from being replaced rapidly by private monopolies; prudential regulation helps to prevent the savings of individuals of modest means from being harmed by excessive risks undertaken by financial institutions seeking quick profits.

It is our hope that these introductory considerations will inspire the action of the Bank, which stands at the forefront of the region's development financing. Furthermore, the Bank must participate fully not only in building infrastructure, but also—in full cooperation with the governments involved—in creating an enabling environment for sustainable long-term economic development that reduces social disruptions, respects the environment, and provides opportunity for all.

In our view, the Bank should not aim to build dual societies, but rather to raise the standard of living, and especially the level of opportunity, for the entire population.

The principal means to promote this role is to consider the position of the Inter-American Development Bank within the international financial community. Although its actions complement those of other multilateral lending institutions, this should not prevent the Bank from taking its own initiatives as necessary.

In this respect, strengthening ties between the Bank and the two other major multilateral lending institutions in the region—the International Monetary Fund and the World Bank—would represent welcome progress. I will now outline the forms of such cooperation in reference to the particular countries involved.

First, for the poorest countries, implementation of the Heavily Indebted Poor Countries Debt Initiative (HIPC) is a point of convergence for all parties. The region's beneficiary countries (Bolivia, Guyana, Honduras, and Nicaragua) are poised to enter the final phase of their Poverty Reduction Strategy Paper (PRSP) processes. The Bank—the principal financial organization in the region—is ideally positioned to assist them in taking full advantage of the resources made available through this process, for the fight against poverty.

From my familiarity with the details as chair of the Paris Club, I am well aware of the contribution that this special initiative will represent for these countries. However, each participant must make quality PRSPs a priority so that poverty reduction targets may be achieved.

Second: the middle-income countries, the most numerous in the region. In the view of France, the Inter-American Development Bank should work with the Bretton Woods institutions to seek out the best approaches to reconciling growth with the reduction of inequalities.

This, we believe, is a necessary condition for sustainable development that can reduce both poverty and inequalities.

To achieve this end, the Inter-American Development Bank, like its partners, must constantly review the instruments it uses. We must soon decide whether increased use of fast-disbursing policy-based lending (PBL) would be a better way to finance development than the "project lending" approach on which the IDB's activity is presently based.

France is open to such a shift, which would prevent a narrow and unhealthy focus on projects. The "global"—and thus intellectually appealing—nature of this financing method has been acknowledged by the World Bank and IDB teams. Its economic significance is widely recognized provided, of course, that development institutions are not transformed into "cash machines" in the process, granting massive yet untied budget support that future generations will have to repay. Most importantly, however, we must be attentive to demand from borrowing countries. This Annual Meeting provides a particularly valuable forum for assessing the scope of that demand, which, I am well aware, is real.

To be truly effective, as we all know, such "modern" financing must be granted within a suitable framework. The constraints that we must adopt relate, first, to the process of controlling public spending, a prerequisite for budget assistance. Without this safeguard, the most vulnerable populations would risk being deprived of the beneficial impact of such financing. While it may be deemed more effective to finance education policy overall rather than the construction of a particular school, this makes sense only if every precaution is taken, while respecting the borrowers' sovereignty, to guarantee the proper use of the funds and to ensure that, in the end, budget fungibility does not lead to mere budget support, losing all sight of the sector objectives we seek to achieve. I am confident that the IDB, with the World Bank and the IMF, will be able to help create the desired environment throughout the region, country by country.

I should also like to note that it would be constructive for the Bank selectively to share its expertise and advisory services with countries that, for reasons of history, do not yet fall within its zone of operations, yet where real problems of poverty coexist with unsuitable economic policies that are the result of isolation that none of us stands to benefit from encouraging.

As a final point, I note that corruption and money laundering are slow but terribly effective poisons. These two intrinsically related phenomena threaten the economic and political stability of many countries. In a child's eyes, the prospect of easy money makes a teacher's exhortations to work hard laughable. Let us work together to eliminate this twofold scourge. In this matter, too, we are counting on the Inter-American Development Bank.

The Inter-American Development Bank is a regional institution. It enjoys broad recognition within the hemisphere and beyond. It is our hope that the Bank's immense capabilities will continue to be of service to the people of the Caribbean and Central and South America.

On behalf of the State of Israel, I am greatly honored to address the 42nd Annual Meeting of the Board of Governors of the Inter-American Development Bank and the 16th Annual Meeting of the Board of Governors of the Inter-American Investment Corporation. I would also like to welcome the new members of the IIC—Belgium, Finland, Norway, Portugal and Sweden. On a personal level, this is the first time for me to participate in the activities of the Bank and I would like to share with you my sense of excitement. I look forward to my term as Alternate Governor. I believe strongly in the Bank and its goals and trust that I will be able to make a positive contribution to its important work.

For more than 40 years, the Inter-American Development Bank has been a leading force for development in Latin America and the Caribbean. Its activities are diverse, covering the entire spectrum of assistance for economic and social development. In times of natural crisis, such as the earthquakes that have recently beset El Salvador, the Bank is there, financing reconstruction. In times of financial volatility, as we have known in the past few years, it has provided the tools to restore stability. The IDB, together with its affiliate the Inter-American Investment Corporation, has worked proactively with the private sector to cofinance long-term projects as well as small and medium-sized enterprises. It has generated capital formation and value in places where, without the Bank's help, this would not have been possible.

The role of the Inter-American Development Bank, however, has not been confined to project financing alone. Over the years, the IDB has taken on a broader role as facilitator and catalyst of structural change, to help Latin American countries address the deep-rooted economic problems confronting them. The Bank's activities in encouraging qualitative structural changes have been both extensive and diverse, covering a broad spectrum of activities. These include, but are not limited to:

- Financial instruments, such as the Multilateral Investment Fund, designed to bolster the private sector and improve the competitiveness of Latin American and Caribbean economies. In the past few years this fund has doubled in size, to as much as $130 million and is today the largest source of technical assistance grants for the private sector in the region;

- Regional initiatives, such as the recent program to improve flight safety throughout Central America and strengthen the institutional framework for regional civil aviation practices;

- Programs to develop Latin American capital markets, including local debt markets that can potentially replace foreign debt as a key source of financing capital formation;

- Strategic action plans, such as the decision to expand projects designed to combat corruption and reinforce transparency and good governance;

- Institutions, such as the Information Technology for Development Unit created two years ago, designed to hasten the region's integration into the information age and the global economy.

The Bank's president, Mr. Enrique Iglesias, has been a driving force behind these initiatives and the dynamic development of the Bank over the past years. We welcome the growth of the Bank's activities, its financial scope and its reach.

I wish to focus my remarks on the Bank's contribution to structural change, because I feel that in this realm one can find many similarities to what has been happening in Israel, and what is transpiring in Latin America and the Caribbean. Israel's recent experience with structural change can perhaps shed light on issues Latin American countries may encounter. Moreover, economies in both our regions face major challenges and opportunities arising from structural changes that have been taking place over the past 10 years. Some say that the 1980s was a "lost decade" for Latin America. Israel's lost decade began in the mid-1970s, in the wake of the world oil crisis and the 1973 War. The turning point came with the stabilization program in 1985. Stabilization cleared the ground for economic recovery and structural reforms. Without it, these reforms would not have been feasible. Over the past decade or so, Israel has been undergoing two major structural transitions that have improved the economy's contours and performance.

(i) The first structural change is the transition from a highly concentrated, centralized economy to a more open market economy, driven by competition with the private sector at the helm.

(ii) The second is the transition from an economy based on traditional industries to one vested in information technology and knowledge-based industries.

While these two structural processes are separate, they are heavily intertwined. The second, the shift to IT, is in large part dependent on the first. The first, i.e. the enhancement of Israel's market economy, would remain formal and void of content without the economic activity generated from new industries. To borrow from the jargon of the IT world: while reform of the economic structure provided the platform for entrepreneurial growth, the emergence of new knowledge-based industries provided the content.

History has smiled on Israel and we have been fortunate that the global IT/communications revolution began to unfold precisely at a time when Israel was best poised to take advantage of new opportunities. A wave of well-educated and highly trained new immigrants coming from the former Soviet Union hit our shores at just the right time. Excellent physicists, mathematicians and engineers soon mixed with a growing class of local entrepreneurs and young computer scientists to form more than 3,000 hi-tech start-ups. Advancement of peace in the region has opened new markets for Israeli goods especially in Southeast Asia and paved the way for increased FDI. These developments contributed immensely to Israel's ability to carve a place for itself in the new global economy.

Government played a positive and vital role in the shaping of these events. The adoption of specific measures and policies has been backed by a strong commitment to their ultimate goal—i.e., the creation of a competitive economy from within and without. This unwavering commitment has been instrumental in resisting pressures that arose from time to time to revert to old practices. The quest for a more competitive economy has transcended several changes of government. There is no doubt that with the inauguration of Israel's new government, basic policies will remain dedicated to this goal.

The role of the government in the consolidation of the market economy is fairly self-evident. As has been the case for many countries, including those of Latin America, this transition was catalyzed by a series of measures initiated by government, including: the adoption of responsible fiscal and monetary policies; the institution of capital market reforms; liberalization of trade and foreign currency regimes; privatization; and the introduction and enforcement of new anti-trust laws. In essence, the government downsized its role in the economy, opting for regulation rather than direct participation in private sector activities.

The role of the government in the transition to knowledge-based industries is less obvious. This aspect of structural economic reform has been led almost entirely by the private sector. The government has taken a back seat, but nonetheless has initiated a couple of innovative programs that has helped to spark and sustain entrepreneurship in Israel. These programs serve as a model for other countries and could be easily implemented with the framework of the IDB and IIC. The first was the creation of a public venture capital fund with both domestic and foreign partners for venture investments. This fund, whose original scope was $60 million, sparked a thriving venture capital industry in Israel, that by the year 2000 raised $3.2 billion for Israeli start-ups. Originally a government company, this fund was privatized four years after its creation and now takes its place alongside other private funds. The second program is the technology incubator program. This program harnesses valuable human resources by giving would-be entrepreneurs with big ideas and little capital the opportunity to develop businesses within a controlled and supportive environment. Developed originally to help Israel absorb talented new immigrants, it finances individuals that would not otherwise have the opportunity to develop technology businesses and has led to several key success stories. Several of Israel's "incubator babies" are now trading on NASDAQ and other major financial markets and have become major players in various niche markets.

The CEOs of these companies now testify that had it not been for the incubator program, their ideas would never have come to life. This program is being both expanded and privatized. Many countries in both the industrialized and developing world have studied Israel's incubator program and are considering adopting similar programs to help generate an entrepreneurial culture.

In anticipation of this event, I had the pleasure to run across a recent speech by President Iglesias on the role Information Technology can play in economic, social and political development in Latin America. In this address, he presents a vision in which the impact of the development of Information Technology and knowledge-based industries in Latin America extends far beyond discrete macroeconomic benefits. The development of IT, social equality and democracy are mutually reinforcing processes. Knowledge-based industries are key to achieving a rate of growth that can conquer poverty in the region and reverse the exodus of valuable human resources from Latin American countries. Moreover, access to information constitutes "a common denominator for achieving simultaneously the democratic process of efficient, equitable and sustainable development." Access to information contributes to efficiency in its promotion of a fair, open and competitive market. It contributes to social equity by reinforcing the importance of education and human development at all levels for the entire society. It contributes to sustainable growth by being inherently environmentally friendly, opening opportunities for future generations without forfeiting that future to resource degradation.

In Israel we share the President's vision of economic transition as an ongoing, complex and multidimensional process. In fact, we represent a case study of this very vision. Development of IT industries has not only led to growth in GDP, exports and FDI, but has contributed immensely to broadening the competitive structure of Israeli industry and to the cultivation of a dynamic entrepreneurial culture. Israel, like many economies in Latin America, stands at a crossroads. Having completed the formal framework of structural reform and having embarked on the path to the Information Age, we now share both the challenges and opportunities inherent in economic growth. Structural transition has led to recovery and growth. Concurrently, however, we are witnessing growing inequality. We have to search for ways to mitigate the potential negative effects of comprehensive economic reform. Temporary friction caused by shifts in industrial development must not be permitted to perpetuate throughout successive generations. Investment in human resources is key and must become an ongoing commitment, if the benefits arising from structural change, in all its manifestations, are to be sustainable and enjoyed by all. Finally, government has to carve out a new role for itself so that it can proactively facilitate and regulate economic and social development. Reform does not necessarily mean de-regulation. The ability to consolidate structural transition depends, in large part, on the shaping of credible and viable public institutions. Capacity building on a regional scale can also contribute immensely to this quest. The challenge that lies before us is to build the kind of public institutions that can become involved in the economy in a manner that does not usurp leadership from the private sector. The IDB, I believe, will continue to play a leading role in this regard.

The late Chilean poet and diplomat, Pablo Neruda, wrote in his Memoirs: "Latin America is very fond of the word 'hope'. We like to be called the 'continent of hope'." It appears that Israel and Latin America have something else in common. Our national anthem is entitled "Hope". I would like to conclude my remarks with the hope for peace and the cessation of violence. Only in an atmosphere of stability and peace can we generate the kind of growth that can overcome poverty and inequality and enable both your region and ours to flourish in the emerging global economy.

ADDRESS BY MR. WOLFGANG P. E. MÜLLER, TEMPORARY ALTERNATE GOVERNOR FOR AUSTRIA

Please allow me first of all to express our most sincere gratitude to Chile for hosting us so generously and to the Bank's management and staff for supporting our work here so efficiently.

Twenty-four years ago Austria joined the Inter-American Development Bank. Now, at the beginning of the third millennium, it seems appropriate to take stock of our period of membership.

When we joined, our intentions were to further social and economic cooperation with Latin America and to use the region's own institution, the Inter-American Development Bank, as a tool to channel our resources towards the development of this subcontinent.

Looking at the achievements, we see rather mixed results of the social and economic development in the region. On the one hand, we find remarkable results with regard to life expectancy, infant mortality and literacy, and we see ambitious undertakings of many Latin American countries and governments to undergo strong structural reforms—in this context I would refer to our host country, Chile, as being one particularly active country.

On the other hand, we have to note that per capita incomes are lower than in East Asia, the Middle East, or Eastern Europe, and even more importantly, that the income distribution in Latin America is the most unfavorable in the world. Also, about the same percentage of children under 14 as we had in the 1980s has to work.

As to the tool of our contribution towards development in Latin America, we find the IDB enormously active, not only in terms of authorized lending, which at the end of last year amounted in cumulative figures to more than US$100 billion, but also in terms of various activities. The IDB is covering a wide field of sectors, I just mention the social sector, which last year again surpassed the 40 percent target. The IDB, reacting flexibly to the demand of clients and to specific situations, is offering a wide range of instruments, including investment lending, sector lending, regular policy-based program lending, and emergency lending.

Still, knowing that about 200 million persons live in poverty in Latin America means that we must continue our efforts to fight poverty. We take this as the starting point for some observations regarding the set of reports presented to this Board about "Institutional Strategy Implementation," but also "Selected Lending Issues" and "Response to the Report on Private Sector Operations."

To start with, we continue to fully support the overall approach taken in this report on the strategy including the four priority areas of the IDB's activities. I would like to emphasize that I agree with most of the content of the Guidelines for Discussion on Implementation and, let me add, with the "Implications of the Implementation" as described in that document. Therefore, I would like to highlight only a couple of points that would deserve, in my view, some more attention or greater emphasis than has been attached in papers presented.

The requirement for enhanced *coordination and cooperation* with other multilateral and bilateral donors and agencies is a very important issue both from the IDB's as well as from the borrowing countries' perspective. Since borrowing countries in most instances have to make choices as to which source of financing they should use for a particular purpose under which conditions, it is important for them to be well informed about the comparative advantages and capacity of their partners in development. At the same time, for the IDB as well as the other institutions cooperating in the context of a particular country, it is equally important to be informed about each others' activities and to synchronize the tasks to be performed, both in terms of sectors as well as timing. To this end, the reasonable application of an approach along the lines of the Comprehensive Development Framework should work for the benefit of all parties involved.

The second issue that I would like to mention relates to the instruments the IDB is using. I would agree that there may be a need for the IDB to have instruments at its disposition that are more flexible and can adapt to changing circumstances in the economic and political environment of the operations, as is mentioned in one of the documents. However, while being interested in the results of the interventions of the IDB is extremely important and this is very well documented in the papers presented, it is equally important to take into consideration those aspects of its activities related to the financial capacity of the Bank and the long-term sustainability of its operations. One lesson to be learned from past experience, not only at the IDB but in other international institutions as well, is that it is extremely difficult to find the right balance with regard to issues like the exposure to various countries or sectors, quick disbursing program lending or regular project financing, financial and nonfinancial activities, and the risk-bearing capacity of an institution, just to name a few examples.

Therefore, before drawing quick conclusions regarding the introduction of more flexibility in general, and particularly concerning the matrix and private sector lending or a higher share of quick disbursing program loans, the potential consequences for the IDB's resource requirements and its risk-bearing capacity have to be analyzed very carefully. We need to analyze the consequences of the changes envisaged on other types of lending and on the financial standing of the institution, before we can make up our minds on such important issues.

Indeed, in 2000 the IDB has achieved an excellent net income and satisfactory financial indicators. But this was heavily influenced by the exceptional volume of emergency lending and we don't know about developments in the years to come. A possible deterioration of financial indicators—not to mention about the financial rating itself—would immediately impact the borrower's lending conditions.

Anyhow, as to the future of this Bank, we firmly believe that poverty reduction as such, the fields of health, water, education and environment and safeguarding indigenous peoples' physical and cultural survival, present such enormous challenges to the region and such a wide field of activities for the IDB, its major finance institution, that we want to see these subjects continue to stay in the forefront of our minds and the IDB's strategies and that the IDB has the resources required.

In conclusion, I would like to assure you that we will continue to be strongly engaged in Latin America and that we consider the IDB Group as the trustee for the bulk of our interest in the development of this region.

I bring you very cordial greetings from the people and Government of Haiti. We are grateful to President Iglesias for his understanding of Haiti's situation and for his exemplary devotion to the service of Latin America and the Caribbean at large.

The Haitian delegation that I am honored to lead, and I personally, would like to join the Governors who have taken the floor earlier to convey our gratitude to the Chilean government and the people of Santiago for their gracious hospitality and the superb arrangements made for this Forty-second Annual Meeting of the Board of Governors of the Inter-American Development Bank and Sixteenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation. My congratulations also to the Secretariat of the Bank which has spared no effort, this year as always, to make our gathering a success.

Since the mid-1980s, the Haitian people have made tremendous efforts and tremendous sacrifices to ensure that their system of government, their institutions and the actions of their leaders are grounded in the rules and practices of representative liberal democracies. Our nation now is entering a new chapter: Jean Bertrand Aristide was elected President of the Republic on November 26, 2000 and was officially installed on February 7, 2001 at the National Palace. The symbol of office, the presidential sash, was handed to President Aristide by outgoing President René Garcia Préval, who had served since 1996 and whose term had come to an end as mandated by the Constitution.

Pursuant to Article 137 of the Constitution, President Aristide moved quickly to appoint a prime minister, Jean Marie Chérestal, who immediately formed a government that was ratified by Parliament on March 1. The Aristide/Chérestal administration promptly found itself facing three simultaneous challenges:

(i) The political landscape needs to be normalized, specifically by striking some political compromise with opposition groups that have contested some of last year's Senate election results.

(ii) Macroeconomic imbalances need to be redressed. They had become severe in the past three years, a result both of political uncertainty and a slowing of State moves to implement the structural reforms needed to usher Haiti into the global economy.

(iii) Poverty needs to be reduced by both stepping up growth, underpinned by investment and exports, and systematically combatting poverty and social exclusion, especially by boosting public spending targeted at the country's poorest.

Toward the end of my remarks I will refer to the state of our relations with the IDB, the support we hope will be forthcoming, and the steps we propose to take to see the Bank's objectives achieved and to strengthen our cooperation ties.

A. The political stir around contested results of last year's elections

The issue was the procedure used to count ballots in the first round of Senate elections on May 21, 2000. Without a second round, 18 out of 19 seats went to the majority party. The opposition, backed by the Organization of American States and much of the international community, maintains that had the votes been counted strictly according to election laws there might have been a new round of balloting for 10 of the 19 seats. As the year went by the dispute heated up, and it remains alive today. Among the back and forths was a demand from opposition groups to annul the election process outright, in its entirety, including local election results and the November 26 presidential election itself.

Numerous parties—the OAS, civil society, churches, associations—agreed to serve as mediators to help find a peaceful way out of the crisis. Various proposals were put forward, but thus far, none has proven to be the solution. The latest initiative is a series of meetings organized by a civil society organization called Comité de Facilitation at the Apostolic Nunciature in early February 2001. Efforts are under way as I speak, both in Haiti and internationally, to reach a compromise between the two parties. The OAS Permanent Council met a week ago expressly to discuss Haiti's situation. Though opposition groups were not admitted as formal parties to the discussions or to take the floor, they were given admission to OAS headquarters where they outlined their position to various delegations. The government, for its part, recently put forward a proposed electoral timetable running from November 2002 to November 2004, which includes supplementary elections to settle the May 21, 2000 controversy once and for all.

The government's proposal did not meet with a unanimous response at the OAS. But we continue to hope that the parties will be reasonable and return to the bargaining table so a reasonable, balanced, and satisfactory way out of the election crisis will finally be found, whereupon Haiti can return to normalcy and its people can return to their daily business. That being said, until the political and electoral crisis is resolved, the Head of State will have to ensure that institutions remain stable. The government must govern, civil servants must serve, students must study, traders must trade, exporters must export, teachers must teach. To put it another way, the primary duty of the State now is to maintain social order. Otherwise, not only will the electoral crisis not be untangled but it could well become a societal crisis, if institutions are paralyzed and markets and production are thrown into disarray.

This is the backdrop against which we should look at President Aristide's appointment of the Chérestal administration. Many Haitians, in political circles, in the business community and in civil society, would have liked the Chérestal government to be more representative of Haiti's very diverse socioeconomic landscape. That would have been my wish as well. But circumstances have not allowed this to happen. The question of whether the opposition was duly approached and encouraged to come into the government and whether, if such approaches had been made, the opposition would have accepted the invitation, is a subject of heated debate, and there is no clear answer as yet. What one can say with virtual certainty is that, in the climate of extreme violence and polarization of the Haitian political scene today, a Lavalas/opposition coalition government—assuming one could have been assembled—would have been neither viable nor functional. The exchanges of insults, accusations, and lies, battles arrayed, assassination attempts, armed attacks, verbal and physical threats that marked the electoral campaign opened wounds and turned political disputes into personal disputes and vendettas. It is not easy to imagine bringing people so divided by all sorts of disputes into a single government so long as there is no solution to the root cause of the conflict, which is the electoral dispute itself.

What I can say is that the majority party, at the very least, has shown a willingness to be open. Indeed, what better proof of that willingness than the presence, in the government, of the MIDH party of which I am leader, a centrist liberal Christian party that is firmly committed to democracy. Over the course of 15 years this party found itself successively as a firm adversary of the Lavalas party during the 1990 presidential elections and during the economic sanctions levied on Haiti by the international community following the 1991 coup d'état. That the MIDH would be part of a Lavalas government would have been unimaginable even a few months ago to any observer, at least to any observer familiar with Haitians' chronic inability to sacrifice personal interests for the good of the country. Such an arrangement is unprecedented in the annals of Haitian politics, and it augurs very well. Admittedly, it has only been in place for three weeks, and it is difficult to foresee how things may evolve. For the moment things are fine, there is good mutual understanding and shared concerns; as they say in my party, the goal is to "engage in politics to serve Haiti and not use Haiti to engage in politics."

B. Since October 1996 Haiti has been endeavoring, with mixed success, to address the severe macroeconomic imbalances. This effort will continue. Once the political crisis is behind us, the government's firm intention is to quickly open discussions with the International Monetary Fund (IMF) and the World Bank to negotiate a Growth and Poverty Reduction Facility.

The political crisis that befell Haiti in mid-1997 when the Prime Minister stepped down interrupted a Structural Adjustment Program the country had negotiated with the IMF in October 1996. Since then, our dealings with the IMF have been in the framework of staff arrangements. Though growth has remained stagnant, the programs negotiated for fiscal years 1997–1998 and 1998–1999 have yielded generally satisfactory results. The fiscal deficit has narrowed. Inflation has dropped. The country's reserves have risen. The Central Bank has become more modern and has bolstered its oversight capacity. Substantial progress has been made on the structural reforms, especially government downsizing.

Unfortunately this strong showing did not hold in 1999–2000. The fiscal deficit climbed from 1.3 percent to 2.2 percent of GDP, funded largely by Central Bank credit. As oil prices rose and Treasury revenues diminished, state resources fell by 1 percent as expenditures plateaued at 10 percent of GDP. Despite Central Bank efforts to slow the depreciation of the gourde, particularly by tightening monetary policy and intervening on the exchange market, between September 1999 and September 2000 our currency slipped 32 percent against the dollar. Net official reserves went down US$40 million, leaving the equivalent of only 1.8 months of imports.

To contend with these circumstances we signed an agreement with the IMF in late 2000. Under the terms of that arrangement, inflation was to be brought down to 12 percent–14 percent, the fiscal deficit was to shrink from 2.2 percent of GDP to 1.3 percent, and US$16 million was to be added to net international reserves. Unfortunately, there have been sharp deviations since the fourth quarter of 2000 compared to the initial program. The deficit now stands at 2.2 percent of GDP rather than the 1.3 percent target and inflation is running at 17.7 percent. As for the international reserves, there has been a decline of US$45 million rather than the programmed increase.

A new agreement will be negotiated shortly. Two basic conditions will be:

- a downward adjustment of objectives to take account of financial difficulties stemming basically from uncertainty and the demands of a protracted, chaotic electoral period; and

- concurrently, a redoubling of efforts on the revenue intake and expenditure sides just to achieve the lowered targets.

We are in discussions with the IMF to find out whether a negotiation mission should be fielded to renegotiate a program or simply an interim appraisal mission to exchange views.

C. The challenge of poverty

Though poverty is Haiti's most distressing challenge and its most pressing one, I will not go into many details here. Let me simply state that Haiti ranks 150th on the UNDP human development index, is acknowledged to be the poorest country in the hemisphere, and is the only Caribbean country still classified among the least-developed nations. Sixty-six percent of the rural population is living below the extreme poverty line of US$160 a year. Haiti's population is growing by over 2 percent a year, which will take us to 10 million people in 10 years. Today, with roughly 8 million people sharing 27,750 square kilometers, we are one of the most densely populated countries on earth. Since 1980, cumulative GDP growth has been negative. A few figures will quickly illustrate the severity of poverty in our country:

Social Indicators
(percentages)
1999

	Haiti	Other poor nations
Illiteracy rate	52.2	31.3
Primary school attendance	64.0	106.9
Secondary schooling	15.0	55.9
Life expectancy at birth (years)	53.6	63.1
Infant mortality (per 1,000 births)	70.5	67.6
Percentage of population with piped water access	43.0	70.0

Source: World Bank.

The government's aim is to reverse these trends, boost national revenue and give the poor a greater share in these resources. This will mean that, at a time when per capita income is declining owing to flagging production and a rising population, the government will need to increase the share of public spending allocated to social spending and shift those increased allocations to modify the revenue creation process in favor of the poor. In other words, what is sought is not growth for growth's sake but growth for the poor.

D. Relations with the IDB

The Bank has approved no loans to Haiti since 1998. A good share of the resources available for Haiti was simply reallocated to other Group D2 member countries.

Now that a number of delinquent loans have been activated, we hope that the IDB and Haiti will redouble efforts to make up for lost time. Let me underline again that these ratified loans are to fund projects to reduce poverty and raise our people's living standards generally.

The program to rehabilitate secondary and local roads, for instance, was conceived to connect remote rural areas to the rest of the nation and improve access to basic services for the rural population. The health services regionalization program is designed to support ongoing efforts to enhance the quality, effectiveness, and equity of health services delivered by government, the private sector, and nongovernmental organizations.

The water and sanitation sector reform program would support institutional reforms that should have been in place long ago to improve quality of life in the capital and in towns elsewhere in the country. The importance of the basic education program will be immediately evident if I mention that close to a million school-age children are waiting to go to school. Seeing these programs launched quickly is of course a top priority for the Haitian government.

The investment sector loan is undeniably important to propel economic activity and private enterprise, to support reforms of state-owned banks and the electric power industry. However, because macroeconomic conditions have deteriorated since the loan was approved, the government has elected not to send it to Parliament until it has been reevaluated and perhaps ultimately reformulated with the IDB.

The Haitian government wholeheartedly endorses the objectives and priorities set out in the institutional strategy the Bank is proposing to implement. Indeed, some of the priority objectives mapped out there appear almost word for word in the Prime Minister's general policy statement.

Next month I will be inviting the IDB to send a mission to Haiti to work with my team to come up with steps we can take to prepare, with IDB support, items for a national policy dialogue to map out the main lines of a country strategy paper and build a pipeline of loan and technical cooperation operations.

I would like to thank you now in advance, Mr. President, for the efforts that the respective Bank departments will make to respond to this request from the Haitian government.

As for the Inter-American Investment Corporation, Haiti continues to support the efforts made to improve the performance of Latin American and Caribbean small and mid-sized businesses. We therefore voted in favor of the proposal to modify the Corporation's capital structure, admit new countries to membership, and amend the Agreement Establishing the Corporation.

The Republic of Haiti undertakes to make the agreed payments for shares to which it has subscribed, in accordance with the established timetable. For the Haitian government this is an act of faith in the Corporation's mandate. Regrettably, I must mention that though Haiti is a founding member of the Corporation, no Haitian private sector project has ever come in for IIC financing. But we have not lost hope, since we have the General Manager's formal commitment that this situation will soon change.

In the coming days I will be inviting Corporation officials to field a mission to Haiti to meet with members and representatives of the private business community to examine avenues for more active collaboration.

The Haitian government applauds the IDB's support for the Heavily Indebted Poor Countries (HIPC) Initiative. I am aware that, according to current eligibility criteria, Haiti cannot be part of this initiative. But I cannot help but bring up the same paradox I have noted in the past: Haiti ranks as the poorest country in the Western Hemisphere, but is not eligible for the HIPC Initiative. Yet our debt service is a very heavy burden and our GDP is lower than that of other eligible countries in the region.

I must confess that it is not easy for the government to convince Haiti's poor that our country cannot look to the HIPC Initiative to reduce the national debt because the debt is not high enough. Reiterating what Haiti has noted not a few times in the past, let me convey our wish that the IDB be an advocate for debt reduction for Haiti just as it has done for other poor countries in the region. Our government will be presenting an official request to the IDB shortly to this end.

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

International Development Goals and Poverty Reduction

At the Millennium Summit in September 2000, the international community reaffirmed the International Development Goals (IDGs) adopted during the 1990s, among others the one aiming at reducing the proportion of those living in extreme poverty by half by the year 2015. At present, according to recent statistics, the current rate of poverty reduction is about one-third of that required to achieve this target.

International financial institutions have reaffirmed poverty reduction as their overarching goal. The mentioned poverty targets indicate, however, the magnitude of this challenge. For the Inter-American Development Bank (IDB), which was in 2000 for the seventh consecutive year the principal source of multilateral financing for Latin American and Caribbean countries, the need for further improving the efficiency and effectiveness of its operations is of highest priority. Despite the considerable progress achieved over the last decade, as regards poverty reduction, economic development and good governance, it is still necessary to pursue the revitalization of the IDB's mission. This is a prerequisite in order to further contribute to reducing disparities across and within Latin American and Caribbean countries, to include more people in the economic mainstream and to equitably distribute the benefits of development. The IDB should set the example and must show the way forward to achieve this mission of halving the proportion of poor by 2015.

Economic Outlook in Latin America and the Caribbean

In 2000, the Latin American and Caribbean economies grew at an average of 3.3 percent which—compared to the 0.3 percent of the year before—opens new perspectives for the future. With regard to the two main overarching goals of the IDB—sustainable economic growth and poverty and inequality reduction—, this represents an important achievement. However, this figure is neither sufficient to achieve this mission nor does it shield countries from external shocks, such as financial crises or the effects of natural disasters. Nevertheless, we wonder whether it is realistic to expect much higher economic growth. In order to reduce poverty, growth has not only to be sustained but also pro-poor and should be accompanied by complementary measures. In that sense, we would encourage the Bank to thoroughly analyze among other things the potentials of regional integration, export promotion and market access to reinforce economic growth.

The Role of the IDB and Its Institutional Strategy

In our statement on the occasion of the 1998 IDB Annual Meeting in Colombia, we addressed the future orientation of the Bank and the need to update the vision and the guidelines by which the Bank conducts its mission. Today, we would like to commend the Bank for the effort made in formulating an institutional strategy.

Looking, however, at the entire process and at the results, I still remain somewhat confused. In my view, a vision has to be short, to the point and long-term oriented. Our message needs to be well understood, we do not question the recommendations, priorities and goals set in the institutional strategy; we question, however, the added value of this rather complex process for the Bank. At this stage, the strategic process remains rather complicated and we call on the Bank to mitigate the risk of dispersion. We, therefore, support the proposal to submit a consolidated version of the efforts made since the Rio meeting of the Board of Governors. To achieve our goal, we must strongly and swiftly move from vision to action.

The main strengths of our Bank are its capacity to understand the region's realities and its ability to promptly and adequately react to the needs and demands of its clients. In facing an increasing and sometimes contradictory demand, the Bank must be *selective* in defining priority areas. The IDB cannot be best at everything and we have to make sure that our expectations are realistic and in line with its comparative advantage.

Our main concern is that the Bank continues to focus on a limited number of priorities according to its two fundamental objectives. In order to put the institutional strategy into practice, we need selectivity, focus and additionality.

Turning to the agenda the Bank is facing in 2001, we acknowledge the successful efforts to ensure that Latin American highly indebted countries receive the full benefit of the HIPC Initiative. Let me now address two other issues, which are for us of utmost importance:

- the formulation of new lending instruments; and
- the recommendation to increase the ceiling for private sector activities.

New Lending Instruments

A reflection is taking place within the multilateral financial system on the diverse needs of low-income countries and middle-income countries and on the designing of appropriate and innovative instruments to better respond to those needs. We urge close coordination with other multilateral banks.

In this process, the Bank should undertake a clear review of its existing instruments, with a full analysis and evaluation of its lending matrix. Such a global review should also include a general overview of the various needs of Latin American and Caribbean borrowing countries in order to establish a framework for expanding the Bank's instruments. The introduction of a more flexible and eventual differentiated pricing structure could be considered, provided it does not have negative impacts on the Bank's poverty reduction focus.

The issue of increasing the ceiling for policy-based loans should be addressed cautiously. It is critical to distinguish among emergency-related balance of payments support and loans for institutional adjustments, which seek to provide budgetary support to cover part of the fiscal costs of reforms. In the case of emergency lending, the mandate of the Bank should clearly be limited to addressing structural causes and social consequences when it is involved in rescue packages. With regard to budgetary support for major sector reforms in sectors that are particularly relevant to poverty reduction, the limit might be reviewed with flexibility, as long as the financial ratios of the Bank and therefore its long-term financial viability are preserved and provided these programs are closely monitored and evaluated.

Switzerland suggests a more transparent approach with regard to policy-based loans and, more specifically, to its definitions. Several aspects, including eligibility for policy-based loans, transparency and accountability criteria as well as coordination with the WB and IMF have to be thoroughly analyzed. More importantly, the Bank has still to elaborate the link between the policy-based lending issues and the envisaged sector reforms in the four priority areas of the institutional strategy.

Private Sector

Globalization has brought a considerable increase in private capital flows to most middle-income countries in Latin America and the Caribbean. However, some of these flows are highly susceptible to reversal. In this context, the IDB has a critical role to play to "crowd in" private investment, by strengthening the institutional capacity in client countries in order to create an environment that is conducive to increased private investment. In reflecting on the Bank's proposal to expand lending in the area of private sector operations, the main issue is additionality. We must not replace private capital, but mobilize it.

The Bank must be perceived as a highly qualified expert in private sector activities, gained through selected, successful private sector operations. The Bank needs, therefore, to intervene with high specificity and substantial leverage effect.

Switzerland underscores the important role of private sector operations from a development perspective with regard to reducing poverty and to promoting economic growth. Private sector activities have a main catalytic impact in creating additional jobs and it is obvious that more jobs mean less poverty. We therefore have sympathy for more flexibility with regard to the 5 percent ceiling for private sector operations. However, the Bank has to define strategic orientations, which also take into account its constraints and capabilities. To raise the ceiling from 5 percent to 10 percent—which represents a 100 percent increase—is not negligible in terms of resources and staff requirements. Therefore, before adopting a final position on how far the cap should be handled in a more flexible manner, we would like to get a detailed analysis on possible implications for the Bank's financial ratios and administrative costs. We should consider a moderate enlargement, provided that we preserve the financial soundness of the institution. Such an analysis should be undertaken rather quickly, since a decision on this highly sensitive issue should be made by June 2001, when the 5 percent ceiling on private sector operations will be reached. In conclusion, we would favor an optimal scenario rather than a "maximalist" option, based on the current constraints, capabilities and staffing of the IDB.

The Inter-American Investment Corporation

With regard to poverty reduction, the promotion of small and medium-sized enterprises is crucial. Therefore, Switzerland has supported the capital increase of the IIC, along with new ways for the Corporation to do business in order to broaden its coverage. For fiscal year 2000, Switzerland welcomes the financial results including the newly improved rating of the Corporation. However, the improved financial health of the IIC is far from secure, and in this regard we expect that the Corporation is working towards its objective of long-term financial sustainability and self-financing.

We welcome the new member countries in the Corporation. We are confident that the IIC's new financial and membership structure will allow for a consolidation of its role. Switzerland is looking forward to collaborating as of July 2001 in a new constituency together with France and the Nordic countries.

Conclusion

To conclude, I believe the Bank has many comparative advantages, which will allow the institution to successfully face the challenges of the coming years to make a difference in Latin America and the Caribbean. Selectivity, focus and additionality are the key words for a successful future of the Bank and for increased development effectiveness in Latin American and Caribbean countries..

It is a great honor for me to address such a distinguished Annual Meeting in this Andean country that is so full of contrasts and whose rapid growth has become a model for the region.

On behalf of the Government of Portugal and the Portuguese delegation, I would like to thank the Chilean authorities for their warm hospitality and excellent organization of this meeting.

We are pleased to note that Latin America as a whole has posted improvements in its macroeconomic equilibrium, thereby creating an environment conducive to sustained economic growth.

However, this growth remains below its potential and below the necessary pace for development and progress in the region. In addition, there are sharp disparities. For instance, growth rates vary considerably from one country to another because political and economic uncertainty persists.

Despite a general pattern of growth, Latin America continues to suffer from high rates of poverty and inequality.

In view of this situation, the Bank needs to make some adjustments. The objectives of reducing poverty, enhancing social equity, and achieving sustainable economic development mandated under the Eighth Replenishment remain fully valid. I expect that we all endorse maintaining them as the priority areas of the Bank's activities.

The adjustments I am referring to concern updating the Bank's instruments, practices, and procedures in order to have a proven, quantifiable impact in these priority areas.

We must focus our efforts on achieving the objectives mandated and prevent them from becoming diluted in the process of institutional and operational adjustment. In this regard, we found Mr. Iglesias's report to the Board very encouraging.

To respond to these challenges, all the parties involved—the countries and institutions, the public and private sectors, and civil society—should be called upon to maximize their contributions and work together without rigid divisions in their respective areas of activity.

I would also like to highlight the efforts that have been made to formulate a strategy built on a country programming and performance-based approach. We support the initiatives to increase flexibility and to adjust the Bank's institutional and operational workings to the countries' needs.

However, devising proposals to implement the strategy, particularly with regard to lending issues, will require an in-depth examination that should include an assessment of the potential impact on the Bank's financial soundness. We support the establishment of a working group to prepare such a study.

As for private sector operations, we are very pleased with the report by the External Review Group, which found that the Private Sector Department has performed well and projected further development of the Bank's private sector operations.

At the same time, we must bear in mind the need to first create conditions conducive to such an expansion, safeguarding the Bank from any unnecessary financial risks.

We support Mr. Iglesias's view that internal discussion of these issues should be linked to the international debate on the future of multilateral development banks in the context of the new international financial architecture.

Good governance is a key issue in these discussions. In this connection, I would like to commend the Bank for its initiative to strengthen anti-corruption measures and include them in its own structure.

Particularly gratifying was the announcement of the adoption of the resolution on the admission of new members to the Inter-American Investment Corporation—which included Portugal. By joining the Corporation, Portugal is certain to build closer ties with Latin America and the Caribbean.

I would like to share with you how pleased I am that Portugal's relations with Latin America are expanding, as witnessed by the increase in Portuguese trade and foreign direct investment in Latin America, especially Brazil.

It is important that Portugal's commitment to the region be situated within the broader context of the European Union, for which the countries of Latin America and the Caribbean are important trading partners and priority areas for its development policy.

ADDRESS BY MR. LEONEL BARUCH, GOVERNOR FOR COSTA RICA, ON BEHALF OF THE CENTRAL AMERICAN COUNTRIES

First, I would like to thank the Chilean government and people for the warm hospitality they have shown us during this Annual Meeting of the Board of Governors, in the beautiful city of Santiago.

As I speak at this meeting on behalf of Central America and Belize, it is a pleasure for me to act on a unanimous request I received from all the countries in the area, which Costa Rica fully espouses.

They have asked me to congratulate and thank the Inter-American Development Bank, particularly its President, Enrique Iglesias.

This piece of the Americas, so battered by the armed struggles of yesterday and by ever-present natural disasters, is a contrast between the region's natural beauties, the incredible worth of its people, their unlimited forbearance, and the periodic eruption of these tremendous natural catastrophes.

Enrique Iglesias took on this challenge many years ago, as if it were a personal one. He has become a citizen of each of our countries, speaking about peace, advocating reconciliation, helping to find economic solutions, and taking the lead in responding to the momentous tragedies that have been created by humans or unleashed by nature.

Today he is leading efforts on behalf of our neighbor El Salvador, as he has done on behalf of Nicaragua, Honduras, Guatemala, and Belize. He has done the same for us. Thank you, Mr. Iglesias, in the name of Central America, for being one of our own. We don't have to explain ourselves to you or convince you of anything. You have been our best spokesman to the world, advocating the right of our region to democracy, peace, and development, with opportunities for all.

Seldom in history have we lived in a world largely at peace, but so plagued with uncertainties, challenges to the imagination, struggles to change and adjust to a technological revolution that threatens to overtake us. Everywhere, people are losing confidence in the political and military system, the mass media, and many other institutions, not excluding lending agencies themselves.

Globalization, so full of hope, so inexorable in its advance across borders, is dashing expectations by beginning to reopen deep wounds inflicted by inequality between the rich and poor.

In Latin America, the opportunity for building democratic systems offers unprecedented possibilities in comparison with the Cold War period. We are aware that democracy is much more than free elections and we also know that we cannot enjoy it automatically. It is not instantaneous, it cannot be handed to us as a gift. We must work for it passionately, every day.

The great threats to democracy that we have inherited and which are deeply rooted in the inertia of most of our societies include the concentration of wealth and political power in the hands of a few, practices that work against transparency, mistreatment of nature, the spread of poverty, and political parties that are lagging behind the progress made by humanity.

These difficult challenges are compounded in our Central American countries by the scourge of terrible natural and man-made catastrophes that tend to perpetuate poverty and despair.

Today in El Salvador, the suffering caused by successive earthquakes is apparent for all the world to see. In a single stroke, many of the efforts and sacrifices of this sister country have been wiped away.

When Central America faces a tragedy of this magnitude, we ask ourselves why we cannot move more quickly to cushion the blow, why we cannot be more supportive to enable a people to return to their normal lives, to their hopes for development.

Many of us have come from the meeting of the Consultative Group in Madrid, where one of the most significant attempts to coordinate international aid for El Salvador was under way. It was a constructive meeting. Funds were committed to that country which, even though insufficient, will make it possible to begin the process of reconstruction.

Although El Salvador requires more resources and we must act together in our efforts to raise them, in Madrid the need for more direct investment and fairer trade with Central America was forcefully raised.

In the aftermath of Hurricane Keith in Belize as well, we were gratified by the IDB's response to the reconstruction efforts and future plans of this sister nation.

The Regional Consultative Group also discussed the HIPC Initiative, calling for support and quicker action, which I reiterate here. We should acknowledge the work the IDB has done to define and formalize the financing framework for the HIPC Initiative here at this meeting, so that retroactive interim debt relief can be granted, in accordance with the changes approved at the Cologne meeting in June 1999.

This initiative should provide direct benefits for eligible countries, as well as indirect benefits for our whole region.

I must also underline the responsibility of the rich countries to ensure that the burden of this adjustment does not fall on the shoulders of other, less-developed ones.

As Central America is moving toward economic integration, we would like to work more closely with the Inter-American Development Bank to ensure that its lending instruments are better tailored to the different needs and situations in each country.

We also believe that the conditionalities of its loans should be greatly simplified. Stress should be placed on the accomplishment of objectives. We should join together in seeking results and not become unnecessarily entangled in complying with conditions that betray preexisting mistrust and often end up confirming unfair stereotypes.

With so much experience with tragedies, we must not allow ourselves to be caught off guard again. The many initiatives we have discussed with the Inter-American Development Bank to establish rapid disaster-response mechanisms should be brought to a successful conclusion.

As I noted at the outset of my remarks, the Central American countries are pleased with the actions of the Inter-American Development Bank. They are pleased with the support it provided after the destruction caused by Hurricanes Mitch and Keith and the earthquakes in El Salvador.

It is in this context that we hope the shared experiences of Central America and the Inter-American Development Bank can be transformed into renewed alliances, that are bolder, less bureaucratic, and much speedier. I am referring to coping with unexpected tragedies, disproportionate market fluctuations, endemic poverty, and the insufficiency of domestic and foreign private investment.

Central America does not expect to receive favorable treatment unilaterally. We are aware that the main efforts, the main changes, must be made by our own countries.

In the first place, Central America must become an area that shines as an example of public and private integrity. We can only expect the international community to help us boost investments and eliminate poverty if we are free from corruption.

We must speed up our own structural adjustments, to produce balanced and transparent macroeconomic accounts. We are also aware that we must treat nature with respect and strike a good balance in the use of natural resources. We must also improve citizen security and ensure prompt and reliable justice.

We have always been convinced that full respect for the rule of law is essential for combating corruption and for sustainably attracting foreign direct investment.

We Central Americans, who have inherited wars and poverty, claim the right to development opportunities within our own countries. We are well aware that in the globalized world that is emerging today, the people who are least able to cross borders are the poor in search of work to feed themselves and their families.

I am the son of migrants who fled from prosecution and privation. Such migrations are coming increasingly difficult owing to world overpopulation and to the reign of selfishness.

What Central America calls for is fair treatment, understanding, and support so that we can speed up our development and make opportunities available for everyone inside our own borders.

We must move from new thinking to swift action. We must move from the existing situation to intelligent and coordinated programming. We must defeat inertia in dealing with deeply rooted evils such as corruption and political and economic exclusion. Let us open the door to freedom and the options it brings. Let us invent together for the 21st century the free and prosperous Central America that never existed before.

To conclude, I would just like to say that it would be an honor for Costa Rica to host the Annual Meeting of the Board of Governors in 2005 and to do its utmost to ensure that it will be as successful as past meetings and the one being held here.

I have the great pleasure to address this distinguished audience today on behalf of my government. I would join my colleagues in expressing my delegation's gratitude to the city of Santiago and the Chilean government for their hospitality.

Last year was a year of steady and unexpectedly high economic growth on average for Latin America and the Caribbean. However, this has not benefited all the citizens of the region on an equal basis. Inequality in the LAC region is the most manifest in the world and, despite good economic growth, the situation has only gotten worse. While growth is good and necessary for the poor, they are the hardest hit by crisis and have the longest way for recovery. As the countries adjust their economies and structures in order to participate in the global economy, the same poor tend to receive the role of a mere bystander in the development process.

Globalization challenges nations to seek new forms of interaction between government, the private sector and civil society. Mainly a positive phenomenon, globalization offers huge opportunities. But badly managed it can also lead to further marginalization within and between countries. On the other hand, the management of globalization can offer a new raison d'être, a renaissance of the nation state, and the welfare state—something that is also called for today. Capacities and capabilities have to be created in order to secure the participation of the developing countries in globalization. This is in the interest of the international community and free markets, as well.

In this connection ICT deserves a special mention. This sector is one of the leading forces behind globalization. At its worst it can also lead to the marginalization of countries, communities and people—something we call the digital divide. At its best ICT is a major tool and instrument to manage globalization, to establish partnerships, to empower the poor, and in general, to ensure that the benefits of the new economy are shared by all. The latter does not happen by itself, but requires that proper support is channeled to develop the capacities required.

The Finnish Government issued in February new guidelines for development cooperation. Reducing poverty is the overriding goal of our development cooperation, which will be directed to the poorest developing countries and poorest groups of people. Other objectives and central issues include democratization, good governance, environmental security, conflict prevention and securing the participation of the developing countries in international trade and the central role of State as provider of global public goods. These are the objectives for which we are accountable to our parliament and taxpayers. This is the perspective we have to adopt for each and every development activity supported by Finland, including the IDB. The Annual Meeting provides an excellent opportunity to have this kind of critical look at what is important to us in IDB activities today.

Finland welcomes the discussion on the strategic focus of the IDB. We welcome the progress made in implementing the institutional strategy, with its strategic directions and emphasis on country focus and measurable benchmarks. However, while the institutional strategy answers mainly questions about "how to do," Finland has, with other Nordic countries, been asking "what to do?" We are happy to see an outline for a discussion on the reinforcement of the IDB-8 key objectives.

Furthermore, Finland feels that the role of the Board of Governors in the strategic guidance should be strengthened with a mechanism to ensure the periodic review of the strategic directions of the Bank.

Finland continues to support the IDB's process to stay relevant to its shareholders. With clear objectives and priorities in place, the IDB is expected to use fully its comparative advantage as a regional institution and use its leverage in pursuing actively important and sometimes sensitive issues related to poverty reduction and good governance. However, successful implementation of those objectives is only possible with a full commitment by IDB borrowers to reforms including, inter alia, taxation and income distribution. Mainstreaming of issues related to social inclusion and environment and the participation of the civil society should be at the center of the operations.

My government looks forward to a discussion of the proposals related to the Bank's future operations. Finland supports the idea that these issues should be studied by a Committee of Governors whose composition guarantees the wide participation and transparency of the exercise. Our starting point is to be flexible and innovative but at the same time conservative when it comes to preserving the financial soundness of the institution. While discussing instruments and allocations, we should not lose sight of the content of the cooperation. Old and new instruments should be used efficiently to attain the Bank's ultimate goal of poverty reduction. Let me here outline some of our preliminary thinking:

We commend the IDB for introducing new lending instruments in 2000. We also welcome a discussion of financing through national budgets. The use of instruments should be based on a thorough analysis including a country programming exercise, yet be firmly institutionalized in the IDB. New instruments require a new type of management based on results, evaluation and additional capacity building. Borrowers need robust and strong budget management and well-developed fiduciary frameworks. More work and analysis is needed. To this end, Finland welcomes the close collaboration between the IDB and the World Bank in finding new ways to support middle-income countries, which for their part should be fully committed to poverty reduction through taxation and income distribution.

When discussing future lending and technical assistance operations, Finland considers of utmost importance that environmental concerns, including issues related to climate change, are fully taken into account.

We welcome the external review of the IDB's private sector operations and generally support its recommendations. However, the proposals put forward need further work, especially those calling for adequate risk management and a comprehensive strategy for private sector support within the IDB, IIC and MIF. We find it very important that private sector operations are coordinated and sequenced in a timely manner with public sector operations. In addition we find it problematic that IDB private sector operations tend to concentrate on the same countries where market-based private sector financing has found its way. We expect the gradual increase of resources to benefit a wider range of countries.

We see the counterpart financing of investment loans as a way to commitment and ownership. A smaller counterpart portion could undermine the sustainability of the operations and lead to an increase in the borrower's indebtedness, which in some cases is already on a high level.

With constant changes taking place in the region, the IDB has to maintain its relevance to all shareholders irrespective of their size or global importance. The discussions during this Annual Meeting have been concentrating on the challenges the IDB is facing in its relations with middle-income countries. However, continuous special attention is needed in order to support the poorest countries in the region. After the finally successful decision on financing the IDB's participation in the Enhanced HIPC Initiative, we must see that debt reduction pays off in the fight against poverty and capacity constraints.

We welcome the Bank's activities in the social sector. The seminar "Opportunities for People with Disabilities," organized in connection with this Annual Meeting and cosponsored by Finland, deserves mention as a sign of the IDB's commitment to social inclusion.

Finland has great confidence in the IDB as a promoter of economic and social development in Latin America and the Caribbean. The final outcome and sustainability of IDB efforts will mainly depend on the strength of the partnerships it will be able to create; on the commitment of the regional countries to poverty reduction and good governance, on the open and responsive dialogue with civil society and NGOs, and on the ability to attract the private sector's full participation in the development effort.

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

Like the speakers before me, I would like to thank you and the Chilean authorities for hosting our meeting in such a nice setting as this old train station. This will certainly help us to put the IDB on the right track towards the future. But in what direction should the IDB train be heading?

To us, the answer is clear: it should continue its way towards reduction of poverty and inequality, and towards environmentally sustainable growth. We see the IDB as a *development* bank, for both the low and the middle-income member states. With regard to development banking, there are conditions to be met, for example on environment, on income distribution, on gender equality and on the impact on poor groups in society, including indigenous people.

The IDB's role as a development institution implies the need to focus, in the first place, on the poorer member states of the region. This is where the particular knowledge, the skills and the experience of the IDB are best in place. In those countries, as part of the HIPC process, the elaboration of poverty reduction strategies has become the centerpiece of development efforts—a strategy elaborated under the leadership of the recipient country, including its civil society, a strategy that constitutes the framework for all donor involvement. All donors, both bilaterals and multilaterals, should cooperate in this common endeavor, thus guaranteeing optimal coordination and synergy.

I am sorry to say that in the poor countries of the continent on which the Netherlands is focusing its development cooperation, we have seen various examples of poorly coordinated and rather isolated interventions by the IDB. We call on the Bank, including its Country Offices, to invest more energy in local coordination, not only with the Bretton Woods institutions and bilateral donors, but also with the various branches of the United Nations system, notably UNDP.

I said that the IDB should focus first of all on the poorer countries, but of course the Netherlands is also aware of the needs of the more developed countries, the middle-income countries. Here in Santiago, we have already had very interesting and lively debates on the role of the Bank in those countries. In our view, the overarching objectives of the Bank—reduction of poverty and inequality, and environmentally sustainable growth—should guide the IDB's actions, also with regard to middle-income countries. Perhaps it is necessary to respond to the needs of this category of countries in a more flexible way than has been possible so far, but first we should analyze why the existing instruments are not tailored to these needs. Furthermore, there are and should be limits to what the IDB can do: caps on certain kinds of loans, minimum requirements regarding conditionality and pricing are necessary. We do not have precise ideas with respect to these limits, caps and spreads yet; we are open for debate. However, we have to preserve the IDB as a development bank and not turn it into a different institution, a kind of regional IMF, and we should also be keen to uphold sound banking practices so as not to put in jeopardy the financial position of the Bank. These are our benchmarks for assessing proposals for new lending instruments.

Turning now to a different subject, I want to express our deep satisfaction with the agreement that was reached on the HIPC. As a country that has invested considerable amounts of money and energy in the HIPC Initiative in general, we are happy that debt relief under the initiative has been secured for the heavily indebted countries of the continent, including those with which the Netherlands has a long tradition of cooperation, Bolivia and Nicaragua. We would like to stress, though, that the IDB has a responsibility towards these countries, that is to assist them in avoiding falling into the debt trap again and to take this responsibility into account when making decisions on new loans to them. That means lending very carefully, in a demand-driven way and certainly not driven by spending targets. With the current lending policy of the Bank, we are confident that the Bank will act prudently.

Next week, another important event will take place here in Santiago: the political dialogue between the countries of the European Union and the Latin American countries. I would like to stress the importance of trade relations between these two regions, and even more so regional cooperation in all its aspects among the Latin American countries, which is one of the fundamental objectives of the IDB.

The protests in the streets against us show the concern that exists out there about a globalization process that seems to be getting out of hand and only seems to serve the interests of a privileged part of the world population. We should do everything possible to make globalization work for everybody, including the poor. Poverty reduction is more than social policies; the attack on poverty is by definition as multidimensional as is poverty itself. We trust that the discussions on adaptation of the Bank's policies and instruments, in which we are engaged here in Santiago and which will continue in the months ahead, will strengthen our capacities to make Latin America a better continent for all members of its societies, but in particular for the poorest and weakest among them.

ADDRESS BY MR. JOSÉ ALEJANDRO ROJAS RAMÍREZ, GOVERNOR FOR VENEZUELA

It is a great honor to represent Venezuela here in Santiago, and I would like to extend my greetings and thanks to the government and people of Chile for their warm hospitality. As is traditional at these meetings, I will present a summary on the performance of the Venezuelan economy and then present some of the core elements of our economic and social policy, as well as our fiscal and economic targets for 2001. I will also address the topic of our countries' integration and the role we must play as members of the IDB.

In the past year, Venezuela made the transition from an unsuccessful rent-seeking model, as clearly reflected in the 1999 recession, to a period of strong economic recovery. We began the year by posting year-on-year growth of 1.1 percent in the first quarter, a figure which rose to 5.6 percent by the fourth quarter. Overall growth for 2000 was 3.2 percent, compared to a 7.2 percent decrease in GDP during 1999. It is worth noting that growth was not limited to the petroleum sector; indeed, starting in the second half, all major sectors experienced growth. Annual growth totaled 3.6 percent for manufacturing, 2.6 percent for electricity, 5.1 percent for trade, and 14.7 percent for telecommunications. Finally, strong growth was also seen in domestic demand, as reflected in increased imports and retail sales.

This economic growth was achieved within a climate of reduced inflation attributable to the sound monetary policy introduced by the Central Bank. At the same time, as a consequence of the low productivity level that the Venezuelan economy is now experiencing, inflation has fallen to approximately 13 percent for 2000, its lowest level in 15 years.

This recovery has also helped us step up the fight against the great scourge of unemployment, which decreased by nearly two percentage points in 2000.

Venezuela, then, is in an enviable external position with respect to comparable countries. At the close of last year, our international reserves were in excess of US$17 billion, not counting the Macroeconomic Stabilization Fund. For the first time in its history, Venezuela has followed through on its intention to set aside a portion of its petroleum surpluses. Despite the sharp drop in non-petroleum fiscal revenue, the fund accumulated over US$4 billion. It is expected that by the end of 2001 the fund will contain an amount equal to two years of service on our external debt.

This strong reserve position has been instrumental in maintaining a stable exchange rate policy, which has allowed our currency to remain strong. Historical analysis shows that devaluations in Venezuela have resulted in higher inflation. Yet, Venezuela managed to increase its nontraditional exports by more than 26 percent in 2000.

In 2000, we managed to reduce the amount of the external component in the national debt by some US$2 billion, while the domestic component increased. The monetary adjustment bonds issued by the BCV have been completely phased out, and have been replaced by public debt bonds issued by the Ministry of Finance.

These short-term accomplishments are complemented by a set of medium-term reforms and a financial vision that aim to create a productive economy with high growth and social justice. In this area, Venezuela has adopted a multidisciplinary approach that includes:

- A diversified economy that has internal capacity to generate wealth independent of such external factors as the petroleum sector, and that, in turn, creates conditions conducive to poverty reduction and to achieving comprehensive development for all Venezuelans;
- An efficient public sector. To this end, the various components of the public sector are being restructured to make them more flexible, effective, efficient, and transparent (Public Administration Act);

- Creation of mechanisms that offer incentives for domestic savings. To achieve this, we are setting up pension funds and organizing the debt market;

- Consolidation of an efficient and solid financial and insurance sector (Bank Merger Act);

- Balanced and sustainable fiscal management, as provided in the new Financial Administration Act;

- Continuous promotion of the Macroeconomic Stabilization Fund to set aside a portion of petroleum surpluses;

- Reforms in taxation and customs, and in social security. The new social security act provides for creating private pension funds, which will provide a significant stimulus for domestic savings;

- The public financial system is being restructured. One example of this is the Microfinance Law, which establishes the legal framework for promoting microenterprise and other production units. In addition, a law is being drafted to create the Banco de Desarrollo de Venezuela [Development Bank of Venezuela], the aim of which is to harmonize the country's economic diversification.

Finally, we are also seeking to diversify the productive sector, supporting activity in the areas of telecommunications, aluminum, tourism, industry, manufacturing, mining, electricity, and agriculture by increasing public and private investment, and by providing tax incentives for such investment. The role that the "Economic Constituent" commission is playing in this diversification process is worthy of mention. This commission seeks to bring together the proposals of civil society with regard to economic concerns, and to ensure that these concerns are addressed in national debate on the issue.

In recent years, the world's economies have undergone a sweeping process of globalization as a result of the spectacular advances posted in communications and technology, and strategies to increase outward openness in most countries. These factors are driving the internationalization of the economy on a global scale. At the same time, large economic blocs have continued to form, presenting significant challenges for Latin America and the Caribbean. In this respect, the region must define:

(i) the position it will take vis-à-vis the new reality; and

(ii) an integrationist development strategy and a strategy for harmonizing economic policies.

The purpose of Latin American integration must be to achieve advantages that would clearly not be available if each country acted on its own. Yet the ultimate objective is the development of our countries; what we are talking about, then, is integration for development. This requires harmonization of macroeconomic policies as well as social harmonization. Along with these measures, operational and legal institutional structures must be built in our countries that will sustain and promote the integration process.

The main feature of this new integration of Latin America is the revitalization of the region. This new form of integration may be considered "open regionalism," in that it combines the countries' interest in granting preferential treatment to each other with the need to maintain and intensify ties with the rest of the world. Regional integration is a way of enhancing the involvement of Latin American countries in the international economy, and the Bank must play a fundamental role in this process. Regionalism implies freeing up intraregional flows of goods, services, capital, and, to the extent possible, labor. This, in turn, implies the integration of financial and capital markets, and the coordination of macroeconomic policy.

The Bank has a role to play in bringing together and serving as a catalyst for the economies of Latin America and the Caribbean. It is the ideal forum, the place where decisionmakers in Latin American policy meet. The Bank must maintain its identity as a regional organization.

The process of Latin American and Caribbean integration must overcome pronounced differences among our countries in terms of such issues as per capita income, country risk, and financial deepening of the capital markets. In this respect, the Bank is called upon to promote the development of harmonized policies as a decisive step towards integration that will strengthen the position of each of our countries while protecting them from the risk of financial contagion.

Even when we have made significant strides in the integration process and implemented institutional reforms with similar characteristics, our countries are at different stages of the economic cycle and adjustment processes, owing to the vulnerabilities of each country. Therefore, a substantial medium-term effort is required to ensure sustainable macroeco-nomic stability and gradually to attune the various economies of the region.

In conclusion, I would like to express my sincere appreciation to Mr. Iglesias and to the Bank, which continues to provide assistance in solidarity with our needs and the pursuit of the economic development in Venezuela. This presence is sustaining, and has been extremely useful in devising swift solutions for our country.

The development and strengthening of Venezuela's relationship with the Bank and the Corporation occupies a special place on our government's agenda. We welcome the possibility of expanding the membership of the Corporation. I would also stress the significance of adhering to the principles of representativeness and participation in seeking consensus on this matter.

To this end, Venezuela will strive to observe these principles, while welcoming differences of opinion, in order to carry through to fruition the steps already undertaken.

First of all, I would like to express my sincere thanks to the Republic of Chile for hosting this Annual Meeting in this impressive city of Santiago. I would also, of course, like to thank you, Mr. President, and all the staff for what has once again been the perfect organization of the Annual Meeting.

The economic situation of Latin America was altogether quite favorable last year. Some countries can look back at remarkable growth rates of up to 7 percent. Other countries have suffered from a lack of confidence on the part of investors and from political instability and have achieved only moderate growth, which was not sufficient for sustainable development. Poverty and social disparities are widespread, thus the social and structural agenda in this part of the world is a continuous challenge—especially when faced with a slowdown of the world economy.

Germany's cooperation with Latin America is based on the guiding principle of global sustainable development. This means focusing our efforts on sound economic growth in a manner to reduce poverty and social disparities and to preserve natural resources. Political, economic, social and ecological aspects are intertwined and cannot be resolved independently of one another.

The overarching goal for our joint efforts in development is poverty reduction. Therefore, the German Chancellor announced at the Millennium Summit of the United Nations in New York in September last year the Programme of Action 2015. This program will emphasize our contributions towards reducing by half the proportion of the world's population living in extreme poverty by the year 2015.

It stresses:

- dynamic improvements in economic conditions for pro-poor growth;
- a fair international trade system conducive for developing countries;
- the importance of basic social systems in health and education, and with basic social insurance schemes;
- the protection of nature and access to ecological resources;
- the realization of basic human rights and core labor standards;
- the promotion of gender equality;
- the participation of the poor;
- good governance;
- and the peaceful settlement of conflicts.

Globalization offers many opportunities but it must take place in a framework of rules and in a socially and ecologically sustainable manner. Development also requires leadership at the global, regional and national level, bearing in mind that the international financial institutions have a key role to play in this context.

We welcome the close cooperation of the IDB with the World Bank. In particular with regard to the four HIPC countries in Latin America, I would like to call upon you, Mr. President, to continue along this path also with other institutions and donors and, above all, in the formulation of poverty reduction strategies.

For the middle-income countries, too, the majority of Latin American countries, the fight against poverty and social disparities is imperative. And it is feasible, especially for the three Latin American countries that are already in the group of the 20 strongest economies of the world.

Within the IDB, some important developments have emerged since the last Annual Meeting in New Orleans:

- We welcome the recent decisions taken on the institutional strategy. We encourage the management to fully implement the strategy. We value that around 40 percent of operations last year addressed poverty reduction and social inequality. We call on the IDB to continue on this path.

- However, as we have already pointed out on several occasions, ecology deserves greater attention in the activities of the Bank. Latin American ecosystems have a unique biodiversity and are of the greatest importance for climatic conditions. We want therefore to encourage and help the IDB to focus more on sustainable development.

- As we all know, the debt problem is one of the causes of structural poverty in Latin America. We are glad to note that the Enhanced HIPC Initiative has made good progress: the four countries in Latin America that were eligible reached their decision point last year. Bolivia is expected to reach the completion point soon. We are grateful to the GRULAC countries for making a considerable contribution towards financing the debt initiative. This is an act of solidarity which we very much appreciate. Now the governments of the HIPC countries have to prove that they use the money they save on debt servicing for measures to reduce poverty. Transparency is required to track these flows to benefit the poor.

- We experience a lively discussion on new lending instruments and caps. We support the proposal for a working group of the Board of Governors to assess the demand and terms for policy-based lending, taking into account the role of the IDB vis-à-vis the World Bank and IMF.

- The earthquake emergency assistance to El Salvador by the IDB was a demonstration of support and solidarity. We, on a bilateral basis, too, provided El Salvador with humanitarian assistance and emergency aid, and we made our pledge for reconstruction measures in Madrid.

- Let me once again emphasize the principles of good governance. We congratulate the Bank for the recently adopted strategy to strengthen efforts to combat corruption in the Americas. Corruption poses one of the greatest challenges facing the contemporary world. It distorts public policy, leads to the misallocation of resources and harms public and private sectors. Therefore, securing integrity within the IDB and ensuring that activities financed by the Bank are free of corruption will strengthen the ethos and credibility of the Bank itself. Support to help countries to combat corruption will be an important contribution to the social and economic development of the region.

- Likewise, core labor and social standards and respect for the rights of indigenous people are worthy of encouragement, since they are important elements of sustainable development.

We have many expectations for the Inter-American Development Bank and the Inter-American Investment Corporation. We are committed to support the continent they serve. Latin America will be a major player in the new millennium. We are happy and proud to be partners in a successful development of this region.

We are pleased to have this opportunity to thank our hosts, the people and Government of Chile, for their kind hospitality and warm welcome and to share with you, in the context of this meeting, the most significant aspects of our country's economic policy and social development, under the government headed by Her Excellency Mireya Moscoso, President of the Republic.

At the end of the last century, a momentous event took place that was of great historical significance to each and every Panamanian. The Panama Canal reverted to Panama on December 31, 1999, strengthening national sovereignty, territorial integration, and the spirit of nationhood. With the reverted areas, over 4 billion balboas worth of assets with great potential for the execution of various activities have been incorporated into the national wealth. The changeover in the operation and administration of interoceanic infrastructure to Panamanian personnel has been efficient, practically imperceptible, with a high standard of quality, which has fulfilled the requirements of the users, thereby demonstrating to the international community that a reliable enterprise is at its disposal, guaranteeing efficient service.

On the government's first anniversary, the year 2000 represented a period characterized, in the economic arena, by the impact of numerous external factors that slowed growth. However, some measures taken prudently and in a timely way in the area of fiscal discipline allowed us to achieve a growth rate of 2.7 percent.

This administration put its faith in overcoming the scourge of poverty by implementing consensus-building policies, joining efforts, and optimizing resources and flexible management. It seeks to attach priority to resolving social problems through a sustainable economic structure that fights unemployment and poverty humanely and without paternalism.

The Panamanian economy has two very well-defined sectors: an expanding modern sector and a traditional sector of domestic activity. For decades, the latter was shielded by protectionist policies, which slowly depleted its sources of growth, and became increasingly inefficient and uncompetitive in contrast with export and open market activities.

Since the first years of the 1990s, a series of economic reforms began to be implemented in the interest of an open economy. We have supplemented and adjusted some of these reforms in the areas of agroindustry and trade and the institutional framework and protection of legal certainty, based on our competitive and economic and social development advantages.

We have continued to pursue some privatization processes in airport activities and with regard to the State-owned convention center but have also indicated that we would not be privatizing potable water and sewerage companies, but would commit to improving their productivity and service.

Public finances have been the subject of much attention in our government. We have managed to keep the fiscal deficit within proposed targets since 1999, which has not been easy. The deficit in fiscal 2000 was 0.8 percent and a deficit of 0 percent is projected for 2001.

We have paid special attention to debt, an element of vital importance to public finances, particularly in view of high ratios of public debt to GDP. However, we are intending to manage debt levels based on our economic growth and payment capacity and to reduce them. The results of the last fiscal year illustrate this: the ratio of public debt to GDP dropped from 81.3 percent in 1999 to 76 percent in 2000, while the ratio of external debt to GDP fell from 58 percent to 55.7 percent over the same period.

Investor confidence in capital markets has been strong and sustained, based on our economic fundamentals and steps undertaken. This has had a direct impact on the country's evaluation, which in turn has allowed us to maintain a BB+ risk rating.

Although the tax system modernization, reorganization, and simplification project is a political challenge, we consider it our responsibility as leaders to implement it. As we search for what will work for the majority, for what will allow us to improve the situation of the most underprivileged, bearing in mind its impact on the future, this government has presented a proposal for consultation and evaluation by various groups in the society. Our objective is to have a tax system that, as a whole, is more equitable, more neutral, and more flexible, promotes economic efficiency, and helps support public finances.

In its role as facilitator, the government is developing investment programs that give priority to the social sectors, by reducing red tape and targeting spending without compromising quality or coverage of public services. It is important to highlight that the government program's social policy advocates, among other things, a functional rethinking of public spending, aimed at allocating government resources effectively and efficiently, so that their medium- and long-term impact results in sustained economic growth.

Our growth projections for 2001, given our country's potential, fresh investments, and new projects being prepared, range between 3.5 percent and 4 percent. This estimate is based on a favorable performance by exports and services, and on the expansion of telecommunications, transportation, the Colón Free Zone, the ports and the railroad, which will begin operations in the second quarter of the year. Tourism has begun to bear fruit, which supports our promising expectations. In this regard, the number of cruise ships coming to our ports, already included in that industry's itinerary, has increased as a result of investments in tourism infrastructure—in which private participation abounds—and the government's commitment to promoting that activity.

On behalf of our government, I would like to express sincere thanks to President Iglesias and Executive Vice- President Dillon for the support we have received from them and from their work team, and for the good relationship and interest in supporting us in preparing programs to address the social problems afflicting our country. I cannot but highlight the decisive cooperation of the Inter-American Development Bank in the Darién sustainable development project, currently under way in Panama, which will allow us to integrate the region with the highest poverty index into the rest of the country both economically and politically. The program is ambitious and consistent with a comprehensive development posture.

Lastly, I would like to reiterate Panama's wish to host the Bank's Annual Meeting in 2004, a wish that we share with our Peruvian friends.

I would like to join the other Governors in expressing my thanks to both the Government of Chile and to the beautiful city of Santiago for hosting this Annual Meeting and for their warm hospitality. I would also like to congratulate the Bank's staff for their excellent organization and arrangements concerning this event.

The Region in 2001

We are somewhat concerned about the prospects for world growth for the current year and the implications for Latin America as we have seen macroeconomic pressures emerge in some countries. As a whole, the region has shown encouraging progress from a structural point of view. Governance is improving: not only has participatory democracy spread throughout the region, but also greater emphasis is being placed on increasing transparency and accountability in government and corporate affairs, simplifying tax regimes and improving tax administration, reducing unproductive government spending, and redirecting expenditures towards basic health, education, and essential infrastructure.

In the context of this challenging environment, the Inter-American Development Bank is playing a fundamental role in: providing financial assistance and advisory services, enhancing the empowerment of the poor; and increasing long-term security with the final aim of reducing the dramatic inequalities which still persist in Latin America. Despite the Bank's efforts, however, much still remains to be done.

The New Institutional Strategy

The Bank's new institutional strategy is a step in the right direction, aimed at achieving the two overarching objectives of poverty reduction and environmentally sustainable growth. In this regard, social development, modernization of the State, competitiveness and economic integration have been widely recognized as the four areas in which the Bank must concentrate its efforts. Furthermore, considerable steps must be taken to improve the policy dialogue, strengthen country strategy papers, and be innovative in its operations.

The major challenge now is to implement the corporate strategy through clarifying the Bank's priorities in each area, bearing in mind the comparative advantages of the institution. In this regard, relevant aspects are the composition of lending and the consistency between the objectives of the strategy and the lending policy. The possibility of revisiting the 15 percent cap for fast-disbursing operations should be considered if and when a framework for monitoring and evaluating this kind of lending is established and some sort of programmatic lending to be disbursed—on the basis of agreed performance—is defined. Furthermore, it will be critical to strike the appropriate balance between additional operational flexibility and the protection of the IDB's financial soundness. Closer coordination with the IMF and the World Bank will also be critical. As such, we attach the utmost importance to the ongoing debate on the reform of MDBs and to the outcome of the next Development Committee meeting in April. In this regard, we think that the regional banks, including the IDB, should play an active role in the discussions.

One of our major concerns is the implementation of financial standards and codes, which can help national authorities in their efforts to strengthen domestic economic and financial sector policy frameworks, highlight potential vulnerabilities, and provide information to enhance market discipline. We see these actions as a key component of crisis prevention and expect that the IDB will collaborate with the Bretton Woods institutions in addressing this issue.

We acknowledge the actions already undertaken by the Bank's Management to strengthen independent evaluation, project monitoring, public information, and the Independent Investigation Mechanism. However, further work is needed in order to enhance the Bank's effectiveness and selectivity by improving internal governance. In particular, we would like to stress the importance of the auditing function, which should be given adequate relevance and visibility.

The Human Resource Strategy

To realize the ambitious goals established by the institutional strategy, the IDB needs to reorient the skills and the composition of its staff. In this respect, our major concern continues to be the issue of diversity. We urge the Bank to systematically monitor progress towards meeting specific diversity targets as diversity is a very sensitive issue critical to enhancing the Bank's effectiveness as an institution. Cultural diversity is an important asset for multilateral organizations that needs to be carefully preserved since it offers different perspectives and ideas in support of development objectives. We are looking forward to receiving the proposals that Management is preparing on this issue, and we hope that they will imply strong actions aimed at balancing the most underrepresented nationalities and groups.

Progress on HIPC

Turning to IDB participation in the HIPC Initiative, we would like to commend Management and donors for their efforts in finding a solution to the financing gap of the Latin America share. Indeed, the generosity and flexibility showed on this occasion by the shareholders is a clear signal of continued support and renewed commitment not only to the institution, but also to the ultimate objective of the Initiative, which is to reduce external debt to sustainable levels in order to free up resources to fight poverty.

Italy has always been a strong supporter of the HIPC Initiative, contributing substantially to the HIPC Trust Fund managed by the World Bank and earmarking $9.86 million for Latin America. In the case of the IDB, we have committed an additional $3 million above the already agreed burden-sharing formula.

The Inter-American Investment Corporation in 2000

In 2000, the Inter-American Investment Corporation turned a slim profit. This is a welcome result, particularly in view of the difficulties that the Corporation faced last year. In fact, it was the first year of transition in line with the agreed three-year business plan, and several changes have been initiated. However, we are very concerned about the current low number of projects, which indicates the need to strengthen the planning function. Undoubtedly, quality is important and in this regard we hope to improve the future performance of the Corporation by maintaining high standards. We also believe that a better distribution of projects between the more developed and the poorer countries should be achieved. If the IIC's problems persist, the structural nature of these issues should be assessed and the accompanying appropriate measures taken.

Italy and the IDB

Over the last few years, Italy has substantially increased its support to the IDB. A number of initiatives have already been implemented with the aim of strengthening relations with the Bank. Beyond the contribution to close the HIPC financing gap, I would like to mention the recent decision to join the Multilateral Investment Fund and the creation of a new Trust Fund managed by the MIF.

Italy will host the 2003 IDB Annual Meeting. This is the first time that our country has offered to organize such an event, which demonstrates our special commitment to the Bank. In this regard, we are pleased to announce today that the city of Milan has been selected to host the meeting. As you may know, Milan is especially important because of its close relationship to the private sector, particularly to small and medium enterprises, which have fueled the growth of the Italian economy. Besides its business ties, Milan is also a cosmopolitan city and a cultural center with a great musical tradition. We look forward to offering you all the music of the Teatro alla Scala in 2003!

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

Let me start by joining others in thanking the Chilean government and the City of Santiago for hosting this meeting. Since our arrival we all have felt the hospitality and have been impressed by the excellent arrangements provided for this Forty-second Annual Meeting of the Inter-American Development Bank.

It has been very positive to record that economic growth has returned to the region. The trend towards economic stability continues after the crisis in 1998. This is due in large part to the difficult and brave decisions by many governments regarding economic reforms. Social reforms to supplement this economic progress must now be pursued with vigor to ensure sustainable and equitable development in the region. As mentioned in the Annual Report of the IDB: "The main challenge now is to translate the stable macro conditions into progress at the micro level." At the same time we need to ensure that the countries are able to benefit from globalization and to halt further marginalization of the poorer countries.

Denmark commends the IDB for its work and achievements. For the seventh consecutive year the IDB is the largest multilateral credit institution in the region. As such, it plays a very important role in the development process.

About 200 million people in Latin America live in poverty. In addition, the gap between rich and poor is larger in Latin America than on any other continent. History has shown that large inequalities often lead to political instability. Poverty reduction and enhancement of equity must be mainstreamed into all the operational activities of the Bank. Sustainable development and social progress can only be achieved if ownership is exercised by the countries themselves involving civil society in a participatory process. In this respect we welcome the steps taken by the Bank to get involved in the development of poverty reduction strategies. The IDB should be instrumental in the efforts to achieve the International Development Goals—recently reconfirmed by our Heads of State and Government at the Millennium Summit. These goals should be translated into action through the IDB's policy dialogue with the borrowing countries as well as in other activities in which the Bank is involved. Furthermore, the Bank must also support borrowing countries in ensuring effective coordination of programs and activities of other international organizations and institutions as well as bilateral donors.

Against this background we regret to see that the operations classified by the Bank as poverty-targeted investments have fallen by some 22 percent in the year 2000. This represents a drop of almost 50 percent compared to 1998. We urge the Bank to reverse this trend, and to take steps to ensure that the number of projects in the social sector reach the agreed target.

The relationship between the Eighth Replenishment and the institutional strategy must be clarified in order to provide the necessary guidance for the activities of the IDB. We therefore see a clear need for the Bank to put forward a mission statement—for us to agree upon—where the objectives of the Bank are clearly stated and guidelines given as to how the Bank should exercise its role as an important development institution in the region. This will enable us to reaffirm and to deepen the mandates of the Eighth Replenishment taking into account current and future challenges. While the International Development Targets remain the overarching goal, the four priority areas must remain instrumental in the implementation of the objectives of poverty reduction and equity enhancement and environmentally sustainable growth. We strongly support that this be further discussed by the Governors Committee, with the possibility of including other interested Governors.

The fall in new lending in 2000, below the sustainable lending capacity of the Bank, indicates that there is a need to have a fresh look at the lending instruments. This need is also demonstrated by the increase in policy-based lending (to 18 percent) well above the agreed limit. The future lending policy of the IDB with flexible and new instruments must not undermine lending to the poorest countries of the region and to poverty reduction programs in the middle-income countries. Consideration should also be given to putting in place impact monitoring and surveillance systems for the instruments.

In addition these issues must be seen in parallel with current considerations in other international financial institutions and take into account the need to avoid overlap and competition between lending instruments. Denmark will constructively participate in the discussion of the Bank's lending policy.

The business sector is the locomotive for economic growth. Amongst other issues Denmark has given more emphasis to the development of an enabling environment for the private sector in our own newly revised strategy for Danish development policy. Private sector development must go hand in hand with a well functioning public sector. It is against this background that we will be looking at the Bank's proposal to increase lending to the private sector and we are looking forward to constructive discussions of the proposal to increase the lending cap.

Denmark's commitment to the HIPC Initiative has been steadfast. This is demonstrated by our contributions to all the elements of the HIPC Trust Fund. The four eligible countries in Latin America have now reached the Decision Point under the Enhanced HIPC Initiative. Bolivia is close to reaching the Completion Point. This means that the financial means now must be provided. Therefore, we welcome the important steps taken at this meeting towards a solution to finance the Enhanced HIPC Initiative in Latin America.

As the prime multilateral development institution in Latin America and the Caribbean, the IDB has a particular responsibility to promote the rights of indigenous peoples. They typically represent the poorest and most vulnerable groups of the population. The right to set their own development priorities must be promoted, and indigenous peoples must be made part of a participatory and democratic process to enable them to play their rightful role in the development process. The Bank should promote the awareness of the rights of indigenous peoples in its activities and ensure that sufficient resources are available to maintain this responsibility.

Before concluding, I should like to address the issue of the Bank's role in promoting the rights of women. While we welcome the initiative of the Bank to combat domestic violence, we must not lose sight of the fact that gender equality is crucial for the successful attainment of the development goals. Women's role in social development and their contribution to productivity is generally recognized. Equally important is their empowerment and participation in all sectors of society. We would therefore welcome a clear commitment from the Bank to mainstream gender into all its activities.

Together with the other Nordic countries we have shown our willingness to support gender mainstreaming in the Bank. We stand by our commitment, and welcome a discussion on how to proceed.

Let me conclude by pledging to you, President Iglesias, and to the Inter-American Development Bank our continued trust and support in the years to come and express the hope that together we will be able to meet the challenges of the Latin American and Caribbean region.

FOURTH PLENARY SESSION

MARCH 20, 2001

INTER-AMERICAN INVESTMENT CORPORATION

ADDRESS BY MR. JACQUES ROGOZINSKI, GENERAL MANAGER OF THE INTER-AMERICAN INVESTMENT CORPORATION

It is my pleasure to submit to the Board of Governors the reports for the year 2000. I am honored to be delivering this report at the first annual meeting of the third millennium, after my first full year at the helm of the Corporation.

I would like to take advantage of this opportunity to thank the Chairman of the Board of Executive Directors, Mr. Enrique Iglesias, for his trust and meaningful support. I also want to thank each and every member of the Board of Executive Directors for their valuable contribution to the Corporation's achievements in fiscal 2000.

Expressing the sentiments of all of the members of the Inter-American Investment Corporation, it is an honor to be holding this meeting in Chile—one of the standout countries in Latin America and the Caribbean. My thanks to the Government of Chile for its gracious hospitality, and to the authorities of Santiago, headed by the city's Mayor, Mr. Joaquín Lavín Infante, for the warm welcome they have given to the participants of the Annual Meetings of the Boards of Governors of the IDB Group and for the superb organization of the events held these last few days.

This meeting is particularly significant because we will be welcoming five new members to the Corporation; this will bring to forty-two the number of countries joining forces to tackle the significant challenges posed by the development of small and medium-size enterprises in Latin America and the Caribbean.

The Annual Meeting of the Board of Governors is the ideal forum for reporting to our member countries on the Corporation's progress and, especially, for receiving their ideas, advice, and guidelines for defining and enriching our future operations in a joint, constructive search for improvement in Latin America and the Caribbean.

The year 2000 was a transition period for the Corporation. We seized it as an opportunity to bring about the changes needed to provide the Corporation with the modern, forward-looking infrastructure it needs to efficiently fulfill its developmental mandate and effectively deploy its increased capital resources.

During 2000, the Corporation worked to meet the goals set in the three-year plan that accompanied the capital increase.

It should be noted, however, that the operational goals were not met, because of stricter project screening and a limited pipeline caused by a lower level of business development activity during the first half of the year. Another factor was the moderate level of economic activity in some of the countries in the region. This trend reversed during the second half of the year, and the Corporation's lending and investment activities can thus be expected to pick up in 2001.

As for financial performance, I am pleased to report that we succeeded in restoring the Corporation's financial health. I am thus able to report a positive balance sheet that meets the expectations set forth in our business plan.

One of the year's outstanding accomplishments was Standard & Poor's recognition of the Corporation's financial health and good prospects. In December 2000, S&P gave us an AA counterparty rating. This rating will enable the Corporation to diversify its funding sources and borrow on more favorable terms.

My overview today will underscore the Corporation's progress and the growing significance of its work on behalf of small and medium-size entrepreneurs.

Operating Results

At the operational level, the Inter-American Investment Corporation approved 19 transactions. A total of US$143 million went to transactions in eight countries, plus three transactions that are regional in scope. Also noteworthy are the 12 transactions with financial institutions and investment funds that will enable the Corporation to channel, directly and indirectly, more than US$1.137 billion to small and medium-size enterprises in the region.

Note that several of the year's operations are firsts in the region, such as support for telecommunications services in rural areas in Costa Rica; mortgage-backed securities to finance affordable medium- and low-income housing in Brazil; a regional investment fund that will target small and medium-size media companies; and state-of-the-art hospital services in Mexico.

Especially noteworthy are the Corporation's efforts to continue channeling funds to the region's smaller economies, as evidenced by the fact that 50 percent of the funds approved are going to projects in smaller economies.

Financial Results

During the year 2000, the Corporation worked diligently to improve its financial performance. To this end, it took steps to achieve the right balance between its developmental activities and achieving profitability. It also stepped up its efforts to expand the operations portfolio while closely monitoring assets in jeopardy so as to maximize their recovery. Management's efforts to improve portfolio quality, coupled with the improving outlook for the region's economies, were decisive in closing the year with a positive balance sheet.

IIC income from all sources totaled US$34.2 million in 2000. Income from loans amounted to US$26.1 million (US$24.6 million in interest and US$1.5 million in fees). Capital gains and dividend income from the equity investment portfolio totaled US$1.5 million. Expenses, including US$9.8 million in provisions, amounted to US$33.6 million, for a net profit of US$590,000.

Developmental Impact

The transactions that the Corporation approved last year made a significant contribution to the region's development, helping to create more than 10,000 jobs and generate US$93 million per annum in export earnings, as well as contributing US$423 billion a year to the region's gross domestic product. The US$143 million in financing from the IIC will make it possible to carry out projects with a total cost of over US$870 million.

I would like to stress that for every dollar earmarked by the Corporation for projects approved in 2000, six will go to investment projects, thereby fostering sound growth in the region.

Catalytic Role

In 11 full years of operations, 244 projects have been approved for a total of US$1.32 billion. Net commitments stand at US$820 million, of which US$685 million have been disbursed for 160 projects. Funds for 73 projects have been fully disbursed, while 41 projects have come full cycle, having repaid their loans from the IIC. Taking into account the projects that were financed directly, as well as those undertaken through financial intermediaries and investment funds, the Corporation has enabled more than 2,400 companies to implement investment projects that now total US$8 billion.

It should be stressed that the Corporation's developmental impact goes beyond financing, to include support for environmental protection, dissemination of occupational safety standards, and use of best business practices in the private sector. Moreover, the Corporation continues to channel funds to the economies that have more difficulty in accessing long-term resources. In fact, operations in the smaller economies represent 42 percent of the total portfolio. As of December 31, 2000, 84 percent of net investments committed by the Corporation had been totally disbursed.

Portfolio Composition

The Corporation's portfolio is managed in accordance with the operating policies adopted by the Board of Executive Directors. The net approved portfolio includes the following main sectors:

- financial services, representing 38 percent of net financing approved. These transactions make it possible to provide financing to smaller companies, with an average loan of less than US$5 million;
- the manufacturing sector, which has received 12 percent of IIC's financing;
- agribusiness, 9 percent;
- private equity funds, where 15 percent of the portfolio is invested;
- small and medium-scale infrastructure, 9 percent of the portfolio;
- mining, tourism, health care, and other services, 9 percent; and
- agency lines, with the remaining 8 percent of the portfolio.

Equity investments account for 15 percent of the outstanding portfolio. Seventy-three percent of these investments have gone to private equity funds with a total capitalization of more than US$1.4 billion, providing a 10:1 leverage of the Corporation's own equity investments. The remaining 27 percent is for direct investments in companies or financial entities that have undertaken expansion projects. IIC loans for the expansion of existing companies represent 68 percent of the approved project portfolio.

Institutional Coordination

Close coordination with the other members of the IDB Group is strategically important. As such, it continues to be a priority on our institutional agenda. During the year 2000, the Corporation was actively involved in the IDB's Private Sector Department Credit Review Group and in the Bank's Loan Committee for all private sector projects. We also participate in the IDB Group's private sector strategy missions and support the regional Operations Departments by providing information about the Corporation's activities in each country. The IIC also carried out eleven advisory projects for the MIF with regard to its support for small and microenterprises.

New Initiatives

The Corporation signed an agreement with the Centre for the Development of Industry (CDI) to support the development of private companies in the Caribbean. The CDI is financed by the European Development Fund under the Lomé Convention, whose objective is to encourage and support the creation, expansion, and restructuring of industrial companies in African, Caribbean, and Pacific countries.

Looking Ahead

The Inter-American Investment Corporation has been given a fresh impetus, its financial and institutional base having been strengthened by the capital increase and the entry of five new shareholder countries. In addition, the Corporation has in place the institutional infrastructure needed to put its increased capital resources to work to promote development in the region.

In the twenty-first century, entrepreneurial success will be based on knowledge and professional governance. We need to design and finance a new environment in which small and medium-size companies become the engine of economic growth, are a significant and consistent source of employment, are at the forefront of technology, forge strong ties to the productive sectors of the economy, and are key to democratizing development. I think that, broadly speaking, there are three potential scenarios for Latin American and Caribbean small and medium-size companies:

The status quo scenario, with modest progress in the formation and development of productive companies against a backdrop of uneven development and shortcomings in the areas of finance, corporate culture, administrative transparency, regional cooperation, profits, foreign currency generation, and job creation.

The worst case scenario, with a worsening economic and political environment for small and medium-size companies. These companies would lose ground to the informal economy and financial speculation arising from a climate of uncertainty and the lack of both credibility and guarantees for the development of productive small and medium-size companies.

The best-case scenario—which all of the IIC's member countries should work to build—is a gradual but steady process giving rise to transparent, institutionalized, and professional companies with a highly developed corporate culture. These companies become competitive, prestigious, trustworthy, and credible enterprises that have earned access to the funding they need to grow, provide social benefits, protect the environment and, of course, operate within the framework of the rule of law.

In this last scenario, some of the biggest challenges we will face in transforming the region's small and medium-size companies are their very organization and operations. Work must begin immediately on:

Spurring the legal formalization and institutionalization of enterprises with their own economy, structure, management, culture, and the ability to understand and learn.

Another challenge is to encourage more transparent disclosure of management, operating, market, and financial information. This information must be clear, orderly, plain, and relevant and inspire the trust and confidence required by financial institutions, developmental funds, small investors, suppliers, clients, and all those involved in the operation and development of small and medium-size companies.

There is still another immediate challenge that goes hand in hand with transparency and formalization: the professionalization of the key players. Modern, competitive organizations are created by human beings, so their best assets are knowledge, talent, creativity, and individual and collective intelligence. Professionalizing the senior management of these companies as well as their staff and line functions will build teams that are trained and able to work together to face competition in the globalizing marketplace.

In this context, the Corporation is ready to deploy its increased capital to meet its developmental mandate and help small and medium-size companies grow, prosper, tap the commercial financial markets, and become an even greater source of jobs, exports, and improved environmental protection. The Corporation is also ready to open new avenues of cooperation with the private sector and support more small and medium-size companies with the financing they need to meet the challenges posed by the globalized economy.

The Corporation will continue to work for a more equitable distribution of the potential benefits of globalization, to put those benefits within the reach of the smaller economies and less-developed areas of our region. At the IIC, we are convinced that globalization is far from being a threat. It is a great opportunity for the region's small and medium-size companies if we face it with intelligence and imagination.

Eleven years ago the Corporation took on a commitment to support the development of small and medium-size companies. Today, the IIC has the financial strength and improved institutional infrastructure required for the more effective deployment of its increased capital. It is thus on firm footing and able to take on the challenge of supporting the development of small and medium-size companies and the privilege of putting our efforts, know-how, and experience to work so that together we can shape the prosperous future we want for Latin America and the Caribbean.

At the dawn of the twenty-first century and the third millennium, Latin America and the Caribbean are going through tremendous economic and social changes. Globalization is posing new challenges that transcend the economic arena, spilling over into the realms of politics, society, and culture. These are times of change that also hold the opportunity to achieve development in the region. At the IIC we have the hope, the dedication, and the commitment to be an active part of the search for answers that will make Latin America's developmental dreams come true.

ADDRESSES

FIFTH PLENARY SESSION

MARCH 21, 2001

First of all, I would like to thank our hosts in this lovely city of Santiago for their hospitality and commend them for their outstanding organization of this annual meeting of the Board of Governors.

I speak to you today on behalf of a country that has undergone far-reaching changes in recent years. It has not been easy to launch a series of structural reforms that radically changed life in our country, but that were crucial for Bolivia to meet the demands of the new millennium that requires modernization, institutional strengthening, and efficiency.

Our experience has not differed greatly from that of other countries engaged in structural modernization. Since democracy was restored in 1982, the successive administrations have assigned priority to macroeconomic stabilization, as the necessary foundation to promote development, and reform of the State and government institutions to adapt them to the challenges of the new century. The Inter-American Development Bank has played a decisive part in this process by providing invaluable, concrete support.

Bolivia is no longer the same country it was in the early 1980s, when it was known for hyperinflation, political instability, and drug trafficking. Happily, that situation has changed. The 23,000 percent inflation rate is now only a bad memory for Bolivians, since for almost 10 years single-digit inflation has been maintained. Democracy has been fully consolidated and drug trafficking has been practically eliminated, with the destruction of 90 percent of illegal coca crops used for cocaine production.

The economic policy measures taken led to an average growth rate of 4 percent over the past few years. Unfortunately, however, due to the impact of the international financial crisis, compounded by domestic factors, gross domestic product dropped to 0.6 percent in 1999 and 2.3 percent in 2000. This slowdown also obviously affected our poverty reduction efforts.

Certain basic reforms or processes have a high cost. By reducing the coca economy, approximately 3 percent of GDP was taken out of circulation and institutional reform of the customs administration adversely affected employment and income in the most vulnerable population. Moreover, in April and September last year, there was social unrest in Bolivia. Campesinos blocked the major export routes, seriously hurting economic performance and generating an in-depth debate in the country on the future of the very poor, those who have unfairly been bypassed by the development process.

In any event, I should like to stress that although both the fight against drug trafficking and the customs administration reform are having a negative short-tem impact, in the immediate future, these efforts will undoubtedly protect Bolivia from the corruption brought about by the drug-trafficking mafia and will help improve collections and eliminate smuggling.

But there were a few bright spots in 2000. Despite the internal problems and the constraints caused by external factors, the economy posted a moderate recovery, associated primarily with an increase in natural gas exports, which continue to grow. The inflation rate in 2000 was 3.4 percent, reflecting economic stability, which benefits all Bolivians.

I would now like to refer briefly to institutional reform. Having completed the State reform process, through the privatization and "capitalization" of State-owned enterprises, Bolivia has established a sound regulatory system that, among other advantages, has ensured that the country has a sound and stable financial system. Our institutions have become more transparent and many reforms are fully under way, such as modernization of the judicial system and institutional reform of the Customs, Tax, and Highway Administrations, major government agencies that in the past had been successive governments' political booty. Now they are on the road to becoming institutions that guarantee transparent resource management and efficient project management.

Although performance in the social policy area was positive, poverty still affects 63 percent of the population, which has resulted in serious social conflicts and protests to demand more equity in income distribution, greater participation in decision-making, and more specific actions to narrow the gap between the haves and have-nots.

It is precisely in response to this situation that the government last year organized the National Dialogue, a national consultation mechanism that involved all segments of civil society, particularly the poorest municipalities, to identify their needs and allocate resources according to priorities.

Based on these recommendations, the government presented the Bolivian Poverty Reduction Strategy to civil society. The main feature of this document is its interactive nature, i.e., its basic lines of action are determined by consensus with civil society. The government policies and the main axis of the agenda for this and future administrations that this strategy embodies will be flexible enough for future governments to adjust based on the changing circumstances of the population or the country's economic situation.

The strategy also establishes specific indicators, such as reducing the incidence of poverty, increasing life expectancy, raising school enrollment and earned income, reducing the infant mortality rate and academic underachievement, expanding access to microcredit and basic services, and improving school retention. These results will be measured against specific targets, so that achievement of the strategy's objectives can be monitored. Civil society will be responsible for the monitoring, with participation by the Catholic Church, in a context of transparency and efficiency. Another advantage of the Bolivian Poverty Reduction Strategy is that it is consistent with the Short- and Medium-term Economic Program.

The Bolivian Poverty Reduction Strategy will be presented in late May 2001 to the Executive Boards of the World Bank and IMF, for purposes of reaching the completion point and gaining access to resources under the Enhanced HIP Initiative.

In summary, the main objectives of the strategy are to decrease the incidence of poverty by at least one-third, reduce extreme poverty by at least 50 percent, increase life expectancy from 62 to 69 years of age, and raise the proportion of the population with eight or more years of schooling from 51 percent to 67 percent, all by 2015.

These objectives will be achieved by promoting the output of small producers, improving the road infrastructure, expanding access to education, health, and water and basic sanitation services, land titling, preventing natural disasters, training human resources, seeking greater citizen participation, deepening administrative decentralization and citizen participation, optimizing water and land resources, strengthening environmental management capacity, with additional institutional reform of the State, among other actions.

We are expanding decentralization, transferring all health and education responsibilities to the municipalities. In allocating resources to the municipalities, the transparent and equitable mechanisms will take poverty indicators into account so that the services benefit the poorest municipalities. In fact, a loan signed with the IDB during this meeting will contribute to this objective of decentralizing with equity and fiscal responsibility. My thanks to the IDB.

We should make specific mention of two necessary—though insufficient—conditions to achieve the objectives of the Bolivian Poverty Reduction Strategy: maintenance of the country's macroeconomic stability, which is essential for economic growth and poverty reduction, and foreign direct investment, promotion of which must be a national priority.

Our country is a land of opportunities for investment in transportation, energy, tourism, and telecommunications. We would like Bolivia to join the integration processes under way, taking advantage of its strategic location in the heart of South America. We consider ourselves the energy hub of the Southern Cone: natural gas reserves have quintupled in the last three years, reaching 32.21 trillion cubic feet. Our reserves of this source of clean energy will continue to increase and can be used by our neighbors' industrial sector. Through the physical and fiber-optics infrastructures, we will also gain access to the Atlantic and Pacific oceans.

To achieve the objectives set out in the Bolivian Poverty Reduction Strategy, it is essential that scarce resources be used efficiently and that corruption be eliminated. Accordingly, we will complete the institutional reform of the aforementioned government agencies, as well as the modernization of the judicial system.

The Enhanced HIP Initiative for debt relief is an important component of the Bolivian Poverty Reduction Strategy, which is why we requested that the Directors of the World Bank and the IMF approve it. We appreciate the efforts of all the countries in this regard, particularly the GRULAC countries.

The Bolivian strategy seeks to make the international community a strategic partner in development. We are therefore requesting that the opening of markets and the signing of free trade agreements with the OECD countries be placed on the agenda to ensure sustainable economic development.

For this strategy to be sustainable, an adequate flow of concessional resources will be required, which means keeping the IDB's FSO window open for the next few years.

The resource allocation mechanisms were widely questioned in the 2000 National Dialogue. Basket funding is now being promoted as an efficient alternative. For this reason, we would appreciate it if the Board of Executive Directors and the Bank's Senior Management could consider this change, which would benefit Bolivia. Such a change must also lead to greater flexibility in the allocation of resources for existing and new projects to the priorities established in the Bolivian Poverty Reduction Strategy.

We recognize that the Bolivian private sector has a preponderant role in poverty reduction, which is why the support of the Inter-American Investment Corporation is essential to finance private sector activities.

Similarly, since its inception, the Multilateral Investment Fund has fulfilled an important role in strengthening the private sectors of our economies, in particular Bolivia's, which requires initiatives that will supplement those within the State's purview. It is therefore essential to extend the MIF's activities beyond 2004.

The IDB was one of the first multilateral organizations to decentralize its operations to the member countries, so that timely decisions could be made based on a genuine awareness of the country's situation. In terms of the new liaison framework, we would like to support the concept of further decentralization, primarily because of the positive results achieved to date.

Bolivia's efforts are designed to achieve greater economic growth with equity, in a context of essential consensus-building with civil society, so that poverty can be reduced within the time frame we have established. We know this is a difficult task, but the poor cannot wait. The support of multilateral institutions and friendly countries is crucial from the financial point of view as well as in terms of the processes that will allow Bolivia to participate competitively in a world of open markets and a shared view of the development of nations.

ADDRESS BY MR. TONY FAINT, TEMPORARY ALTERNATE GOVERNOR FOR THE UNITED KINGDOM

I should like to begin by thanking the Chilean Government for hosting this Annual Meeting of Governors in Santiago and to thank the Bank for their arrangements.

At the beginning of a new millennium, it is right that the IDB should be reviewing the objectives we agreed upon in 1994 and the instrumentalities through which it pursues them. The Bank has many strengths, as the institution closest to the region of Latin America and the Caribbean and its largest source of development finance. As the Institutional Strategy paper recognizes, the Bank needs to move forward on the basis of a clear vision, strengthened country focus and programming, partnership with the countries of the region and other international agencies, and an emphasis on performance and results.

The UK strongly believes that the core function of the Bank, as of other development institutions, must be the reduction of poverty and inequality. The evidence of development experience in recent years points to the need for a many-faceted assault on poverty problems, starting with a sound macroeconomic framework that incorporates poverty aspects, and embracing micro-level reforms in the Enterprise sector and labor markets, as well as appropriate policies and instruments for social inclusiveness and social sector reform.

We therefore warmly welcome the clear statements by President Iglesias in his overview paper in which:

- he strongly reaffirms the core objectives of the Eighth Replenishment in terms of poverty reduction and environmentally sustainable development;
- he recognizes the importance of the International Development Goals as milestones in this endeavor;
- he notes the importance of a joint effort led by the countries of the region to develop and implement strategies for poverty reduction with the support of the International Community as a whole.

These themes are central to the development of the Bank's Institutional Strategy. They must be the foundation for its work, whether in the priority areas of competitiveness and growth, social development and reform, public sector modernization or regional integration.

Equally, development must be sustainable and sensitive to considerations of environmental protection if a lasting reduction of poverty is to be achieved. Poor people are often those who are most vulnerable to degradation of the natural and physical environment. We have found comparatively little recognition of the importance of longer-term sustainability considerations in the papers for these meetings. Again this is not a question of a limited number of environmental project activities, but of a cross-cutting objective that is embedded in country strategies and the whole of the work of this institution.

A strengthened country strategy process is crucial to the implementation of the IDB-8 mandate and the Bank's Institutional Strategy. Country strategies need to be grounded in a strong analysis of the nature, incidence and causes of poverty. The Bank needs to equip itself to make a strong contribution to this analysis through its economic and sector work. Above all, strategies must be firmly owned by the country itself and developed through a consultative process. Where these conditions are met the Bank should be ready to provide flexible support for the implementation. In this connection we recognize the case for increased programmatic lending in support of integrated strategies for poverty reduction. We welcome the prospect of further discussion at the level of Governors of the Bank's Strategic Framework and the instrumentalities through which it can be realized.

Poverty and inequality are also closely correlated with issues related to race and ethnicity. We welcome the IDB's decision to host a regional conference in June focusing on this issue, in the run-up to the UN Conference on Racism in August.

The IDB has a particular responsibility for the needs of its poorest and most vulnerable members. In this connection we attach great importance to the target of 35 percent of lending for the poorer and smaller economies in the region—it should be reached as a matter of priority. We also welcome the conclusion at this meeting of a financing framework for debt relief to the region's Highly Indebted Poor Countries and the prospect of early delivery of interim relief to those that have already reached Decision Point under the Enhanced HIPC Framework.

The issues surrounding globalization have rightly aroused spirited debate at this meeting. They are key to the economic prospects of the region, as they are to the global aim of the reduction and eventual elimination of extreme poverty. As a contribution to this debate the British Government published, in December 2000, a second White Paper on International Development entitled: "Eliminating World Poverty: Making Globalization Work for the Poor." Introducing the Paper in a recent speech, our Secretary of State for International Development, Clare Short, said: "The systematic reduction of poverty requires more international co-operation, not less and flows of trade and investment that make available the fruits of modern knowledge and technology to the poor of the world. The question is not whether we should be 'for' or 'against' globalisation, but how to ensure that globalisation becomes a positive force for all the worlds' people." Some of the paper's main conclusions are:

- First, sustained poverty reduction cannot be achieved without economic growth. But growth lifts people out of poverty more quickly where levels of inequality are low, so redoubled efforts are needed to reduce inequality. Policies to promote a strong private sector must be combined with effective government systems to promote social equity, justice and security. We need effective states and efficient markets.

- Second, investment in people, skills and knowledge is essential for countries that wish to be part of the globalizing economy. The revolution in information and communications technologies creates an urgent need and an enormous opportunity to improve poor people's access to education and knowledge. Appropriate policies, legal and regulatory frameworks must be promoted to enable this technology to be shared.

- Third, development assistance is vital for poverty reduction, but it must be used in new ways. Too high a proportion of current resources are spent on small, nonstrategic projects and are not targeted on the poor. In the international system, and in all countries, we need a better coordinated and more coherent international development effort, which brings together all development actors behind country-owned poverty reduction strategies.

- Fourth, a stronger international system focused on the systematic reduction of poverty is needed to enhance the efforts of governments and take collective action where required. We need action at a global level—to tackle corruption, to reduce conflict, and to generate new drugs and vaccines for the diseases of poverty. Sustainable management of the earth's natural resources requires international agreement and action.

We need the IMF, World Bank, Regional Development Banks, the UN and all development agencies collaborating to support governments that are committed to meeting the International Development Targets.

Above all, we must have fair international rules and strong international institutions to harness private capital and trading opportunities in order to improve the life of the poor. We need representative institutions, in which all can pursue their interests equally. To achieve fairer rules we need to increase developing countries' capacity to negotiate in international fora, and a commitment from developed countries to do away with damaging trade protectionism and the tying of aid to national procurement.

In conclusion, a challenging agenda is before us if the International Poverty Reduction target is to be met in the next decade and a half in Latin America. We would like to see the Bank place itself at the heart of that effort, dedicated to eradicating extreme poverty in its region.

The last decade saw the emergence of what we term "middle-income countries." Their success in attracting private capital has prompted a debate as to the relevance today of operations of international lending institutions, whose share of capital flows has been shrinking. The debate has been heating up as these countries show themselves to be more and more reluctant to borrow to finance investment projects. This is something we need to look at very closely.

These countries do have higher annual per capita income, though today we understand that this is an imperfect indicator of development. However, to one degree or another they are still facing the same kinds of difficulties as their lower-income neighbors. The question therefore is not to back away from supporting them but what kind of interventions can best answer their needs.

I would agree with you that loans are not an end in themselves but rather an avenue toward a high-level dialogue, to pass on to the borrowing member countries' leaders ideas and techniques that can assist in tackling their nations' problems.

I do not see the Bank's first two proposals—to revisit the 15 percent policy-based lending cap and raise the share of private sector lending—as being intended to maintain a certain volume of business.

The policy lending proposal, in my view, comes out of an ongoing concern over two essential ingredients for development, which are the instilling of an institutional framework and sound policies rather than so-called "bricks-and-mortar" projects. Though most operations today do contain a component of reforms in the target sector or institution-building measures, we also have seen the outcomes of policy-based loans per se fall short of expectations. Hence the reluctance of some among us to promote this form of lending without adjustments to existing instruments, to make traditional lending more attractive and reform loans more efficacious.

The two chief complaints about investment loans are their excessive conditionality and borrowers' repeated inability to come up with the required counterpart resources.

It is gratifying to see that concrete proposals have been put forward to reduce counterpart fund requirements. When the constraints are associated with environmental and social questions it would behoove us to take a practical tack and ask ourselves whether we want to run the risk of seeing operations—some of them quite hefty—funded from other sources without due heed to those problems, or if we would rather see the issues addressed carefully by virtue of our intervention. I see no way to sidestep this kind of discussion in the near future.

The issue of excessive conditionality also has been raised in the context of policy-based lending. There are lessons to be learned from past disappointments, which would support a different approach based on:

- an assessment of recipients' commitment to reforms;
- a more flexible approach so programs can be adapted quickly as circumstances change;
- more realistic up-front conditionality;
- disbursements tied more closely to outcomes.

The task then is to put these lessons into practice.

On the question of private sector finance, the Bank has offered valid reasons for its proposal to increase this kind of lending, and we can endorse them. While it is true that the Bank has a mandate to devote 50 percent of its lending to the social sectors, it is also incumbent upon our institution to employ the balance to spur strong growth. Private sector operations clearly fall into that facet of the Bank's activities. Nevertheless it would be well to keep a balance between privately sponsored infrastructure projects and public ones.

This is the approach at the EBRD, which targets 75 percent of its lending to the private sector and, as part of its strategy, plans to maintain the share of loans to the public sector. Public sector lending, in the EBRD's view, is the best entrée to a dialogue to foster sector reforms, create an enabling environment for investment, and maximize its impact on the transition to a market economy.

Having made this reference to the EBRD I would note that there are some similarities between the challenges awaiting the IDB in the region's middle-income countries and the ones that the EBRD and European institutions are confronting as central European countries move to join the European Union.

I believe it would be a good idea to step up the dialogue with those institutions, which have had to come up with inventive approaches to regional development, promotion of private enterprise, integration (particularly by way of infrastructure finance), and support for the social sectors, as I mentioned in New Orleans when discussing the concept of the active welfare state propounded at the Lisbon summit.

We therefore are open to a constructive, pragmatic dialogue on these important issues. It also will be interesting to follow discussions on this topic in the Development Committee.

Belgium is pleased that the HIPC Working Group was able to reach agreement on financing the Bank's share of the debt relief. Belgium's share in the effort that will be required of the member countries will be built into our 2002 budget estimate.

Turning now to the Inter-American Investment Corporation: the Governors have voted to admit new countries to membership, so I now am able to begin the process of securing parliamentary ratification for our accession.

If you would allow me, Mr. President, I would like to mention an issue that is particularly dear to me. As Eurogroup president in 2001 I propose to promote the use of the European single currency in world markets. It seems to me to be essential to take advantage of the move to the fiduciary Euro currency and the heightened visibility of the common currency to encourage greater use of the Euro outside European borders.

This question of the Euro's external use is complex and multifaceted. It has to do with the Euro's use in international trade (as a medium of payment), in the global financial marketplace (by banks and in money and bond markets), by monetary authorities (as an anchor currency for their monetary and currency policies), and on foreign currency markets.

Since the factors that would drive the use of the Euro differ from one of those markets to another, moves to encourage the Euro's use would likewise be market-specific.

From the Eurogroup chair, Belgium would propose various steps to encourage external use of the Euro:

- The first requirement is a detailed analysis, especially of the Euro zone balance of payments and capital movements;
- A further productive step will be to confer with finance sectors, looking particularly at the integration of stock and industrial bond markets to which companies look for funding;
- The Chair will need to furnish meaningful information on external use of the Euro. As soon as possible, European credit insurance firms should begin to write contracts in Euros, and commodity prices should start to be quoted in Euros.

If I have brought up the international face of European currency unification here today it is because, now that trade flows are so heavy between the European Union and the Americas, the benefits of a single currency should spread beyond the geographical confines of the European Union.

On the first day of January 2002, Euro notes and coins will be circulating in the 12 Euro zone Member States, whereupon more than 300 million Europeans will share the same currency unit. The Euro house is open to other members of the European family and other candidates. Though the fiduciary Euro currency is posing technical challenges and will mean an unprecedented shift in currency arrangements, its arrival is a powerful sign of European integration.

Along with today's open borders Europeans will have a tangible symbol of their common destiny. It then will fall to them to continue constructing their shared home by expanding the Union and the Euro zone, bolstering political institutions (why not—one day—a European Commission president chosen by universal European suffrage?) and deciding on budgets and how to fund them (why not European taxation to pay for selected line items?).

Once our new currency is actually in circulation the repercussions will be felt around the world. This is why I wanted to bring up this topic in my closing remarks today.

Regional integration is the preeminent challenge of this new century. For 50 years Europe has been working to coordinate macroeconomic policies, consolidate budgets, and chart a common course on core issues. Every region in the world shares these same challenges.

It is most definitely not our intention to hold up the European Union or the Euro as a model. We wish simply to share with you a chapter of European life today, the fruit of our region's long-standing integration quest.

ADDRESS BY MR. FRANCISCO M. GUERRERO PRATS, GOVERNOR FOR THE DOMINICAN REPUBLIC

I would like to express, on behalf of the people and Government of the Dominican Republic, headed by His Excellency Hipólito Mejía, our great satisfaction that the first Annual Meeting of this new millennium is being held in Santiago, Chile, a city nestled at the foot of the Andes Mountains. This city is of special significance in the history of the Hemisphere and in the origins of the institutions meeting here. As head of the Dominican delegation, I should like to thank the Chilean people and the organizers of this event for the warm hospitality that they have extended to us.

In the decade just ended, the countries of Latin America and the Caribbean embarked on significant economic and social change. Growth in the region resumed under better macroeconomic management as inflation was tamed, fiscal imbalances corrected, and greater currency stability achieved. At the same time, its entry into the global economy continued, as reflected in the 9 percent increase in the region's annual exports, more liberalized trade, access to international financial markets, and a notable improvement in foreign investment.

Also, during this period, market mechanisms were strengthened and the private sector secured its role as an engine of economic growth. Of particular note are the efforts by nations in the region to promote the processes of market integration and liberalization, which have spurred trade and investment.

Despite these accomplishments, we must address some major challenges. The pace of growth is not fast enough to offset the decline during the "lost decade" of certain economic and social indicators used to measure quality of life. Chronic social problems and abject poverty persist. The type of growth that has occurred has not generated enough jobs, leading to an increase in informal sector jobs and skewed wage scales. The information society astonishes us in the face of continued high levels of illiteracy and we experience glaring technological lags. The numerous challenges before us must be faced.

In this context, the Dominican Republic posted a sparkling economic performance in 2000, with growth of 7.8 percent and an inflation rate of 9 percent in spite of the adverse effects of higher world oil prices and the fiscal and price adjustments that the new administration was forced to introduce in order to ensure macroeconomic stability and sustainable growth. With these results, growth has averaged 7.7 percent annually over the last five years, one of the best performing economies in the region and the world.

This significant expansion was achieved while keeping inflation in the single digits, a relatively stable and competitive exchange rate, smaller fiscal imbalances, and some leeway in the external sector. Although the balance of the current account deteriorated slightly in 1998 in the wake of Hurricane Georges and in 2000 on the heels of the oil shock, the significant inflow of foreign direct investment in the more dynamic areas of the economy (tourism, telecommunications, duty-free zones, and more recently energy) led to a growing surplus in the capital account that offset the current account imbalance.

In the last five years, the country has consistently improved its international financial standing as evidenced by the following indicators: the stock of its overall external debt was down by 8.1 percent, from 32.8 percent to 18.6 percent of GDP; the debt service to GDP ratio declined from 3.6 percent to 2.5 percent; the debt service as a percentage of goods and services exports dropped from 11.8 percent to 4.7 percent. In addition, the country has honored its international financial commitments fully and faithfully. Moreover, in conjunction with this sustained and stable economic growth, the private and public sectors have better access to international financial markets.

The macroeconomic outlook for 2001 is encouraging. Growth is expected to be well above the average forecast for Latin America and the Caribbean, with an inflation rate ranging between 7 percent and 8 percent, the current account deficit dropping 3.4 percent of GDP, foreign direct investment in excess of US$1.1 billion, and a consolidated public sector fiscal surplus of nearly 0.8 percent of GDP. Thus, this year the Dominican Republic will continue on its path of growth with stability as it did in the last decade.

The deepening of structural reform continued apace. Passage in late 2000 of tax system reform put public finances on a sounder footing. In the legislature, the following reform bills are in their final stages of approval: social security, financial and monetary code, health code, market regulation code, and government financial reform. On the external front, liberalization was pursued with a tariff reform in harmony with the other countries in the region and the terms of the Uruguay Round of the GATT, a factor that favors approval of the Free Trade Agreements with Central America and CARICOM.

I would like to underscore that the Dominican Republic, despite its own limitations, has contributed financially to narrowing the financing gap involving the Heavily Indebted Poor Countries (HIPC) Initiative, as a show of support for the IDB's initiatives and those of other multilateral lending institutions in favor of those countries in the region whose external indebtedness is affecting their social development to a greater extent.

Against this background, I congratulate the Bank on the initiative that provides for the creation of an expeditious mechanism for addressing the consequences of the natural disasters that repeatedly affect various countries in the Hemisphere. In particular, we would like to highlight the effective response capacity demonstrated by the Bank in El Salvador, a situation confirming the need for effective contingency plans to alleviate the adverse effects of phenomena of this kind.

Here, I would say a few words about the most recent economic crises and make a proposal for consideration by the Bank. Given the high degree of globalization in the international economy and the rapid pace at which the process is deepening at all levels, macroeconomic stability in a given country has become a necessary condition for avoiding a crisis of its own as well as the effects unleashed by imbalances in other countries, but is not a sufficient condition for the country to armor plate itself against a contagion of an increasingly systemic crisis.

The cases of some economies in the region with a long and strong record of growth with stability that were adversely affected by crises in the last five years are indicative of what I am saying. Even the Dominican economy, which had managed to avoid the most recent crises, was hard hit in 2000 by higher world oil prices.

Against this unavoidable reality of growing interdependence of economic processes at the world level, some sort of emergency mechanism should be devised to enable countries in the region with a track record of stable macroeconomic indicators, to handle these unexpected external shocks, whose immediate effects always fall heavily on the most vulnerable social groups, thus adversely affecting the legitimacy of democratic institutions and the governability of our nations.

In view of the foregoing, the Dominican Republic is making a specific proposal to the Bank: that a short-term action mechanism be established, open to countries in the region with macroeconomic stability that are assailed by external shocks, to enable these countries to have access promptly to resources for use in strengthening the social component of public spending, as a means of assisting the poorest social groups. We are all aware that these are the ones touched first by the economic adjustments implemented to correct the imbalances stemming from such external contingencies. Such a new IDB facility would be compatible with recent financing arrangements created by the IMF in 1997 and 1999, such as the Supplemental Reserve Facility (SRF).

This new short-term strategy would be subject to stringent requirements. Some of the conditions that could apply are suggested below:

- Recipient countries should have sound and stable macroeconomic indicators for the two years preceding the external shock and take steps to restore stability;

- The resources drawn on this new IDB facility would be used exclusively for programs to supplement social spending, creating new programs or reinforcing some existing ones. The country would be required to report periodically on the progress and results of these programs;

- The resources would be provided at an interest rate similar to the one charged by the IDB for its other operations and would be repaid in a period of three to five years.

In my view, this initiative would go hand in hand with the Bank's commitment to renewal, always open to bringing its institutional policies and instruments into line with the shifting requirements of the times.

I would like to take this opportunity to offer my thanks for the choice of the Dominican Republic as the host of the Fourth Latin American Microenterprise Forum to be held in November 2001, in the city of Santo Domingo. Microenterprise is a sector of great interest to our economies, which has received substantial support from the Bank through the MIF.

Lastly, the Dominican delegation would like to place on record that it fully concurs with the need to maintain the Bank's relevance, reaffirming its position as a regional development bank committed—as it has been since its inception 42 years ago—to the dynamic and creative integration of Latin America and the Caribbean into the global and hemispheric economies.

ADDRESS BY MR. ANDREJ KAVČIČ, ALTERNATE GOVERNOR FOR SLOVENIA

I should like to join the preceding Governors in expressing sincere appreciation to the Government of Chile and to the city of Santiago for hosting this meeting. We are also grateful for the warmth and hospitality of the people of Chile that we enjoyed on this occasion.

The region of Latin America and the Caribbean experienced noteworthy economic growth in 2000. It is important that improvement over the previous year was not only due to the favorable international environment, reflected in higher commodity prices and reasonable conditions for access to international capital markets, but primarily due to continued commitment of the governments to fiscal and monetary stability and decline in inflation. It is our conviction that countries of the region, remaining committed to sound macroeconomic management, will continue to attract inflows of private capital and foster their growth in the coming years even more.

We are certainly pleased to learn that the Bank in general remains committed to its Eighth Replenishment mandate. The volume of resources committed to social sectors and poverty reduction exceeding the indicative targets and the proportion of lending granted to Group II slightly below the target in the period 1994–2000, demonstrate the Bank's ability to follow strategic targets. However, we would like to request the Management to take all the necessary precautions to keep the right balance of the lending structure in the future.

Turning now to strategic issues, we would like to express our appreciation to the Management of the Bank for finalizing the Human Resource Strategy and for enhancing its efforts in preparation of the Institutional Strategy and the action plan for its implementation. Being aware that an unacceptable number of almost 200 million Latin American people continue to live in poverty, we firmly believe that poverty reduction and social equality, complemented with environmentally sustainable growth, should remain an overarching objective of the Bank's future actions. In this connection, we would like to encourage the Management of the Bank to pursue seeking the blend of instruments that would address this issue in a most efficient way. In addition, we would appreciate it if the Management could prepare a set of quantitative indicators that would enable monitoring and assessing progress towards the main objectives.

To be capable of properly responding to the diverse development needs of its borrowing members, the Bank should remain a flexible and innovative institution. From this perspective we certainly support its permanent need to find and introduce new instruments to effectively serve the individual needs of its borrowing countries. Therefore, we would like to encourage Management to further explore the possibilities of reviewing the caps of the indicative targets, such as the policy-based lending and private sector operations set by the Eighth Replenishment. However, we would like to request the Bank to analyze and carefully assess the risks and pricing issues as well as establish a clear link with the institutional priorities prior to their implementation. We are confident that the Management will affirm the IDB's reputation of being a relevant institution by preparing a comprehensive and accountable proposal, which we are awaiting with great interest.

We have never doubted that the Inter-American Development Bank is and will remain primarily a development institution equally attentive to the genuine needs of the region, especially those of its smaller and poorer members. Urging the Management to continue along this path, we warmly welcome the Agreement on the enhanced HIPC Initiative, which will provide debt relief, reduce poverty and enable sustainable growth for its four eligible countries and the whole region.

Being firmly committed to the region and to the Bank, I am pleased to inform you that Slovenia in line with the resolution on concessional resources (document AB-1960), fully encashed its Fund for Special Operations commitment under IDB-8 in the year 2000. In addition, its obligations with respect to the Ordinary Capital will be accelerated and fully paid by the end of 2001.

In conclusion, I should like to commend the Management of the Bank and especially President Iglesias for turning the Bank into the institution capable of fostering the development of both the whole region and its individual members.

It is an honor to represent the Government of the Republic of Paraguay at this meeting. We congratulate the organizers of these events, particularly the Government of the Republic of Chile and the city of Santiago, for the countless examples of warmth and hospitality shown to us.

When we met in 1999 in New Orleans, growth in GDP in Latin America that year was 0.4 percent, while the figure for the developed economies averaged 2.6 percent. The Economic Commission for Latin America and the Caribbean (ECLAC) forecasts a different scenario for 2000. According to it, the developed economies and Latin America will post growth of about 3.6 percent and 4 percent, respectively. When it examined the reasons for this recovery, ECLAC concluded that the steady application of prudent economic policies deserves a large part of the credit.

In the specific case of the Republic of Paraguay, we have undergone three years of harsh recession, even posting negative growth in overall GDP, with the consequent deterioration in the per capita product. Preliminary figures for 2000 point to growth of 1.5 percent, while the estimate of 2.5 percent for 2001 indicates a turn in the right direction.

The External Context

It can be argued that the greatest consequence of the globalization phenomenon has been the reduction in barriers impeding the free flow of financial resources. However, a true process of globalization should also include high mobility in goods and personal services, areas where huge imbalances persist. These imbalances have a particularly negative impact on economies dependent on the production of raw materials, with fledgling industrialization and therefore low value added, and lead to a permanent deterioration in the terms of trade.

As a corollary to this analysis, the new development conditions generated under the framework of globalization and rapid technological advances are changing societies radically, heightening the risk of significant increases in inequality and social tension. This situation demands a great effort by the countries of the region to devise their own opportunities for their citizens to participate in the new economy, based on the creation of value added through knowledge. The Bank's initiatives in this area are both timely and utterly indispensable.

The Government of Paraguay firmly believes in the tool of integration as an essential vehicle for combating our structural limitations. A few weeks away from the 10th anniversary of the Treaty of Asunción, we should keep in mind that its vision will still require great effort and continue testing the conviction of all the members that it is necessary to accept short- and medium-term sacrifices to achieve a truly integrated Latin America. In this spirit, Paraguay will do its utmost during its current pro tempore presidency of the bloc to continue working on internal issues and making progress with the FTAA and the European Union.

The Internal Context

We recognize, however, that the main task lies in correcting our internal problems, particularly in the field of implementing a new regulatory and promotional role for the State and decentralizing and rationalizing the public administration, with the goals of greater efficiency, austerity and transparency.

We have taken some steps toward the objective of setting the stage for the private sector to participate in the economy. The measures include promulgation of a regulatory and tariff framework for potable water and sanitary sewerage services. We have also regulated the system for the concession of public works and, even more importantly, at the end of 2000, the General Law on the Reorganization and Transformation of Public Entities came into effect, which gives the Executive Branch special powers to speed up the inclusion of private capital in railway, water and sanitation, and telecommunications companies. We expect to conclude the process in the telecommunications sector by the end of this year.

Equally relevant is the fact that under the same law, the Executive Branch is required to present a plan for general reform of the central administration by the end of August of this year.

We are aware that the need to continue with reforms is not limited to our country alone, and therefore we support the position of many governors, who wish to raise the 15 percent limit imposed on policy-based loans, which we view as important tools for assisting our countries in these efforts.

As a condition for the success of any of these initiatives, we continue to be committed to a frontal attack on corruption, since reforms are inconceivable without consolidating the fundamental pillar of transparency. The Steering Council for the National Anti-Corruption Plan, announced last year, has been transformed from the agency that created the plan into the agency in charge of implementing it. We have a recently approved technical cooperation program from the Inter-American Development Bank that will provide continuity for this effort, which was launched with support from other donors.

As for the central administration, a new law (the Civil Service Act) has recently been passed as a fundamental tool for providing the State with the flexibility it needs to modernize.

The national budget for 2001 is adequate and realistic. By way of example, it provides funds only for the first six months of the year for public entities that will be sold, reorganized or eliminated. Combined with strict discipline in spending, we are confident that we can reduce the public deficit from 4.1 percent in 2000 to 2.1 percent in 2001. We are aware that this task is a very difficult one, but we are convinced it is absolutely necessary and, above all, possible.

More recently, on the 15th of this month, the Executive Branch presented a strategic economic and social plan, which establishes concrete mechanisms to step up efforts in four priority areas: productive development, competitiveness and investment; human development and poverty reduction; institutional development and modernization of the State; and maintenance of the macroeconomic balance.

Our Relations with the IDB Group

We are very heartened by the progress made in implementing the institutional strategy introduced at the last meeting. Good headway has been made in the four general areas of action included in the initiative. One outstanding point was approval by the Board of Executive Directors of the new human resources strategy which will provide the Bank with a basic tool for its corporate governance.

We share the belief that the HIPC Initiative is a critical step in the quest for a better-balanced world economic system. It was with this conviction that the borrowing member countries of the IDB have heeded the call to come up with the resources needed to finance the initiative, working together to find a solution whose main objective is to maintain our Bank's financial health. As for Paraguay, we reaffirm that although we face distinct and difficult problems, we will do what is needed to fulfill our part of the commitment.

The Multilateral Investment Fund has been doing excellent work in strengthening the private sector in our economies. This is particularly important in countries like Paraguay that urgently require incentives from outside the State itself. Projects such as training for youths in rural areas and for construction workers, and projects to establish regulatory frameworks for different economic sectors have been and will continue to be keys in the process of opening up our markets to private initiative. In this context, it is highly important to begin a dialogue with a view to extending the possibilities of continuing to receive MIF support beyond the current horizon of the end of 2004 or the beginning of 2005.

Last, our working relations with the IDB during 2000 have produced unprecedented results. We ended the year with the approval of nine loans, seven technical cooperation projects, and three MIF projects, for a record total of over US$177 million. The operations include the largest loan in our history with the institution, which will permit us to integrate still isolated parts of Paraguay's El Chaco into our economy, laying the groundwork for an outlet to the Pacific through our neighbor countries. On this occasion I would like to extend our sincerest thanks to the Bank in the persons of its President, Enrique Iglesias, and the members of the Board of Executive Directors, as well as the Bank staff working on our region, led by Ricardo Santiago, and the staff at the IDB's Country Office in Paraguay, headed by Raúl Baginski. All have continuously demonstrated their warm friendship and patient cooperation.

The Government of Paraguay under the leadership of President Luis González Macchi reaffirms once again to this forum its determination to lead our country toward an open economic model that is structurally consistent with growth and is compatible with the need to reduce exclusion, in a climate of freedom, while also advocating balanced and reciprocal trade and financial liberalization.

On behalf of the people and Government of Peru, I would like to thank the Chilean people and authorities for the warmth of their welcome and their gracious hospitality throughout this year's Annual Meeting. I wish also to convey a special vote of gratitude to a man who does honor to his native Chile—Mr. Eduardo Aninat, whose expert assistance was invaluable in securing approval of Peru's arrangement with the International Monetary Fund last week.

I would like also to commend the staff of the IDB for their very proficient organization once again of this major international gathering.

I wish to reaffirm Peru's invitation, extended to you at the last Annual Meeting of the Boards of Governors, to host the Annual Meeting in 2004. You would be honored guests in our country, and the Peruvian government will spare no effort to assure a successful meeting.

In the past, an economic affairs and finance minister addressing this forum would now go on to share with you some recent economic developments and other information on conditions in our country. Today you can obtain this information on Peru via the web page called Transparencia Económica, which you can access from the finance ministry's home page, *www.mef.gob.pe*. This window onto Peru was opened last month by President Valentín Paniagua Corazao's transitional government.

The world now can follow our macroeconomic forecasts and social indicators and, with a simple "click" online anywhere on the globe, anyone can learn how Peru's public revenues are being expended and by whom, and discover each government department and agency's mission and vision statement. Transparencia Económica contains accounting data on every sector, including information on defense and the interior that was not released to the public in the past.

To cite just one example: before our website was launched, Peruvians had to wait three months for information on the public accounts. Today this information is available in real time, at the close of every month. Since February, people have been able to track monthly budget performance and measure it against our programmed spending cuts of 1.276 billion soles this year. We are well on the way toward the year's fiscal target of 1.5 percent of GDP.

I encourage you to visit this website. There you will learn, for instance, that defense and interior department payroll costs make up 32 percent of the State wage bill, whereas education accounts for only 13 percent.

Since the traditional kinds of data are now available through the website, I will focus here today on some challenges for governance in Peru. For nearly four months, our nation has been caught up in dramatic changes. The transition government took office at a difficult juncture and found a populace disillusioned at the shameful evidence of the previous regime's corruption and backroom maneuvers. Peruvians now are calling into question the merits of the economic reforms carried through in the 1990s with firm backing from the IDB.

Over the course of that decade, Peru had made progress on freeing up its economy, trade, and capital market and on solid, stringent macroeconomic management, competition policy, and a gradual paring back of State involvement in private enterprise as suggested in the Washington Consensus. The Peruvian people realized the worth of these gains, which also had raised high expectations for Peru in the concert of nations. Suddenly, from one day to the next, those measures and policies were being challenged and disparaged. They are perceived as "one-way" policies that favor foreign over Peruvian capital, benefiting those in power and politicians but harming ordinary Peruvians, since they have come to be associated with a government that fell short on transparency and democracy.

In these difficult circumstances the entire country has been pushed into a debate about the kind of policies Peru needs in order to consolidate reforms that had already moved us forward and to accelerate and sustain economic growth to improve the lot of our people, closing the book on poverty, on inequality, and on exclusion.

We are asking ourselves how we can achieve equitable globalization, how Peru can truly become part of the global economy without shutting some people out. In other words, how can we make certain that reforms and globalization will yield equally meaningful and equally swift benefits for small business owners, domestic industry, consumers and, above all, the poor? This is the crux of the question: how can we make globalization and reforms two-way streets, in which Peruvians can feel they are partners and share in the benefits? This is the formidable challenge before us.

In the mid-1990s, the IDB looked at Peru as an example of a nation moving quickly toward structural reform. Today we are mapping out a proposal of what remains to be done. This unfinished business is what I would like to outline to this distinguished audience.

In the midst of Peru's current ordeal we can identify four elements, or four ingredients of a new development recipe, that are critical if the country, without exclusion, is to share in the global economy and continue to implement sustainable reforms at home:

- First: transparency in the workings of government;
- Second: economic leadership;
- Third: creation of institutional safeguards for development;
- Fourth: redefining the role of the State, civil society, and the military.

I think it would be safe to say that these four elements are unfinished business elsewhere in the region as well, not just in Peru. In the years ahead we will need to redouble efforts to raise living standards and come up with sustainable economic policies on markets, liberalization, and integration and, above all, on the free movement of persons, which our fellow citizens so long for. Support from the IDB in particular and, generally, from multilateral organizations and the international community will be crucial to the reforms' success.

Economic Transparency

The first ingredient for development is transparent government, to which I referred at the start of this address.

In recent years, the relationship between the State and the Peruvian people ran one way: the State was entitled to know everything about its citizens and citizens were entitled to know nothing about the State. The State scrutinized but shied away from scrutiny. It knew, and told nothing. It checked and tracked, and declined to be checked or tracked. It controlled but accepted no controls itself. In this model, the State was strong and the ordinary citizen was weak. The State had rights; citizens had only obligations.

There were abundant examples in the 1990s of "surprise laws" sprung on the populace, which shut most of Peru's people and other economic agents out of the law-making process. Since these laws were devised and promulgated between twelve at night and midnight, to paraphrase a Peruvian saying, there was no chance for public input into their drafting. The antidote, which we now are administering, is public notice and consultation before a law takes effect.

Then there were the never-published "secret decrees," a law-making approach that reflected the conduct of authorities who subordinated the public interest to their own interests and penchants. Most of these decrees, typically dealing with interior and defense matters, were used to cover up the disgraceful dealings that touched off the institutional crisis in which we find ourselves today.

The first order of business thus is to instill transparency and, with it, trust and confidence in government.

Transparency is by way of a mirror of democracy. Democracy means more than casting one's vote: it means knowledge, knowing how the resources that belong to us are being spent. To foster transparency is to create sustainable democratic governance.

Economic Leadership

A second lesson we have learned in Peru is that, while tough macroeconomic policies may be essential to build a solid economy, so too are the public's faith in the economy and a continual effort to build a consensus about reforms and publicize their benefits.

According to a recent poll, for instance, 70 percent of Peruvians disagree with the country's privatization process, even though it is considered to be one of the most transparent in the region. Perhaps the survey findings have less to do with the efficiency gains from privatization itself than with the fact that, in all these years, Peruvians have never been told where the privatization receipts were going. When they finally found out, what *they saw was evidence of the corrupt use of the revenues, now the subject of judicial inquiry.*

As the region's ministers of economic affairs and finance, we have a responsibility to exercise economic leadership. And this, President Iglesias, is the economic affairs forum par excellence. Today it is not enough to be good macroeconomic managers. We need to explain to our people where the reforms are headed and persuade them of the ensuing benefits. By the same token, if neither the policies nor our management of them is transparent, we can hardly expect the public to understand or appreciate them. Transparency and economic leadership, then, are the first two ingredients in a new recipe for development.

Institutional Safeguards

How can we truly equip Peru to continue implementing responsible macroeconomic policies, opening up to the global economy, and fostering fair, honest competition to benefit consumers?

This is where institutional safeguards—the third ingredient—come in.

Institutional safeguards are a set of laws and public institutions that have been robust enough to withstand corruption. I see these as the foundation for future efforts to secure our peoples' well-being. More specifically, I am referring to:

- Laws that are the seed with which to cultivate technical management approaches and transparency in the workings of government. On this front, this weekend we released a statutory decree giving the public access to fiscal information;
- In addition to laws, we need independent, technically managed State agencies. In Peru, these are:
  - an independent Central Bank;
  - an effective, independent bank oversight agency;
  - a high-quality, independent competition policy framework;
  - autonomous regulatory agencies;
  - a Fiscal Prudence and Transparency Law that is enforced.

These are the institutional safeguards that I would see as essential items on every government agenda.

Rethinking the Military's Role

The fourth core ingredient in this new wave of reforms in Peru is a rethinking of the roles of the State, civil society, and the Armed Forces in creating a State that is at the service of the people, not one that puts the people at its service.

For instance, one serious constraint for any change in tax and tariff policies in Peru today, to make the economy more competitive and move ahead with second-generation reforms, is the need to defray the costs of a State and Armed Forces whose size and current roles are not what a modern, competitive economy needs.

The transition government of President Valentín Paniagua moved quickly to slash the national budget, particularly defense and interior spending. But even with those cuts, equal to nearly 0.6 percent of GDP, defense and interior expenditure in Peru still takes up 20 percent of the budget, one of the highest percentages in the region. According to a recent study, the recommended average for the region is around 8 percent of the budget total.

In an era of globalization that is making border disputes among our peoples a thing of the past, it is imperative that we rethink the role and reach of the Armed Forces, their relationship to civil society and, above all, their involvement in the economy.

During the 1990s, the Peruvian State quietly took over some corners of the marketplace, shutting out the private companies that were their natural occupants. Apart from being a clear-cut case of unfair competition, this set the stage for nebulous dealings that ultimately distort markets. To cite one example, a military-run airline is competing with private carriers on flights to Cuzco—a role that clearly is neither subsidiary nor a priority. We will shortly be releasing, with the Ministry of Transport and Communications, a law to avoid these practices.

Apart from the specific tasks I have outlined here, the transition government has begun redefining the State's role and limiting its business activities, approaching and listening to the Peruvian people, and pledging to Peruvians that public policies will be carried through.

Turning now to the IDB Group, I would like to express the Peruvian government's firm support for flexibility as to the 15 percent ceiling for policy-based loans and the 5 percent cap on private sector operations, provided the risk management analysis for such operations is strengthened and care is taken to keep the Bank's finances sound. We would urge the Bank's Management and Board of Executive Directors to continue working to have those ceilings raised, to adjust the lending matrix, and to create new financial products. We would like to see the Board of Executive Directors bring concrete proposals in the near future to the Committee of the Board of Governors to give the Bank the requisite flexibility to respond to new financing requirements in the borrowing member countries.

In closing, Mr. President, I would like to convey to you and to the Bank's Management the gratitude of the Peruvian people and government for your staunch support for our country, which I know we can continue to count upon as we tackle the four challenges I have outlined here:

- transparency in the workings of government;
- economic leadership;
- creation of institutional safeguards;
- redefining the military's role.

These tasks will call for a tremendous effort on the part of each of our governments. At the same time, they pose a regional challenge that calls for a united regional thrust. I can think of no one better placed than the IDB to support us in this enterprise.

SIXTH PLENARY SESSION

MARCH 21, 2001

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 of all, I would like to thank Minister Eyzaguirre for being here today, despite the problems he has been having with his health. His presence is a very heartening sign and we are all gratified by it. I would also like to thank him for the tremendous effort he and the many people who have been working for a year to organize this meeting have made. We have received close cooperation from the entire government, starting with the President, and from the private sector and civil society and the very efficient and courteous members of the intelligence services, who ensured that the meeting was untroubled and constructive at all times.

I would also like to extend special thanks to President Lagos for his address at the inaugural session, whose inspiration and overall vision of Latin America have provided us with guidelines for Bank action. I also thank President de la Rúa, who came here at a difficult political and economic time for the Argentine Republic to reaffirm his government's strong commitment to the country's economic stability and recovery under a democratic system. Thanks as well to President Batlle, who attended this event reaffirming the role of international organizations and calling attention to the imperfections of the international market, especially in the field of trade.

I am very pleased, Mr. Chairman, to say that this has been one of the most extraordinarily successful of all our meetings. We leave here very grateful to you and your government and very satisfied. I will mention some of the most important points that have caused us to experience that satisfaction. First, this annual meeting has been highly participatory, which was one of your hopes when we began to talk about holding it. These meetings are generally somewhat closed, sometimes excessively reserved. But on this occasion, the meeting has been exceptionally open. Open, first of all, to participation by Chilean citizens. The truly moving participation of these 6,000 children from Hogares Infantiles of Chile, who competed in memorable Olympic games for three months, is a case in point. I hope this continues in the future, bringing the faces of these young people to every corner of the country. The meeting was also open to participation by artists, painters, musicians and actors, which confirms this very special feature of the Bank, as an organization at the service of the member countries and their people. It was also open to participation by the private sector. The marvelous exhibition on Cyber-Americas is the largest we have seen in this part of the world. All of this is a demonstration of the participatory nature that you wished to stamp on our meeting. All of this is also a very important achievement that we duly appreciate, to say nothing of the very fine meeting you organized.

The seminars were also outstanding events, with active participation by all levels of society. They gave us the opportunity to evaluate today's Latin American economy in the context of the international economic scene. There are clouds on the world horizon and concerns about slow economic growth in the United States, stagnation in Japan and even declining growth rates in the European countries. We know that this has repercussions on the Latin American economies. It is inevitable. But we note that the repercussions are not as intense as at other times, which demonstrates that the region has been able to strengthen its economies in recent years. The countries appear to be better prepared than before, but we must not be complacent. We hope that the economic prospects of the central countries improve quickly. We trust that macroeconomic management in our countries will be able to surmount the crisis and maintain stability. The positive elements have been the improvement in the external debt profile and cooperation from the international community in difficult times. Slow growth in the international economy is not an insurmountable problem that should cause us great alarm at this time.

We should thank the President of Argentina for his statement on his government's firm intention to maintain stability, above the national contingencies that occur in democracies when there are urgent political aspirations that must be conciliated. We are fully confident that the new economic administration will find fundamental political support. The news in this respect is positive and therefore this reaffirmation and the personal presence of the President have been a demonstration of his government's steadfast commitment to the fundamental lines of Argentine economic policy, particularly the continuity of efforts to maintain stability, convertibility and economic growth.

The second point has been the openness and transparency of our discussions, which has been highly useful—the clarity of what has been said in these forums and the content of the talks, which are the part that the public does not generally learn about. At these meetings we make many contacts on all levels, which are an important benefit.

Third, one significant contribution made by this meeting was the start of discussions in the Committee of the Board of Governors on the role of the Bank at the beginning of the new century. It is a discussion open to the representatives of all the Bank's member countries, not just to the members of the Committee of the Board. From the outset, there was a genuine reaffirmation of the objectives of the Eighth General Increase in the Resources of the Bank, particularly with regard to poverty, growth, governance and economic integration. On reaffirming these objectives, the Governors might wish to consider emphasizing different areas within them. Support was also expressed for the Board of Executive Directors and Management with respect to the Bank's institutional strategy. There was clear agreement that it is necessary to review the Bank's traditional instruments and a start was made on the task with the Board of Executive Directors in the last year. Much remains to be done, of course.

The concept of flexibility was referred to repeatedly by the Governors. We are very pleased with this preliminary reaction and I believe that with this promising start we can expect that the Committee of the Board, with support from our Board of Executive Directors and Management, will be able to truly strengthen the instruments for flexibility, while respecting and protecting the Bank's comparative advantages, particularly its regional nature. This is an important issue on which agreement was reached, and its starting point is Santiago. The review will be led by you, Mr. Chairman, since your country will chair the Board of Governors in the coming months.

Fourth, this meeting took a very important step by giving final approval to the debt-reduction program for heavily indebted poor countries. It is very satisfying that the final agreement was reached at this meeting, whereby the IDB will contribute US$1.1 billion to reduce the debt of Bolivia, Guyana, Nicaragua and Honduras. Thirty percent of these resources were provided by Latin American countries; 15 percent by the nonregionals, the United States and Canada; and 55 percent from the Bank's internal resources. This is a demonstration of solidarity that I applaud and I am certain that all the Bank's members are proud of it. The Bank has lined up with the fundamental commitments of this historic initiative, as has been mentioned on other occasions. But it is very significant that it was in Santiago where this major commitment was confirmed. On this occasion, we have been more innovative than other regions by including support to the subregional banks in the final resolution, so that the countries' debt reduction is not just with the IDB but also with the subregional banks, particularly the Central American Bank for Economic Integration. In this way, everyone can benefit, particularly the countries that reduce their foreign debt.

In fifth place, the Corporation. Its achievements in 2000 and the increase in its capital were noted, which rose from US$200 million to US$700 million. We extend a cordial welcome to the five countries that have joined the Corporation: Finland, Norway, Sweden, Belgium and Portugal. They are all welcome in this growing family. We hope that new members continue to join. During the discussions it was clear that the Committee of the Board of Governors is open to active participation by all the Governors. This will be very positive when the Committee discusses greater flexibility regarding foreign ownership in the small and medium-sized businesses that the Corporation finances. The subject will be discussed on the basis of documents to be prepared by the Board of Executive Directors, which will also be considered by the Committee of the Board of Governors of the Corporation. With the participation of Spanish banks, Caja de Madrid, and banks from Portugal, Brazil, Argentina, Trinidad and Tobago and elsewhere, a major initiative was launched to cooperate in developing infrastructure in Latin America, particularly through support for small and medium-sized companies working in this field.

A sixth contribution of the meeting was the seminars. Sometimes the question is raised of what role they play. First, they discuss topics that are relevant for the region. Second, they allow for broad participation, since

Governors, Directors, academics, the private sector, civil society and nongovernmental organizations take part. They allow for far-reaching and intensive participation by the very different sectors that attend annual meetings. On this occasion we held 16 seminars that focused on subjects of great interest for our region's development and gave us new ideas that we will revisit in our internal discussions in the Bank and which enlighten the work of our institution.

Of the topics discussed at these 16 seminars, I would like to highlight three or four main areas that captured the most attention. One, asking why we do not offer more, led to perspectives from the State and the private sector. Another was on how to improve competitiveness on the meso and microeconomic levels and what action the public sector should take in this field. We thank ECLAC for its generous cooperation in holding this meeting at its own headquarters.

In the discussion on economic growth, we included an analysis of the relationship with the Asian countries and were honored by the presence of representatives from those countries, in association with the Asian Development Bank. All of this was supported by the IDB-Japan project on relations with Japan and the rest of Asia.

The private sector meetings on the important subject of growth and pension funds and, for the first time, a discussion on civil aviation, which is a relevant aspect that attracted a great deal of attention from the private sector, should not be left out.

As was inevitable, the social dimension was also examined. The Bank reiterated its interest in this area, which is of such concern to you, and which is a fundamental aspect of development. For the first time, an examination of the problems of people with disabilities was included. The problem is very important since it affects 50 million people in our region. Another social concern is the issue of women at work. In this area, we are very concerned about ensuring that the gender issues are not dealt with on an ad hoc basis but are a focus of the Bank's actions in all our operations. We also looked at the subject of youth, approaching it from the angle of sports. Sports have proven to be one of the best instruments for involving youth in society, steering them away from undesirable pursuits that can sometimes attract large numbers of our young people.

Education is, of course, a matter of highest interest. This year we looked in particular at the revolution in secondary education, which is extremely important. We must seek ways of improving its quality and continuing to make room for the myriad of students who, fortunately, are now enrolling in secondary school. The idea is to assure not only access, but quality.

There was a very important meeting on small business and microenterprise, opened by President Lagos. This area has long been a top priority for the Bank. Although we looked at it in the social context, it is also important economically. It is both a social concern and an economic one, since this sector is the largest source of jobs in Latin America.

Another important topic dealt with at the seminars was governance. We looked again at the subject of good government together with two other development-related issues—ethics and the new economy. We had an exhibition on Cyber-Americas which again highlighted the Bank's interest in introducing the new information technologies into the region. In this task, we seek to promote and spur the interest of the private and public sectors alike, since it is desirable to complement the efforts of both.

These were the main results of the seminars, in which a record number of participants—over 7,000—took part. The discussions highlighted our concerns and call on us to continue thinking about them. Now, more than ever, Latin America needs medium- and long-term visions. Much is happening in the world in politics and technology. The region is experiencing something similar in the political, economic and social spheres. Civil society in our countries is more active and participates through nongovernmental organizations and sometimes, in a less orderly fashion, in the streets. We want to hear what it has to say, but around a table, as is customary in democracies. Globalization offers opportunities and risks and, above all, it requires us to marshall our efforts. We must continue working from a country-based approach as was noted at the opening session. As I said last Monday, I am convinced that we know how to grow with stability at the start of this century. The journey was difficult, but today we know how to improve the macroeconomy and since 1995, we have learned how to armor plate our economies. We are aware that we must grow more and better, and competitiveness—and therefore technology, management and infrastructure—enter the picture here. The Bank should return to the field of infrastructure with greater emphasis. We have a unique opportunity here, since we have built up a wealth of experience over 42 years of work in this field.

We need to talk about the new economy and Cyber-Americas was a great help. Environmental considerations must not be neglected here. If anything has penetrated the genes of Bank action, it is the environment and today it is always present in our deliberations. Of course, we must also make the point that the social issue is the core concern, which is why at our seminars we talk about macroeconomics with social responsibility. The group working in this area is composed of distinguished experts. The questions are what can we do to ensure that the macroeconomy offers a better social response; how to attack poverty and unemployment. There are many Latin American examples in this field and we should make the most of the success stories.

We are aware that we must have better government, which is why we talk about the issues of governance, efficiency and transparency. The public has no greater interest than transparent governments, governments that are answerable to public opinion, that provide effective leadership in shaping policy as well as transparent management.

Another important issue is integration into the world economy, and Latin America faces great challenges here. It is already working on them—with the FTAA being an example. Ambassador Lortie has told us about the upcoming meeting in Quebec City in two weeks. We will meet once again next year with the countries of the European Union, MERCOSUR and all the countries of the Americas, to continue making progress in these relations. This issue is extremely important and poses new challenges. The Bank is at the service of its member countries in helping to address them, in cooperation with the OAS and ECLAC. We must avoid the temptation to expand trade at the expense of our regional economic integration. I never tire of repeating that this is a major challenge and a huge asset in the history of this region.

President Lagos voiced a concept on which I would like to end my remarks on this aspect. In his address he said:

> "We also need to be able to achieve genuine integration within our region. Integration means more than tariff integration, where everyone moves in a given direction. We must also integrate geographically, via infrastructure, and policy-wise, by adopting common fronts on a variety of issues. Shared objectives are what can make our integration process—our foot in this region—a key instrument to equip us to contend with future challenges. I think it is enlightening to look at this "having a foot in both worlds" as the essence of Latin America. Our region has always straddled the two."

Last, the Bank's role is another fundamental subject. Very favorable comments have been made regarding the results of Bank action. The Bank must maintain its relevance, serving the countries where and when they require. This should be our inspiration, to maintain what has been the essence of this institution for 42 years, which mirrors a regional sense of mission that has existed for more than a century. This is a Latin American and Caribbean bank for Latin America and the Caribbean and I am certain that all our friends who are part of this great community hold the same view. Therefore, any modifications bearing on the Bank's resources, operations or organization must preserve the regional nature of the institution, as I have said many times.

I would like the Governors to know that we have made progress in internal governance. It is not perfect and never could be, but we do intend to improve it day by day. After so many years in this institution, I am confident that we have developed a highly participatory work environment, with a Board of Executive Directors that is proactive in all Bank functions. This has allowed for very close cooperation between the Board, which is marked by its dedication, and Management, which maintains permanent contact with that body. We have done this without falling into the excesses of micromanagement or the excesses of isolation or lack of information for the Executive Directors in their key responsi-bilities. I believe that the support and stress placed on Bank evaluation mechanisms by the Board is a major step.

I would like to end by underscoring that politics plays a crucial role here. We live in a political world. Our problems can be solved with more democracy, not less. The entrenchment of democracy is an essential condition for our vision of matching our actions to the aspirations of our peoples. This Bank has been, is and aspires to continue being an instrument for each and every one of you, to help in the work of building the Latin America to which we have always been committed and to which we will continue to be committed in the future.

The Committee of the Board of Governors, appointed pursuant to Resolution AG-5/70, held its Eighty-first Meeting in New Orleans, United States of America, on March 26, 2000.

During the period since the Forty-first Annual Meeting of the Board of Governors, held in New Orleans, United States of America, in March 2000, the Working Group of the Committee of the Board of Governors on HIPC Debt Relief, created during that meeting, met on April 18, May 23, and June 20, 2000, in Washington, D.C., to discuss debt relief under the HIPC Initiative.

I. Eighty-first Meeting (New Orleans, United States of America, March 26, 2000) (document CA-419)

Summary of the Eightieth Meeting of the Committee

The Committee approved the summary of the Eightieth Meeting of the Committee, held in Rio de Janeiro, Brazil, on December 2–3, 1999 (document CA-416).

Institutional strategy of the Inter-American Development Bank (documents CS-3276, GN-2077-1, and GN-2077-3)

– **Action plan for implementing the institutional strategy**

– **Agenda for the Inter-American Development Bank**

The President of the Bank, Mr. Enrique Iglesias, gave a presentation in which he highlighted the main points made in the documents submitted to the Governors. In particular, he summarized the aspects discussed in the document "Reviewing the Bank's objectives and priorities" (document CS-3276), which set forth the Bank's main objectives and the priority actions designed to achieve them. Mr. Iglesias stressed Management's commitment to establish, together with the Board of Executive Directors, a permanent monitoring committee to ensure that the institutional strategy would be a dynamic document.

The Governors for the United States of America, Canada, Spain, the United Kingdom, Italy, Japan, Germany, and Mexico made statements on this matter.[1]

Financing the Bank's commitment to the Heavily Indebted Poor Countries (HIPC) Initiative (document CA-418)

President Iglesias presented document CA-418, which contained a report from the Chairman of the Budget, Financial Policies, and Audit Committee of the Board of Executive Directors. In his presentation, he drew attention to the agreement reached by the Bank's members on the need to participate in the Enhanced HIPC Initiative, as well as the guiding principles and objectives that pointed to the need for additional efforts; that is, providing faster and more intensive debt relief in order to meet the goal of reducing poverty in the poorest countries. The cost of the Bank's involvement had increased from approximately US$400 million to US$1.1 billion in net present value.

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[1] See paragraphs 3.2 to 3.10 of document CA-419.

The Governor for the United States expressed his views on the matter and proposed that a working group of the Committee of the Board of Governors be established to continue studying the issue and present a report to the Committee by June 30, 2000.[2]

The Governors for Jamaica, Brazil, Honduras, the United Kingdom, Argentina, Italy, Canada, Bolivia, Japan, Germany, Denmark, the Netherlands, Switzerland, Spain, Nicaragua, Chile, and Sweden made statements on this matter.[3]

The Chairman then closed the Committee's consideration of the matter and gave a summary of the main points: (1) The Inter-American Development Bank and its shareholders were committed to participating in the Enhanced HIPC Initiative so as to ensure full funding for the Bank's participation. This participation would be carried out fairly and would adhere to the terms and conditions agreed on in December 1998 for the concessional resources of the Bank; (2) The Committee expressed appreciation for the effort made by the Board of Executive Directors as reflected in its report approved on March 8, 2000. This report indicated that the Bank could provide and finance resources for additional debt relief, before considering the need for future additional resources that would be required to finance programs that had been entrusted to the Bank; (3) There was a consensus to form a working group of Governors comprised of all members of the Committee of the Board of Governors and any other Governors interested in participating. The working group would recommend actions necessary for ensuring full funding of the Bank's participation in the Enhanced HIPC Initiative and would present its report to the Committee of the Board of Governors not later than June 30, 2000.

II. Working Group of the Committee of the Board of Governors on HIPC Debt Relief (April 18, May 23, and June 20, 2000, Washington, D.C.) (document CA-420)

Background

The Working Group of the Committee of the Board of Governors on HIPC Debt Relief was established at the 2000 Annual Meeting of the Board of Governors held in New Orleans, Louisiana. The Working Group was charged with recommending such actions as were necessary to ensure full funding of IDB participation in the Enhanced HIPC Initiative. It was asked to present its report no later than June 30, 2000.

The Working Group met on April 18, May 23, and June 20, 2000, in Washington, D.C. The Working Group consisted of representatives from the following member countries: Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, France, Germany, Guatemala, Guyana, Honduras, Italy, Japan, the Netherlands, Nicaragua, Norway (on behalf of the Nordic countries), Paraguay, Peru, Spain, Switzerland, United Kingdom, United States, Uruguay, and Venezuela. The representative from the United States chaired the three meetings.

The Working Group reached an agreement on measures for the financing and delivery of IDB debt relief, on the future use of FSO resources for loans to HIPC-eligible countries, on the inclusion of subregional institutions, and on the creation of new financing instruments.[4] These actions, with the exception of those involving the creation of new financing instruments, were based and conditional on contributions from the United States in the amount of US$200 million; from Canada in the amount of US$25 million; from nonregional countries in the amount of US$200 million; and from the borrowing members countries in the amount of US$150 million. All amounts are expressed in net present value.

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[2] See paragraphs 4.4 and 4.5 of document CA-419.

[3] See paragraphs 4.6 to 4.22 of document CA-419.

[4] See paragraphs 5 to 14 of document CA-420.

Other distribution:

Channels of Communication
Board of Executive Directors
Managers
Representatives

The Committee of the Board of Governors, appointed pursuant to Resolution CII/AG-3/92, held its Twenty-second Meeting in New Orleans, United States of America, on March 25, 2000. No other meetings have been held since then.

I. Twenty-second Meeting (New Orleans, United States of America, March 25, 2000) (document CII/CA-78)

Summary of the Twenty-first Meeting of the Committee

The Committee approved the summary of the Twenty-first Meeting of the Committee, held in Rio de Janeiro, Brazil, on December 3, 1999 (document CII/CA-76).

General Increase in Resources of the Inter-American Investment Corporation. Progress report

Mr. Enrique Iglesias, Chairman of the Board of Executive Directors, gave an overview of the Corporation's operational and financial results for 1999, highlighting the fact that 75 percent of approved resources had been allocated to the smallest economies in the region. Regarding the General Increase in Resources, he noted that the voting process for the pertinent resolutions had been satisfactorily completed and that commitments for the necessary subscriptions had been received. The Chairman hoped that an agreement would be reached regarding the admission of new members.

The General Manager presented a summary of the Corporation's activities in 1999, noting that the Board of Executive Directors had approved 22 projects in 12 countries for a total of US$192 million.

He also made reference to the capital increase of US$500 million approved by the Board of Governors in 1999, which increased the IIC's level of paid-in capital to US$700 million.

The Chairman of the Committee outlined the agreements reached to increase the IIC's capital and to allow for the admission of new members, specifically: (i) the subscription of shares by current members; (ii) the subsequent release of shares to allow for the admission of seven IDB member countries; and (iii) the allocation of additional shares to two nonborrowing member countries. He then reported that Canada and the United Kingdom had decided to withdraw their requests for admission into the Corporation.

Then, the Governors for Mexico and the United States of America made statements on this matter.[1]

Lastly, the Chairman of the Committee thanked the Governors for their comments, reported on the negotiations for admission of new member countries, and emphasized the commitment of all the parties to admitting these countries into the Corporation.

Other distribution:

Board of Executive Directors
Managers
IDB Representatives

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[1] See paragraphs 3.5 and 3.6 of document CII/CA-78.

PARTICIPANTS

CHAIRMAN OF THE BOARDS OF GOVERNORS
Nicolás Eyzaguirre Guzmán

PRESIDENT OF THE INTER-AMERICAN DEVELOPMENT BANK AND CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS OF THE INTER-AMERICAN INVESTMENT CORPORATION
Enrique V. Iglesias

EXECUTIVE VICE-PRESIDENT OF THE BANK
K. Burke Dillon

VICE-PRESIDENT FOR PLANNING AND ADMINISTRATION OF THE BANK
Paulo Paiva

GENERAL MANAGER OF THE CORPORATION
Jacques Rogozinski

SECRETARY OF THE BANK AND THE CORPORATION
Carlos Ferdinand

INTER-AMERICAN DEVELOPMENT BANK
INTER-AMERICAN INVESTMENT CORPORATION
OFFICIAL DELEGATIONS

Argentina

Governor

Ricardo López Murphy
Ministro de Economía

Temporary Alternate Governors

Daniel Marx
Secretario de Finanzas
Ministerio de Economía

Daniel Artana
Secretario de Hacienda

Julio Dreizzen
Subsecretario de Financiamiento
Ministerio de Economía

Gerardo Hita
Director Nacional de Proyectos con Organismos Internacionales de Crédito
Ministerio de Economía

Advisors

Martín Bès
Director Ejecutivo Suplente
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Austria

Temporary Alternate Governor

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Walter Mayr
Director
Federal Chamber of Commerce

Bahamas

Governor

William C. Allen, M.P.
Minister of Finance

Alternate Governor

Ruth Millar
Financial Secretary
Ministry of Finance

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Joshua Sears
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Governor

Owen S. Arthur
Prime Minister

Advisors

D'Arcy Boyce
Deputy Governor
Central Bank of Barbados

Andrew Cox
Permanent Secretary
Economic Affairs
Ministry of Finance and Economic Affairs

Michael King
Ambassador of Barbados to the
United States of America
Washington, D.C.

Belgium

Governor

Didier Reynders
Ministre des Finances

Alternate Governor

Frans Godts
Directeur
Administration de la Trésorerie

Temporary Alternate Governor

René Legrand
Premier Attaché des Finances
Administration de la Trésorerie

Advisors

Olivier Henin
Conseiller
Ministère des Finances

Pierre-Yves Jeholet
Chef de cabinet adjoint
Porte-parole du Ministre

Belize

Governor

Ralph Henry Fonseca
Minister of Government
Ministry of Budget Management,
Investment and Trade

Alternate Governor

Keith Arnold
Governor
Central Bank of Belize

Advisor

Sydney J. Campbell
Deputy Governor

Bolivia

Governor

José Luis Lupo Flores
Ministro de Hacienda

Alternate Governor

Bernardo Requena
Viceministro
Inversión Pública y Financiamiento Externo
Ministerio de Hacienda

Temporary Alternate Governor

Alfredo Landívar
Cónsul
Embajada de la República de Bolivia en Chile

Advisor

Ramiro Cavero
Presidente
Directorio Único de Fondos

Brazil

Governor

Martus Tavares
Ministro de Estado
Ministério do Planejamento, Orçamento e Gestão

Alternate Governor

Dante Lima
Secretário de Assuntos Internacionais
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