00321149
GO-Meeting, Annual Proceedings
GO - 39th Meeting Board 1998-1998
Cartagena de Indias, Colombia 1998

INTER-AMERICAN DEVELOPMENT BANK
INTER-AMERICAN INVESTMENT CORPORATION

PROCEEDINGS

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O-Meeting, Annual Proceedings
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EC/SEC

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

Thirteenth Annual Meeting of the
Board of Governors of the Corporation

Cartagena de Indias, Colombia
March 1998

This publication contains the minutes and additional information on the Thirty-ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Thirteenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation, held jointly in the city of Cartagena de Indias, Colombia, from March 16 to 18, 1998. It includes the resolutions approved between the Thirty-eighth and Thirty-ninth Annual Meetings of the Bank and those approved during the latter of these meetings, as well as resolutions approved between the Twelfth and Thirteenth Annual Meetings of the Corporation and those approved during the latter of these two meetings. It also includes the addresses delivered at the meetings, the lists of participants, which include the official delegations, the Senior Management and the Board of Executive Directors of the Bank and the Corporation, and observers.

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The Thirty-ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Thirteenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation were held in Cartagena de Indias, Colombia, from March 16 to 18, 1998.[1] The Inaugural Session was held in the Getsemaní Auditorium of the Convention Center of Cartagena de Indias. The plenary sessions of the Boards of Governors of the Bank and the Corporation, as well as the Seventy-fifth Meeting of the Committee of the Board of Governors of the Bank and the Fifteenth Meeting of the Committee of the Board of Governors of the Corporation were held in the Barahona Room 3 and 4 of the Convention Center.

The Inaugural Session opened under the presidency of the Governor for Spain, Mr. Rodrigo de Rato y Figaredo. Following approval of the Agendas of the Meeting of the Bank and the Meeting of the Corporation (see page 7), Mr. Nicolás Francisco Curi Vergara, Mayor of Cartagena, expressed words of welcome. The outgoing president expressed words of farewell and 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.[2] Subsequently, Mr. Antonio J. Urdinola, Governor for Colombia and Minister of Finance, was elected Chairman of the Boards of Governors, and proceeded to preside over the meetings.

The Inaugural Session was attended by His Excellency Mr. Ernesto Samper Pizano, President of Colombia; His Excellency Mr. Ernesto Pérez Balladares, President of Panama; and His Excellency Mr. Alberto Fujimori, President of Peru.

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

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

   The report of the Committee of the Board of Governors of the Bank and the report of the Committee of the Board of Governors of the Corporation appear on pages 155 and 161, respectively.

2. The Annual Report of the Bank for 1997.

   During the Inaugural Session, the President of the Bank reported to the Board of Governors on the activities conducted by the institution in 1997 and on the current situation of and prospects for Latin America and the Caribbean.

3. During the Second Plenary Session, the Governors adopted Resolutions AG-2/98, AG-3/98 and AG-4/98, approving the financial statements of the ordinary capital resources, the Fund for Special Operations, and the Intermediate Financing Facility account, respectively, for the fiscal year ending December 31, 1997.

   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$23.5 million in convertible currencies from the General Reserve of the Fund for Special Operations, as set forth in Resolution AG-3/98.

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

   During the Fifth Plenary Session, the Board of Governors adopted Resolution AG-5/98 concerning the site and date 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, Chile, France, and the United States, and 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.

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1 Documents GN-2033 and CII/GN-133 contain a detailed summary of the meetings.

2 Documents AB-1902 and CII/AB-585 contain the text of these reports.

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

1. Annual Report of the Corporation for 1997.

During the Fourth Plenary Session, the Governors adopted Resolution CII/AG-2/98, approving the financial statements of the Inter-American Investment Corporation for the financial year ending December 31, 1997, in accordance with Article IV, Section 2(c) of the Agreement Establishing the Corporation.

2. 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 ad interim of the Inter-American Investment Corporation on its work and on its plan for the near future.

Carlos Ferdinand
Secretary of the Bank and of the Corporation

AGENDA OF THE THIRTY-NINTH 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 1997:

   - Ordinary capital resources

   - Fund for Special Operations

   - Intermediate Financing Facility Account

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

1. Election of the Chairman of the Board of Governors

2. Annual Report of the Corporation. Financial statements for 1997

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

4. Report of the Committee of the Board of Governors on its work since the Twelfth Annual Meeting

RESOLUTIONS ADOPTED BETWEEN THE THIRTY-EIGHTH AND THE THIRTY-NINTH ANNUAL MEETINGS OF THE BANK

RESOLUTION AG-6/97

REELECTION OF THE PRESIDENT OF THE BANK

WHEREAS:

The term of office of the President of the Inter-American Development Bank, Mr. Enrique V. Iglesias, ends on March 31, 1998;

Accordingly, pursuant to the Regulations for the Election of the President of the Bank, the period for presentation of nominations was opened on September 12, 1997;

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

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

The Board of Governors

RESOLVES:

1. To reelect Mr. Enrique V. Iglesias as President of the Inter-American Development Bank for a term of five years beginning April 1, 1998, pursuant to Article VIII, Sections 2(b)(iii) and 5(a), of the Agreement Establishing the Bank.

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

(Adopted November 3, 1997)

RESOLUTION AG-1/98

SITE AND DATES OF THE FORTIETH ANNUAL MEETING OF THE BOARD OF GOVERNORS

The Board of Governors

RESOLVES:

That the Fortieth Annual Meeting of the Board of Governors will be held in Paris, France, from March 15 to 17, 1999.

(Adopted March 11, 1998)

RESOLUTIONS ADOPTED AT THE THIRTY-NINTH ANNUAL MEETING OF THE BANK

RESOLUTION AG-2/98

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, 1997, containing the general balance sheet and the statement of profit and loss, are approved.

(Adopted March 16, 1998)

RESOLUTION AG-3/98

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;

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

The Board of Governors

RESOLVES:

1. That the financial statements of the Fund for Special Operations for the fiscal year ended December 31, 1997, 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$23,500,000 in convertible currencies of the General Reserve of the Fund for Special Operations.

(Adopted March 16, 1998)

RESOLUTION AG-4/98

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, 1997, containing the general balance sheet and the statement of changes in fund balance, are approved.

(Adopted March 16, 1998)

RESOLUTION AG-5/98

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, Chile, France, and the United States have, prior to the Thirty-ninth 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 1999 and subsequent years; and

It is expected that during the Thirty-ninth Annual Meeting of the Bank's Board of Governors other Governors will offer their countries as the sites of 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, Chile, France, and the United States, as well as such other invitations as may be extended during the course of the Thirty-ninth 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 18, 1998)

RESOLUTIONS ADOPTED BETWEEN THE TWELFTH AND THE THIRTEENTH ANNUAL MEETINGS OF THE CORPORATION

RESOLUTION IIC/AG-3/97

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 and in accordance with Resolution CII/DE-5/95 adopted on February 21, 1995, the firm of Price Waterhouse is selected, with respect to the fiscal year 1997, 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 June 24, 1997)

RESOLUTION IIC/AG-1/98

ADMISSION OF SURINAME TO MEMBERSHIP IN THE CORPORATION AND SPECIAL CAPITAL INCREASE

WHEREAS, Article II, Section 1(b) of the Agreement Establishing the Corporation (the "Agreement") provides that the Inter-American Development Bank (the "IDB") member countries that are not founding members of 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, Article II, Section 2(c)(i) of 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 IDB other than founding members, provided that the aggregate of any increases authorized does not exceed 2,000 shares;

WHEREAS, Suriname, a member country of the IDB, has applied for admission to membership in the Corporation; and

WHEREAS, pursuant to Section 9 of the By-laws of the Corporation, and after consultation with representatives of the Government of Suriname, the Board of Executive Directors of the Corporation hereby recommends to the Board of Governors to admit Suriname as a member of the Corporation pursuant to the application by them submitted.

The Board of Governors

RESOLVES:

1. That Suriname shall become a member of the Corporation when the Chairman of the Board of Executive Directors of the Corporation shall have declared that Suriname has fulfilled all the following requirements:

    (a) It shall have subscribed to 30 shares of the capital stock of the Corporation having a par value of US$10,000 (ten thousand United States dollars) per share, on the following basis:

    The amount subscribed to the capital stock of the Corporation shall be subject to payment made in United States dollars in four equal yearly installments within four years after the date on which Suriname accedes to the Agreement, or by such future date as the Board of Executive Directors may determine.

    (b) Its duly authorized representative shall have signed the original of the Agreement deposited with the General Secretariat of the IDB.

    (c) It shall have deposited with the General Secretariat of the IDB an instrument setting forth that it has accepted or ratified, in accordance with its laws, the Agreement and all the terms and conditions prescribed in this Resolution, and that it has taken the steps necessary to enable it to fulfill all of its obligations under the Agreement and this Resolution.

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

2. Suriname may accept the conditions and fulfill the requirements established for membership until April 30, 1998, provided, however, that if extraordinary circumstances are deemed by the Board of Executive Directors so to warrant, the Board may postpone such date.

3. Pursuant to Article II, Section 2(c)(i) of the Agreement, in order to effect this recommendation, the Corporation's authorized capital stock is increased in the amount of US$300,000 (three hundred thousand United States dollars) through the issuance of 30 shares in favor of Suriname, in accordance with the terms and conditions prescribed in this Resolution.

(Adopted March 13, 1998)

RESOLUTIONS ADOPTED AT THE THIRTEENTH ANNUAL MEETING OF THE CORPORATION

RESOLUTION IIC/AG-2/98

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 certified that the balance sheet and the statements of income and retained earnings and of cash flow were prepared in accordance with generally accepted accounting principles.

The Board of Governors

RESOLVES:

That the financial statements of the Corporation with respect to the fiscal year ended December 31, 1997, containing the balance sheet and the statements of income and retained earnings and of cash flow, are approved.

(Adopted March 17, 1998)

Thursday, March 12	
9:00 a.m. to 6:30 p.m.	Seminar 1: "Social Programs, Poverty, and Citizen Participation"
Friday, March 13	
9:00 a.m. to 6:30 p.m.	Seminar 1 (continued)
Saturday, March 14	
9:00 a.m. to 5:30 p.m.	Seminar 2: "Fostering Civic Coexistence in Latin America and the Caribbean: A Framework for Action"
9:00 a.m. to 1:00 p.m.	Seminar 3: "Investing in the Emerging Markets of Latin America and the Caribbean: Risks and Opportunities"
3:30 p.m.	Preliminary Session of Heads of Delegation to the Thirteenth Annual Meeting of the Board of Governors of the Corporation, followed by: Meeting of the Committee of the Board of Governors of the Corporation
Sunday, March 15	
9:00 a.m. to 1:00 p.m.	Seminar 4: "The Employment Problem in Latin America: Roots and Remedies"
3:00 p.m.	Preliminary Session of Heads of Delegation to the Thirty-ninth Annual Meeting of the Board of Governors of the Bank, followed by: Meeting of the Committee of the Board of Governors of the Bank
Monday, March 16	
9:30 a.m. to 12:00 noon	Inaugural Session (First Plenary Session)
3:00 p.m. to 6:30 p.m.	Second Plenary Session
Tuesday, March 17	
9:30 a.m. to 12:30 p.m.	Third Plenary Session
3:00 p.m.	Fourth Plenary Session (Inter-American Investment Corporation)
Wednesday, March 18	
9:30 a.m. to 12:30 p.m.	Fifth Plenary Session and Closing Session

FIRST PLENARY SESSION

MARCH 16, 1998

INAUGURAL SESSION

MR. RODRIGO DE RATO Y FIGAREDO, CHAIRMAN OF THE BOARDS OF GOVERNORS OF THE BANK AND THE CORPORATION, GOVERNOR FOR SPAIN, SECOND VICE PRESIDENT AND MINISTER OF ECONOMIC AFFAIRS AND FINANCE.

First, I would like to thank the Government of Colombia for hosting the Thirty-ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Thirteenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation. I would also like to thank the authorities and people of Cartagena for their warm hospitality and their contribution to the success of this event.

A year ago, the Boards of Governors of the Bank and the Corporation met in Barcelona. At the time, Latin America was facing a general situation somewhat different from the current one. If 1996 could be defined as a year of consolidation for Latin America and the Caribbean, 1997 can without a doubt be defined as a year of economic revival.

The world economic environment in 1997 has clearly been beneficial, with world economic growth of 3.4%, and the United States, the leading world economy, experiencing a growth rate of around 3.6%, combined high levels of economic activity with very moderate inflation and low interest rates. Europe, with growth of 2.5%, has continued with the process of convergence that will lead to monetary union: significant budgetary adjustments in all the countries of the European Union, a generalized reduction in interest rates, and a significant drop in inflation rates.

This positive outlook, however, is not without certain overtones, in particular with regard to Asian economies. Japan has maintained a slow growth rate of about 0.8% throughout 1997. At the same time, the recent Asian crises have resulted in a slowdown in the growth of the region's economies. Although some countries, such as China or India, have seen little impact, the repercussions have been significant in Southeast Asia and these countries' growth prospects will no doubt be affected throughout 1998.

This crisis has made it clear that it might be advisable to consider a number of factors, however briefly: in the first place, it has highlighted the interconnection among international financial markets, with the possibility of other areas being affected, and the importance of multilateral agencies as safety nets and sources of stability for the international financial system, a role that no doubt will expand in the future and should be biased more actively in favor of preventive approaches. In addition, the coordinated action of these multilateral institutions will have to be expanded, not only in crisis situations, but in their daily operations.

Second, the quick and effective reaction of the Latin American countries that could have been infected by the Asian crisis has demonstrated the quality of the economic reforms undertaken in Latin America after the Mexican financial crisis and the soundness of the economic path the region is following, which has enabled it to ride out the storm with very little damage.

The year 1997 can be considered a turning point for the Hemisphere's economic development, with economic growth of 5.1% in a generalized context of reduced inflation. Control of inflation is no doubt one of the areas that most clearly shows the progress achieved by Latin America and the Caribbean. We all remember the hyperinflation that gripped a number of Latin American countries at the start of this decade; with four-digit rates, and an average inflation for all of Latin America of 665.9% in 1990. In 1997, average inflation for the region was 11.6%, with most countries having achieved single-digit inflation.

International markets and investors have given their seal of approval to this positive trend, increasing the inflows of capital by 14% with respect to 1996, with a focus on long-term investments rather than the speculative, short-term investments of the past.

Per capita income in the region also grew in 1997, at a rate of 3.5% in real terms, which we hope indicates the beginning of a phase of improved well-being, better living conditions for the population, and poverty reduction, the latter being one of the most pressing issues still to be resolved.

Other unresolved areas in which the IDB Group will be called upon to play an important role, other than improved wealth distribution, are the regional imbalance arising from the countries' different levels of development, the status of women, and the marginal groups. These periods of economic prosperity must encourage progress in these areas.

The outlook for 1998, however, shows some grounds for concern: the indirect impact of the Asian crisis may reduce growth rates in other emerging economies. In the case of Latin America, economic growth in 1998 is expected to reach about 3.5%. This slowdown is more likely to be caused by adjustment measures implemented by some countries and a possible deceleration of the expansion experienced in the last few years than by the depreciation of Asian currencies and restrictions on market access arising from the crisis. It is important, however, that increased protectionism not be the reaction to these effects of the Asian crisis. On the contrary, the opening of the economies and regional integration in Latin America must continue. The opening of the developed countries' markets is essential to this process.

In this economic environment, the work of the Inter-American Development Bank takes on particular significance, in terms of its traditional functions as the main source of financing for Latin America, as well as in its new areas of activity and in its work of advising on institutional reforms and sector deregulation. Its focus on the financial sector and its transparency should hold a prominent position and the IDB ought to work together with the International Monetary Fund and the World Bank in this area.

Given the time horizon contemplated for the Eighth Replenishment, the Inter-American Development Bank is currently at a crossroads in terms of defining its role for the future, with its mission to support economic and social development in Latin America and the Caribbean.

In the year that I have had the honor to chair this Board of Governors, the Bank — including Management, the Board of Executive Directors, and the Committee of the Board of Governors — has been immersed in a far-reaching exercise of reflection on this topic, which should continue in the coming year. As a result of this process, the Bank that emerges will clearly be stronger, reflecting its preeminent role in the region.

This process of reflection, which should be conducted with the thoughtfulness that the importance of the decisions to be made demands, ought to be analyzed and become one with the need for a larger financial presence of the Bank in the region, greater efficiency in the preparation of its operations, and better response to the needs of the borrowing countries, all of which may require more flexibility on the part of the institution.

To this specific end, the Committee of the Board of Governors at its meeting yesterday received and adopted a recommendation put forward by the working group set up to examine the question of concessional resources, which proposed an in-depth review of the uses, sources, and administration of concessional resources. Out of that exercise will come a proposal for a comprehensive, definitive solution to the problem of concessional resources.

The Committee also adopted a decision as to how to proceed on this issue, and on the question of the vision for future Bank action.

As Governor for Spain, I can affirm here that I am prepared to examine the proposals put forward to seek greater flexibility in the Eighth Replenishment mandates, to be able to better address the differing needs of the Bank's membership. At the same time, we must not lose sight of the Replenishment objectives that accord priority to efforts to assist the neediest of the Latin American and Caribbean member countries. To that end, the Bank should reconsider the general approach of support for these member countries, with a view to effectively bolstering their capacity to absorb and manage the resources made available to them.

As for the creation of new instruments to help the Bank improve its delivery of such financial support, I think we all would welcome such new approaches, as a way of truly meeting the countries' actual needs more efficiently and responsively. Obviously the Bank will need to look at the financial implications of such new instruments for the institution, to make sure that they are viable and achieve the desired effect.

Hand in hand with the increased flexibility that the Bank's Management is seeking in this area, there will need to be more efficient operations preparation and streamlined administrative procedures, as well as greater transparency and better communications with the Board of Executive Directors, to align the Bank's action with the guidelines received from the Board of Governors and the Committee of the Board of Governors.

While we are very much in favor of increasing the Bank's support to the private sector, we see this as a process that must be coordinated with the work of the Inter-American Investment Corporation. With that in mind, I would see a capital increase for the Corporation as something to be considered in light of a determination of the roles to be assigned to that institution and to the Bank's private-sector window.

A final consideration I would like to mention here today is the need to build stronger ties and relations with civil society and subnational entities — an initiative with which we likewise concur. In our view, such strengthening efforts should be balanced ones, with due regard always to the circumstances in each country.

We are decidedly in favor of closer coordination with the aforementioned organizations, with bilateral donors, and particularly with other multilateral agencies, as we ascertain country needs and divide up the tasks, so that efforts deployed in support of a given country will complement one another and thus be more effective.

The Inter-American Development Bank should tailor its initiatives, as it has indeed been doing, to address the needs of the countries that it was created to support, with special attention to the neediest of its members. It will fall to the Governor who will be chairing the Board of Governors until the next annual meeting to oversee this process.

The incoming Chairman of the Board of Governors will be able to draw, as I myself have done since I was elected Chairman last year in Barcelona, on the firm support of the Management of the Bank and that of his fellow Governors. I would take this opportunity to convey my appreciation to Management, and especially to President Iglesias and to the Secretary of the Bank, for their invaluable assistance and support during my term as Chairman of the Board of Governors.

In closing, I should like to pledge my full support to the incoming Chairman of the Board of Governors.

MR. ANTONIO JOSÉ URDINOLA, CHAIRMAN OF THE BOARDS OF GOVERNORS OF THE INTER-AMERICAN DEVELOPMENT BANK AND THE INTER-AMERICAN INVESTMENT CORPORATION AND MINISTER OF FINANCE OF COLOMBIA

It has been nigh on 40 years since the Inter-American Development Bank came into being. The Latin America of that era was structurally the antithesis of the region's configuration today. For one thing, the ratio of rural to urban population was exactly the reverse of the present figure: when the Bank began its operations, 30 percent of the region's people were living in cities and 70 percent in the countryside. The annual population growth rate in the region of over 3 percent was much higher then than today, when rates have slipped below 2 percent. Back then, the majority of countries in the region were not democracies, nor was there as strong a commitment to representative democracy as is the case today. Issues such as the decentralization of political, economic, and social functions and responsibilities to departments, states, or municipalities were at most at an embryonic stage at that time.

As the Bank began to furnish support to the region, the Latin American economies were acknowledging the need to equip their domestic markets for the move to industrialization that was already advancing inexorably. The region's countries needed an institution like the IDB to afford them access to the type of long-term credit they could not find on the international markets, to supplement regional savings, and to provide at the same time a heavy dose of technical assistance to governments which, in those days, did not have the personnel or administrative apparatus to structure the projects their countries required.

Today's Latin America bears no resemblance to the picture of 40 years ago. We have set in place a massive economic infrastructure in which local markets can flourish; we have opened up those markets, moved our nations into the global economy, and reined in inflation after years of endemic high increases; and we are back on the road to growth after some severe setbacks in the 1980s. But, as President Aylwin noted yesterday, something is wrong on the social front. Most of the poor have left the countryside for the city, where their ranks continue to swell. Globalization has made economies run more efficiently, but there have been no gains in equity — and indeed quite the contrary. The wage gap is widening, benefiting the highest skilled workers; these wage differentials, as Dr. Hausmann reminded us, are the widest in the world. Add to this the fact that property distribution in Latin America was perhaps more disproportional than anywhere else in the world to begin with, and things did not augur well for the subcontinent. It thus is entirely reasonable that the IDB Board of Governors has periodically rethought the role of the institution, so it can offer ever more efficient support to the governments in the areas of need I have referred to here. To cite one example, the IDB's core mandate at the outset was to provide Latin America with (largely State-owned) physical infrastructure, through national agencies that had the backing of sovereign guarantees and vast amounts of IDB-funded technical assistance to help carry through the initiatives. Over the years, the Bank's role has gradually been reshaped, to equip it to take on fresh challenges. The aim of the 1990 Seventh Replenishment, for instance, to contend with the aftermath of the 1980s crisis, was to promote macroeconomic stability and expedite the globalization of the economy. In 1994, on the occasion of the Eighth Replenishment, the Board of Governors recognized that the thorniest problem was now in the social sectors, and that governments were concentrating public spending more and more in that area. To cite but one case, over 80 percent of Colombia's 1998 budget will go to social-sector programs and initiatives, dwarfing the 7 percent earmarked for physical infrastructure, which was the cornerstone of governments' mandates in the 1950s and 1960s. But, the social sector is complicated terrain. The region's governments are attempting to improve the situation, but we are not doing so very well or very efficiently. Little by little we have had to hand over physical infrastructure to the private sector, as a necessary or advisable choice. This poses yet another challenge for the IDB: alongside its traditional lending facilities geared to the public sector, with associated sovereign guarantees, it will now need to address the fact that not only is the private sector very active in infrastructure finance — as it must be — but private entrepreneurs will not receive sovereign guarantees. The Bank thus will have to learn to assess project risk and project security requirements, something that was not of the essence in the past. The same holds true for social-sector operations: as democracy has taken firm root in Latin America, more and more economic and administrative functions and responsibilities are being handed over to departments, municipalities, and civil society, because local authorities are much closer to the needs of the electorate. The question that then arises is to what extent central governments are prepared to continue to guarantee loans to local authorities. Eventually the Bank may have to take on this type of risk.

The mandate handed down to the Bank four years ago has been all but fulfilled. The Eighth Replenishment target was to devote 40 percent of lending to the social sectors, and the Bank came very close with 38 percent of total lending, well up from the 25 percent during the previous replenishment. In the process, however, the Bank has come to realize that its financing structures, risk assessment mechanisms, lending rules, and funding windows are not flexible enough to tackle the challenge of macroeconomic stabilization at a time when globalizing economies are becoming more vulnerable to external shocks, or to address the social-sector problem or respond to the needs of private business. This means that the Bank has a two-pronged task before it. It must maintain the momentum created as to globalization, competitiveness, and defense against the volatility triggered by external shocks, while also addressing itself in depth to the social sphere. For both purposes the Bank will need to look again at the instruments it deploys in areas such as concessional lending to the poorer countries, or how to distribute the ordinary resources among country groups to be certain that full use is made of its installed lending capacity, or how projects are financed, bearing in mind in the process that the very volatility that our globalized economies are expected to weather makes for abrupt fiscal cycles, which in turn means that when the economy slips, our countries cannot come up with sufficient counterpart funds to receive IDB loans. This turns into a completely procyclical mechanism: IDB facilities become inaccessible when we encounter fiscal problems, and more accessible when we have budget surpluses. This has to be brought to an end. The same is the case for the windows through which assistance is provided to deal with emergencies ensuing likewise from external liquidity shocks beyond Latin America's control, as we have been witnessing with the crisis in Asia. Social management is another sphere in which we have much to learn. Analysts concur that our government social outlays are massive, but we are not spending efficiently; and as a starting point for improving efficiency there needs to be an in-depth review of local mechanisms in concert with civil society, probably in the form of small pilot projects that can then grow into larger and more heavily financed programs. The challenge is stiff; but I, like all of us, am certain that the IDB will continue to address it as successfully in the future as it has in the past, and will continue to be the premier institution for economic and social development in Latin America.

STATEMENT 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 should like to begin by extending special thanks to His Excellency Ernesto Samper, the President of the Republic of Colombia, and, through his good offices, to the people and Government of Colombia for the warm welcome we have received at this annual meeting. Indeed, this is the third time that Colombia — a founding member and close friend of the Bank since the institution's very beginning — has hosted an annual meeting, treating us to the cordiality and warmth that are so much a part of this vibrant nation.

I should also like to acknowledge the presence of His Excellency Alberto Fujimori, President of Peru, and His Excellency Ernesto Pérez Balladares, President of Panama, and to thank them for honoring us with their presence here today.

Lastly, I wish to express my appreciation to the charming city of Cartagena de Indias, whose privileged location and exceptional natural beauty win the admiration of all who come to see it — this city which has been both home and an inspiration to so many of Latin America's famous sons. Here, in the presence of the city's mayor, Mr. Nicolás Francisco Curi, I extend my warmest greetings to the people of Cartagena de Indias, the pride of Colombia and of all the Americas.

I should now like to touch on three current issues that are of particular interest to all of us: the regional socioeconomic situation and international setting, the lessons to be learned from the crisis in Asia, and the challenges facing the Bank as it stands at the threshold of the twenty-first century.

I. THE ECONOMIC AND SOCIAL SITUATION IN THE REGION

In 1997, Latin America and the Caribbean enjoyed some of the best economic conditions since the difficult times of the "lost decade" of the 1980s.

We are all aware of the drawbacks of relying too heavily on statistical averages, especially given the broad diversity of situations in our region. Still, it can be said that 1997 saw economic recovery take hold throughout the region, laying the foundations for an effective solution to pressing social problems of concern to us all.

The year's highlights bear this out:

- output grew on the order of 5 percent, one of the highest average levels since 1981;
- inflation — a longstanding scourge in the region — continued to drop to an annual average of 10 percent, one of the lowest in the last 50 years;
- the average investment rate showed signs of recovery, climbing to 21 percent; and
- the flow of external capital into the region reached an unprecedented US$71 billion, thus making it possible both to finance the balance-of-payments current deficit and boost international reserves by some US$17 billion.

It is unfortunate that these achievements were not accompanied by similar advances in the social sphere, where much still remains to be done.

Indeed, poverty and inequitable income distribution continue to be the most serious problems facing Latin America and the Caribbean, with closely interrelated ethical, economic, and political implications. Poverty levels in some countries have dropped in recent years thanks to successful price-stabilization efforts (Brazil, in particular, comes to mind) and brisk economic growth. Despite these accomplishments, poverty has worsened in the region overall: some 150 million persons — roughly 33 percent of the total population — currently live in poverty, and one half of them live in conditions of extreme poverty.

On balance, both the incidence of poverty and the numbers of the region's poor continue to be higher than in 1980. The data also reveal that poverty is more prevalent among young people, women, and certain ethnic groups, and that rural areas have been particularly hard hit, although urban poverty has increased as well. As the region prepares to enter the new century, then, the main challenges it faces are to find a solution for poverty and to set in motion a virtuous circle of less poverty, greater social and political stability, and stronger economic growth.

One of the main determinants of poverty is the combined impact of unemployment and underemployment. In some Latin American and Caribbean countries, these two phenomena have mushroomed in the wake of private- and public-sector structural reforms aimed at modernization and productivity gains, the region's shifting demographic profiles, and slow economic growth. In fact, the region's unemployment and underemployment rates for the 1991-1996 period were higher than in 1985-1990, when economies were still reeling under the impact of the foreign-debt crisis.

Fortunately, there is genuine consensus in the region on the need to bolster economic reforms with social reforms as a means of providing the neediest in our countries with better access to basic health and education services and the training that will enable them to gain productive employment. In this connection, we feel there is still work to be done in the area of labor-market reform, where efforts have been relatively weak. This kind of reform is instrumental in improving employment prospects, boosting investment in human capital, and enhancing worker productivity and remuneration. Hand in hand with this reform, social-security administrations need to be created or fine-tuned to offset the adverse impact of income and employment instability. Specific initiatives must be launched that meet the special needs of underprivileged groups, including at-risk youth, women heads of household, and indigenous communities. Programs that support microenterprise and small businesses or foster rural development are another important vehicle for raising the standard of living among groups that otherwise would not be able to share in the benefits of economic growth.

At the turn of this decade, 36 percent of the region's population was under 15 years of age. Today, the implications are being felt not only in terms of social demands, such as education services, but also in the need for new jobs. The demand for new employment opportunities is fueled as well by the growing participation of women in the work force — from 27 percent in 1980 to 33 percent at present — partly as a response to the harsh economic circumstances that have prevailed since the early 1980s. Moreover, fewer new jobs have been created owing to the economic stagnation or slowdown seen in the region since the 1980s; the progress posted in recent years has come about through more modern technologies that are less labor-intensive. Most of the new jobs created have been in the areas of microenterprise and small business or in the informal sector, where the impact of technological advances has been less and productivity lags are greater.

Against such a backdrop, the following conclusions can be drawn:

- The region has made **significant progress in the management of its macroeconomic situation**, particularly with regard to fiscal equilibrium and the adoption of sound monetary policies, reinforced by a trend towards greater autonomy of the region's central banks.

- **Social issues have emerged as the priority challenge in today's world**; heightened public awareness has moved these issues to the forefront of governments' and civil society's concerns. Economic recovery, while not a solution in and of itself to social problems, is nonetheless a condition sine qua non to such a solution. Economic policy needs to foster a sound macroeconomic environment and clear-cut rules in order to ensure sustainable growth, based on resolute private-sector initiative and proactive governments that take part in finding solutions to major social problems. This understanding that the market alone cannot accomplish everything, and that explicit policies are called for on the part of the State, with support from local governments and civil society, is the first step in addressing these problems.

- The long-standing ideological controversy of State versus private sector is losing currency with the emergence of a climate of cooperation and complementarity that favors greater economic and social synergy. At the same time, a process of **reconfiguration and modernization of the State** is well under way, encompassing active privatization and judicial reform in parallel with a decentralization of functions to local governments. As concerns reform of the State, significant headway has been made in the area of fiscal decentralization. For instance, local governments' share in overall public spending rose from 15.6 percent in 1985 to 19.3 percent ten years later. Local governments are also assuming greater responsibility for education, health care, roads and water supply services. At the same time, they are taking on increased financial obligations, including direct borrowing. Another noteworthy development is the growing recognition of the importance of involving community-based organizations, by way of partnerships that make for more effective supply of public goods and services.

- **The region** — all of whose countries but one are now members of the World Trade Organization — **continues to open up to international markets and, more importantly, is the scene of vigorous political and business activity that is strengthening existing integration arrangements.** Headway is likewise being made with hemispheric integration and closer ties with the European Union.

- **Increased technical and managerial capacity is clearly apparent among those responsible for administration of the State and management of the private sector.**

If these general trends continue and accomplishments to date can be built upon, the region could enjoy faster economic growth and move decisively forward in the sphere of social development and the fight against poverty.

II. THE CRISIS IN ASIA

Late in 1997, the international markets were witness to a crisis of unexpected complexity and scope which swept the countries of southeast Asia.

I shall not dwell here on the causes of the process that culminated in such a grave financial crisis in countries that had shown impeccable macroeconomic performance, markedly improved social conditions and a growing presence in international markets. The admiration aroused by these economies' accomplishments led many to sing their praises and hold them up as a paradigm for development policy to be emulated by other countries, including those in Latin America.

Recent analyses have revealed that in most cases the roots of the crisis were essentially private, and that it followed on poor financial-system management that allowed for the creation of speculative bubbles and in some cases collusion among banks, businesses, and government. Even as we speak, some of these economies have begun to show signs of recovery, and it is to be expected that the rest will soon follow suit. There is no doubt that — with the guidance of the International Monetary Fund and support from the international financial community and friendly governments — the adjustment programs under way will create the necessary conditions for the countries to overcome this crisis. Their economies continue to be structurally sound and have not lost their capacity to serve as a dynamic hub of the international economy. We look forward to their rapid recovery, in their own best interest and in that of the rest of the world.

Experience has shown, however, that critical situations such as this one — which the Managing Director of the International Monetary Fund has referred to as a crisis of the twenty-first century — pose new challenges and risks for the international economy and, in particular, for countries such as our own. It is worth taking a closer look at these risks in the light of our own experience and the recent events in Asia.

Indeed, the turbulence that swept Latin America and the Caribbean in the early 1980s and, in this decade, the financial crisis in Mexico and its fallout on the Argentine economy in 1995, have left lessons that hold meaning both for us and for the formulation of policies that the Asian countries are seeking to implement.

On the one hand, it is clear that **globalization**, as an inevitable phenomenon of the modern world, holds great **potential** for every country's growth prospects, but also poses **risks** such as the ones we recently have had the opportunity to witness.

These challenges require, first and foremost, a response at the international level, one that the Bretton Woods institutions are providing as system safeguards. Secondly, they point up the importance of having arrangements in place that set down appropriate rules, without constraining capital mobility, and provide the information needed to ensure informed decision-making and diminish uncertainty. The International Monetary Fund's ability to take action needs to be reviewed and strengthened. Over the last half century the Fund has contributed to international financial stability and to the prevention of deep-seated crises like the one that shook the world in the 1930s. An increase in its resources will be vital to allow it to continue to play a leading role in solving such critical problems as the ones facing us today.

With the drafting of clear-cut rules to govern the increasing globalization of world markets, countries will need to adopt domestic policies that **strengthen their lines of defense** against external shocks and especially against the volatility of short-term capital flows.

We have drawn attention on numerous occasions to the benefits held out by internationalizing capital markets in terms of universal access to global savings. We have also pointed out, however, the problems associated with the volatility of short-term financial flows that are attracted by expectations of high returns and low risk. When these expectations shift — be it for reasons based on fact or on feeling — massive outflows of capital can trigger the kind of financial turbulence that we saw in Latin America in 1982 and 1995 and are seeing today in Asia. The question is **how to maximize the benefits of access to international capital markets while minimizing the risks associated with highly volatile short-term funds.**

Taking a closer look at our experience and at recent developments elsewhere in the world, we can draw some important lessons for policy in this area:

- **Sound macroeconomic policy** is the first and most important line of defense against adverse international developments, even though it does not constitute a guarantee in and of itself. There is no denying that the proper administration of economic policy, especially fiscal equilibrium and monetary policy, is an essential requirement.

- **A solid financial system governed by strict regulations and proper supervision** is fundamental to economic growth and the ability to weather crises. Latin America's financial systems have undergone trying imbalances, with excessive credit expansion during periods of economic boom, based on strong inflows of short-term foreign capital. When the cycle reverses, the bubble bursts and exposes a speculative concentration of resources in real estate, low-return projects, and currency risk. This unleashes systemic crises of such dimensions and impact that they become a matter of national import, with governments forced to bail the systems out so as to avert the higher costs of a simple market self-correction. In any event, the cost of these bail-outs has been burdensome to society as a whole, which ends up bearing the brunt. A similar sequence of events is being observed in southeast Asia today. Although the crisis was originally triggered in the private sector, its sheer size has made it a public crisis, and society at large will inevitably have to pay the price. That is why macroeconomic policy must be underpinned by sound regulatory structures and bank supervision systems.

- **Higher domestic savings levels** are likewise important in order to lessen dependency on external funds. Here again, experience has shown that this is a necessary condition but not a guarantee in and of itself. Internal savings need to be fostered as a means of reducing dependency on external — and especially short-term — fund flows to finance investments.

- The devastating impact of external turbulence on the poor has underscored **the importance of having a social safety net** to cushion the ensuing social costs. Latin America learned a hard lesson from the crisis of the 1980s: that strong social safety nets are a necessary buffer in the face of the inevitable toll of external financial shocks.

- Experience has furthermore shown that in our economies it is important to strike a balance between short-term external liabilities and liquid international reserves. High reserve levels are a crucial line of defense. Some countries of the region are also exploring private stand-by agreements as a means to hedge against possible short-term liquidity problems.

- Experience and responses to crisis situations should be studied with an eye to identifying crisis management techniques and approaches, the proper timing of adjustments to the fiscal environment and interest rates, and the signals to send to markets to assure them of the authorities' firm commitment to making the adjustments. The recent performance of some of our countries, specifically those faced with a possible negative market reaction to their macroeconomic imbalances, was recognized by international markets and helped to stabilize expectations.

In each of the aforementioned processes, Latin America and the Caribbean have provided examples of appropriate responses. The political commitment of the region's leaders and, in particular, the timely adoption of remedial measures are fundamental conditions for stabilizing expectations and preventing any spiralling of the crisis. I think we would be safe in saying that Mexico's and Argentina's exemplary responses to the problems that they were called upon to deal with in 1995 today constitute important assets in coping with possible spill-overs from external crises.

There is no doubt that the Asian crisis will have repercussions in our region. Our terms of trade will be affected, especially by lower prices for some of our raw materials; competition will be keener in some export markets, owing to the strong depreciation of Asian currencies; the cost of external funds available to emerging economies will be higher, despite the fact that interest rate spreads for some of our countries have begun to narrow; and, of course, the relative slow-down in world growth will not leave our region untouched.

Given the present circumstances, the **process of regional integration** currently under way — whose merits in terms of growth and export diversification we have drawn attention to on numerous occasions — has become in recent years yet another line of defense against the instability of international markets.

For instance, **intraregional trade** has grown significantly during the 1990s, averaging 22.6 percent per annum, as compared with 13.4 percent annual average growth for exports overall; intraregional trade now accounts for 19 percent of the region's exports, with one fourth of that volume attributable to the extremely dynamic activity of MERCOSUR. This growth has stemmed chiefly from the deepening of formal integration agreements already in place, the establishment of new free-trade agreements (both bilateral and subregional), and greater openness to world trade as part of the economic reforms launched by our countries. This trade, moreover, has a high content of manufactured goods, whose prices tend to be more stable than for raw materials; at the same time, they offer learning opportunities that are crucial for the retooling and diversification of export sectors that the countries hope to tap in order to gain a foothold in an increasingly globalized world economy.

While it is true that the Asian crisis may intensify competition for our exports, it will also result in lower costs for imported inputs that could ultimately enhance our competitive position. The subregional market's comparative advantages and economies of scale will be put to fuller benefit as efforts are stepped up to deepen and expand integration arrangements within the broader framework of an open, transparent regional approach in line with the agreements reached under the Uruguay Round. Progress in this direction clearly hinges on the formalization of closer ties at the hemispheric level, such as those being pursued in the negotiations for the Free Trade Area of the Americas, and ties outside the hemisphere with the European Union and the countries of Asia. The region should not lose sight of the importance of continuing its efforts to seek a broader role in the international market and active promotion of a more open system of multilateral trade with rules that are respected by all.

Another area that needs to be addressed is external capital flows. As experience has shown, domestic financial regulation and supervision need to be strengthened. Broadly viewed, existing regional integration arrangements offer a context in which to strengthen and harmonize national financial regulations. A strong, coherent system of subregional regulations would reduce the likelihood of contagion in the event of a financial crisis, and would also lay the foundations for deepening the integration of trade in financial services.

The path toward regional economic integration needs to include, we would say, improved formal mechanisms for regular exchanges of information on national economic conditions, as well as joint assessments of trends and issues in hemispheric trade and the international economy and possible responses to them. This would prepare the way for securing broader-based commitments in the future, leading ultimately to the coordination of specific policies and, ideally, monetary union. Although this is not a topic for discussion today, we should not overlook it as a possible goal for the longer term, capable of fostering political commitments and serving as a beacon for cooperation and regional unity.

III. IMPLICATIONS OF THE NEW ENVIRONMENT FOR THE BANK

1. While it is true that the ties of cooperation and solidarity linking the member countries of the Bank were rooted in history dating back to the ideals of Simón Bolívar, with the passing of time these ties have become much strengthened as the Bank has matured and consolidated itself and as the borrowing members have supported each other in meeting global economic challenges over the last two decades. This spirit of regional cooperation — which harks back to the Pan American Conference of 1889, when the first call was heard for the establishment of a financial institution such as the IDB — provided the foundation for our countries' unflagging efforts over the decades to build the political consensus needed to create the Inter-American Development Bank, whose charter was finally signed in April 1959.

The years that followed added to our experience and saw a strengthening of this regional cooperation and solidarity through various channels. The Bank's purpose, as an institution, is to contribute to "**the social and economic development of the regional developing member countries, individually and collectively**" and one of its functions is "**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.**" Thus, regional integration is built into our core mandate, and we should strive loyally and efficiently to secure that integration, even in the face of the varying conditions and individual circumstances of development in each country.

2. The Bank and the member-country institutions need to stay current and be prepared to identify and respond in a timely way to the varied and changing needs of the countries. Level of socioeconomic development, market size, and status of reforms are just some of the elements contributing to the various demands that the Bank must be able to respond to flexibly and promptly. The Bank obviously cannot be expected to address all these needs. Ideal targets need to be reconciled with realistic expectations through dialogue with the countries at the programming stage. There is no doubt, however, that — as underscored by the Eighth Replenishment mandates — the Bank needs to continue to improve its responsiveness to the varied and changing needs of its member countries.

3. In 1988, when I assumed the responsibility conferred upon me by the Bank's member countries in Caracas, I maintained that the Bank should be large, creative, and efficient. Today, the Bank has an authorized capital of US$100 billion and an annual sustainable lending level of roughly US$8 billion, in addition to the concessional resources it leverages. In other words, the Bank has a reasonable level of resources to ensure its role as the leading source of multilateral financing for Latin America and the Caribbean.

While recognizing the achievements of recent years, I would say that the objectives of creativity and internal efficiency are ongoing challenges for the Bank.

The Bank's comparative advantages and institutional creativity

The Bank's creativity stems directly from its ability to innovate and the flexibility of its internal policies, which enable it to identify on a timely basis the new development challenges facing the region and to formulate appropriate policies for meeting them. Similarly, its capacity for innovation and responsiveness reflect the comparative advantages of our institution over other sources of financing.

What do we perceive those comparative advantages to be?

Our **first comparative advantage** is our institutional and governance structure, with its even balance between borrowing and nonborrowing member countries that recognizes an equal sense of ownership and full identification of all member countries with the institution.

Our **second comparative advantage** has to do with the Bank's cultural affinity with the region and presence in each of its member countries, an objective long promoted by the late Don Felipe Herrera. Today, this close contact is acknowledged to be an invaluable asset, as much for its contribution in seeking and carrying out projects as in enriching ongoing dialogue with the governments and a direct, timely perception of the changes in economic, social and political circumstances of each borrowing member country.

Our **third comparative advantage** is the Bank's special commitment to the objectives of social development, which it adopted from its very first days and is now pursuing more and more actively. This explains why social issues have always been at the forefront of the Bank's concerns, and were recognized as a priority target under the Eighth Replenishment, to which the Bank has been allocating a significant share of its lending program.

Fourthly, from the outset the Bank has pursued an objective that today ranks high among the priorities of institutions such as our own: support for small projects, microenterprise credit, and civil society. The Bank's early interest in microprojects and community involvement in project implementation makes it a pioneer in this area; its best practices are today a very valuable asset that should be expanded and deepened.

Fifthly, the Bank has always espoused an unequivocal commitment to inter-American and Latin American cooperation. It bears repeating that the original objective of creating a body such as the Bank stemmed from an initiative formulated by the Pan American Union back in 1889, more than 50 years before the founding of the multilateral financial cooperation institutions at Bretton Woods. That is why support for regional and hemispheric integration is a fundamental objective of the Bank. It also explains why the Bank has always taken a special interest in regional-cooperation projects, as the backbone of support for cooperation between countries.

Sixth, as an outgrowth of the foregoing, the Bank from the very beginning has fostered policies to support regional solidarity, as evidenced in the preferential access to concessional lending and technical cooperation that it has given to the less developed countries and those with smaller markets. As a result, the Bank's credit support to these countries greatly exceeds all other sources of bilateral and multilateral financing.

Seventh, given the needs triggered by evolving situations in our countries, the Bank has launched new initiatives in nontraditional areas which have been yielding significant results. For instance, we have been working to create a critical mass of social-policy administrators, through the Inter-American Institute for Social Development, and to support cultural activities, work with young people, programs for at-risk children, and analysis and formulation of policies to address the problem of violence, including domestic violence. The Bank has carved out a pioneering niche for itself through its valuable work in these areas.

Eighth, and as a corollary to the foregoing, the Bank's commitment to regional integration has made it a permanent advisor on intraregional and hemispheric coordination and cooperation. Our creation out of the framework of the Organization of American States imbues us with the honorable task of coordinating regional and hemispheric cooperation efforts at all levels.

By virtue of these characteristics, the Bank has enjoyed the solid trust of its borrowing members throughout its nearly 40 years of existence. This has strengthened its commitment to the broad objectives of the countries' development and has enriched its understanding of the political, social, and economic dimensions of the region and its dialogue with governments, the private sector, and civil society.

Institutional creativity and new challenges at the close of the century

It is no easy task to condense into a few words all the new spheres of action facing the borrowing members; indeed, we have expounded on them in detail on previous occasions. That said, I would like to summarize for you, in very broad terms, the challenges that the Bank faces as it commemorates the fortieth anniversary of its founding and moves toward the beginning of a new century:

1. **Lend support for faster economic growth** in the countries by boosting overall savings and investments, especially in social and economic infrastructure where present and future demand are very large.

2. **Sustain and deepen economic reform**, with an eye to enhancing economic efficiency and promoting social progress. We are fully aware of the need to press forward with reform of the financial sector, the development of capital markets, and the creation of regulatory mechanisms capable of ensuring transparency and the proper functioning of markets.

3. **Step up the fight against poverty and efforts to improve equity**, as the core objective of the Bank. To achieve this, work will need to continue in support of: (1) social reforms, with special emphasis on health and education; (2) employment, assigning priority to vocational training and microenterprises and small businesses; and (3) better urban and rural living conditions. These objectives are a fundamental complement to economic policy, without which such policy will lose its social, political, and ethical legitimacy and sustainability. Environmental concerns are part of the efforts to promote investment and reforms as well as the poverty-alleviation objectives.

4. **Lend support for institutional reform of the State**, focusing notably on the new roles that are falling to the State to see to the smooth operation of markets and make for an efficient social sector. State reforms encompass local governments as well, which are shouldering ever more responsibility for social-service delivery. Also included is modernization of the judicial and legislative branches of government.

5. **Work with civil society**, in partnership with the State, to improve economic and social efficiency and to find answers to the problems that are keeping large segments of the population on the margins of society.

6. **Foster and build social capital** in countries in the region. Social capital is the aggregate stock of a country's cultures and shared values, its ability to forge cooperation networks, attitudes, and norms that are conducive to coordinated effort, traditions of association, a climate of trust, and an expectation of reciprocity among a country's various social actors. Social capital is central to a nation's economic progress; and, as we know today, it also is a mainspring of social advancement and full-fledged democracies. Societies that cultivate and nurture their social fabric, honor their cultural values, and find ways of marshalling their synergies can reap impressive economic, social, and political dividends. As a corollary, the more actively a nation taps its social capital, the stronger and more vigorous this capital stock becomes. The region has a vast social-capital base, with a potential that needs to be actively mobilized.

7. **Support Latin American and Caribbean efforts to move into the global marketplace,** with particular emphasis on regional integration, hemispheric cooperation, and relations with other regions that are emerging as economic and trade hubs. To this end, we should support the borrowing member countries in handling cross-border projects, not just in trade but taking in the areas of physical infrastructure, shared natural-resources management, making use of economies of scale, human-resources training, the use of information technologies, and education and science and technology infrastructure, to cite only the most important.

8. **Fine-tune Bank Group work with the private sector**, whereby the Bank, the Inter-American Investment Corporation, and the Multilateral Investment Fund can help create an enabling environment for private investment and capital-market expansion; attract long-term private capital to fund economic and social infrastructure; and exhaust every avenue of financial and technical support for small and mid-sized businesses.

9. In the **environmental sphere**, which extends far beyond any one country's borders, we must tighten the focus on management capacity development for governments on this front and help improve environmental standards and their administration and enforcement, by way of governmental oversight and public-private partnerships. Experience has shown the most productive approach in this area to be a combination of incentives and economically efficient compliance monitoring.

10. **Robust democratic institutions, abiding peace processes, and respect for human rights** are cornerstones of the way of life to which our peoples aspire, and to which they are entitled. This opens up another area in which the Bank cannot remain on the sidelines, and one that will call for our cooperation in concert with the Organization of American States and the United Nations.

11. The Bank should examine how it might **help countries to strengthen their defenses** and attenuate the adverse social impact of external turbulence through stand-by facilities that would complement those normally offered by the International Monetary Fund.

In my view, the foregoing are the broad areas in which the Bank ought to concentrate its efforts in support of its borrowing member countries, in keeping with the Eighth Replenishment guidelines.

The need for creative approaches, and instruments at the Bank's disposal: Internal efficiency

The menu of instruments and facilities offered by the Bank need to be updated continually, to tailor it to changing circumstances in the member countries and truly respond to those countries' needs. This leads us directly to questions of the Bank's internal efficiency.

I think we can point to considerable progress on this front in the past ten years or so, both in the variety of instruments and the Bank's flexibility in deploying them. However, improving efficiency is a never-ending quest: ways must continually be sought to refine processes and facilities, so as to lower costs and improve the quality of our services.

I shall confine myself here to a few critical elements that we are exploring with the Board of Executive Directors, to see how the Bank Group's services can be enhanced.

- The **programming exercise**, a process set in place formally in response to the Seventh Replenishment mandates, has considerably improved the quality and depth of the macroeconomic and sector studies which underpin our dialogue with member countries and the Board. We would need to interweave this exercise more tightly with the process of loan and technical-cooperation project identification, to have all three arms of the IDB Group working in concert.

- The **evaluation exercise** was assigned special importance under the Eighth Replenishment. It lets us know how projects are faring and how closely they are adhering to their development objectives. One heartening figure is that 86 percent of Bank-funded projects now under way are expected to achieve their development aims.

  We are in a position to substantially strengthen our project impact evaluation process, which provides vital feedback to enhance the design of operations.

- As for the **project cycle**, we would need to explore truly expeditious ways of shortening design and processing times for operations without compromising their quality. Important considerations here are the impressive institutional strides made by the member countries as far as absorbing and administering Bank resources is concerned, and the need to tailor the Bank's support to country circumstances.

- **Nonfinancial services** are an essential component of the Bank's operations in pursuing development objectives. Indeed, it is such services, built into investment or technical-cooperation projects, that distinguish development-bank support from market financing. Though the Bank's financial function is clearly of the essence, the experience it has amassed on so many different fronts and its stock of best practices are an integral part of its support for economic and social progress in the region.

- **Budget management** is critical in the Bank's internal operation. The Board and Management will need to work together to maximize performance with the financial resources available. The challenge before us is to come up with operating objectives within an institutional action plan, set priorities and time frames for attaining these objectives, and delineate resources needed and available to achieve the topmost priorities in each allotted interval. It will then fall to Management to carry through the priority activities budgeted for, and to do so efficiently.

- **Potential new forms of cooperation.** As a reflection of our countries' more open economies and growing participation in the global economy, external turbulence triggers destabilizing effects that need to be countered promptly and effectively. Such situations pose new challenges to the Bank, putting its traditional flexibility and creative ability to the test. In this regard, we need to work with the Board of Executive Directors to tailor the conditions of our financial and technical cooperation and thus provide an efficient response to the evolving demands of the borrowing member countries.

Distinguished Governors:

By way of conclusion, in these closing years of the millennium, our region and the world at large are caught up in monumental changes, few of them foreseeable. Our memories of the Latin American crisis of 1995 are all too fresh as we observe the upheaval in a number of Asian nations today.

The driving forces behind these changes are globalization — that inexorable trend that leaves no country untouched — and, in Latin America and the Caribbean, a series of sweeping internal transformations now unfolding at a dizzying pace. These political, social, and economic shifts are throwing open new doors to progress in the region.

These changes, like so many before them, promise benefits but come at a real cost. Ways must be found of easing the region into the international economy while fostering reform initiatives at home, to yield the maximum good at the lowest possible cost.

A workable task

In the international arena, recent experiences show that, thanks to painful lessons learned in the wake of the 1982 and 1995 crises, Latin America is better equipped now than in the past to stave off or cushion the effects of external shocks.

The preeminent task facing individual countries is, once again, to build efficient economies that can grow in size and productivity, but make certain that this same efficiency in the economic sphere becomes a springboard for social efficiency, so that the region can tackle the crushing social debt that has manifested itself in critical poverty, exclusion, and inequity.

These tasks are eminently compatible. We are better equipped now than a decade ago to chart the best paths toward growth. I think we are beginning to see much more clearly the avenues that social transformation can open up toward poverty alleviation and more equitable societies.

Economic growth is a necessary but not sufficient condition for such improvements in the social sphere. There is a need for resolute political commitment on the public-policy front, embodying the two leading, ineluctable responsibilities of a modern State: a striving to even out social inequities, and a search for ways of affording equal opportunity to every citizen, starting with access to education.

The pursuit of these twin aims of economic efficiency and social efficiency requires the combined efforts of a vibrant government — which does not necessarily mean a huge apparatus; an efficient, competitive private sector; and a participatory civil society. A necessary backdrop for such a concerted effort is a culture of social inclusion which can earn the trust and elicit the participation of every quarter of society.

The formidable task that awaits Latin America and the Caribbean on the threshold of the new century is to redefine the role of the State, so as to open opportunities for a dynamic private sector operating in a supervised, transparent marketplace with clear ground rules, and to forge an energetic, harmonious society in which all citizens see themselves as partners in their nation's quest for economic growth, social advancement, and mature democracies.

The Bank has been a major force in the region, and the region and its member countries the world over can rightfully be proud of their institution. The Bank is living proof of what can be achieved when regional and nonregional members pool their efforts toward a common purpose.

It will be the shared mission of the Bank's Governors, its Board of Executive Directors, and its Management to continue to hold to these objectives in the years ahead.

This Annual Meeting of the Board of Governors of the Inter-American Development Bank is taking place at a very special time for the region. Following countless efforts to identify an overall policy consensus, this is now being achieved in the form of common goals directed toward growth and distribution, within the framework of solid democratic institutions capable of ensuring governance and stability.

For us in Panama, this present period is characterized by recognition of the reality of our situation, and the taking of measures needed for us to adjust to that reality, without high-sounding words or fruitless romanticism. This means that we have moved on from the stage in which importance is attached first and foremost to the political consequences of decisions, and entered a more responsible and lasting stage which places more direct weight on the results of those decisions on society as a whole over the medium and long term.

The political effect of policy orientations and actions and their impact on the various social groups which act within society almost as proxies for the political parties, and the ease or difficulty of explaining these orientations and actions in public, have yielded to a serious-minded and wide-ranging administrative awareness that is nationwide in scope. As a result, we can continue along the proper path and guide the country in the new directions required by the present-day economy.

The medium-term strategy for restructuring the economy has received strong support since 1994. I would particularly draw your attention to the greatly increased openness of the economy and the focus on the market, designed to achieve a sustained rise in production and employment and, at the same time, bring about a perceptible decrease in poverty. To this end, we are working directly in the areas of privatization, deregulation and trade liberalization within the context of fiscal consolidation.

We can report progress in modernizing our ports, improving our roads, and upgrading our telecommunications system. Legislation is to be introduced shortly to strengthen our position as a banking center and make us more competitive. These steps all represent firm measures not only to foster economic growth but also to maintain and enhance our position within the regional and global economy.

As regards regional integration, negotiations on a free trade agreement with Chile are now in a very advanced stage, and we are continuing talks with Mexico, the Andean Integration System and Mercosur, while also working toward Panama's possible entry into NAFTA.

Turning next to Central America, a number of specific projects of great potential interest and significance are being actively pursued. One of these, a large regional project supported by the Inter-American Development Bank, would provide for interconnecting our power systems. Work is also going ahead on widening the Culebra Cut in the Panama Canal. This US$229 million project, to be completed in 2002, will permit higher traffic levels through the Canal. All of these programs are intended to boost GDP growth from 2.5% in 1996 to 7% in the year 2000, and they include significant additional reforms designed to eliminate remaining barriers to economic efficiency and private sector investment.

Panama is also pursuing a number of measures in the science and technology field. Our goal is to adjust, in the short to medium term, to the changed situation resulting from the new international economic order, characterized now by globalization, competitiveness, massive flows of information, services and consumer goods, the transformation of the labor market, and intensive use of modern technologies.

These efforts in science and technology are linked to the challenges that face us in the education field. There is widespread agreement that all of the policies and actions being undertaken to transform Panama will achieve their sought-for result only if education continues to play its leading role in development.

With economic parameters having changed so dramatically, our population must be able to meet the new challenges and follow them to their logical conclusion. The basic objective of education can no longer be simply to provide our young people with a gateway to our culture. The primary challenge facing men and women today, particularly in our continent, is to prepare everyone to gain access to the market, so that they can defend themselves in the market and master its complexities. Education must therefore seek to train people to navigate confidently within the complexities of the globalized world and meet the challenges arising from ever more demanding and ever more open competition.

One of the most striking developments in the social arena has been the obvious frustration experienced by so many young people who are the proud possessors of a certificate or diploma yet are unable to find work. They make the rounds of private-sector offices and public-sector institutions but are unable to find what they are hoping for, or have to accept salaries that are so low relative to the effort they have put into their studies that the result can only be deep personal frustration.

The tragedy often has its roots in social patterns or family tradition, individual destiny or taking the easy way out. In the final analysis, however, the law of the market prevails: the market will absorb those it requires with the training it needs, in a historical turnabout from the traditional pattern of collective needs and requirements.

Thus one of the major challenges facing the Government is to reorient the content of education and promote a proper understanding of the new realities we face. We have been working actively to this end for a number of years now; with the aid of campaigns addressed to the students and with experience providing ever clearer lessons, the situation is now beginning to change.

Our country's future promise of development, progress and well-being is closely linked to the results to be derived from the new educational structure. Panama will continue to pursue this goal, together with the major infrastructure projects alluded to earlier, representing our basic priorities in the run-up to the millennium.

The prospects for Panama's economy are promising. Growth rates in exports and in international investments justify the economic policy we have been pursuing. Expansion in the medium term in new services taking advantage of our geographical position and modernization of our economy indicate that we have already entered the high-growth phase.

In 1997, our GDP grew by 4.4% in real terms. A growth rate of between 5% and 5.5% is projected for 1998, with variants reflecting such significant factors as expansion of the Colón Free Trade Zone and the impact of investment projects currently under way.

What we have done jointly with the Bank has been of great benefit to my country. You understand what we want and why we want it, and we will respond to this understanding by continuing the efforts that have brought us so many successes to date.

First, my greetings and deepest gratitude to the people of Colombia for the unforgettable warmth and sincerity of the reception received whenever I set foot in this friendly, sister country. And my special appreciation to the people and authorities of Cartagena de Indias who are living testimony to Colombia's generous hospitality.

If you will allow me, I should like to begin with a few comments motivated primarily by Peru's experience in dealing with the weather phenomenon known as "El Niño", and its inevitable impact upon our economy.

Along with the Peruvian government's efforts to both prepare for and respond to the devastation wrought by the 1998 version of El Niño has come a growing awareness of the need for a realistic and constant reappraisal of the role of the State in the modern world.

The State we are building in Peru is the result of the very challenges with which we are faced. Reality dictates and informs our actions, and our government has therefore had to undertake various tasks with well-defined objectives having to do with social order, without which confidence in our future stability would be impossible.

A modern State must concern itself with education, health, public safety, and justice, but must place equal emphasis on matters affecting the economic life and security of its people, including efforts to control and manage emergencies such as those caused by El Niño.

To deal effectively with such emergencies, the State cannot rely solely on its civil defence system which, strictly speaking, should focus on adopting the means necessary for organizing citizens under preparedness plans and protecting individuals from harm. Nor can it risk uncritical acceptance of impractical solutions based on turning responsibility over to the local level.

This is the domain of the State which, through the central government, must act with effective and necessary rationalization of resources. Thus, despite all of the criticism and misunderstanding, we have been coping with El Niño in Peru, with results that have helped to mitigate its devastating effects.

This has enabled us to avoid even greater and more tragic loss of human life and destruction of infrastructure. Had a river such as the Piura in the northern part of our country overflowed its banks, after rising to its highest level this century, it would probably have claimed at least 20,000 victims.

The management of rivers, rebuilding of roads, and draining of water left behind after severe flooding in cities — all of these impose the need for massive amounts of resources and require rapid decisions concerning their allocation in the event of an emergency. Given the nature of the problem, this is something which cannot be left to private enterprise.

We have a duty to protect both lives and valuable basic infrastructure upon which the production sector and citizens' jobs depend. Hence, it should not be a cause for alarm when the Peruvian State engages in certain disaster-prevention works in preparation for El Niño and makes major equipment purchases to this end, using transparent (i.e. completely honest) procedures. This does not signal a return to the interventionist, proprietorial or populist State, much less the nursemaid approach to government. It is the recognition of the fundamental role of the State which arises not out of theory, but rather out of the actual conditions of a people.

The IDB, through its President, is well aware of the enormous effort being made in Peru to lay the foundations for the country's comprehensive development. The Bank is not only aware but fully committed to supporting this effort through specific projects. Its presence has also been felt during this emergency in the form of significant support for reconstruction needed in the period after the current El Niño has passed. As always, we are most grateful.

I have referred several times to the climatic phenomenon called El Niño because of its destructive impact, first on human life and then on infrastructure essential to production. Clearly, its effect on inflation and GDP growth can be severe if the State fails to take quick and effective action to counteract and mitigate the effect of El Niño.

The amounts spent on preventive measures will pay enormous dividends, more or less a 10 to 1 return on expenditures by my reckoning. In other words, our "investment" in El Niño will turn a profit of no less than 1,000%.

Whether we like it or not, in this case we are clearly dealing with a weather phenomenon which has powerful economic repercussions. As such it will behoove the experts here assembled to become involved in this topic, before meteorologists begin making inroads in areas hitherto reserved for economists.

No one today would deny that the wave of reforms and modernization projects that has swept Latin America since late in the 1980s has been positive, since for the first time in many years there is reason to hope for comprehensive and harmonious development of our countries. This development process is in fact under way, having begun when we embraced the dynamic and competitive world of globalization. And with this change we have created an opportunity for the coordination of our economies with those of other countries and the more developed markets, to everyone's advantage.

The road is long and there are no easy formulas, I'm afraid, other than the general guidelines dictated by the need for consistency, discipline and above all pragmatism in the design and implementation of macroeconomic policies. Nor, to my way of thinking, is there any set formula covering the State's role in the process of ensuring effective national development.

It remains only for me to express the twin satisfactions of my being here to share in this event with my friends from the IDB, and your having chosen Cartagena de Indias as the site for these meetings. Once again, my heartfelt gratitude to Colombia for hosting this eminent gathering.

Welcome to Cartagena, symbol of freedom, land of lovers' balconies, colonial inquisitors, slaves, and poets.

Before I begin, I have the duty to warn you not to let yourselves be bewitched by this city or caught by its ghosts.

I in fact know the case of a banker who came here several years ago to close an important business deal, fell in love with a beautiful young woman, and stayed here to live.

Since the day that the damsel was taken away by pirates traveling through the sky, the unfortunate man has walked back and forth day and night below the balcony of his princess from Cartagena.

I hope the same thing doesn't happen to you, but if it does, we can recommend a good love exorcist and the best wizard in town.

Welcome to this privileged corner of the Americas — Colombia.

I welcome you in the name of 40 million Colombians who feel very proud to live in a country very different from the one shown on the international news in your countries.

Welcome to the other Colombia, the positive Colombia, the one that works, dreams, has fun, produces, invests, works the land, and educates itself.

Welcome to the second oldest democracy in the Americas, where we have never learned the meaning of the word dictatorship and where respect for the law reigns supreme.

Here you will find the imprint of 50 years of uninterrupted economic growth and no sign of such regional phenomena as hyperinflation and external debt.

With international reserves for six months of imports, we pride ourselves on having one of the most stable macroeconomic policies in the Americas.

The ingredients in my government's macroeconomic recipe have consisted of defending the exchange rate, reducing interest rates, and maintaining stern fiscal discipline, which has allowed us to avoid last year's regional recession, reduce inflation by seven points, and maintain reasonable growth figures that will go up this year to reach the historic levels of five percent once again.

We are also something of a "compass rose" of the new integration movement in the Americas: as part of the Group of Three that unites us with Mexico and Venezuela, as a doorway for Central America to the south through Panama, as a member of the Andean Community, and as a country bathed by the three American seas — the Caribbean, the Pacific, and the Amazon.

In Colombia, we not only speak of monetary reserves but also of genetic reserves. Although our territory represents only one percent of the planet's land surface, our biodiversity bank contains 10 percent of the world's living things.

Our best asset, of which we are most proud, consists of our people.

It would be difficult to find a people in the world with a higher capacity to work at any time, in any place than the people of Colombia.

During the second half of the century that is coming to a close, we have managed to raise life expectancy to 70 years, reduce the illiteracy rate to under 10 percent, and expand potable water coverage to over 80 percent of the inhabitants.

We are affectionate with foreigners, especially those who respect us.

First-time visitors to Colombia change their mind about the country entirely, and if they stay several days, they fall in love with it.

We are a technicolor country and it bothers us when we are presented as if we were a black and white film.

Perhaps because of this very feeling of friendship towards foreigners, and hospitable economic climate, foreign investment in Colombia has grown by 67 percent in the last year — approximately US$5.4 billion.

These resources are to be invested in the acquisition and expansion of banks, water supply systems, electric companies, the construction of bridges and roads, factories for the Andean market, exploration of oil and gas wells, and new coal reserves.

People who invest in Colombia know what they want, and stay.

These figures show you, as the saying goes, that if money is a coward, international money has not been afraid of Colombia — to come and to stay.

Colombia is already an open economy.

Although we have made progress, of course, in the adoption of reforms towards openness, having adjusted tariffs, opened exchange and financial markets, and made our work conditions more flexible, we believe that such reforms have to be accompanied by structural changes to make them more productive and, above all, more legitimate.

We also think that the process of opening the economy must be selective, coordinated, and gradual to avoid the traumas experienced in almost all our countries with the agricultural crisis.

We are also concerned about the political impact of completely unfettered openness — in the form of social conflict and displacement of the traditional centers of power.

We believe that any economic opening has to be accompanied by more democracy, more participation, more peaceful coexistence, and a new social consensus.

Now, with the talk of "second-generation" reforms, we in Colombia believe firmly that "openness" means stronger governance, legitimacy, and productivity.

Legitimacy means distributing the benefits of reform more equitably — not a game of winners and losers. Under my administration, by doubling the share of gross product invested in social programs, we helped to reverse the growth in poverty during the last decade, as recent development indicators and GINI coefficients clearly demonstrate.

With a new system of demand-driven subsidies for the social sectors, combining the benefits of State redistribution with the social efficiency of the market, we expanded health care coverage by 20 million people, set up a solidarity network to overcome social marginalization, and generated 500,000 housing solutions.

To improve productivity, we invested in infrastructure and science and technology.

An open economy without infrastructure is like a wedding without a priest.

With an investment equivalent to six percent of GDP, we rehabilitated 80 percent of our roads, generated an additional 2,000 MWh of energy, opened our long-distance communications to private capital, granted concessions to our ports, airports, and railroads, and began contracting for mass transport systems in Bogota and Cali, all to the tune of close to US$30 billion.

The private sector's share of the new investment in infrastructure is 40 percent, through concessions and partnerships, and by privatizing the operation of State assets.

Privatization is not like auctioning off public properties at a fair. Privatizing means finding new ways of strategically connecting private and public interest, since, in a global economy, government and business are no longer enemies but allies.

The resources from privatization are being used to finance social investment — replacing physical capital with social capital, and thus investing in our future.

Colombia's recent experience could provide a useful model for the opening economies throughout Latin America, which is imperative.

We must also allow for national idiosyncracies and the changing world circumstances.

It is clear the globalization model, with all its benefits, has not been able to resolve the problem of social inequity in the world, that the terms of trade between the developing world and industrialized countries continue to deteriorate, that we are a long way from achieving the goals set by UNIDO over 20 years ago regarding our participation in product markets by the close of the century, and that the added value generation capacity continues to be concentrated in seven economies.

In this process of adjustment, to paraphrase Gramsci, many things must die, but haven't and many must be born.

For example, as the recent Asian crisis showed, lifting traditional controls over inflows and outflows has facilitated the disruptive movement of speculative capital and the globalization of criminal activities, such as money laundering and arms trafficking.

The long-term measures that legitimize the model and make it more productive have to be accompanied by a number of immediate agreements to ensure global economic stability.

We should begin an unbiased examination of the measures Colombia is already taking, with relative success, to stop speculation, such as imposing a tax on short-term capital flows.

Our most immediate challenge is to define, as Prebisch did in his day, the bases for a true alternative development model better adapted to twenty-first century Latin Americans:

Latin Americans who are more productive in economic terms, more involved politically, more socially aware, more committed to protecting the environment, and more cosmopolitan in their world outlook.

The alternative model must allow us — in rediscovering of our identity — to solve the age-old and recurring riddle of how to grow while at the same time sharing the fruits of our growth.

With all Latin Americans united within a common framework, we can sit down together, more calmly, to negotiate the great process of American integration in the twenty-first century, and the dreams of Lincoln, Bolivar, Marti, Juarez, and San Martín will finally be realized.

The Inter-American Development Bank, our Bank, should be at the service of this 'operation identity'.

Through its sound new lending policies, reflected at this meeting's round tables — directed toward decentralization, social development, increased private-sector and citizen participation — the Bank, under the leadership of that great apostle of a united Latin America, Enrique Iglesias, could now assess its country projects in the light of this new vision for our future — as a nation, as a region, and as a culture.

However our conceptual approach to economic development might change, these transformations ought always to be guided by the moral imperative of improving the human condition and the fate of our most needy.

In deciding what is best for our people, neither the market nor the State can replace the ethical judgment of those chosen to govern us.

In welcoming you, I propose that we begin these meetings by reflecting together on our larger vision for Latin America in the next century.

In Colombia, this vision is clear and unequivocal: it is called peace.

We do not want war because it is costly and fruitless.

It is costly in that three percent of our annual gross product goes to violence. And it is fruitless in that 40 years of conflict have won us nothing.

I invite you to join our cause, through an IDB-headed interinstitutional fund for peace in Colombia, channeling all regional resources and efforts towards such goals as illegal crop substitution, development of our rural communities in areas of conflict, financing of small and medium-sized productive projects to subsidize weapons demobilization, and the development of programs peaceful for civic coexistence under conditions of justice and tolerance.

If our meeting can embrace this concrete objective, 40 million Colombians would have much to be grateful for.

To the bankers and investors among you, I invite you to invest in the great enterprise called Colombia, a branch of that other great company called Latin America, shareholder of the entire world.

Thank you for being in Colombia!

This meeting is now open.

SECOND PLENARY SESSION

MARCH 16, 1998

MR. JOSÉ ANTONIO OCAMPO, EXECUTIVE SECRETARY OF THE ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN

I should like to thank the Inter-American Development Bank for affording me the opportunity to address the annual meeting of its Board of Governors, in my capacity as Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC). It is a particular pleasure for me to be speaking to you at this gathering in Cartagena, because in my time as Minister of Finance of Colombia and, hence, as Governor for Colombia at the Inter-American Development Bank, it fell to me to head up the organization of this event. I am delighted to welcome the Governors to my country and to Cartagena de Indias, this jewel of the Caribbean.

This gathering also marks the first meeting of the Board of Governors since the election of Mr. Enrique Iglesias to head the Bank for a third term. May I repeat, Mr. Iglesias, the sentiments I expressed when, as Governor for Colombia, I addressed the special meeting at which you were reelected, about Latin America's admiration of your stewardship of the Bank, which has given the institution an unprecedented impetus. I am grateful to you as well for the continual support the Commission has received, and I take this opportunity to convey to all the Bank's Governors our desire to continue to nurture and tighten the ties that have so fruitfully linked our two institutions in the past.

In recent months Latin America has, with other economies around the world, felt the reverberations of the crisis experienced in a number of Asia-Pacific nations, which has manifested itself in different ways in our region. The most conspicuous impacts were the temporary halt of capital to emerging markets and the exchange-rate speculation with which some countries have had to contend. Recent issues by some Latin American countries coupled with more promising signs in bond spreads suggest that the capital problem may be resolving itself; we would hope to see this positive trend borne out.

The effects of the recent crisis on trade are somewhat more complicated. The direct impact on export demand in the region is relatively mild: even in Chile, the percentage of sales to the Asian nations in crisis is slightly below 10 percent, and the percentage for other Latin American nations is far lower. The indirect effects, however, are quite pronounced, in the form of falling prices for a number of commodities. And a third effect has yet to be fully felt: stronger Asian competition in our own economies and in other markets, which could affect manufacturing output and exports. Slower economic growth also will translate into weaker demand for intraregional imports. Nevertheless, intraregional trade can expected to remain robust: indeed, as witnessed during the 1994-95 crisis, it will play a stabilizing role for the countries most affected by the spillover from the "dragon effect".

This confluence of effects may have slowed economic growth in the region, but it has by no means interrupted it. According to revised ECLAC estimates, the region posted GDP growth of 5.5 percent in 1997. Most analysts are predicting about 3 percent growth in 1998; ECLAC forecasts point to a slightly higher rate of 3.2 percent. Not counting Brazil, on which the crisis fallout has taken the heaviest toll, economic growth in the region will stand at 4.6 percent — lower than in 1997 but above the 10-year average.

As they stood firm in the face of this recent upheaval, countries in the region have brought in monetary and fiscal stabilization measures. In the light of this new resolve on the part of country authorities and their timely and decisive action, regional inflation may be held to very low levels, around or below the 1997 figures, which for the second year running would mark a half-century low.

However, the recent crisis has also turned the spotlight on two worrisome features: enormous imperfections in the international capital markets, and the intense (and growing) vulnerability of Latin America's economies to shocks emanating from the global capital marketplace. On the market-imperfection front, even more conspicuous than the inadequate prudential regulation of domestic financial markets in most of the Asian countries in crisis is the absence of international institutions equipped to manage a financial market this sophisticated yet this unstable. To judge from the successive waves of overexpansion and financial panic, the market tends first to grow and then to contract beyond what the fundamentals of the economies would recommend. There exists no international institution to help avert unsustainable financial booms, and the International Monetary Fund has limited capacity to deal with the ensuing crises. Rating agencies, for their part, which should have some role to play on this front, tend to exacerbate rather than attenuate these trends, as a recent OECD Development Centre study illustrates.

This, then, is a good time to be rethinking the international financial order, and not a good time to explore any further liberalization of that market, an issue under discussion in regard to changing the articles of the IMF to give it a mandate in the area of capital-account convertibility. I would like to make mention of two points here. First, the focus of attention should be the handling of booms, and not crisis management, since crises are in many ways the inevitable outcome of ill-handled booms. This distinction is of the essence: the institutions we have now, particularly the IMF, were designed solely to manage crises. We do not have the instruments we would need to alert us of impending crises or, better yet, to keep booms that would be unsustainable from happening at all. The second point I would mention is that, in the absence of a sound international regulatory framework, nations are warranted in adopting measures at home specifically to control booms that the authorities view to be unsustainable. Special mention should be made in this regard to the reserve-requirement systems for foreign-currency liabilities that Colombia and Chile have been employing successfully.

The need to adopt appropriate institutions to manage bonanzas applies equally to an analysis of the Latin American economies' external vulnerability. Focusing too much on crisis management overlooks a fact that should be abundantly clear: that authorities have greater freedom of movement in times of prosperity than in times of crisis. A boom that features an overexpansion of public and private spending inevitably calls for an adjustment, one that will vary in severity in relation to the overspending that has gone before. An unsustainable increase in public spending based on non-recurring tax revenues and extraordinary access to external credit will give rise to a drastic adjustment. When the private sector incurs excessive debt because the associated risks have been underestimated, a severe credit contraction will result, generally accompanied by a decline in banking portfolio quality which — if sufficiently severe — can generate losses equivalent to a high proportion of GDP. Overvaluing currencies based on non-recurring capital revenues or extraordinary prices for exports will place strong pressures on exchange and interest rates once those temporary phenomena are no longer in place.

Given this state of affairs, the fundamental challenge in managing external vulnerability is to design appropriate management instruments for use in times of prosperity. Such instruments should include, first and foremost, ways of sterilizing non-recurring fiscal revenues. The cumulative experiences we have seen with fiscal revenue stabilization funds for commodity management should be extended to the management of non-recurring tax revenues. This would indicate that fiscal objectives should be set not on the basis of the current fiscal deficit but rather on the structural deficit to some extent, as is the case in the OECD countries. Moreover, many countries may find it attractive to offset short-term trends in private spending fully or in part with opposite movements in public spending, with public borrowings, in the process, countering the trend in the private sphere.

On the monetary and exchange front, required reserves on foreign-currency liabilities play a dual role of moderating exchange and monetary pressures generated during boom times. Within certain parameters, sterilizing the monetary effects of increases in reserves has also proven useful in many countries. The system designed by Argentina to penalize short-term liabilities with higher reserve requirements than for long-term liabilities can also be a useful approach. Another option is active regulation of the proportion of the value of real assets that can be used to secure lending in boom times. As we have so often heard, strong prudential regulation of the financial system is key to ensuring that intermediaries will not take on risks during boom periods that later prove to be unmanageable.

I would like to thank the Governors for their attention and extend a special invitation to attend the ECLAC session to be held this coming May in Aruba, where we will be discussing public finance in Latin America and the Caribbean.

ADDRESS BY MR. PEDRO POU, ALTERNATE GOVERNOR FOR ARGENTINA AND PRESIDENT OF THE CENTRAL BANK

The year that has just ended was dominated by the Asian financial crisis. Fortunately the most noteworthy event of 1997 for our region was that **Latin America was not in the economic news**. Apart from a few initial alarms when the crisis broke, our domestic markets behaved normally.

In the midst of the storm Argentina remained calm. We withstood the pressure brought by those who advised us to overadjust to protect ourselves in advance from possible negative impacts. We knew that the structural reforms we had already implemented would allow us to withstand the situation successfully. We also knew that we had made the corrections necessary to consolidate our system on an even sounder footing. The only thing we needed to do was to remain alert and confident that the international markets would recognize our efforts, which turned out to be the case.

Even in the eye of the storm the volume of deposits in Argentina's financial system and its international reserves increased. 1997 closed with an increase of 8.4 percent in GDP and annual inflation of 0.3 percent. This trend was reaffirmed in the first two months of this year, with a rise of almost 8 percent in industrial production.

The situation contrasts sharply with the 1995 Mexican crisis, when deposits in the system tumbled by almost 20 percent in less than three months and international reserves plunged by close to 30 percent. The consequences for economic activity were sharp and GDP dropped by more than 4 percent.

How can we explain the radical difference between then and now? Basically we can say that the 1995 crisis was a challenge we had to meet and we came out of it stronger. We reaffirmed our commitment to convertibility, even at the cost of a sharp recession — a cost that should be seen as a major investment in credibility. We were able to learn the main lessons of that crisis and undertook the reforms necessary to prevent it from happening again.

Our banking and financial system was rehabilitated and became more solid and reliable. We strengthened our liquidity policy and supplemented it with a swap program intended to confer international liquidity on bank assets.

We also persisted with our development model and took the opportunity to intensify our structural changes.

In Argentina we undertook to privatize the public provincial banks and to transfer provincial social insurance systems to the federal government. These two programs, which were supported by the IDB, will contribute to the long-term fiscal rehabilitation of our provinces.

These two examples clearly show how important it is for the Bank to work with our countries in unforeseeable crisis situations. Without its timely assistance in 1995, the end of the story would have been very different.

As I have said, the international markets recognized the region's efforts and did not cut off its access to external financing. For example, last January Argentina floated a bond denominated in Euros, the first underwritten in the future European currency. That successful issue was followed by another in German marks which was so well received that we had to increase it from US$1 billion to US$1.5 billion.

However much remains to be done despite the headway made. We are striving to ensure that the fruits of the model can be enjoyed by all segments of our population and are convinced that this can be achieved, principally through real job creation. Economic growth last year led to a reduction in the unemployment rate of almost four points. We hope that the greater flexibility we are writing into our labor laws will help to strengthen this trend.

We are working on other fronts, including human capital formation, support for small business, and better allocation of public social spending. We know that the IDB will back us in these efforts which is why we support its actions on behalf of training and education.

We view the document in which Management presents its vision for the Bank's future with great interest. In his address last year as out-going Chairman of the Board of Governors, the Governor for Argentina touched on some of these issues, and I would like to summarize the main points he made on that occasion.

In Barcelona we maintained that the Bank should make the best possible use of its two main comparative advantages. One is its capacity to attract funds and transfer them to its borrowing member countries under attractive conditions. The other is the great capacity and motivation of its staff. To tap these advantages it is essential to establish priorities within the broad spectrum of development activities that the Bank can undertake. Without losing touch with changing realities, we should focus on the sectors we know best, where we can act to the greatest advantage.

The fact that the Latin American countries have easier access to international financing today is no excuse for neglecting the Bank's lending function. On the contrary, the situation should be viewed as a challenge for the Bank to become a more competitive, responsive, and effective. The IDB continues to have a comparative advantage in this field in terms of the cost and maturity dates of its loans, and should develop it even further.

We should think about the possibility of using this advantage to help the member countries improve their liquidity through stand-by lines of credit. As the recent Asian crisis has shown, efforts to ensure an adequate debt maturity structure will solve the dilemma you explained so clearly this morning, Mr President, of how to tap the advantages of integrated capital markets while at the same time reducing the risks involved in brusk changes in the attitudes of operators.

As for the nonlending services that our countries want from the Bank, we should design mechanisms for establishing priorities. Management's proposal to begin to charge for them is an excellent idea. It would ease the burden on the budget while serving to confirm the importance of these services for our members.

It is impossible to discuss each of Management's proposals in the short time available to me, but Argentina's position was expressed yesterday at the meeting of the Committee of the Board of Governors.

If I had to summarize it in a few words, I would say that we must redouble our efforts to attain, year by year, the sustainable lending level we agreed upon at Guadalajara. This requires us to transform the Bank into an even more responsive, flexible, and efficient institution and to curb the proliferation of new initiatives.

I am convinced that the recently-created joint work groups drawn from Management and the Board of Directors will play a key role in achieving this goal. I congratulate them on this initiative and wish them even success in their work.

There are two proposals that I would like to support specifically. One is the increase from 5 to 10 percent in loans to the private sector. However this greater lending capacity should chiefly be used to finance larger numbers of projects in more countries.

The other is a study of the possibility of lending to local governments without national government guarantees. Argentina has been promoting this approach. We are aware that there is still a long way to go. We understand that there may be reservations owing to legal and financial considerations or domestic legislation in the member countries, and therefore, given the time it will take to reach an agreement in this regard, it would be advisable to begin the necessary technical studies as soon as possible.

Every analysis of the Bank's future should pay special heed to its less developed member countries. Thanks to the hard work of the Committee of the Board of Governors we have temporarily alleviated the shortage of concessional resources. But we should not forget that in a few years, these resources will be in short supply once again. I therefore urge all the Bank's borrowing and nonborrowing member countries to work together to find a definitive solution to this problem, which also includes loans from the FSO, the Intermediate Financing Facility, technical cooperation, and the Heavily Indebted Poor Countries Initiative.

Last, I would like to express Argentina's support for an increase in the capital of the Inter-American Investment Corporation. The Corporation has already proven to be well managed. Now it is up to us to provide it with the resources it needs to continue contributing to the development of small and medium-sized enterprises in the region.

We will return to Argentina imbued with the spirit of Cartagena de Indias — the historical and cultural heritage of humanity. We carry away fond memories of this attractive and indomitable city, of the setting it has provided for this meeting, of its hospitality and its vivacity. Many thanks to the people and authorities of Cartagena.

MR. PHILIPPE DE FONTAINE VIVE, TEMPORARY ALTERNATE GOVERNOR FOR FRANCE AND DEPUTY DIRECTOR FOR DEBT AND DEVELOPMENT, DIRECTORATE OF THE TREASURY

It is a privilege for all of us to be invited to this beautiful site, a part of our human heritage that blends the traditions of Latin America, the Caribbean, and Europe. We extend our warmest thanks to the people and authorities of Colombia and the city of Cartagena for their hospitality.

On the occasion of this great annual assembly, I should like to address three themes of particular significance to the authorities of France:

- the remarkable evolution of the Latin American economy;
- the need to reflect on the development process and the role of the IDB;
- and the desirable close ties between Latin America and Europe.

The year 1997 has been a great success for this hemisphere. The rate of growth reached its highest level since 1980. As a result, for the first time in a very great while, unemployment is beginning to recede in many countries. This progress is the fruit of a rigorous and steady macroeconomic policy. Inflation has continued to subside, to a rate of roughly 12%. It should be held to this figure, to consolidate the international recognition Latin America has now earned.

It is this credibility that has enabled the region to withstand the Asian financial crisis. And yet, the effects of this crisis on the region's markets and competitive position must still be carefully analyzed.

Caution is particularly warranted in view of the region's continued vulnerability in certain areas:

- First, domestic savings are inadequate, in the public as well as private sectors. Only because of external capital, flowing into the region's major privatization programs, has it been possible to meet financing needs. Privatization is essential, but not an adequate or lasting solution;
- Second, the current balance of payments has deteriorated significantly, underscoring the region's dependence on imports and difficulty in penetrating external markets;
- And third, growth in average per-capita income continues to mask sharp inequalities, which represent a considerable handicap for development.

The fight against poverty is therefore a priority for the States themselves as well as the Inter-American Development Bank. More generally, we must work together to design an effective partnership for development.

This meeting gives us our first opportunity to describe the reform France has undertaken to simplify and strengthen its development cooperation structure. France has decided to focus on two areas of activity: first, technical, scientific, cultural, and political cooperation under the authority of the Minister of Foreign Affairs; and second, economic and financial cooperation under the authority of the Minister of Economic Affairs, Finance, and Industry. This approach will enable us better to articulate French support for all developing countries, and particularly the poorest among them.

As regards the poorest countries, I must stress the importance of the debt alleviation initiative launched at Lyons in 1996. Our task now is to ensure its full implementation. We are counting on the Inter-American Development Bank to play its part in this effort by applying the initiative, forthwith, to Bolivia, Guyana, and Nicaragua. When it comes to solidarity toward the Latin American countries, the Bank must set the standard. We know it has the means to do so and hope that a commitment in principle to such financing, in respect of these three countries, can be made here at Cartagena.

As regards France and Latin America generally, we have decided to focus primarily on our partnership with the IDB. In that spirit, we have created a trust fund with the Bank for the purpose of initiating projects. France is establishing its own instrument for project preparation in each of the Latin American countries. In cooperation with the IDB, it can also enter into cofinancing arrangements, and I hope that several such projects can be carried forward in 1998.

Let us talk more generally now about the Bank's future. Thanks to the initiative of President Iglesias, we can begin here, in Cartagena, a joint process of reflection on the course the Bank will take as we enter the twenty-first century. Among our main priorities we should include the fight against poverty, private sector development, environmental protection, and institutional reform. Given the important issues at stake, I hope that the Governors' ad hoc committee can prepare a comprehensive proposal for the next annual meeting at Paris. In formulating this new mandate for the Bank, they can naturally rely on the support of the Bank's Management and Board of Executive Directors.

The sooner the question of the Bank's concessional resources can be resolved, the more productive such reflection will be. We have settled the matter for the next two years here at Cartagena. Under Colombia's chairmanship, a more ambitious study on concessional resources in general is to be conducted with a view to securing solidarity toward the poorest countries on a lasting basis. I hope that, together, we can find a reasonable solution.

Persisting questions about the IDB Group's involvement in the private sector must also be settled. We are still awaiting proposals for coordination between the Bank, the Multilateral Investment Fund, and the Inter-American Investment Corporation. The Corporation, in particular, has made notable progress, and I hope that Suriname's membership will be part of a substantial expansion of the IIC's shareholders.

So we have an ambitious program ahead of us in 1998, and you know that France has a particular interest in seeing it successfully carried out. For our part, we are getting ready to welcome you to Paris.

Your arrival will come just after the birth of the euro, a single currency for Europe and a decisive stage in European integration. We will be inviting you to reflect with us on the impact of this event, which will transform the international monetary system and strengthen trade relations, within Europe and with other regions of the world.

Regional integration is a timely issue, too, for the countries of Latin America and the Caribbean. It takes numerous forms, with the notable and promising example of MERCOSUR, which has already signed a partnership agreement with the European Union. France and the European Union naturally stand ready to help further such regional initiatives. They should be encouraged, as well, by the Bank's programs in the region.

The next institutional encounter between this hemisphere and Europe will be the 1999 annual meeting in Paris, when we shall be celebrating the IDB's fortieth year serving regional development. The event will be all the more gratifying in that it will be held under the recognized and reaffirmed authority of President Iglesias.

In closing, on behalf of Dominique Strauss-Kahn, Minister of Economic Affairs, Finance, and Industry, whose pleasure it will be to welcome you to France, I wish Colombia every success in its chairmanship.

MR. WILLIAM C. ALLEN, GOVERNOR FOR THE BAHAMAS AND MINISTER OF FINANCE AND PLANNING, ON BEHALF OF THE GOVERNMENTS OF BAHAMAS, BARBADOS, GUYANA, JAMAICA AND TRINIDAD AND TOBAGO

I am honored to speak today on behalf of the Governments of Barbados, Guyana, Jamaica and Trinidad and Tobago, as well as my own country, The Bahamas. On behalf of the Caribbean Constituency, I wish at the outset to express our sincere appreciation to the Government of Colombia and especially the people of Cartagena for their warm welcome, generous hospitality, and the excellent arrangement for this Annual Meeting in this wonderful city.

We attribute great importance to opportunities such as this, which permit direct participation in defining the Bank's strategic policy direction, and ultimately, by extension the kind of financial and non-financial services provided to our countries. The IDB holds a distinction of special importance to the Caribbean as it remains the principal source of development finance and a valued resource for policy advice and strategic planning.

Global and Regional Economic Performance

Although the rate of growth in output recorded by the global economy in 1997 was similar to the level achieved in 1996, there was significant evidence of the underlying stability that has been the hallmark of the 1990s. Latin America and the Caribbean, as a group, grew at an accelerated pace in 1997 when compared with 1996. The region's rate of expansion far outpaced that of the global economy and the group of industrialized countries, growing by 4.8 percent in 1997, up from the 3 percent posted in 1996. This outturn was representative of general growth trends in the region. Some 17 of the 26 IDB member countries registered accelerated rates of growth.

Performance of Caribbean Economies

Growth trends for our countries were similar to those of the wider Latin American and Caribbean region. In 1997, the rate of growth within the Caribbean Constituency economies as a group accelerated marginally. The crude average growth rate of the five countries increased to 3.8 percent, a point-one percent increase over 1996. The Bahamas grew at an accelerated rate, whilst the Jamaican economy again registered negative growth. Although Barbados, Guyana and Trinidad and Tobago registered healthy growth, the rates were somewhat lower than that of 1996. In Guyana and Trinidad and Tobago, growth was broad-based. In The Bahamas and Barbados, growth came mainly from the tourism and construction sectors, whilst in Jamaica, improved performances in bauxite and tourism were not strong enough to outweigh contraction in the agriculture and manufacturing sectors. Most of our economies experienced low inflation and stable macroeconomic performance.

Assessment of the Bank Family's Work in the Caribbean

Last year, for the first time since 1990, all countries of the Caribbean Constituency received positive net transfers of financial resources from the IDB. Cumulatively, the Constituency received net flows of US$122.5 million. We note, however, that this outturn was influenced by a decrease of more than 50 percent in loan repayments, resulting from advanced maturity of the portfolio, and not from improvement in the pace of disbursements, which fell from US$237 million in 1996 to US$204 million in 1997.

Performance in terms of loan approvals was not good. Despite having at the beginning of the year, a pipeline of 15 probable projects at a total value of US$400 million, during 1997, just three projects, at a cumulative value of US$68.7 million, were approved for the Constituency. This outturn represents a significant decline of 84 percent in the value and 50 percent in the number of loans approved in 1997 over 1996. There was also a drop of 30 percent in the total value of non-reimbursable technical cooperations approved for the Caribbean Constituency.

The volume of services provided to our Constituency's private sector remains a serious disappointment. The Private Sector Department has not approved a single loan for the Caribbean during its existence. In 1997, the IIC approved one loan and the MIF approved three operations for the Constituency. The IDB will never optimize its development contribution and impact within the Caribbean until it more effectively leverages its resources for promoting development of the region's private sector. This is an area in which your help and support are needed.

C And D Action Plan

We wish to thank this institution for its support of the C and D Action Plan. All indications suggest that the Plan has achieved significant benefits for our countries. The Plan has been particularly useful in helping the countries of our Constituency resolve problems at the various stages of the project cycle. In this regard, it assisted in eliminating major bottlenecks in the implementation of slow-moving projects, which resulted in generally accelerated project preparation and implementation in all of our countries, and it has helped with institutional strengthening.

The impact of this initiative has been so outstanding that there is ample justification for its continuation, to improve the capacity of C and D countries to process loans. Continued support for this kind of plan will bring the Bank closer to achieving the 65 percent/35 percent target for the distribution of resources between A and B, and C and D countries. We, therefore, propose that the resources for the C and D Action Plan be doubled and extended through the year 2000.

Heavily Indebted Poor Countries Initiative

Our Constituency also thanks the Bank for participating in the IMF/World Bank Initiative for Heavily Indebted Poor Countries. More specifically, we wish to place on record our sincere gratitude for the decision to grant debt relief to Guyana under this initiative. This Bank's contribution to lowering Guyana's debt to a sustainable level will ensure that more resources are available to assist with poverty alleviation and advance Guyana's social and economic development.

Financing of Concessional Resources

Now that the Working Group of the Committee of the Board of Governors has proposed a temporary solution for the availability of concessional resources, and postponed full resolution of this matter, including the thorny issue of FSO local currency resources, until the 1999 Annual Meeting in Paris, we wish to present, for the consideration of the Governors, our thoughts on how we would wish to see this matter finally resolved.

On the demand side, we should assure that our final solution adequately provides for the full demand of FSO and IFF eligible countries. In principle, we would counsel against all efforts to artificially redefine demand, as this would be harmful to countries in greatest need of our development support. We would also counsel against restraining demand through a process of graduation, especially if new thresholds are set below the 1993 real income per capita levels, in 1988 prices, established in the Eighth Replenishment. The final solution should seek to reasonably distribute the cost of financing the resource gap, access a broad range of available resources, including some access to resources held in local currencies, minimize the per-country burden, and preserve the spirit of solidarity. Any solution should take cognizance of the potential cost to Ordinary Capital borrowers and therefore minimize the impact on lending spreads. In particular, the solution should minimize the cost to small, poor and vulnerable borrowing members, ensuring that their cost burdens are not significantly greater than their contributions to financing the FSO in the Eighth Replenishment.

Finally, the solution should also seek to make non-reimbursable technical cooperation resources available to C and D countries that now have no access to this modality, which is so vital for project development support in smaller countries. The D-2 countries' access to non-reimbursable technical cooperation is provided for by the Eighth Replenishment Agreement, and the A and B group countries continue to have access to this facility, through FSO local currency resources.

Development Agenda of Caribbean Countries and the Bank's Expected Role

Coping and participating meaningfully in the hemispheric movement towards formation of the Free Trade Area of the Americas by the year 2005, as well as ensuring reasonable results from the Lomé negotiations, the implementation of the WTO General Agreement on Trade and Services and other regional integration initiatives require a strong and coordinated regional response. Regional and national initiatives are also required in non-trade areas such as leveraging resources to advance development initiatives in the areas of human resource development and judicial reform.

In this context, we thank the Bank family for the assistance it continues to provide to CARICOM to help manage the process. At the same time, we await the technical cooperation assistance which is being prepared by the Bank to help with financing the regional negotiating mechanism.

Now that many of the countries in our Constituency are slowly emerging from the first round of reforms, we would continue to look to the IDB as a significant partner in the development and implementation of social and economic agendas at the national level. The areas in which support must be continued with Bank assistance include:

(1) the pursuit of sustained export-led growth predicated on a diversified export base;
(2) the targeting, enhancement and expansion of poverty reduction and social mitigation programs;
(3) the consolidation of initiatives to raise the general level of efficiency of the production system, by improving economic infrastructure and institutional arrangements, as well as fostering human resource development;
(4) the continuation of efforts to create the enabling environment for and the promotion of private sector investment;
(5) the implementation of strategies to augment domestic savings to finance greater proportions of investments, while improving efficiency in the investment sector; and
(6) finding creative ways to make non-reimbursable technical cooperation resources available to our countries.

The countries of this Constituency all agree that a major benefit from doing business with the Bank is having access to the wealth of technical knowledge and expertise of the Bank staff. However, accessing the Bank's resources and technical expertise has significant administrative costs. It is essential for the Bank to appreciate that many developing countries have limited human and other resources available for public sector management responsibilities, and engaging those resources in protracted loan preparation procedures imposes significant human resource costs. When the Bank imposes complex procedures and conditionalities, it is placing at times an almost unbearable management burden on the few policy-makers and officials available to deal with these issues. The 'value-added' by the Bank could be considerably enhanced if the Bank were to adopt the alternative philosophy of seeking fewer and simpler conditionalities, and simplifying its disbursement processes.

At the same time, we consider that the principles of solidarity which have guided the manner in which the proportionately higher costs of financial intermediation in its smaller and poorer members have been funded through the Bank's administrative budget should be maintained. Thus, we are unable to support any proposal for a contingent recovery scheme for the cost of loan preparation or of standardized charge-off of expenses for loan administration.

Shortcomings of the Bank Family's Performance in Respect of the Constituency

As mentioned by our Constituency's spokesman at the Special Meeting of the Board of Governors in November last year, we are pleased overall with the service being received from the Bank. The technical assistance provided to Jamaica to help resolve the problems in its financial sector was particularly gratifying.

However, there are areas in which the Bank can do more to make us more satisfied clients. For example, the Bank Family should increase its support to private sector development in our region. This could be remedied if the Department broadens its scope to include areas of greater relevance to the Caribbean, such as tourism infrastructure. Other constraints could be alleviated if the Private Sector Department's proposal to increase the limit for the proportion of project costs which can be financed in C and D countries is approved by the Board of Governors at this meeting. We are encouraged by what seems to be an emerging consensus around setting this limit at 40 percent.

It would also be useful if the Bank increases the flow of non-financial services to the Caribbean, especially regional technical cooperations. We hope that the regional programming exercise that is being prepared will firm up project ideas.

Looking Ahead

Even as the Board of Executive Directors and the Committee of the Board of Governors continue their work with regard to elaborating and fine-tuning a new set of policy guidelines to orient the Bank's operation for the 1998-2001 period, allow me to record my Constituency's views on some of the preliminary proposals. Before mentioning specifics, the Caribbean Constituency concurs with the emerging consensus that suggests that the general policy direction that was operative during the Eighth Replenishment should be maintained. They were broad and comprehensive and are still relevant in today's circumstances.

In terms of specifics, we are concerned that the discussion of the matter of allocation of resources by country group seems to suggest that Governors relax the 65 percent/35 percent indicative target and transfer the responsibility for the determination of resource distribution to the Board of Directors. We support the new comprehensive approach that is being suggested to ensure that the volume of resources committed to the C and D countries is spread across a sufficient number of operations to maximize the developmental impact while addressing priority areas of the Bank.

However, we wish to record our strong support for the retention of the 65 percent/35 percent target. This target has served to assure availability of the Bank's resources for C and D countries, as was clearly the intent of the Eighth Replenishment Agreement. We would not support any attempt to transfer determination of the proportional distribution of financial services from the Board of Governors. Lessons learned in the Board of Directors during the process of developing the C and D Action Plan, the inconsistency with respect to the allocation of FSO resources, and the experience of dealing with other C and D issues convince us that the determination of resource distribution should remain with the Board of Governors.

The Caribbean Constituency supports the approach being suggested as the way forward in determining the nature and scope, if any, of future lending to local governments, without government guarantees. While not attempting to preempt the outcome of future efforts, we would like to see this matter approached with caution. Our understanding is that the risks to the Bank would be considerably greater, and that the sanctions and other precautionary instruments that can be applied to sovereign governments cannot be applied to non-sovereign entities.

We wish to caution against the emerging tendency for the Bank to become increasingly involved in macroeconomic issues. The Bank must focus on the development purposes for which it was established and not allow itself to be drawn into those areas by the urgings of other multilateral institutions.

I conclude on the same note as the two previous spokesmen for this Constituency at earlier Annual Meetings of the Board of Governors, by reiterating our interest in having the Bank examine the special development problems and needs of small economies, as a basis for designing appropriate national and sub-regional programs. Interest in the results of such exercises extends beyond our Constituency to other small borrowing member states. The Governor for Costa Rica, at the Meeting of the Committee of the Board of Governors, on February 17, 1998 in Washington D.C., made a similar request. Naturally, a better understanding of the peculiar characteristics and needs of our countries would empower the Bank to serve us better.

MR. TAKATOSHI KATO, TEMPORARY ALTERNATE GOVERNOR FOR JAPAN AND SPECIAL ADVISOR TO THE MINISTER OF FINANCE

A. Introduction

It is a great pleasure for me to address the 39th Annual Meeting of the Inter-American Development Bank and the 13th Annual Meeting of the Inter-American Investment Corporation. On behalf of the Government of Japan, I would like to express our gratitude to our hosts, the Government of Colombia and the people of Cartagena, for their generous hospitality.

I would also like to take this opportunity to congratulate President Iglesias for his outstanding leadership, and the Executive Directors and staff of the Bank and the Corporation, for the enormous efforts they have been making for Latin American and Caribbean economic development.

B. Latin American and Caribbean Economies

For two years the Latin American and Caribbean region has been on the steady track of recovery. Last year it registered the second highest rate of economic growth since 1980. 1997 also saw the first downturn of unemployment in eight years.

Reflecting the improved macroeconomic balance, investors have gained confidence and capital inflows have expanded even further. Amid all these convincing signs, prospects for the Latin American and the Caribbean economies seem brighter than ever.

Even the Asian financial crisis since last summer has had a limited effect on this region, thanks to the structural reform based on the experiences of the debt crisis in 1980 and the crisis of the Mexican peso in late 1994. The appropriate policy response the authorities exhibited when the effect of the Asian crisis reached their shores also ought to be commended. In this sense, the experience of this region offers much from which Asian countries might learn.

However, for the countries in the Latin American and Caribbean region to ensure stable economic growth into the future, it is essential that these countries maintain sound macroeconomic policies, while continuing their efforts to make the economic structure even more efficient by furthering a structural reform, whether in the public sector or in the financial and other private sectors. Alongside this, I also believe a greater effort must be made to support those who are still in poverty, and address environmental issues.

C. The Role of the IDB

For all this to be addressed by the countries in the Latin American and Caribbean region, Japan expects the IDB group to work, in particular, on the following four policy priorities.

<u>First</u>, poverty reduction. The fight against poverty is undoubtedly one of our most important global tasks. The Latin American and Caribbean region is no exception. Despite the economic progress in the region, some people still live in poverty. The key to addressing such an issue, I believe, is to provide them with greater access to education as well as health and medical care of improved quality. To be more specific, in the arena of education, it is essential to improve the quality of education and to expand opportunities for attending school. In health and medical care, a cost-effective system that will provide high quality services must be established.

The socially weak, such as women in development and indigenous groups, must not be ignored, either. To rescue them from temporary poverty, strengthening social safety nets, such as providing public assistance, will continue to be high priority.

<u>Second</u>, the environment. The urban environment, in particular, is closely linked to poverty. As we all know, discrepancies in income levels between urban and rural areas tend to invite a concentration of population in urban areas. This serves as one of the causes behind air pollution and water contamination, thus deteriorating the urban environment. To eliminate such a vicious cycle of poverty and environmental disruption, it is essential to improve the urban infrastructure such as the water supply and sewerage on the one hand, and on the other hand to improve the living standard in rural areas through infrastructure provision.

The environment is also an issue that goes beyond national boundaries. Earth warming, for example, must be addressed by a global initiative. Thus, at the Third Session of the Conference of Parties to the United Nations Framework Convention on Climate Change (COP3) held in Kyoto last December, the focus of discussion was on target levels for reduction in greenhouse gas emissions. In this respect, preservation of rain forests and other forestry resources in the Latin American and Caribbean region, which has direct relevance to earth warming, must be addressed with a broader perspective that covers the entire region. This is where a strong initiative by the Bank will be of greater importance.

Now to the <u>third</u> issue: improvement of the financial sector and other structural reform efforts. As evidenced by the currency crisis in Asia that started in mid-1997, having a sound and efficient financial system is indispensable to ensuring stable growth. In the Latin American and Caribbean region, the Mexican crisis has prompted some countries to promote reform in their financial and capital markets. Yet for many countries, the efficiency of financial markets is still low. What needs to be done ranges from strengthening regulatory and supervisory functions, to promoting competition in the banking sector by privatizing state-owned banks and deregulating the market entry by foreign capital; from nurturing capital markets by improving government debt-management policies and deregulating pension and mutual funds, to improving the financial market infrastructure by establishing collateral and bankruptcy laws as well as settlement systems.

Furthermore, strengthening public finance through improved management of annual revenue and expenditure, greater operational efficiency, and reform of social welfare systems will continue to be a high priority. Equally essential is the prevention of corruption by modernizing the public sector and improving governance.

All this will continue to require the Bank's active support.

The fourth and the least policy priority which Japan expects the IDB Group to address is the strengthening of activities in the private sector.

Private capital inflows to the region, particularly to Brazil, Mexico, and Argentina, have continued to gather momentum. Against such a backdrop, the Latin American and Caribbean economies now face, as with other emerging economies, a challenge of how to meet the enormous capital need for infrastructure building, by promoting stable inflows of long-term private capital while avoiding excessive reliance on short-term capital.

The IDB Group has been instrumental in addressing this challenge. Particularly since 1994 when the Private Sector Department was established, three institutions within the IDB Group — the Private Sector Department, the Multilateral Investment Fund, and the Inter-American Investment Corporation — have continued to collaborate and complement with each other in expanding private capital inflows to the Latin American and Caribbean region, through lending and other instruments for private sector support while making the most of their guarantee functions.

In this context, I join you in welcoming the proposal the Secretariat made at the beginning of this year to review the current ceiling on lending by the Private Sector Department. It is indeed a timely proposal, and Japan stands ready to give full support.

I would also like to add that among the future policy priorities is the promotion of private capital inflows to an extended number of countries. To this end, we strongly hope that the management will put forward a C and D countries' action plan for private infrastructure projects.

D. The IDB's Concessional Resources

I would like to take this opportunity to briefly explain Japan's position with regard to the concessional resources of the IDB.

As to the execution of loans to poor countries, which as a focal point in the agreement on the Eighth Replenishment, we are fully aware of the significance of the concessional resources of the IDB. In this aspect, Japan welcomes the latest agreement on the overall review of the Bank's concessional resources among member countries at the Meeting of the Committee of the Board of Governors held in conjunction with this Annual Meeting.

With regard to a further review of the subject, I trust you'll agree that we should consider better use of the Bank's internal resources in order to increase the availability of the Bank's concessional resources.

E. Japan's support of Latin American and Caribbean economies

I would also like to touch upon Japan's support of the economies in the Latin American and Caribbean region.

For the last several years, Japan has been one of the largest providers of Official Development Assistance to the Latin American and Caribbean economies.

In 1997 Japan co-financed with the IDB, through the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund, loans amounting to an all-time high of 1.5 billion US dollars, making Japan the Bank's largest co-financing partner.

What's more, in support of the Bank's activities to this end, Japan will continue to provide financial cooperation through the Japan Special Fund. While in the past the Japan Special Fund has focused primarily on economic infrastructure and the environment-related projects, the Fund will have an extended focus that also covers the private, social, and financial sectors.

Currently, a scheme known as "The Japan Program" is being considered by the IDB to promote exchange of experiences and policy know-how between Asia and the Latin American and Caribbean region. I would like to take this opportunity to announce that Japan will support the program through the Japan Special Fund. I trust that this scheme will contribute to the operation of the IDB by allowing us to share our experiences, while promoting joint study on policy priorities particularly in such fields as basic as elementary education, air pollution and other types of environmental disruption, and comparative analysis of the Asian-type crisis.

I must also add that at the end of June this year, Tokyo will host a symposium to promote economic exchange between the two regions: the Latin American and Caribbean region and Japan and the rest of Asia. With a large number of people participating from the Latin American and Caribbean region, the symposium is expected to contribute to the regional progress, whether social or economic.

F. Concluding remarks

In closing, allow me to emphasize again that for the Latin American and Caribbean economies to enjoy continued, sustainable growth into the next century, which is already on our doorstep, it is essential that these countries make even greater efforts for sound economic policy and steady implementation of structural reform; while improving the social sector and taking the environment fully into consideration.

When we look ahead, there's no question that the Bank will play a pivotal role in furthering progress in this region. Expectations of the Bank will be greater than ever. I would like to conclude by stating that Japan will continue to actively support the activities of the Bank and the Corporation, and continue to be a good partner for social as well as economic progress in this region.

MR. JOSÉ ALEJANDRO ARÉVALO ALBUREZ, GOVERNOR FOR GUATEMALA AND MINISTER OF PUBLIC FINANCE, SPEAKING ON BEHALF OF THE MEMBER COUNTRIES OF CENTRAL AMERICA

We wish to express our gratitude to the government and people of Colombia and in particular to the gracious citizens of this grand and historic city of Cartagena de Indias for their hospitality.

The countries of Central America have resolutely continued to brace themselves for the challenges ahead in the next century in an increasingly globalized world. In addition to the great strides in consolidating democracy, considerable progress has been made towards achieving macroeconomic stability, economic liberalization, modernization of financial systems, privatization of road infrastructure services, telecommunications, ports, airports, and other services provided by the State in the past. In general, our economies are more open, with prices being set by the market. These steps have been taken to create a climate conducive to private investment, investment in human capital, and the process of integration in order to enhance the competitive position of the region and provide new opportunities for socioeconomic development for the people of Central America.

In their efforts to effect economic modernization, our countries have been implementing far-reaching reforms to redefine the role of the state, by building more efficient and effective governments, whose primary role is to facilitate productive activity. The process of reform encompasses the executive, legislative, and judicial branches.

The successes noted in the area of integration are also creating a favorable setting for private investment. The countries recognize the need to combine their efforts in order to present themselves as a unified bloc to the rest of the world, thereby creating an attractive and competitive market. That is how the Project for Competitiveness and the Central American Agenda for the Twenty-first Century emerged as part of the Central American Alliance for Sustainable Development chaired by the five Heads of States from this subregion and a common analytical framework is being worked out for competitiveness and sustainable development that has led to a shared vision on how Central America will position itself within the world economy. On the foreign trade front, we have almost reduced to zero all tariffs on raw materials and capital goods. Nontariff barriers have been virtually eliminated, and we have entered into some free trade agreements and others are being negotiated. The restructuring and reshaping of the institutions of integration was approved by the Presidents of the Central American countries at their Summit in Panama last year, a move that will reinforce the integration process.

We are concerned, however, that serious levels of poverty and inequity still exist. It is imperative that coverage of health services, education, housing, and basic social infrastructure be broadened. It is therefore essential that incentives be given to strengthen microenterprise and small business, which in Central America, are a valuable tool for alleviating unemployment that is being temporarily exacerbated during the adjustment process. In addition, the process of regional integration calls for harmonization of fiscal and monetary policies and of financial regulation and supervision so that Central America can integrate more successfully and smoothly into the global economy.

In this context, it is necessary to support the IDB Group. For the public sectors of the countries in the region, the Bank has become the principal source of multilateral financing, helping to promote major programs of economic reform and modernization of the State as well as specific sector programs in the areas of education, health, housing, and service infrastructure. Technical-cooperation funding, too, has made it possible to channel resources to a variety of purposes ranging from the adjustment of legal and regulatory frameworks in different sectors to worker training and the modernization of tax administration.

We are confident that the IDB Group may help to support internal efforts to encourage increased participation by the private sector in employment-generating productive activities. In the case of the Inter-American Investment Corporation and the Multilateral Investment Fund, through programs to support the establishment and operation of small and medium-sized business in the region, and the Bank's Private Sector Department, it may be feasible to finance major infrastructure projects such as those now being promoted in the region, under privatization programs and the breaking up of trusts. Nevertheless, the mechanisms now in place need to be streamlined. Experience has shown that the small countries require policies and strategies from the IDB Group that differ somewhat from those devised for medium-sized and large economies. Some of the present proposals such as those to increase the share of Bank participation in infrastructure-project financing in conjunction with the private sector in small countries, is in our view a step in the right direction. However, we feel that more integrated action is required. To this end, we look to the IDB Group for future initiatives to improve access by small countries to facilities of this kind.

The Bank needs to provide for, and adapt constantly to, the changing needs of its member countries. This calls for sufficient flexibility in responding to the different demands made and a review of the present procedures for processing and approving the Bank's operations. It is our hope that the Working Group that was set up for this purpose will recommend specific actions for responding more swiftly and efficiently in the short run to the requirements of the Bank's clients. As to the array of new products proposed by management, we view with interest some of these facilities such as institutional adjustment lending which will help to cushion the negative impact that reform programs temporarily have on public finances. It is also proposed that we continue to explore ways of establishing a contingent financing facility to address temporary emergencies that arise in the wake of systemic crises that momentarily shatter the confidence of investors in international financial markets.

With reference to the targets established under the Eighth Replenishment, we request that the bank step up its efforts to achieve the 35% target of its loan portfolio for Group C and D countries, particularly since they are the relatively less developed and most reliant on the IDB for external resources. We view with satisfaction the efforts that Management has made to achieve the target indicated, although it had to step away from these goals owing to exceptional circumstances that arose in 1995 and 1996. Initiatives such as the Action Plan for C and D countries which seek to improve the absorption capacity of small countries will make a significant contribution to the established target being attained. That is why this initiative needs to be broadened and strengthened.

The concessional resources are of fundamental importance to the relatively less developed countries, in supplementing their own internal efforts. It should be remembered that the social indicators in these countries are lower and their alternatives for raising financing in international capital markets more limited. Approval of this feature will make it possible for the operations programs in these countries to continue functioning, at least for the time being and the next year. Hard and fast solutions that sustain the Fund for Special Operations and the Intermediate Financing Facility in the medium term are needed. The future uncertainty surrounding the FSO adversely affects the processing and size of operations for Honduras, Nicaragua, and other countries with access to these resources, and also creates an environment that is unsustainable and fraught with uncertainty in the countries over their reform programs. We also ask that any comprehensive solution to this matter clearly specify how financing for the initiative will be provided for the Heavily Indebted Poor Counties in Central America, which are making ever effort to fulfill the requirements established in this regard.

We wish to reiterate that in the context of the Eighth Replenishment these considerations should make it possible for the Bank's financial and technical cooperation for Central America:

i) To establish meaningful priorities such as poverty reduction and greater social equity, modernization of the State and regional integration, and environmental protection;

ii) To reaffirm the commitment of our countries to sustainable macroeconomic development, policy dialogue with the Bank, and the heightening of international competitiveness; and

iii) To permit the consolidation of economic reforms, the implementation of a new social program built on broad political consensus, and the establishment of a new safety net for the poor.

In conclusion, we would like to say that the assistance provided by the IDB to Central America is indispensable and will continue to be a cornerstone of the transition to the Twenty-first Century given the extensive agenda of change initiated in each country in the region in this new era. It is therefore essential that we all work together in forging a stronger and more vigorous Bank, with the human and financial resources that are needed to support the different countries according to their degree of development and unique conditions. In this context, we believe that the basic principle of solidarity between the Bank's member countries has been, and will continue to be, the hallmark of the IDB.

MR. KLAUS JÜRGEN HEDRICH, GOVERNOR FOR GERMANY AND PARLIAMENTARY STATE SECRETARY, FEDERAL MINISTRY FOR ECONOMIC COOPERATION AND DEVELOPMENT

On behalf of myself and my delegation I would first of all like to thank the government of Colombia for inviting us to Cartagena. It is a great pleasure to be in this dynamic country and in this beautiful city with its important historic background. Again important business has to be done in Cartagena, this site of significant conferences and meetings. In this regard, I would like to thank the Bank for its excellent work in preparing this Annual Meeting.

It is also a great honour and pleasure for me to congratulate the President, the dear friend of my country, Enrique Iglesias, on his re-election. We are very sure that, as he did in the past, his vision and leadership will continue to give the Bank an important role in the economic, social and by that also in the political development of Latin America.

Last year was a good year for Latin America. Such a statement is all the more significant when we consider the problematic developments in Asia. So far, the Asian financial crisis has not had any severe impact on Latin America. This is surely a proof of wise political leadership, an indication of how stable the region's development has been over the last few years. Economic growth has almost regained the level prior to the crisis in Mexico. Inflation continues to fall. The inflow of private capital has increased enormously and considerable foreign exchange reserves have been built up. Given all this, one is loath to mention the fact that development in Latin America also has a downside.

The financial crisis in Asia should, I believe, teach us that private capital can be withdrawn just as quickly as it was poured in. Everything hinges on the confidence capital markets have in a country's economic stability. If this confidence is affected, the herd instinct can be observed at work, causing the mood to change in a flash and bringing about a complete reversal in the patterns of investment.

Naturally I share the satisfaction of those Latin American countries whose tremendous efforts to achieve stability over the last few years have now borne fruit and which are now attracting foreign investors. In view of this, I understand the demands that the Bank and its products must be made more attractive if they are to remain in competition with private capital. One should not be surprised that in the non-borrowing member countries, some people wonder whether public financial institutions whose capital resources ultimately stem from tax revenues still have a purpose.

I am firmly convinced that international financial institutions and the regional development banks in particular do still serve an important development purpose. Naturally, this also applies to the IDB. I am not talking about the role of an emergency fire-fighter that the IDB played during the 1995 financial crisis or about the assistance provided by the Asian Development Bank in containing the turbulent developments in Asia. No - we need institutions like the IDB because there are some tasks that only they can perform based on their expertise and their ownership of the respective region. The IDB 8 mandate quite rightly made these tasks the focus of the Bank's work. Poverty alleviation and social justice, the modernization and integration of Latin American countries and the fostering of ecologically sound development - these are not issues that are uppermost in the minds of private investors. After all, progress in these areas benefits people only in the long term.

Despite considerable efforts on the part of both the Latin American governments and the IDB, there are still deficiencies in these areas. According to the IDB's own estimates, in this region 75 million people are still living in absolute poverty. If you are poor, you have fewer educational opportunities. If you are poorly educated, you will not find work and you will take no interest in the conservation of the environment. If you are without work, you can easily come into conflict with the law. Rampant crime can ultimately jeopardize social stability and thus the democratic system of any country.

It is important that conflict within society be reconciled. Economic growth alone is not enough as long as unemployment keeps going up. Moreover, a rising GDP does not necessarily address the issue of unequal distribution of wealth within a society. Yet it also makes sense to eliminate differences in economic development between the countries of a particular region that wish to link their markets in order to offer better business opportunities to investors.

Solidarity, however, is a vital prerequisite for integration. Poverty alleviation is subject to the sovereign governance of the relevant countries. The IDB can only give strong support on the basis of adequate national policies. This is why I am convinced that the right decision was made at the IDB 8 negotiations when a certain lending ratio between the more advanced A & B and the C & D countries was fixed. Certainly, the differences between the states in these four groups in terms of population size, development and, therefore, absorptive capacity make it difficult for the Bank's management to achieve a specific ratio in terms of loans granted. But we must persevere. Perhaps it would be useful to re-examine the country classifications, which possibly need to be up-dated. Perhaps we need new financial products. However, we should never compromise on the development orientation of any action the IDB undertakes.

The HIPC debt initiative is another activity meant to address the problems of the poorest countries in the region which seem to be caught in a vicious cycle. In the long run, IDB member states identified to benefit from this initiative will become more interesting partners in regional trade and cooperation. In view of this, I welcome the IDB's decision to contribute to the HIPC initiative. Beyond any doubt, the IDB's decision to grant debt relief to Bolivia and Guyana was right. Given the low level of per capita income and the high level of debt in these countries, external assistance was imperative. There is not enough potential in these countries for an internal re-distribution of wealth so as to alleviate the situation of the poor. The IDB has the funds and the mandate to contribute to the initiative. At the moment, these countries should not be graduated. I am convinced that, ultimately, the region and the IDB will benefit from member states which then have the chance to progress economically.

I welcome the outcome of yesterday's discussions on the Concessional Resources issue in the Committee of the Board of Governors. Now that all members of the Bank have the opportunity to contribute to the deliberations taking place in the Committee on the future role of the Bank as well as in the Working Group on concessional resources, I think that there is a good chance to find a satisfactory long term solution to the problem of the scarcity of funds. The Board of Directors will assist with regard to all technical questions. Now, the ground has been laid to deal with both topics in a coordinated way and within a reasonable period of time.

The considerable number of business and bank representatives attending the IDB's annual meetings are proof to me that Latin America has an enormous potential as trading partner for other regions of the world. It does not come as a surprise that links to North America are the deepest. In order to broaden the basis for trading and investment partners, cooperation with other economic centers of the world should be expanded, too. For historic reasons, some European states had and still have very close ties to this region. In addition to this, I would like to strongly encourage Management to support expanding the cooperation between the European Union and Latin American economic associations such as MERCOSUR.

I am well aware that appeals alone will not bring about further cooperation. In the end, decisions are taken by individuals who would like to get to know their partner countries. In two years from now, an excellent opportunity is coming up for the IDB member states to present themselves to the world in my country. Coming to the end of my speech, I would like to briefly touch upon the EXPO 2000, the first world exposition on German soil to take place from June 1 to October 20 of the year 2000, at the beginning of the next millennium.

To date, 169 countries and international organizations have confirmed their participation, far more than at any other world exposition. They include all but one of the Bank's Latin American and Caribbean member states and, incidentally, all but one of the non-regional members.

It gives me great pleasure, Mr President, to congratulate you on the Bank's decision to take part in this event.

EXPO 2000 will not be a showcase for technical achievements but rather a global forum for innovative solutions and strategies for the future aimed at achieving harmony between the economy and the ecology of the countries or regions in question. At EXPO 2000, the realization that technological progress must serve new goals will be acknowledged. The most important objective is to improve living conditions for people today without further endangering natural resources and thus threatening the basis of existence for future generations.

This clear commitment to the objective of sustainable development, with all its social, ecological, economic and cultural aspects as defined by the UNCED conference in Rio in Agenda 21, makes EXPO 2000 a new kind of world exposition. This is also the principle behind the world exposition's motto "**Humankind, Nature, Technology**".

I am looking forward to seeing as many members of this audience as possible in two years in Hanover!

MR. LEIV LUNDE, TEMPORARY ALTERNATE GOVERNOR FOR NORWAY AND STATE SECRETARY FOR INTERNATIONAL DEVELOPMENT AND HUMAN RIGHTS, ROYAL NORWEGIAN MINISTRY OF FOREIGN AFFAIRS

I would like to begin by expressing my sincere appreciation to the Colombian Government and the City of Cartagena de Indias for hosting this annual meeting in such beautiful surroundings.

Looking at Latin America today, we are encouraged by the political and economic changes that have swept across the region in recent years. The economic growth experienced by the region is remarkable. Democracy is consolidated, the human rights situation is improving and there is to a large extent political and social stability.

As progress in the macroeconomic and political area continues, the challenges of social inclusion and peaceful co-existence emerge as major obstacles to economic and social development in the region. Latin America is still a region with large inequalities, where resources are distributed disproportionately to the already wealthy. A substantial part of the region's population continue to live under dire conditions, without access to basic health care and education, property ownership and income-generating opportunities.

Structural social inequalities is a major reason behind the high level of crime and violence. As various studies show, the cost of conflicts and violence may represent a loss in GDP growth of up to 3% annually for some countries.

The IDB is responding to this challenge in many ways — through: (1) advocacy and agenda setting, (2) non-lending services and technical assistance, and (3) direct lending, as shown in the recently approved loan to Colombia in support of peaceful coexistence and citizen security, for which Norway co-financed some of the preparatory work. I would like to take this opportunity to commend the Bank for its recent efforts. We see it as a vote of confidence from the regional members that a financial institution like the IDB can play an active role in this field.

As a result of the positive political and economic changes in the region, the Norwegian government last year launched a Strategic Plan for Latin America, which is a comprehensive plan to increase commercial ties with the region. The plan will serve as a policy tool contributing to strengthening our political, economic and cultural relations with the region, and thereby stimulate growth in both Norway and the Latin American countries.

In terms of bilateral development cooperation, Norway's involvement in the region has, over the last 15 years, mainly focused on promoting human rights, resolution of conflicts, and democracy building. The most visible Norwegian involvement is perhaps the comprehensive long-term development cooperation program with Nicaragua and Central America, aimed at contributing to peace, stability and economic development in that region. The struggle for human dignity and fundamental human rights will continue to be at the center of Norwegian development policy.

As we approach the next millennium, we see that a nation's position in an increasingly globalized world economy is decided by its stock of human and social capital, and its capacity to mobilize this capital in support of economic and political goals. The challenge for Latin America is therefore to overcome the features of traditional structures that exclude large parts of the population from both economic and political participation. Such participation is both an issue of rights and ethics, and a condition for economic efficiency.

As discussed during last week's seminar on "Social programs, poverty, and citizen involvement", which was co-sponsored by the Nordic countries, developing a legitimate state and a civil society based on broad participation in decision-making is essential to achieve democracy and political stability, as well as vigorous economic growth. We support the Bank's demonstrated willingness to play an important role in this regard, and particularly welcome the Bank's own forthcoming strategy paper on the strengthening of civil society.

An enabling environment for economic growth is fundamental for poverty reduction, but it is not enough. The distribution of the benefits of growth is essential. The traditionally unequal distribution of income and opportunities in Latin America is well known, and is an area where the Bank should take a more proactive role.

As part of the policy dialogue with member countries, country papers should include a separate section on poverty reduction. We would also welcome a more differentiated analytical approach from the Bank in its poverty interventions in borrowing member countries, reflecting their heterogeneous character.

Finally, with regard to poverty reduction, the Bank's impact on poverty can be judged only by the results of its operations in the field. An improved monitoring and evaluation function of the Bank could increase the use of best practices and field experience — from the IDB's own operations, as well as other institutions' experience.

Promoting equal rights and opportunities for women and men in all areas of society is essential. Norway has followed the IDB's work on gender with great interest, and we have also supported the Bank financially in this respect. We are, however, concerned with recent information which indicates that approved projects with gender analysis and action have decreased substantially, and that gender issues often are addressed too late in the project cycle. In order for the Bank to truly institutionalize its recently approved WID Policy, we repeat the importance of having gender expertise in both project teams and in country offices. Intensified Bank efforts in this regard are called for.

The IDB 8 review showed that the Bank has come a long way towards complying with its mandate from the Eighth Replenishment. We welcome the Bank's increased lending to social sectors.

Norway shares President Iglesias' concern about the slow progress in educational reform in Latin America. The region will not be able to grow to its potential, nor address the problem of social disparity, if it does not address the problem of quality primary education.

We believe that developing countries and donors together will see significant results in terms of poverty eradication, if we all live up to the so-called 20/20 commitment. As a result of the improved economic performance and prospects for the region, it is reasonable to expect most Latin American countries to devote 20% of their national budgets to social services, with priority being given to basic health care and primary education for all.

When we choose to focus on sectors such as education and health in many of the poorest countries, we must at the same time be aware that doing so results in an increase in public expenditures in the countries concerned. In the next round, this may lead to more aid dependence and a heavier burden of debt. This makes it all the more important to stimulate income- and employment-generating activities in the private sector, which is the real engine of economic development. Private-sector development is therefore an integral part of Norway's international development policy, and in order to strengthen our position in this regard, we have recently started work on a strategy for private-sector development.

Norway supports the IDB's efforts in fostering a vibrant and dynamic private sector in Latin America, complementing the effects of the private sector itself. The Bank has an important role in assisting countries in creating an enabling environment for private-sector development, through macro-economic reforms and modernization of the state. To catalyze flows of private capital into countries and sectors where it does not easily go is likewise a priority. Finally, Norway sees it as important that the IDB also plays a role in increasing the private sector's awareness of its broader social responsibility, fostering partnerships between government, private business and civil society.

In conclusion, I want to comment on the Bank's vision for the future. A lot of good work has already been done. However, some of the issues that need further work are: (1) clearer understanding of the IDB's comparative advantage and priorities, (2) clearer understanding of the Bank's role in a diverse region, and (3) an analysis of the administrative and financial impact of the proposed changes for the Bank.

We look forward to cooperating with the Bank and the other shareholders in defining the future of the Bank this coming year. It is a common challenge to us and the Bank's management and staff to ensure that the IDB maintains and further develops its current high standard.

It is an honor and distinction to address the Assembly of the Board of Governors once again, now on the occasion of this meeting in Cartagena de Indias, Colombia.

On behalf of President Eduardo Frei and the other authorities of the Government of Chile, I extend our regards to the Colombian people and government with the traditional warmth that has marked our relations. We also salute the IDB and its President, Enrique Iglesias, its Executive Directors, its Executive Vice President, and its staff who devote their efforts each day to promoting economic and social progress in our countries. I extend cordial greetings to the Governors present here and hope that our discussions over the next few days will be of use to the IDB and to each of its member countries.

New challenges for economic and social development in Latin America and the Caribbean

This meeting is being held in circumstances that reflect achievements, challenges, and the work that remains to be done in Latin America and the Caribbean.

From the standpoint of achievements, our region's recent performance reflects a consolidation of the macroeconomic progress made in recent years. According to ECLAC, growth in the region in 1997 was 4.5%, which exceeds the 3.6% achieved in the previous year. Inflation has continued to fall, dropping from 18% to 12% over the same period. The economies have become more stable, productivity has risen, exports have climbed to two digit rates, and the flow of investments into the region has been large.

We should congratulate ourselves on these accomplishments since, as we know, they have not been easy to achieve. Macroeconomic stabilization in Latin America and the Caribbean has required major adjustments and structural changes whose cost, in many cases, has been a heavy burden on our peoples. Fiscal discipline has been particularly important. The fiscal deficit, which was close to 6% of GDP during the 1980s, has fallen to 1% of GDP in the present decade. Today, as it is being decided which European countries comply with the requirements of the Maastrich Treaty, we can proudly say that 16 of the 19 countries in our region for which we have current data would be able to comply with those requirements in terms of the fiscal deficit.

However there are many areas in which our performance is not yet satisfactory. Unemployment is still very high, wages have not recovered from their decline at the end of the 1980s, and poverty continues to afflict 150 million people, or more than it did two decades ago. Our region continues to be sharply unequal, although fortunately the deterioration that occurred during the 1980s has been checked. Growth in education has slowed and the educational gap that separates us from the wealthier countries and the countries of Southeast Asia has been widening. This limits the possibilities of continuing to boost the competitiveness of the economies of the region and to genuinely improve income distribution.

The recent crisis in Asia compounds the picture. It reminds us of how important the external context is for the economic prosperity of our region.

Although growth in trade and the performance of the terms of trade made for dynamic economies in our region in the previous two years, it appears that the situation has reverted in recent months and will remain unchanged for some time. However what should be stressed is that the impact of the Asian crisis on Latin America and the Caribbean has been confined to the commercial sphere and has not extended to the financial sector. The region's economies are able to withstand the current situation precisely because they were able to learn from the past and improve their supervision of the financial sector, limit the inflow of speculative capital, and develop a very responsible exchange policy.

The Chilean situation

Chile is probably a good example both of the headway made and the challenges facing the region in its economic and social development process.

From 1990 to 1997, cumulative growth in our economy was almost 75% or the equivalent of an annual average of 8.2% in real terms. Over the same period inflation, which had been an endemic evil in the Chilean economy, fell to less than one fourth, and in the last four years annual growth has outpaced annual inflation for the first time in many decades. According to the IDB's most recent Report on Economic and Social Progress in Latin America, Chile has made huge strides in curbing the volatility of its economy. Economic growth and stability have made it possible, in turn, to reduce unemployment, raise wages in line with productivity, steadily increase public investments in social and infrastructure programs, and make substantial headway in decreasing the number of people living below the poverty line.

These achievements have been possible thanks to almost two decades of sweeping structural reforms, responsible management of fiscal and monetary policy, prudent regulation of the entry of short-term foreign capital, and strict supervision of the banking system. These policies did not come about by accident — they were the result of what we learned from the past. For that same reason, the Chilean economy has stood up well to the aftershock of the Asian crisis. Our country's risk classification is one of the best in Latin America, and it is estimated that our economy will see the fastest growth in the region.

However Chile continues to have major shortcomings. They include inequitable income distribution which prevents the very poor from sharing in the fruits of the country's progress. This situation is particularly difficult for the most vulnerable groups, including female heads of families, young people, the disabled, indigenous groups, and the elderly. This is why new efforts must be made to create opportunities for progress by all.

In response to the headway that has been made and the tasks that remain, Chile has introduced major "second generation" reforms. The current government has implemented deep reforms in the justice and education systems, and has taken initiatives to address two extremely important challenges for the country's future — protection of human and property rights, and investments in our people. It has also made substantial headway in modernizing the public sector with a view to strengthening its service vocation and the management efficiency and results of public institutions.

Our experience has shown, however, that reforms of this magnitude are not easy nor are their results felt immediately. Technically solid solutions are required which, in turn, require systematic preparation, special stress on consultation and the building of consensus, particular attention to implementation, and above all, conviction and persistence in sustaining the reforms for as long as it takes to consolidate them and for them to bear fruit.

This conviction and persistence is particularly necessary for focussing on long-term interests rather than on short-term trends, for placing the common good above private interests, and for designing reforms based on solid reasoning rather than on the latest trends. The salient feature of Chile's experience in the last decade has been, precisely, the priority it attached to laying the groundwork for future economic and social development rather than looking for quick fixes. Just as we focussed at the appropriate time on growth in international reserves, public debt reduction, and reorganization of the financial system, now we are adding the strengthening of core institutions, expansion of infrastructure, and the development of human capital.

Chile will continue on this path, not just because we are convinced that it is the right one, but also because our own history confirms this. We were often criticized because of our strict supervision of the financial market, because we did not completely liberalize short-term capital flows, because we regulated conflicts of interest in the capital market, or because we were too conservative in our asset policy. The current crisis in Asia shows that we were right. We are particularly appreciative of the IDB because it respected and understood our options.

The challenges for the Inter-American Development Bank

The IDB is the main ally of the countries of the region in tackling the challenges of economic and social development. With a lending program of close to US$6 billion in 1997, the IDB helped to finance projects that involved total investments of over US$14 billion. This meant that for the fourth year in a row, the IDB was the principal source of financing for regional development. Disbursements this year of US$5.4 billion are unprecedented in the Bank's history. Clearly this financing is helping to consolidate macroeconomic reforms, to build key infrastructure, to improve social services and, above all, to introduce and manage crucial second-generation institutional and social reforms in our countries.

For example, from 1994 to 1997, the IDB granted loans of close to US$2 billion for education and virtually all operations in that sector contain major reform elements. It is expected that Bank operations in education will increase in number and size and in the portion earmarked for reforms.

But we should not think about volume alone. The IDB is also developing and financing innovative, high-quality operations such as programs for poverty reduction, social equity, modernization, the environment, domestic and civic peace, and regional integration, as well as providing loans for novel private investments.

Between the IDB and the MIF, in 1997 over 350 technical-cooperation projects were approved for close to US$130 million. It is clear that the IDB is diversifying its operations and is doing so successfully.

Notwithstanding, it is indispensable for the IDB to continue its efforts to diversify its lending and nonlending activities. We should not forget that the IDB's mandate is to help speed up economic and social development in each and every one of the developing regional member countries, which is why we established it and contribute to it. But today the countries are in very different situations from the standpoint of their economic and social development and therefore they have very different needs. Those needs will also evolve in the future. Accordingly, a broad, comprehensive, and modern approach should be taken to development.

For these reasons, the greatest challenge for the IDB today is to develop instruments, products, and services that can reach each and every one of the countries of the region and the different aspects of economic and social development. This is the only way in which the IDB can become an institution that is swifter to respond to its borrowers' needs, more modern in its operations, and more efficient in its use of human and financial capital.

The development and strengthening of the Bank's nonfinancial products and their linkage to the main priorities of the countries of the region is especially important.

The technical cooperation provided by the Bank on the national and regional levels has played a very important role in the past, providing governments with the technical assistance that is indispensable for tackling the new problems and challenges for public policies, and as a source of support for public initiatives that stem from civil society. Technical cooperation is one of the instruments with the greatest strategic value available to the Bank to promote the priorities defined by the Assembly of the Board of Governors.

Since technical cooperation is not necessarily linked to loans, it is better adapted to the different financial situations of the countries of the region. Therefore, in addition to maintaining a significant flow of technical-cooperation projects, the Bank should simplify the procedures governing them.

All the countries of the region view education as one of their main political priorities. At the Summit of the Americas to be held next month in Santiago, our presidents will identify education as the top priority in the hemisphere, and will endorse national and regional initiatives targeted to it., The studies conducted by the Bank itself indicate that this is a true priority. In its last Annual Report, the IDB concludes that an educational effort which would raise average schooling for the workforce by one additional year would increase average growth potential in the coming decade by a permanent 1% each year. The same studies conclude that this effort is just as important for the region's future as structural reforms in the economic sphere.

We may ask how the IDB will respond to this priority. Together with loans to finance national projects, the Bank should make a special effort to assist regional cooperation initiatives in education, thereby providing concrete support for the will of the countries of the hemisphere to work together to make good on this priority.

However responding to the needs and priorities of a diverse and changing region is not an easy task. The Bank will have to develop a style of work that can satisfy increasingly differentiated demand without losing its character as a multilateral bank built on cooperation and solidarity. It is only in this way that the Bank can continue to be our best ally, our partner, our Bank.

In particular, the Bank should become more flexible in its internal management, develop more and better capacity to link its different instruments strategically, and design reliable mechanisms for evaluation and consultation with its clients. It is also indispensable for the IDB to undertake an exercise in reflection and reform to identify and tap its comparative advantages and value added in today's world. The Board of Executive Directors and Senior Bank Management should define criteria, have faith in themselves, and embark intrepidly on change.

This is our response to the initiative and invitation extended by President Iglesias to build a new vision of the Bank's future. It has encouraged us to think about the IDB in the 21st century in light of the new needs of its borrowers and the new financial, political, social, and economic circumstances in the region and in the Bank itself.

We are embarking on a dialogue about the new course we wish the IDB to chart and the potential directions, means, and instruments to be used. However in the process we must not lose sign of the final practical objective. We must act expeditiously, focusing on priorities and on the most well thought out proposals for change, issuing clear executive mandates to enable the Bank's Management and Board of Executive Directors to follow-up on them.

We view the initiative of establishing joint work groups composed of Management and the Board of Executive Directors with great interest. These groups have a highly important mission. They will be called upon to carry out a multifaceted, self-critical, and visionary joint exercise. As a result of their deliberations, they will propose responsive and consensual measures to improve the Bank's human resource management, budget process, operating procedures, and evaluation systems.

Aware of the difficulties inherent in any process of institutional change, it is important for the Assembly of the Board of Governors to back these efforts with an express mandate to proceed with internal and external modernization of the IDB.

Chile and the IDB

Chile has always identified very closely with the Bank's mission. We have participated unequivocally in its foundation and replenishment and also in the creation and financing of other multilateral initiatives such as the Inter-American Investment Corporation and the Multilateral Investment Fund.

More recently, we have committed our support and financial contribution to the Indigenous Development Fund, the Agricultural Technology Fund, and the Felipe Herrera Foundation. We are proud of having offered our disinterested support in exploring and finding solutions to issues that are crucial for the Bank. The recent efforts to address the problem of IDB concessional resources are a case in point. While we hope that these efforts will lead to an agreement and an immediate plan of action, we would also like to see and participate in a joint effort to redesign the system of concessional resources to make it more equitable and sustainable for the IDB.

Chile and the IDB have a long trajectory on the bilateral level, and its course has adjusted to the shared interests of each. Working together, linking our aspirations, ideas, and resources, we have been able to open up new horizons in decentralization, low-cost housing, job training, and science and technology, among others.

Today the relations between my country and the IDB are continuing to evolve. Although our identification with the program priorities that the IDB set in the Eighth Replenishment remains steadfast, Chile's fiscal situation has changed and with it, its relations with the Bank.

Today we urge IDB Management to give serious consideration to establishing a new facility to provide short-term technical advisory services which would permit it to support countries in situations such as ours. We are also anxious to participate in the initiatives that stem from the Summit of the Americas which have the IDB's support.

We are particularly interested in proposals in the field of education and, as I mentioned in my address to the Meeting of the Board of Governors in Barcelona, my government is committed to an ambitious program of educational reform that could well benefit from regional cooperation. We also look with interest on the IDB's involvement in private sector operations. Our country has supported this initiative from the outset and its expansion merits very serious consideration. Another area in which we would like to see stepped up activity and dialogue is modernization of the State, governance, and the strengthening of civil society. The Bank is gathering experience and expertise in this area and, in addition to serving as interlocutor in bilateral dialogues, it could first and foremost serve as a body for permanent exchange among all the countries that can contribute to or draw on the lessons learned in this area.

To close, I would like to extend my sincerest congratulations to Enrique Iglesias on his reelection as President of the IDB and wish him every success in his endeavors in the coming years.

MR. GIUSEPPE MARESCA, TEMPORARY ALTERNATE GOVERNOR FOR ITALY AND DEPUTY HEAD OF INTERNATIONAL AFFAIRS, GENERAL DIRECTORATE OF TREASURY, MINISTRY OF THE TREASURY

Introduction

It is a great pleasure to address this distinguished audience, gathered on the occasion of the 39th Annual Meeting of the Inter-American Development Bank and the 13th Annual Meeting of the Inter-American Investment Corporation in Cartagena, this lovely city of the Caribbean and historical and cultural heritage of humanity.

We would like to thank the Colombian authorities and the Bank's management for the outstanding arrangements they have made to host this Annual Meeting and express our special gratitude to the city of Cartagena and its people for the warm hospitality extended to us.

Latin American and Caribbean economies in 1997

The Latin American and Caribbean economies confirmed in 1997 their record of steady growth, scoring at a regional level their best performance in three decades, with a remarkable 5.5% GNP increase. Private capital inflows boomed, real investment rose at record highs and growing inter-regional trade bolstered exports.

On the financial side, the Region proved successful in weathering the world capital market turbulence of the latter part of 1997. Although not negligible, the spillover of the Asian turmoil on Latin America's financial markets did not impair the Region's access capability to private international capital.

The economic prospects for Latin America indicate a softer impact of the Asian crisis than was initially expected. This is due to a number of important factors. Structural reforms have gone further in many respects in Latin America than in the affected Asian economies. Moreover, learning from the 1994/95 financial crisis, over the last years the Region has increasingly discriminated in favor of long-term capital inflows. Finally, the growing diversification of the Region's export structure has helped it to better absorb external demand shocks. However, while macroeconomic stability in the Region will likely go unaffected by the Asian crisis, external trade remains vulnerable, as lower demand from the Asian countries could depress the price of some of the Region's raw materials and semi-manufactured export products.

As the effects of the Asian crisis on Latin America seem to be moderate overall, one should be cautious and try to learn as much as possible from experience. Crises may erupt unpredictably and have unforeseeable impact and consequences, yet they ultimately find their origin in incorrect economic fundamentals and sector imbalances. It is thus of paramount importance for the Latin American Governments and policy makers to identify and to address country vulnerabilities, although these might be masked by strong economic performance indicators. In the Region, special attention will have to be devoted to redressing the weaknesses of the domestic banking systems, and to strengthening domestic financial markets and institutions. The development of sound and efficient banking and capital markets does ultimately represent one of the major factors conducive to sustainable and stable growth. Overall, aiming at long-term economic stability and efficiency remains the best way to ensure crisis prevention. Latin America thus needs to maintain the pace it has successfully found towards sound macroeconomic policies, financial discipline and structural reforms. The best indicator of the economic success of Latin America is the continuous and growing interest of foreign investors.

In this context, the IDB can play a crucial role, by supporting measures that will reduce long-run vulnerabilities.

The Role of the IDB

The review of the operational program 1994-97 has given us a clear picture of the performance of the Bank and I am pleased to acknowledge the very good results achieved. The improvements in portfolio performance and loan implementation, the wide range of new activities, the high quality of loans, are all very encouraging elements. Maintaining the attained standards and enhancing the "culture of quality" requires the strengthening of the ex-post evaluation capacity of the Bank. We are particularly pleased with the progress made in the field of poverty reduction and social equity, through the implementation of a coherent programme of social sector lending and poverty-targeted investments (PTIs). Italy encourages the Bank to monitor constantly the results achieved in this area with a view to making its action more effective and responsive to its mandate.

The challenge the Bank is today facing is that of addressing both the new financing needs — in the public and private sector — of those economies which are progressing fast as well as the structural imbalances — including poverty — in countries where economic progress is slow and difficult to trigger.

The Bank is starting a reflection on its role in the perspective of the third Millennium and in the light of the rapidly evolving context in which it operates. This process requires careful consideration and we are confident that, on the basis of the procedure agreed by the Committee of the Board of Governors, the Bank will be able to define a new strategy on all the sensitive policy issues under discussion by evaluating both their technical and political implications. Let me make the following considerations on a selected number of issues.

a) We should not challenge the traditional role of the Bank as project lender. This is where the strength of the Bank lies; its regional character, its closeness to borrowers and its knowledge of local situations are the relevant comparative advantages of the Bank. However, there are situations where the support from the Bank is necessary to deal with wider financial crises. It happened in the past and may happen again in the future. The IDB's involvement should be on an exceptional basis, on fairly standard terms and based on stringent conditionality; it should be provided in close coordination with the Bretton Woods institutions and on conditions that do not impair its financial standing.

b) We should maintain the focus on poverty reduction and the social sector:

- unemployment is widespread across the Region, particularly amongst women and young people, and in the period 1991-96 it has increased with respect to the previous five years;

- progress in education was striking and the Region attained almost universal access at the primary level; yet, the quality of education can be improved and its accessibility by minority groups enhanced;

- social problems, such as troubled childhood, alcoholism, street and domestic violence, still represent a major challenge in the Region and a heavy stress on the budgetary means of some countries.

As stated in the OECD Strategy for the XXI Century, education and health services play a crucial role in the development process. Policy dialogue may help redirect public spending towards social services and improve its effectiveness and ability in targeting the poorest sections of the society.

c) Environmental protection should remain on the top of our priorities. Environment is a resource belonging to all the people on earth, whether they are rich or poor, whether they live in the North or in the South of the world. But the poorest people are those most affected by environmental degradation and we all are aware of the direct link between destruction of natural resources and poverty.

d) The proposal to increase direct lending to the private sector reflects the growing importance of private financing in infrastructure projects as well as a development of domestic capital markets. We consider appropriate to start a discussion on private sector lending but we feel that more technical analysis is required before we can come to a final decision. In particular, we would like to see, whenever possible, a full assessment, to be carried on by an independent entity, of the existing private sector portfolio.

e) In order to achieve a stronger impact on the development of the Latin America and Caribbean Region, we are in favor of granting the Bank a certain degree of flexibility in the use of its resources. This does not mean that targets are not important, but rather than stringent rules they should be regarded as indicative benchmarks to guide the future path of the Bank. Financial constraints command a more careful use of scarce resources. This is particularly true in the case of funds lent on highly concessional terms. We would like to take this opportunity to welcome the agreement reached yesterday. Moreover, it is necessary that the exercise of a general review on concessional resources, to be started on the basis of the agreement reached yesterday, be completed by the 40th Annual Meeting.

Concluding remarks

Italy is committed to strengthening its links with Latin America and the Caribbean. Our Head of Government, Mr. Romano Prodi, has just finished an official visit to three Latin American countries (Uruguay, Brazil, and Chile) and a visit to Argentina is scheduled for the near future. A Co-operation Agreement between the Government of Italy and the Inter-American Development Bank for co-financing projects and programs was signed at the end of last year. Strong political, cultural and economic ties link Italy with Latin America and enhance our Government's stands and efforts to contribute to the development of the Region also through the promotion of Italian investment.

In this context, we would like to reiterate Italy's support for the efforts made by the IDB, to express our sincere appreciation for the work of the management and staff and we wish President Iglesias every success in the difficult and challenging task of leading the Bank into the next century.

MR. JAMES CARRUTHERS, TEMPORARY ALTERNATE GOVERNOR FOR CANADA AND DIRECTOR GENERAL, INTERNATIONAL FINANCIAL INSTITUTIONS, MULTILATERAL PROGRAMMES BRANCH, CANADIAN INTERNATIONAL DEVELOPMENT AGENCY

It is an honour to address the Inter-American Development Bank on behalf of Canada, and a great pleasure to be here in this beautiful country. I want to thank the Government of Colombia, and the officials of our host city, for making us so welcome.

The Region

It is a great relief for Canada to see that Asia's financial crisis has had limited effect on the economy of this region and that, on balance, 1997 was another year of sustained growth. This is a sign that macro-economics in Latin America and the Caribbean has improved and that structural adjustment reforms are being implemented and are paying dividends.

A few weeks ago, a Team Canada visit of our Prime Minister, premiers and business leaders demonstrated Canada's genuine interest in strengthening its commercial relations and overall cooperation in the region. The visit also strengthened the understanding in Latin America of Canada's growing role in the Hemisphere.

And soon, we will be taking part in the Summit of the Americas in Santiago which will formally launch the FTAA negotiation process. We will all gain from a Hemisphere-wide, comprehensive trade agreement. It will both stimulate and provide greater security to trade, investment and technology transfer. We urge our partners in the Hemisphere to maintain the momentum despite the lack, so far, of fast-track authority in the United States.

Canada has welcomed the contribution of the IDB from the start in support of the FTAA. We see a continuing role for the Bank as part of the Temporary Administrative Secretariat, including assisting it financially and providing technical assistance and guidance to individual FTAA member countries.

Canada recognizes that smaller economies need trade-related technical assistance to facilitate their full participation in the FTAA. Canada has offered such assistance to the Caribbean and Central American countries through the Canadian International Development Agency. We are looking forward to further cooperation with multilateral and bilateral donors to ensure complementary assistance.

Indeed, the Summit is an ideal opportunity to reaffirm the commitments reached at the 1996 Bolivia Summit on sustainable development and to plan together for real progress on the four themes of the Miami Summit. The 1998 Summit of the Americas must also have a carefully focused and balanced agenda. We have to show real progress in a two to three-year timeframe. While the launch of a Free Trade Agreement of the Americas is a clear priority, Canada attaches great importance to other items on the agenda, including reduction of poverty and discrimination and further emphasis on education. In particular, we hope that the IDB will give its full support to education initiatives that emerge in Santiago because, beyond even the impact of free trade, it is education that will power the next wave of advancement for our Region into the 21st century.

For the Summit, Canada has been coordinating, jointly with Brazil, the themes of human rights, democracy and indigenous peoples. We have been stressing the need for the Summit to pay real attention to the concerns of marginalized groups — not only the poor, but the poorest countries, the small economies, civil society, rural people, women, children, the disabled, and indigenous groups. This is important because sustainable development is fundamentally about inclusion. This is our deepest concern, for the Bank and for our whole region. We don't want to see anyone by-passed by development and denied a fair share of the benefits.

The stark reality is that 33% of the population of Latin America live in poverty, the majority of them women and children — that's 150 million people. More strikingly, indigenous groups comprise 10% of the population of the hemisphere but represent an estimated 25% of all the poor. Canada is working actively to develop partnerships between Canadian and Latin indigenous groups which will contribute to the development of mutual social, cultural and economic benefits. As well, there are millions of disabled people in Latin America, many of whom exist in dire poverty. This is not just a social issue; it is an economic one and addressing it must be included in our approach to sustainable development. We are all aware of the growing problem of child poverty and the global problem of child labour. We must all rededicate ourselves to effective action on these issues.

We also believe that concerted action must continue on the issue of corruption and commend the Bank for what it already has done in this area, including its recent conference to develop new initiatives and its own new procurement procedures. Whatever form it may take — collusion, cronyism, clientism, money laundering, the drug trade — corruption squanders resources, steals from the poor, undermines institutions, weakens trust, and corrodes the ties that hold societies together.

Canada and the Bank

Canada sees the Inter-American Development Bank as the premier development institution in this important part of our shared world... as a key catalyst for change and advancement, and an intellectual leader in the progress of our hemisphere. In this regard, Canada welcomes the Bank's commitment to the alleviation of Bolivia and Guyana's debt burden under the Heavily Indebted Poor Countries (HIPC) initiative terms. We believe that the Bank's participation in this multilateral — led initiative demonstrates its ability to make a major contribution to accelerating the pace of development in the region, and we look forward to further initiatives.

We also realize that we are a regional member of this Bank and a long-standing and permanent partner in the Bank's efforts to combat poverty in the Americas. We consider ourselves stakeholders, with a national interest in the Bank's success — not only because of its contribution to regional well-being, but because we believe it can help achieve goals which we hold dear.

Our foreign policy is based on such objectives as prosperity, employment and peace. Our development cooperation is built on such priorities as basic human needs, gender equity, human rights, and the environment. The Bank shares these priorities and together we can turn policy into reality.

Canada believes that the Bank must become even more relevant in this age of globalization. With its track record of supporting regional integration, and with a growing emphasis on capacity-building in countries with smaller economies and less-developed institutions, the Bank has an important role — even a mission — to fulfil. It can help to ensure that, while the tide of globalization is lifting the bigger boats, it isn't swamping the little ones.

The Bank should continue to play a vital role in bringing the private sector more effectively into development, in supporting integration and especially in building capacity where it is most needed. To that end, Canada would like to register its interest in joining the Inter-American Investment Corporation, because we believe it is important to bring these resources to bear effectively on the development of small and medium enterprises in Latin America.

And, above all, Canada enthusiastically endorses the long-standing leadership of the IDB in focusing on the social dimension of development. We are eager to see a renewed and expanded drive in this direction as we move into a new decade, century and millennium.

Canada respects the Bank's history, its record of achievement, and its authentic knowledge of the region's countries and people, which gives it deep roots indeed. But change brings challenges for all of us, and the Bank, too, must ask itself: are we ready? Are we fully equipped to help the people of the America's shape a better future?

To start big, whatever its excellence in various areas and fields, is the Bank articulating clearly an accurate and comprehensive picture of its agenda, role and raison d'être in the early 21st century? There is ample wisdom, insight, commitment and creativity in the Bank and its members which must be captured and fully integrated into the compelling vision that our mission merits. More effort is needed over the coming months, to build consensus around a common vision and to link this vision to the management and operations of the Bank. This must be based on the principles of dialogue and participation by all stakeholders.

We feel there remain unresolved issues of governance that must be dealt with if the IDB is to function with full efficiency and deliver on its vision. Leadership is needed in clarifying and strengthening the relationship between the Bank's Governors, Directors and its management.

While we congratulate the Bank for achieving its fifty percent/ forty percent targets for number and volume of projects going to the social sectors, Canada remains concerned that other targets set in the last replenishment — targets for lending to the poorest countries, for policy-based lending — are still not met. While we have indicated that flexibility regarding GRI-8 guidelines may be appropriate, we could only agree to changes if the interests of the C and D countries were not compromised. In addition, we must ensure that new lending instruments are properly evaluated and do not further erode programming objectives. With continued strong leadership and renewed commitment by all members, in the spirit of solidarity and genuine partnership, we are confident that over the next year a new policy and resource framework can be incorporated into a vision for the Bank that meets the needs of all its members.

Future

Canada remains firmly committed to the IDB. We believe it will continue to play a unique leadership role in knitting together the strands of social, political and economic development for the Americas. Our task over the next year is to ensure that this institution is fully prepared to make its maximum potential contribution to the well-being of all the countries of the Americas, and all of their people. Under the dynamic leadership of President Iglesias we have no doubt these objectives will be realized.

MR. WOLFGANG MÜLLER, TEMPORARY ALTERNATE GOVERNOR FOR AUSTRIA AND CHIEF COUNSELLOR, FEDERAL MINISTRY OF FINANCE

I am glad to be here in this historic city and to address this assembly. Please allow me, first, to pay tribute to Colombia and Cartagena for hosting this meeting in such a generous manner. I also would like to commend the Management and Staff of the IDB and the IIC for their careful preparation of our meetings.

The positive political and economic development that characterizes Latin America seems indeed promising. In many of the countries, structural adjustment programs have been implemented. The results show a positive economic trend, including rather impressive growth rates and stabilized prices. During the last months, the region faced a test from external forces. But, the effects of the financial crisis in Southeast Asia did not spill over to Latin American countries as apprehended. Courageous earlier reforms are bearing fruit for Latin American countries.

Let me now turn to Austria's priorities in development policy. Our main focus lies on special areas like the social sector, the environment, disadvantaged population groups such as indigenous people and the poor, and smaller and lesser developed countries.

Looking at the achievements of the IDB in the past year, we are glad that our expectations have largely been met. There have been strong activities of the Bank in the social sector. More than 40 percent of the Bank's lending volume went to this sector. In particular, lending focused on projects benefitting the most vulnerable population groups. Policy-based lending was well within its limit.

Unfortunately, the limit on policy-based lending was exceeded in the past four years, although we have received good explanations. Also, lending to C + D countries in the past four years remained below target, however the improved results for 1997 show that we must not loose our efforts in this context.

I would further like to acknowledge the strategies undertaken by the Bank to increasingly respond to the needs of indigenous people. We wish to reiterate that projects that might destroy their economic and social base must not be supported by a development institution.

We are also pleased that the Bank in 1997 continued to give high priority to environmental protection. Improving the urban environment and promoting the conservation and efficient use of energy directly affect the life and health of the population. In this context, we pay special attention to the completion of the work of the Bank's independent investigation mechanism of the Yacyreta Power Project to guarantee full compliance with the Bank's standards.

We are satisfied to see that the IIC continues its efforts, even to the extent possible through equity investments, despite the constraints on its own organization. I would like to reconfirm here Austria's support for a capital increase in the near future that is based on fair burden sharing.

Four years after negotiating IDB-8, no replenishment is necessary, but we ought to look to the future. We welcome the Bank's initiative to discuss the future orientation of the Bank which has to be done on a broad basis not excluding any shareholder interested in this institution. It is very timely to do this exercise because of the great transformations that are taking place in borrowing countries which call into question traditional notions of development banking. In particular, I am referring to the growing ability of some of our borrowers to access market financing.

Let me turn now to proposals made by Management and give you our first opinion:

Interpretation of mandates: this should continue to be the responsibility of Governors.

Allocation of Resources by Country Group: we do not believe that there are reasons to abandon the 35/65% target. Quite to the contrary, this kind of minority protection truly reflects the developmental character of the institution.

Response to Special Circumstances of Borrowing Members: we certainly agree that in the case of a financial crisis IDB should have the opportunity to participate in international responses. In order to provide this important flexibility, we should agree beforehand on clear policy guidelines spelling out the conditions for such lending, while still maintaining a policy-based lending limit.

Matrix for Foreign Exchange Financing of Projects: here, we wish to point to the fact that apart from financial considerations, counterpart requirements help ensure the necessary borrower's commitment to projects.

Institutional Adjustment lending: in principle, institutional adjustment should be budget financed. There may be exceptions which may call for specific lending. However, as I have already said in the past, for us, every kind of non-project lending must be a limited endeavor. The lower this limit is, the better: 20% would be a maximum for us, but that must not be seen as a working target.

Direct Lending to the Private Sector: a decision to expand private-sector lending should be based on a thorough evaluation of the operations already implemented. This is not yet available. However, a possible future increase of private-sector activities without public guarantee should in our view not exceed a <u>maximum</u> of 10% of <u>actual</u> annual lending.

Lending to Local Governments: we can go along with such lending, but only with central government guarantees.

In concluding, let me express my confidence in President Iglesias and IDB's ability to further contribute successfully to this region's development.

MR. NICOLAS IMBODEN, GOVERNOR FOR SWITZERLAND AND AMBASSADOR, DELEGATE OF THE SWISS FEDERAL COUNCIL FOR TRADE AGREEMENTS, FEDERAL OFFICE FOR FOREIGN ECONOMIC AFFAIRS

On behalf of Switzerland, I would like to extend my deep gratitude to the Colombian authorities for their excellent and generous arrangements and their warm welcome in this beautiful city of Cartagena de Indias.

In my speech to you last year I congratulated the Bank's borrowing members on their impressive reform accomplishments and the associated economic and social dividends. And I congratulated the Bank for having done an outstanding job of putting into place the agenda of the Eighth Replenishment.

The achievements of Latin America and the Caribbean, and the Bank's achievements, continue to stand tall. But we must not rest. The ramifications of the Asian crisis remind us that what we have accomplished is still vulnerable.

The good performance of the Latin American economies in 1997 gives us freedom to look at some longer term challenges. Let me, firstly, address an issue which has puzzled me for a long time and which I believe we must confront, namely the problem of the persistent and, as many believe, growing *inequality* in the region. And let me, secondly, make some comments on the *future orientation of the Bank* — the need to update the vision and some of the procedures by which the Bank conducts its mission.

An unusually high degree of inequality in the distribution of income and in the access to economic opportunities has long been one of the defining characteristics of Latin America. There is a debate about whether the reforms carried out so far have reduced inequality, but, overall, it does not seem to be the case. In fact, some analysts argue the opposite.

We know today, based on the Bank's research as well as other thoughts and evidence, that inequality is not only a social and equity issue, but that it also hinders growth. Inequality clearly impairs longer term sustainable growth, both directly, through market effects, and indirectly, as a political timebomb. We are not dealing with an equity and growth trade-off, but a negative influence on growth arising from inequality.

It may therefore be necessary to act on inequality (or relative poverty) in addition to action geared to reducing absolute poverty. The latter (action to reduce absolute poverty) may not automatically reduce inequality. Whether it does or not depends on the income distribution, the poverty line and the scope of poverty reducing measures.

The reduction of (absolute) poverty is central to the mission of multilateral development banks today. And the Bank has not been idle, for example, in the field of helping borrowers deliver more efficient services aimed at strengthening human capital. (More needs to be done in this context to raise the share of social spending reaped by the poor.) But inequality is not being lowered. Growth in the 1990s has not been strong enough to raise average incomes sufficiently to diffuse the stifling effects of inequality. Action on inequality may be needed to set the stage for higher growth. Besides, the failure to address this question would deride and compromise our professed efforts under the Eighth Replenishment to modernize the state and promote civil society and thereby consolidate democracy which cannot flourish under conditions of extreme income inequality.

The list of policy areas to address with a view to reducing inequality is potentially long. First and foremost, we must put the issue on our agenda as we have done years ago regarding the need for direct action to reduce poverty. Inequality is not a God-given fact, it is man-made. Inequality is not an issue that can be addressed through technical devices, it is a moral and a policy issue. Inequality is not a market imperfection — it is an economic reality that has to be addressed through affirmative action. Leaving distributional aspects of growth to the "trickle down effect" is economically suboptimal and socially unacceptable. We do not need hand-outs and subsidies, but positive enabling policies that afford all members of the community the possibility to participate both in the creation of wealth and in its benefits. I would invite the Bank to look into this and propose paths toward the reduction of inequality.

The question of access to productive assets is important in this context as is a more systematic understanding of how our "second generation" reform agenda affects the distribution of income and can be designed to maximize positive effects. The promotion of small and medium enterprises is important, too. This is why we need a capital increase for the IIC, coupled with new ways for the IIC to do business in order to broaden coverage. Education and training are key. In looking at the Bank's factual report on the Eighth Replenishment so far, I find at first sight that quite a lot is being done in education. But compared with the size of the challenge, we do in fact relatively little, if the challenge is defined as bringing average schooling in Latin America (currently about five years) to the East Asian level of about nine years, while raising educational quality at the same time. Success in the global economy is largely determined by the quality and adaptability of the national workforce.

If the topic of inequality is important, it should be reflected in the Bank's vision statement which will need to be elaborated. I believe a strategic vision has to define the long term issues faced by Latin America and the Caribbean to assure sustainable growth economically, socially and environmentally. The vision has to show our Bank's comparative advantage in helping to achieve these goals. It has to define the positive bias we have to give to growth to enable all members, present and future, to participate. It must define the enabling policies and the institutional framework required to assure transparency, accountability and efficient delivery systems. A vision is a highly political document which should not address issues of targets. Targets such as the ones we agreed to in Guadalajara are not an objective, but a means to operationalize a vision. And a vision cannot have 30 pages: it has to be short, to the point and long term oriented. In other words: the vision Switzerland would like to see for the Bank is quite different from the draft paper that is now in front of us.

I have no intention to unfairly criticize the current draft paper, although I am somewhat puzzled regarding the way the process has been managed so far. It is indeed a difficult task to work out a vision in a large group where views may be very different and mutually inconsistent. A vision has to be sufficiently general so that it allows to overcome specific individual objectives.

Mr. President, I suggest that you take a retreat of two days — maybe together with two or three personalities with a reputation beyond suspicion — and work out a vision paper that limits itself to the principles that should govern the Bank. I believe that the Committee of Governors which by yesterday's decision is in charge of the vision should work according to a fast track rule, i.e. it should approve or reject the draft, but not be allowed to destroy it by bringing in individual country concerns. The Board of Directors should be put in charge of working with Management to turn the vision into an operational strategy.

On the basis of a vision as described, the question of the targets will acquire another dimension. Regarding the C and D countries I want to make sure that the Bank does everything in its power to put a substantial pipeline of good projects and policies at the disposal of these countries, up to the limit of their absorption capacity. More important than the target is the impact of the Bank's work on the sustainable development of these countries. But targets — if interpreted in this way — are useful guidelines and should not be changed unless there are compelling reasons. I believe these reasons do not exist for a change in the distribution of the lending volume among the two major borrowing country groups. There is no analytical basis for a change. I note at the same time that the balance in lending between the two major country groups is a strategic issue for the Bank, one that certainly will need to be addressed in the vision document. In that context, I am keen to see the Bank look into any special needs that the small borrowing member countries may have on account of their smallness. Is there a small country case in development banking?

I do not believe that the 35/65 target (which in 1997 translated into a 27/73 actual) constrains the larger and more dynamic economies' access to IDB loans. Last year's relatively low level of approvals could at least in part be explained by these countries' access to market finance and to fiscal constraints on their borrowing. I recognize that it is crucial that the Bank remains relevant to the larger and more dynamic borrowing members, both as a lender and as a forum for policy dialogue. But I do not believe that this hinges on the 35/65 target. Two aspects which seem important in this context are rather a) lending to subnational units and b) the institutional adjustment loans more broadly. I would welcome further analysis of the issues involved in subnational loans, particularly also as related to municipal finance.

On the other hand, the target for policy-based lending deserves a redefinition. I consider it critical to distinguish between emergency-related balance of payments support and the new institutional adjustment instrument which seeks to provide budget support to cover part of the fiscal cost of reforms. The 15% target is no longer needed. For the first type of lending, i.e. emergency support, it is too high in normal times, thank God. And in an acute crisis the Bank would have to do whatever it could anyway.

For the second type of lending (budget support) the limit may be too low, given borrowers' reform needs. The issue, again, lies not with the target, but the policy questions it addresses. I recommend an open mind regarding the institutional adjustment loans as long as they fulfill the criteria I have spelled out in Barcelona: that what we fund has the character of an investment, that the loans carry adequate and monitorable conditionality, that any problems arising from the fungible nature of the funds provided are avoided, and that the size of the loans is related to the cost of the reforms. The Bank should provide sensitivity scenarios regarding its risk exposure due to institutional adjustment lending.

Private infrastructure finance is extremely important today and will most likely be more so in the future. The Bank's Private Sector Department has positioned itself well to help matters advance in this field. It has my full support. In reflecting on the Bank's proposal to expand lending in this area, my main question is *additionality*. We must not displace private capital, but mobilize it. There is a fine line to be treaded which is not always easy to see, and I would like to see an evaluation of the way we do business, identify projects, interact with partners and make sure that we maximize additionality. Such an evaluation (as opposed to a full-fledged ex post evaluation for which the portfolio is too young) could be carried out this year or next. I would also encourage efforts to better define the guarantee instrument. From the point of view of mobilizing private flows, guarantees seem superior to loans. Hopefully, it will be possible to design some new guarantee operations in the near future.

I note, finally, that the issues confronting the private sector and other new instruments and aspects of the portfolio (institutional adjustment loans, loans to subnational entities, growth in social sector exposure where you have low financial returns) are similar in all international financial institutions today. They should be looked at in a coordinated way across the institutions. Taken together, the new instruments may well affect the Bank's risk exposure at some point in the future. This, too, should be looked at across all institutions so as to avoid the possibility that markets may single out and review the quality of credit of any particular institution.

To conclude, I believe that our Bank and its President have a vision, a comparative advantage, and are making a unique contribution to the development of the region. I am confident that the upcoming work to update the vision will create the basis to lead the Bank into the 21st century.

MR. LAWRENCE H. SUMMERS, TEMPORARY ALTERNATE GOVERNOR FOR THE UNITED STATES OF AMERICA AND DEPUTY SECRETARY OF THE TREASURY

"Latin America and the IDB: New Challenges for a New Century"

It is great to be in this historic city of Cartagena. I am especially glad to be here at a time when in the world of finance — the Latin American model is a model to emulate not a model to avoid.

That Latin America has not been a source of crisis — financial, diplomatic or political — in recent years cannot and will not blind us to the fact that it is a vast source of opportunity. President Clinton has spoken of a "quiet revolution bringing our hemisphere together around common values of democracy, free markets, mutual respect and cooperation". We celebrate the fact that we are now — with one dogged exception — a community of democracies. And we take note that each year the United States exports more to Chile than to India and more to Brazil than to China.

In so many ways, what we do together in the Americas these next years will form a model for what is probably the major global challenge we face at the dawn of a new century: forging the healthiest, sturdiest possible relationships between the mature economies and the emerging markets. Here at the IDB and everywhere else we seek the right kind of relationship: a relationship in which the United States cooperates always, leads when it can and follows when it should.

I remember well the first IDB meeting I attended, four years ago in Guadalajara, in the build-up to the first Summit of the Americas in Miami in December 1994. At that meeting, as we celebrated the Bank's Eighth Capital Replenishment, the themes of sustaining macroeconomic progress, continuing integration, and launching second generation reforms to cement democracy were very clear. Since then the IDB has continued to play a core role in regional development, in part by bringing home a vital lesson for all development banks: that intangible infrastructure, all the institutions, skills and cooperative arrangements that reside in a country, is as important, in many ways more important to development than tangible infrastructure.

Now we meet on the brink of another Summit of the Americas next month in Santiago de Chile. And once again it is a time when it is appropriate to consider the role of the IDB in a fast changing hemisphere. But first let me reflect a little on what has happened these past four years.

I. Latin America Today: Reform Continued

Almost immediately after the Miami Summit we were all surprised by events in Mexico. Many feared that that shock, like the 1982 debt crisis before it, would spur another inwards turn. In the event, as many have noted, the Tequila shock was a wake-up call. Economic collapse among the major reforming economies did not materialize. And important progress has been achieved in most of the areas that were uppermost in our minds in Guadalajara.

1. Macroeconomic reform sustained

Progress against inflation has continued, in some countries spectacularly so. Pedro Malan told President Clinton in October that inflation in Brazil was five percent — much the same as it was a few years ago. The difference is that now it is five percent per year, not per week. The average inflation rate fell to less than 10 percent last year, compared with 61 percent in 1994, and more than 200 percent in 1990. Public borrowing, by and large, has also remained under control — with governments working to lock in the fiscal consolidation of the early 1990s. And national savings rates last year averaged nearly 18 percent of GDP — 20 percent higher than in 1990.

2. Integration Deepened

The integration we had achieved when we met in Mexico has accelerated and it has deepened. In 1994 I counted 23 trade agreements within the Americas. Today I count 30. And it is not merely goods that are crossing our many borders. Ever more services, capital, people and ideas are flowing across the hemisphere, with profound effects for our economies and our societies. By increasing cooperation, by working to harmonize standards and exchange ideas, the United States has played and will continue to play a full part in this transformation. We do not yet have Fast Track. But we are determined that the Free Trade Area for the Americas will remain on a fast track — just as all the important work laying the groundwork for the Uruguay round proceeded in the first few years.

3. A Second Generation Begun

In 1994 we could see government by the people across the region. What we needed still to create was effective government for the people. Since then we have seen many countries continue the first important steps toward this — by making it near the people, with efforts across the region to strengthen local democracy and decentralize power and resources to subnational authorities. And at the national level, ambitious growth-enhancing ideas for pensions, tax systems and financial sectors have been put to work. Not all countries are moving at the same pace. And in none is the job complete. But the change is palpable. And its direction is clear.

4. A Closer Look

But of course, the story of Latin America is the story of each Latin American country:

- in Mexico, we have seen a courageous turn to pluralism and a truly remarkable economic turnaround. The challenge in the years to come will be to entrench these gains by combating social divisions and building a prosperity which all can share;

- in Brazil, for the first time in a generation, company accounts are beginning to be kept in domestic currency rather than dollars, and the government has impressed the world by combating Asian flu at the first symptoms. Its priority now must be deeper public sector reform, not just to cut borrowing but to target resources on urgent social investments;

- years of fiscal reform and financial sector strengthening have left Argentina well insulated from Asia shockwaves. But high unemployment is a nagging reminder of the need to press ahead with the government's unfinished reform agenda: in the labor market especially.

- the news from the Caribbean has been a greater source of concern. Elected government has returned to Haiti since we met in Mexico, but has struggled to throw off the divisions of the past. There, as elsewhere, macroeconomic stability and growth remains all too elusive.

- yet in Central America we have seen, most recently in Guatemala, an end to more than a generation of civil strife and the beginnings of new future. But we know well that peace treaties need shared institutions and shared growth to bring them to life.

II. Challenges For A New Century

The good news from this brief survey is that, by and large, Latin America is in better shape to withstand this recent shock than it was 4 years ago. The question is: where do we go from here? It is perhaps of the nature of "quiet" revolutions that they take longer to complete. The themes that were right in 1994 are right today. The abiding challenge is the same: to make government a constructive force in our economies and our societies, a force, above all, for inclusive growth.

The 1990s has been no lost decade. But the 3 percent average growth that has been achieved since 1991 has not been enough to make real inroads on poverty in many countries. And the poorest fifth of the population still receive a lower share of national income, and the richest fifth a higher share — than in any other region in the world. Losing that dismal distinction will mean completing the first generation of reforms in those countries where inflation is still in double digits and poor macroeconomic policy still stifles investment and growth. But as we have learned these past few years, that is not all it will require.

Markets are important. But they are not enough. The strong enforcement of legitimate law remains a critical imperative for building a strong civil society — the key to a vibrant democracy. Let me applaud, in this context, the IDB's increased emphasis on good governance and capacity building in its operations, particularly in helping countries build sound judiciaries.

From fair labor rights to effective policies against drug trafficking; from the protection of our environment to the vaccination of our children; from the empowerment of the indigenous to the punishment of the corrupt; there are many critical challenges we face in building effective government for the people. Let me focus today just on two areas that I expect will be at the center of discussions at Santiago and I believe will be profoundly important to Latin America's future, and with it the future of the IDB. These are: achieving strong and stable financial integration, and investing in our people.

III. Promoting Strong and Open Regional Finance

Integration is about much more than trade. It is about companies investing in new markets and profit-making opportunities. It is about flows of capital — and the knowledge that flows with that capital. And it is about safeguarding the stability of the systems into which that capital flows. Latin America's insulation from the recent Asian crisis is a reflection of the steps that nations have taken, both individually and collectively, to ensure stability since that first 21st century financial crisis in 1995. Indeed, in many ways the work of the Committee on Hemispheric Financial Issues (CHFI) since its first meeting of Finance Ministers in New Orleans in May 1996 is pointing the way toward the kinds of approaches that will be pursued globally in the months ahead.

Of particular importance will be the commitments reached at the most recent CHFI meeting in Santiago de Chile in December:

- to strengthen banking supervision and prudential regulation, with the universal adoption of the Basel Core Principles for Effective Banking Supervision and high quality training to ensure our supervisors are up to the challenges that modern financial markets present;

- to combat money laundering and other financial crime, by working — as we now do at Treasury — to find new ways to close the channels for moving illicit funds into the economy and put the launderers in the jails where they belong;

- to support the development of microfinance, which the IDB has long recognized as a uniquely effective way out of poverty for the marginalized and dispossessed. From its support for rural credit unions in Bolivia to women's banking in Colombia, the Multilateral Investment Fund has truly, here, been a world leader.

Going forward, this region which has far and away the greatest presence in global bond and equity markets of any emerging market region needs to set the pace in other crucial areas;

- let it show the way in transparency, with, not seven, but all of the countries in the region subscribing to the International Monetary Fund's Special Data Dissemination Standard;

- let borrowers and creditors work together to build a financial system that can handle failure, that has the strong bankruptcy laws, effective judicial systems, and reliable enforcement that can help ensure that the failure of one does not jeopardize the whole. Because until the system is safe for failure, we cannot count on its success;

- let us now, when the clouds have come here but have passed us by, promote effective regional surveillance, built on the principle that friends warn friends when trouble is near;

- and let us, at the center of this effort, think about the role of a multilateral bank when most of the borrowing is done by countries that have access to international capital markets most of the time. That ought to mean focusing on the kinds of programs and products that can ensure that capital access is maintained — when surprises hit — and charging market rates for providing that support. And it ought to mean focusing scarce official finance on the needs of countries to whom private capital is still denied.

We emphasize financial stability because we know all too well the human cost that financial instability inflicts. Stabilizing capital flows is a means to a more ultimate end: of maximizing growth and opportunities for all our people. It is not an end in itself. In promoting free flows of capital we must not neglect the broader risks they pose to our society and environment. As capital finds it can move ever more readily than labor, there are legitimate concerns that it will exploit that mobility in playing off competing jurisdictions against each other. The fear is that we will be caught in a race to the bottom — a bottom in which governments cannot promote fair taxes, uphold fair labor standards or protect the environment. That is not the world that we want to build. Let all Americans — North and South — affirm that we will not let it be the future of our Hemisphere.

IV. Investing in All of Our People

At Santiago our heads of government will declare where our future lies — it lies with education. If achieving financial stability was the challenge of the latter years of this century, then investing in our people is our challenge at the dawn of the next.

In a global economy, education is the only route to lasting, inclusive growth. Because it is the only way to maximize every nation's most unique and precious asset: its people. That is why President Clinton has been the education President. And that is why, in President Zedillo — a former education minister — and President Cardoso — a former educator — he has found such common cause together with the host, President Frei, in making education the centerpiece at Santiago.

Our children should be stimulated by books, not drugs. Teenagers should learn how to read — not how to hotwire a car.

Education is too important to do poorly. If the International Financial Institutions (IFIs) and the interactions between national governments are essential to ensuring that our banking systems remain stable, if they are essential to ensuring that our telephone systems work, then they are essential to ensuring that our education systems work.

In an increasingly interconnected hemisphere, we all have a common stake in the citizens of all our countries. We call on the IFIs to monitor carefully governments' efforts here: as they monitor the operation of fiscal policies, to monitor the allocation of resources for education; as they monitor the state of the tax system, to monitor the state of the education system.

Doing better will sometimes be a matter of resources. Without adequate resources, there cannot be adequate investments in people. But equally, if not more, important will be spending more wisely the resources we have now. In too many Latin American countries, too much of the education budget gets spent on higher education for the few. We need to spend those resources on better education for the many.

Study after study confirms what common sense would suggest, that investing in broad-based primary education offers countries by far the larger return. In Miami we committed ourselves to ensure, by the year 2010, universal access to and completion of quality primary education, and access to secondary education for at least 75 percent. We ought to honor that commitment.

That must mean targeted policies to reach the marginalized. And it must mean rigorous and effective evaluation of teaching quality. High repetition rates and widespread functional illiteracy tell us that a large amount of the teaching in this region is not worthy of the name. Our emphasis must be on education in substance and not just in form.

This is a task that should be and must be a task for individual nations to finance. But a Hemispheric effort can make a big difference. As we move to the Summit we need to re-examine our priorities. And we need to put education at the very top — as the leaders will in five short weeks.

In the past three years the IDB has approved more than $1.5 billion in loans for education — around 7 percent of its new lending. The Banks needs to do more. We call on the IDB to more than double the share of new lending to primary and secondary education in the next three years — to more than $3 billion.

But we cannot and must not stop there. We believe there is a pressing need for an innovative vehicle to meet the special challenges which educating our continent will present. To meet that need we believe the IDB should establish a Special Fund for Hemispheric Education. This could:

- provide loans and grants to plug the gaps in well-intentioned reforms — the times when teachers are trained but have no books, when schools are built but have no teachers; when parents seek involvement but need mechanisms to organize themselves;

- bring new resources to bear on steps that can help us integrate as we educate — such as developing more systematic testing systems and uniform performance standards across countries;

- channel funds into finding more innovative ways to reach those who have most often been forgotten: the very poor, the rural and isolated, minorities, and the young adults who want a new chance to complete an "equivalency" at the secondary level and to upgrade their skills to be more productive members of society;

- look creatively for special initiatives to advance our shared goals — for example, using regional exchange to improve teaching quality.

Assuredly the Fund will need simplified procedures for rapid response. Just as assuredly, it will need the mobilization of a wide range of Bank resources to make a difference. Educating our people is the central challenge of our time. If we are serious about meeting that challenge we must be serious about marshaling Bank resources to meet it. The Bank will have to utilize the full range of its resources, including scarce concessional funds and local currency balances, in a way that is more just and more sustainable.

The desirability of the goals is not in question. What will be in question is the depth of our commitment to them. We must invest in all Americans — North and South. Because if the 20th century was the American century, the 21st century must be the century of the Americas.

THIRD PLENARY SESSION

MARCH 17, 1998

MR. FRANS GODTS, ALTERNATE GOVERNOR FOR BELGIUM AND DIRECTOR, MINISTRY OF FINANCE

As indicated by the Bank in its Annual Report, 1997 was an exceptional year from the economic and financial standpoint for most of the countries in the region. We can only rejoice that the Asian crisis has had little impact on the Latin American and Caribbean economies. We commend the authorities for their mature response in reacting quickly to stave off any domino effect from the crisis. The rapid response and well-advised measures taken clearly made a favorable impression on the financial markets, so that capital flows were able to resume their upward trend after a short lull. Another source of satisfaction is that major macroeconomic equilibria have been restored, along with steady progress in many countries on further restructuring in financial sectors and public enterprises. The temptation to be overly optimistic is to be avoided, however, since much remains to be done on reforms in order to build upon hard-won credibility after a decade of painful adjustments.

Financial sectors must be restructured and local financial markets developed, alongside refinements to create an enabling legal and institutional environment for private-sector growth, in order to leverage more local savings and attract long-term foreign investment. Such actions would help to translate the recent recovery into durable growth and to reduce considerably the share of capital flows accounted for by volatile and unpredictable short-term investments that can lead to the kind of crisis we have just seen. As to the other ingredients of lasting growth, for the most part they form the basis of the IDB-8 operational agenda, and we are pleased to see an evaluation four years into its implementation showing that the agenda continues to be valid.

For the Bank, we think of 1997 as a year when discussions were undertaken at the very highest levels on a number of basic issues having to do with the role played by the Bank in the region and the way this can be done in a context of limited resources in view of the breadth and diversity of the tasks to be performed. Such an exchange of ideas is quite appropriate at the end of a period in which the Bank endeavored to implement the Eighth Replenishment agenda. And Belgium is equally pleased to see Management calling for discussion on the Bank's future, above and beyond a simple advancement of the current agenda.

Belgium certainly recognizes that the Bank has made a real effort to convince borrowers that the IDB-8 priorities are well founded and to design operations to implement them. However, these activities are new for many beneficiaries, making for a relatively long project cycle, and it would be premature to try to assess their impact on the borrowing countries. We do acknowledge that the quantitative record of the past four years is convincing proof of the Bank's determination to put these priorities into practice, while regretting somewhat of a lag in elaborating strategies and operating policies for implementation, some of them still in preparation though they relate to essential areas. In this connection, the report on IDB-8 implementation and the President's end-of-year report reflect insufficient transparency vis-à-vis the Board of Executive Directors and the Governors with respect to activities not directly related to loans and grants. Those reports illustrate, through the number of subjects dealt with, the considerable burden that such non-lending activities place on Bank staff, reflected only in part by the special presentations made to the Board of Executive Directors. Also, a clearer statement of the need for such activities — often a prerequisite for coming up with quality lending programs — would be welcome. Work plans may have to focus less on financing and deal with these issues in greater depth. Periodic progress reports should be submitted to the Board of Executive Directors indicating the priority of each such activity and its anticipated impact on operations.

The fact that the Bank's resources are limited is particularly apparent in the various concessional resource facilities. The Working Group has worked hard to come up with a plan, endorsed by the Committee of the Board of Governors, to cover FSO commitments for the next two years and for the Heavily Indebted Poor Countries initiative for Bolivia and Guyana. However, several key problems remain outstanding, in particular the future treatment of local currencies available to the Bank and its member countries. The other concessional windows have been kept going by transfers of FSO net income, preventing sufficient FSO commitment capacity while reducing the level of FSO lending. These transfers have added to the resource deficit now under review by the Working Group. Even if a solution can assure FSO lending over the coming two to four years, survival of the Intermediate Financing Facility and technical cooperation is in jeopardy unless additional financing mechanisms are identified. In an institutional environment that continues to place obstacles in the way of project execution, technical cooperation is particularly important. Its very survival hinges on an in-depth discussion and a shift in operations towards certain key areas linked to other Bank operations, and Belgium welcomes the inclusion of this issue among those being examined by the Working Group on concessional resources.

Belgium welcomes the creation, after several years of effort, of the Fund for the Development of the Indigenous Peoples of Latin America and the Caribbean, known as the Indigenous Fund, as well as the financial support provided by borrowing member countries in the region in addition to the Bank and some of the nonregional member countries. Belgium's contribution is a reflection of the importance we attach to this Fund.

Looking ahead to the Bank's future, Management rightly underscores the continuing relevance of the IDB-8 agenda in its report, and calls for neither major policy shifts nor an overdiversification of its operating areas. The range of priorities covered by the agenda is relatively large, and allows for a broad interpretation as to the types of activities involved. Naturally, priorities must be set, particularly since the requirements call for stronger growth than can be supported by the resources available. Accordingly, it is essential that the Bank resist the temptation of looking too favorably upon the different operations presented to it, and undertake a true programming exercise in collaboration with its borrowing countries, leading to the adoption of a specific program in each case once it has been determined which of the IDB-8 priorities requires the most urgent attention. To this end, Belgium would suggest that the country programming cycle be lengthened from two to three years and that certain improvements be made to this relatively new process for the Bank. A three-year span would strike a better balance between close monitoring of developments in borrowing countries, the substantial resources absorbed by a serious programming exercise, and the quality of programming once some of the short-term pressure is lifted.

Belgium also appreciates that changes in demand from borrowing countries translate above all into the need for a review of criteria for allocating resources by type of activity and beneficiary, and looks favorably upon a discussion of the share to be allocated by country group and the share for financing reforms and for expanding private-sector financing. Still, it would seem premature to abandon the objective of allocating 35% of resources to the C and D countries, since a preliminary review of the C and D Action Plan and reforms in the Country Offices was not yet possible at the end of 1997. The Bank document also confirms that balance-of-payments assistance is no longer needed, and that the Bank can meet demand for financing second-generation reforms by reallocating to these operations 15% of policy-based lending commitments. Finally, the increase in the share of private-sector financing must be seen in light of its impact on the cost of the Bank's funds for other activities. Management's proposals for developing the Private Sector Department do contain interesting initiatives, but warrant a more in-depth review. Meanwhile, if the 5% cap is applied to the loan portfolio rather than to annual commitments, the Bank will soon have more room for manoeuvre. Management should take advantage of this interim period to pursue its dialogue with the Governors on the basis of more accurate information. Taking the private sector's share from 5% to 10% would appear to be the easiest way of increasing financing for this sector, but other ways of achieving the same goal warrant exploration as well. Examples are stiffer eligibility criteria for investments, a more precise definition of additionality, and a different way of accounting for guarantees and B loans that would allow more investments to be financed within the 5% cap. We are also sensitive to the proposal to dilute risk by sharing it with other institutions such as the OPIC, IFC or MIGA, but continue to have reservations on this point. The solution offered by this approach is dubious, not only because it would enable annual business targets to be met easily but, more importantly, would transfer risk from private banks to the IDB, which is not desirable. Moreover, it would put in second place our own development and reform objectives, which must remain our principal concerns, beyond the purely economic and financial merits of the projects presented to the Bank. Lastly, the development of local capital markets continues to be one of our priorities. The Bank proposes to give priority to its Private Sector Department in this connection. This also warrants an in-depth discussion since the weaknesses of banking systems and financial markets are attributable primarily to ill-founded regulations or, where appropriate regulations exist, inadequate enforcement. We feel that responsibility for operations in this sector should remain within other departments which have the resources to make a difference, giving the Private Sector Department a consultative role in the preparation of these operations.

As a final point in this connection, I would like to reiterate Belgium's appreciation to the Bank's Management for having initiated a dialogue with all the member countries on these important matters, its active participation in the process, and its trust that these discussions will lead to reasonable solutions among reasonable persons, as expressed recently by the President.

I would like to extend special thanks to the Colombian authorities, and to the city of Cartagena and its people, for their invitation to hold our meeting in this place so rich in tradition. Allow me also to convey the best wishes of Minister Philippe Maystadt, Governor for Belgium, for the success of this meeting.

MR. GIDEON SCHURR, TEMPORARY ALTERNATE GOVERNOR FOR ISRAEL AND DIRECTOR, INTERNATIONAL AFFAIRS AND EXTERNAL RELATIONS, BANK OF ISRAEL

I would like to express my gratitude and appreciation to the Colombian authorities and to the magnificent City of Cartagena for the warm welcome as well as for the excellent organization of this meeting. When the Spanish conqueror Pedro de Heredia arrived at this bay to found "Cartagena of Indies", he was accompanied by a native interpreter woman. This woman — "Catalina" — became the symbol of the city. I can assure you that in his sweetest dreams, Heredia did not expect that 465 years later the IDB — a multilateral development institution of some 46 different countries — will assemble here in this beautiful city. I find two factors common to Heredia's time and the present: the city walls are still here and so are the interpreters. But while we are still in great need for the precious service of interpreters the walls are only here to remind us of the heroic past, and to symbolize the fact that we have no need for them anymore — not to prevent invaders coming in nor to avoid foreign influence, trade, capital flows and integration. Let me take this opportunity to congratulate President Iglesias on his appointment for a third term of office. The fact that the Bank has now been firmly established as the principal agent of both economic and social development in the region, is a tribute to the personality of President Iglesias, his leadership and his vision. It is only fitting that it should be he who will lead the Bank into the 21st century.

With a regional average growth rate of over 5% and inflation of under 11%, economic performance in Latin America and the Caribbean in 1997 has been the best in a quarter of a century. Economic growth reflects a strong recovery in investments and continued expansion of exports. The latter is all the more impressive because it has taken place against a background of stationary prices for the region's exports.

The restrictive fiscal and monetary policies applied in previous years helped reduce inflation to its lowest level in half a century. Indeed, the dramatic slowdown in inflation in the 1990's is the consequence of the shift in economic policy in recent years to making inflation-fighting a top priority. Governments of the region have been indicating unequivocally their commitment to stabilization, and this had a positive effect on the expectation of economic agents.

On the down side — the rate of unemployment (in spite of a slight improvement) continues to be very high in a number of countries, undermining efforts to reduce poverty. This problem has been further exacerbated because of the effects of El Niño on the rural population in some of the countries in the Region.

Over this (generally) positive picture of the region's economic situation loom the financial crises in East Asia. Firstly, there are of course the short term repercussions: as is pointed out by the OECD, growth rates in the industrial countries are projected to fall by almost one percentage point and therefore affect international trade. Moreover, the greater exchange rate competitiveness of Asian exports should lead to more intense competition among exporters to the industrialized economies, thus also affecting Latin American exports. More directly, the region's export will also be hit because some of the East Asian countries have become important markets for a number of primary commodity and commodity-based exports from Latin America.

However, beyond their global repercussion on international trade, these crises represent a relatively new kind of economic predicament from which, as we have seen, even economies with strong 'fundamentals' are not immune. Because, rather than stemming from poor macro-economic policies these crises represent a failure of the financial intermediation system. These crises usually trace their roots to a period when the economy was doing well and becoming attractive to both investors and lenders. Their first signs rear their ugly head when economic activity begins to slow down after a period of intensive growth.

Typically, the breakdown of the financial intermediation system cannot be readily identified by traditional IMF surveillance, which has not covered (so far) such issues as prudential regulation of banks, payment systems, the whole field of security regulation and accountancy standards. This puts a greater responsibility on the shoulder of the other IFI's including the IDB in terms of institution building. What I mean is that the Bank must not become involved in damage control operations when a crisis has already struck but that it should focus on structural reform programs that would avoid such crises from happening. This should tie in with the Bank's activities in the Private Sector: the Bank's main role in this area should focus on creating the right environment to attract private investment, specifically: (i) the creation of a sound financial and banking sector, (ii) reform of judicial system, that will contribute to assuring investors that their investment will be protected and (iii) formation of skills and training in order to overcome the lack of skilled workers which is one of he major constraints in the development of the private sector in Latin America. The lessons learned from the Asian crises should warn against the risk involved in catalyzing foreign currency funds for financing infrastructure projects that do not generate foreign currency revenues to pay back debt.

Turning now to the Bank's lending activities in 1997, while the level of lending of around $6 billion was less than the projected level of $7.7 billion, we note a major improvement in the approval and disbursement process of these loans and in the quality of the projects. This is in no small measure thanks to the field offices whose contribution is now coming to the fore. Management should be complemented on the efforts to strengthen Country Offices through training of professional and administrative staff. This action is a vital instrument to support and improve project identification, preparation and execution. Perhaps the same improvement in quality should also be accorded to the Technical Cooperation operations. In order that TC operations have a lasting impact in terms of institution building, they need to arise from a credible program planning process. I am thinking in particular about the issue which I mentioned earlier on — the need to strengthen financial intermediation systems in order to ward off any possibility of an East Asian crisis.

I would like to express my support for the IIC. I would also like to reiterate my position on the necessity to reach not only coordination among the three private sector windows of the Bank but eventually merge them into one organization. The IIC should do more to make its activities known also outside the region, in order to foster joint ventures with companies from non-borrowing countries, (this, incidentally, would also generate the transfer of technology).

Let me address briefly an issue which is close to my heart — that of poverty and inequality: in spite of impressive economic growth in Latin American and the Caribbean, the problems of poverty and inequality are still severe, especially in rural areas. I feel that we haven't done enough to overcome poverty among the rural population in recent years (only six projects in 1997 for a total amount of $150 million). Nearly 200 million of the region's people live in poverty, half of whom live in outright poverty. There has been a spreading of poverty into urban areas as a consequence of migration from the poverty stricken rural areas. This has been accompanied by an unfortunate increase of violence in the cities. It is a situation which is neither conducive to, nor consistent with, a just and democratic system to which we aspire and we need to place its resolution high in our list of priorities. In this context it is essential to maintain the quantitative benchmarks of 35% of lending to C and D countries. The Bank and the regional countries should also continue and even strengthen their efforts in promoting education, particularly in the primary level, since education is the best investment in people and human capital. Higher educated population will eventually lead to higher growth and equality, reduce poverty and violence, and will strengthen the democratic society.

Finally let me turn to one of the central issues which has been on our agenda during the last year, that of **concessional resources**. Like other speakers I am pleased that the deadlock has been resolved albeit only in terms of the immediate needs for 1998-99. I am in general agreement with the (three) recommendations of the Working Group to the Committee of the Board of Governors, and the compromise which has been achieved yesterday. Although, as far as commitments with respect to the HIPC Initiative, the use of the convertible currency reserve of the FSO should have been considered, in my opinion, as a last resort. In particular, we welcome the decision to conduct a general review of the uses, sources and administration of the Bank's concessional resources and to define the vision of the Bank for the next millenium in order to arrive at a comprehensive definite solution before the next Annual Meeting.

It seems that at the root of the issue of concessional resources, there are two questions which have not been answered in a satisfactory manner:

(a) What are the requirements for concessional resources in the years to come?

And having defined these requirements, they need to be quantified.

(b) How can these requirements be financed?

The two questions are obviously inter-related; the requirements set an overall framework for the financing while the availability of resources impacts the extent of the requirements. Simple as this sounds, it is a complex issue which requires the reassessment of concessional needs and an iterative solution process. In any case, any future shortfalls in concessional financing must be resolved by mobilizing existing internal resources. The activating of the local currency resources would no doubt go a long way in filling in such a gap.

There is clearly a need to reassess and redefine the criteria for concessional financing. At present, we have a complex set of criteria which are the legacy of an evolutionary process that has taken place both inside the IDB and within the IFIs, in general. Let me point out that, for example, the rather arbitrary threshold of per capita GNP which has been adopted both by the FSO and by other funds for concessionary lending ignores many other variables, such as potential growth, the quality of an existing institutional structure, human capital, income distribution, and so on. Our discussions on the matter of concessional lending and the controversy over its financing have obscured the far more fundamental issue of the long term criteria and objectives of such lending of which I sincerely hope that we shall have a clearer vision before the next annual meeting.

MR. MARCO A. FLORES T., GOVERNOR FOR ECUADOR AND MINISTER OF FINANCE

On behalf of the people and Government of Ecuador, I bring cordial greetings to our sister republic Colombia, and especially to the city of Cartagena, whose history and tradition make it so appropriate a venue to further cement the centuries-old ties that bind our two nations.

My very warmest greetings as well go to Mr. Enrique Iglesias, President of the Bank and cherished friend of Ecuador, who is to be congratulated for his reelection to head the Bank and the Corporation for a third term. Under his expert stewardship and with his commitment to the region, we are confident that the Bank will continue to rise to the lofty and pressing challenges of our day.

This past year 1997 has been an unparalleled period for Ecuador. With the change in government, a manifestation of the patriotic will of its people, Ecuador is back on the path to stability and progress. The road has not been an easy one: the sacrifices that have been asked of our country are greater even than those that have had to be exacted in the past few years.

Ecuador's macroeconomic performance in 1997 attests to its decided efforts. Inflation was held to 30 percent, bespeaking the sound coordination of the government's fiscal and monetary management in the face of the difficult circumstances under which the year began. Growth in output surpassed the forecast 3.5 percent, even with the severe toll taken by El Niño toward the end of the year. The fiscal deficit of the nonfinancial public sector stood at about 2 percent, lower than the figure forecast when the present government took the helm.

Ever greater challenges await Ecuador in the months ahead. The government is determined to keep the economy stable, to make for an orderly transition to the incoming administration that will be installed this coming August. Two of these challenges are especially daunting: the sharp drop in oil prices, and the toll that El Niño is continuing to take on our economy and our country.

Since late 1997, oil export revenues (which account for some 21 percent of central government budget revenues) have fallen off, as international crude oil prices have dropped. If these price declines stabilize at current levels for the rest of the year, the State budget will have taken in US$560 million less in oil export receipts, equivalent to 2.8 percent of GDP.

The Ecuadorian government has responded quickly to this fiscal shortfall. This past February the Executive Branch sent a tax reform bill to the Congress, intended to close the door to tax evasion and avoidance and create a solid legal framework for internal-revenue generation. Also making its way through the congressional approval process is an increase in the 10 percent VAT rate to 14 percent, and the abolishment of exemptions. This will boost tax revenues by 2 percent of GDP and make this a more neutral levy.

To be able to deal with the staggering damage caused by El Niño, the government has cut public current spending by 0.5 percent of GDP, and has instituted auxiliary measures to contend with the problem.

Clearly, the Ecuadorian people's efforts to adjust to these shocks to its economy need support from outside. Only with such external assistance can the nation's economy find its way out of the crisis without even more tribulations. The IDB is a crucial resource in any such effort.

The IDB's timely support to Ecuador in 1997 played a major role in the macroeconomic stabilization gains achieved. I would make particular mention of its deeply appreciated swift response to the ravages of El Niño in our country.

The Bank also has continued to fund projects to assist sectors in greatest need, notably the social sectors, for which it has approved a number of operations in the areas of housing, services for children, and environmental sanitation. By way of its support for projects for modernization of the public sector, specifically those intended to revamp the tax system and support governance processes, the Bank is helping to advance the structural adjustments on which Ecuador has embarked.

But, even with this strong show of support, there remain many areas of pressing need in Ecuador, and we would hope to be able to look again to the Bank to help us address them. Among the top priorities are education and health services, which need investment if we are to build a well-trained human-resources base upon which to draw as we resolutely confront the challenges of development, integration, globalization, and competitiveness.

Among the various issues under discussion in recent months, and which will serve to define the Bank's objectives and goals for the approaching century, there are several that in our view warrant particular mention.

First, we firmly support maintaining the current target of 35% of total lending for the Group C and D countries, as a manifestation of the Bank's commitment to the region's less developed countries. Moreover, given the scale of poverty in the region, we applaud the definition of targets to direct a specified amount and number of operations to poverty-reduction programs, to combat this scourge that is at once an offense to humanity and a barrier to sustainable development.

We believe that innovative approaches the Bank can devise on this front will be decisive for attaining the proposed targets.

We welcome the possibility of the Bank's deepening its support for decentralization processes by providing financing for subnational governments, because we understand that power that is closest to the grass roots is potentially the most effective, not least for programs to improve living conditions and combat poverty.

We likewise must come out in favor of an increase in Bank lending to the private sector from 5 percent to 10 percent of the total: obviously, if markets are the underpinning of our economic systems, they need to be strong. On this issue, I would point out that, in the less developed countries, the size of the private sector is a real constraint for operations of this type. We believe that Bank initiatives in this respect are essential in order for this line of operations to yield fair fruit for all the countries.

It also seems timely to refer here to the distribution of approved resources among the IDB's borrowing member countries. Inasmuch as the Bank is currently approving loans in amounts below its maximum financing capacity, it needs to increase such operations equitably in all borrowing countries and, once it reaches that goal, develop mechanisms to sustain such efforts.

This sustainability derives from the participation of each and every borrowing member country in this distribution, for which purpose the Bank will have to make a point of its programs and strategies achieving specific results in terms of improved execution capacity and, in particular, fulfillment of program targets and objectives.

The flexibility and efficiency that the IDB requires to achieve such a goal depends on the decision-making capacity for approvals of the Bank's Board of Executive Directors and Management. Without a doubt, the proposal to expand Management's authority to approve operations for amounts higher than the current levels, connected to initial stages in project execution, will be essential to their success.

I must also mention Ecuador's interest in having the Bank consider the nature of its sector operations, which ought to focus on the need to meet the requirements of the fiscal sector, which in many of our region's economies needs the most support. While the link between the external and fiscal sectors cannot be ignored, particularly as our economies are actively entering the globalization process, the Bank needs to attach priority to expanding the range of possibilities for flexible and dynamic action.

While we commend the Bank for its timely intervention during a period in which member countries faced a serious financial crisis a few years ago, we would now like to propose that the Bank have a tool available that is flexible enough to allow the region's smaller countries to finance operations to contend with natural or financial emergencies. For this reason, I propose that the Bank explore the possibility during this meeting of approving operations financed from a concessional-resources standby fund, as part of its quick-disbursing operations.

Allow me to express my country's support for the work of the Inter-American Investment Corporation, in particular for the improved consolidation of its initial objectives. Small and medium-sized enterprises have enormous needs, and the invigorating impact of these sectors on our countries' growth amply justifies the effort and dedication with which the Corporation must work to satisfy them. The proposed capital increase will be feasible to the extent that the work prospects put forward for achieving these ends are real.

With regard to the activities of the Multilateral Investment Fund (MIF), I would like to express my hope that the work of this important arm of the Bank will intensify and that concrete results will be discerned in terms not only of the number of projects approved but also primarily in terms of the resources that actually reach our countries. We realize that the Fund's restructuring seeks to provide the public sector with tools to modernize and the private sector with the wherewithal to ensure that the best possible conditions in terms of human capital, technology, and legislation are achieved.

In closing, I would like to convey my country's wish to see the Inter-American Development Bank begin the twenty-first century under the best possible technical and professional circumstances, with sufficient resources to enable it to fulfill the basic objective of its Charter: the development of the member countries, individually and collectively.

MR. HÉCTOR VALDEZ ALBIZU, GOVERNOR FOR THE DOMINICAN REPUBLIC AND GOVERNOR OF THE CENTRAL BANK

We sincerely appreciate the opportunity to address this Thirty-ninth Annual Meeting of the Bank's Board of Governors and Thirteenth Annual Meeting of the Inter-American Investment Corporation, being held in this historic city of Cartagena de Indias, a part of our human heritage. In recent decades, this beautiful city has become a veritable capital for Latin American dialogue and consensus, as the setting for major initiatives for integration and peace. On this occasion, once again, the people of Cartagena have extended their generous hospitality. I should also like to take this opportunity to thank the Government of Colombia and the organizers of this meeting who have so effectively prepared for our deliberations. I also wish to convey a cordial greeting on behalf of the Dominican government and its President, Mr. Leonel Fernández.

The challenges now faced by our region are great. Fortunately, the macroeconomic reforms introduced in the region, combined with open trade policies, have enabled us to contend with the crisis that has affected certain countries in Southeast Asia.

Over the course of 1997, the economic performance of Latin America and the Caribbean can be qualified as excellent, with growth in GDP exceeding 5 percent and controlled inflation averaging 11.6 percent, undoubtedly the best results achieved in recent decades. A solid reserve position and the volume of foreign capital inflows are other relevant indicators of macroeconomic stability. All of this despite the repercussions of the Asian crisis, which adversely affected the international financial system.

Even so, the impact of this crisis on the region has been slight, thanks to earlier efforts to reform and strengthen our financial systems. In that regard, we must note the contribution of the Bank, which under the sound guidance of President Enrique Iglesias, has been particularly effective in financing financial reform and strengthening bank supervision.

The IDB has played a prominent part in supporting the socioeconomic development of the countries in the region. Its procedures for financing have been streamlined through adjustments in its operations policies and effective changes in its lending policy. The Bank has thus gained great prestige among regional development organizations. In addition, it enjoys high financial ratings thanks to prudent management of its investment portfolio.

The Bank's operations show major changes in the type of loans granted, reflecting the Bank's timely response to the needs of the countries in the region. Accordingly, the number of loans in the social sectors has been bolstering the efforts being made by our governments to address the social agenda. It is crucial that this support be continued. We also consider it advisable to expand the IDB's mandate to strengthen lending policies geared towards private-sector development, provided that the financial soundness of the Bank can be maintained and the smaller countries are not neglected.

Let us now turn to an issue of major import for the Bank's policies, the lending activities in the Group C and D countries under the Eighth Replenishment. We support maintenance of the 35 percent target for loan commitments for those countries, since it would guarantee that the Bank would provide special support to the neediest countries in the region.

Clearly, there are management problems on the part of certain borrowers in those groups. We therefore believe it would be appropriate to carry out training programs targeting professionals in the executing agencies of the countries, especially in the areas of disbursement and financial management and administration of projects. The plan of action for the Group C and D countries has been very helpful for project preparation and execution, in addition to human resources training in the countries. Consequently, we suggest that the plan be extended and broadened so that the Bank can make further efforts to improve the absorption capacity of the C and D countries.

Certain Group A and B countries have experienced financial crises that have required special assistance from the Bank. This situation could imply future pressure on Bank policies, whereas the philosophy of the Bank has always been to promote development. We understand that the Bank must maintain its portfolio to address such emergencies at prudent levels in order to preserve its excellent credit rating on the financial markets. Moreover, support could be provided to those countries through programs for assistance and specialized consulting services in their negotiations with private banks and multilateral financial institutions whose charters do allow them to address such crises.

We believe that the time for restructuring and modernization of government has come. Throughout the region the role of the State is being redefined in an attempt to eliminate government involvement in the delivery of direct services in areas where the private sector performs better. The macroeconomic and social impact of this redirection has positive repercussions on fiscal, monetary, and exchange policies. The Bank is not only supporting the restructuring of critical areas of the public sector but has also taken the lead in promoting the participation of new players such as NGOs. The Dominican Republic has received valuable assistance from the Bank in this connection.

Demographic growth, increased migration to development poles, and the growth of megacities have led to a new demographic, political, and social correlation. This is a phenomenon that the Bank cannot ignore, given the growing importance of local governments with increasingly complex functions. Nevertheless, because of its political and financial implications, we understand that the IDB should be cautious in venturing into this area and act only after conducting the studies and holding the internal discussions necessary.

I should like to highlight the Bank's activities to support reform of the judiciary in several countries in the Hemisphere, including the Dominican Republic, the government of which is implementing a vigorous plan for modernization of the administration of justice. The increase in crime, drug-trafficking, and money laundering in the region is overwhelming the apparatus of the respective authorities and the legal systems themselves. Since Latin American society as a whole is being affected by this situation, we welcome these initiatives on the part of the Bank.

I shall now report briefly on the economy of the Dominican Republic. In 1997, the country continued its excellent economic performance with respect to GDP growth, inflation, fiscal performance, the external debt, and the current account of the balance of payments. GDP rose 8.2 percent in real terms, one of the highest rates in the region. Per capita GDP increased 5.2 percent, over double the demographic growth rate. Inflation remained in the single digits at 8.3 percent. For 1998, the national authorities have again projected a GDP growth rate of at least 6 percent, in line with ECLAC projections. The Dominican Republic is thus expected to maintain one of the highest GDP growth rates in Latin America and the Caribbean.

Reorganization of collection systems, in conjunction with a reduction in tax evasion as a result of improved tax administration, has led to an increase in revenues of 30 percent over 1996. This performance can be attributed to the efforts made by the administration of President Leonel Fernández to increase tax revenues. At the same time, the central government spending structure has been changed, with priority being assigned to increasing investment in human capital and greater attention being paid to social programs as a means of helping to eliminate poverty.

In 1997, the balance of our external debt declined by almost 8 percent, after negotiations, repayments, and repurchasing transactions with suppliers and foreign government agencies. Since the current administration took office in August 1996, the debt has decreased by approximately 10 percent, despite the fact that the Dominican Republic is a net exporter of capital. The country has had to make considerable financial effort, since vital resources for Dominican development have had to be used to honor external obligations. In his statements at various international fora, President Fernández has insisted on the need to reverse this trend and to devise innovative systems to reduce the debt burden.

Indeed, the heavy burden of the external debt and poverty continue to constitute the main challenge for the economic policies of our governments. Although we have had specific assistance from the Bank, we are aware that we must make greater efforts to overcome this constraints on development. We wish to reassert the position we have maintained at these meetings, to the effect that a final solution must be reached on the issue of concessional resources. The solution must demonstrate solidarity and must meet the financing needs of the poorest countries.

We are pleased to note that our Hemisphere is taking firm steps to achieve the Free Trade Area of the Americas by the year 2005. There are many obstacles to overcome to achieve this goal, but the political will is there. The heads of State of the Hemisphere will be meeting in Santiago, Chile, within a month to launch negotiations on free trade. We commend the Bank for the prominent part it has played as an outstanding member of the FTAA Tripartite Commission.

We are already on the threshold of the next millennium. Latin America and the Caribbean yearn to cross it having reduced the scourge of poverty to the extent possible. We are not a region in bankruptcy: we have the critical mass, the natural resources, and the professional cadres necessary to get on the fast track of development. To achieve this goal, we have the wholesome strength of our youth and a modern business community that is increasingly active and aware of the vital role of private initiative in the economic and social progress of our peoples.

It falls to me to speak here on behalf of an administration in the final year of its mandate. After surmounting numerous obstacles, the government of President Caldera can boast some impressive achievements as the end of its term approaches. Two years ago, we took the initiative in implementing a stabilization program known as Agenda Venezuela whose basic objectives were to curb inflation, redefine the role of the State in the economy, and to restore economic growth to the country.

The social and economic policy set out in this action plan received the approval of the International Monetary Fund and the support of multilateral financing agencies such as the Inter-American Development Bank (IDB), the World Bank, and the Andean Development Corporation.

The first step was to correct macroeconomic imbalances through a policy of drastically reducing the fiscal deficit that went hand in hand with allowing the exchange rate, interest rates, and domestic prices to float under a monetary policy geared to mopping up excessive liquidity.

Simultaneously, decisions were taken to rescue and shore up the financial sector which had been hard hit by a severe crisis in 1994, to speed up the privatization program and to reform the social security system, as initial steps on the road to the restructuring of production, which in the medium term, needs to allow Venezuela to position itself successfully in an increasingly globalized economy.

On the fiscal front, initiatives to raise the level of taxation and pare government spending stand out, at a time that efforts were being made to accelerate repayment of public debt in order to pay off our arrears and to increase social spending to a level equivalent to 2% of Gross Domestic Product.

The resources needed to cover the extraordinary public financing were provided by multilateral and bilateral agencies and were used to target social investment projects and support the sectors of production. In addition, financial resources were raised through the placement of bonds in the domestic market and in the Eurocapital markets, where they were well received, an indication of the economic community's confidence in the Venezuelan economy.

An important component of our adjustment program involved reforming the financial system, reinforcing the regulatory role of the Office of Bank Supervision, and expanding the financial support of the Bank Protection and Deposit Guarantee Fund (FOGADE).

The introduction of more rigorous standards of prudential regulation, the resale of Banks that were closed down, which included significant participation by international commercial banks, and the strengthening of capital adequacy of private banks in accordance with the Basel Accords are the main components of a policy that, in less than two years restored the country's financial system to a sound footing.

As to exchange policy, the currency was allowed to become freely convertible and external accounts brought into balance, backed by a strong international reserves position, that is gradually being achieved through the decision to do away with exchange controls and to adopt a policy of a freely floating exchange rate. This policy is currently being applied under a system of targets fixed by a central exchange rate determined as a function of projected inflation.

I consider it particularly important to point out that Agenda Venezuela goes well beyond the goal of short-term macroeconomic adjustment since it includes a program to restructure production, by means of guidelines agreed on and shared with the private sector, and its central component is the opening up of the external sector and privatization, with a focus on the performance of business associations and production chains as well as opening up the areas of petrochemicals, telecommunications, electricity, aluminum, and steel to private investment. In this same vein, strategic alliances are being hammered out between multinational companies and the national oil industry making it possible to increase our hydrocarbon export capacity significantly. This means that early in the next century our export levels will reach 6 million barrels a day, thanks to flows of capital from North America, Europe, and Asia.

A special feature of our Agenda has been the addition of an extensive social program designed to offset the adverse effects of the adjustment policies on society's most vulnerable groups. This aspect of the program, which was praised by the International Monetary Fund, made it possible to provide relief from the impact of macroeconomic policy for tree million poor families that have been benefitting under the some of the fourteen relief projects in the social program.

The strategic program to supply food at affordable prices to low income groups, the program to supply medicine for primary health care, and the job creation program for young people are part of social policy that reflects our conviction that in a democracy macroeconomic adjustment can be successful, while care is taken to ensure that the very poor do not bear the brunt of the measures and that political stability is maintained.

The Venezuelan government's social policy was conceived to go beyond compensation programs and the supply of essential goods for low income groups. That is why it focuses on productive training programs that create specialized jobs, that need to be assimilated efficiently as economic growth is restored to the country.

One salient feature of the adjustment plan having to do with structural transformation was the modernization of the social security system and pension funds, as part of the reform of the Labor Act. This innovation development in labor relations was the result of an agreement between the unions, business associations, and the national government, demonstrating the capacity of Venezuelan society to build a consensus on fundamental issues of social change.

The cornerstone of the adjustment program and the medium-term development plan is the reform of the State which entails reducing its size, decentralizing its functions, and increasing its efficiency and effectiveness. To this end, the public sector is being restructured, a gradual reduction in force has been set in motion, and responsibility in the areas of health, education, roads, sports, and some aspects of public security are being transferred progressively to the states.

The most meaningful figures for gauging the economic progress of the last two years show an improvement in public finances, a reduction in inflation, and a significant strengthening in the country's external position, as part of the evident recovery in national economic growth.

Under the central government's stewardship, finances shows a slight surplus equivalent to 0.6% of GDP with a substantial improvement for 1997 equivalent to 1.8%.

By year end 1996, evidently as a result of the strong adjustment caused by the removal of controls on domestic prices and the exchange rate, inflation touched 103.2%. As a continuation of the trend under way the previous year, cumulative inflation was down to 37.6% by the end of 1997.

It is important to note that inflation has still not eased sufficiently, although the favorable trend clearly shows that if economic policy is maintained, inflation will be brought down to acceptable levels.

The balance of payments showed a slight surplus of US$6,533 million in 1996, and again in 1997, as a result of a current account surplus of US$5,867 million. It is important to note that normally Venezuela, even at the depths of the crisis, maintained a current account surplus year after year, a factor that has undoubtedly helped to stabilize the level of its international reserves and strengthen its economy. .

Venezuela's international reserves rose from US$9,273 million in December 1995 to US$15,229 million by December 1996, and US$17,745 at year-end 1997, equivalent to 11 months of imports. This success was due to the improvement in oil prices as well as an increase in nontraditional exports, particularly in the last year, when economic growth began to trend up.

In 1997, economic growth picked up strongly as Gross Domestic Product expanded in real terms by 5.1% on the strength of growth of 8.8% in the oil sector and 3.3% in the nonoil sector. It is interesting to note that this result goes hand in hand with an increase of 3.2% in consumption and 19% in gross capital investment, generated by an expansion in national and foreign private investment, which in turn led to a drop in open unemployment from 12.4% in 1996 to 11% in 1997.

On the heels of these glowing results at year-end 1997, we have found ourselves up against a difficult situation since January with the continued slump in oil prices. This decline has translated into a reduction in fiscal revenue of approximately US$2 billion, producing a serious shortfall in the central government's finances.

The government's response to this unexpected situation has been to cut public spending by US$2.5 billion, a decision that applies to the central government, companies in the public sector, and the oil company, based on the firm conviction that a balanced budget is central to the antiinflation policy we wish to pursue.

Notwithstanding the foregoing, we need to consider that the opening up and privatization of basic industries will continue to draw foreign investment to the country, based on long-term projections, and will help to offset the adverse effects produced by an environment of falling oil prices.

In this sense, we are still reasonably sanguine that in 1998 it will be possible maintain an acceptable level of exchange stability under the regime adopted, with a target inflation rate of 25%, which is still not enough, a reduction in unemployment to around 10%, and economic growth of 4%.

On this note, I hope that I have conveyed to you a realistic picture of recent developments and our government's expectations in the current year. Venezuela is preparing to enter the next century as a country with a free and open economy with aspirations of becoming more competitive, with political and social stability and renewed economic growth supported by an increasing flow of foreign and national investment, that maximizes the competitive advantages that we obviously offer in order to become one of the most growth-driven economies of Latin America.

The relevance of the Inter-American Development Bank

The increasing obstacles that the region must surmount to fulfill its common commitment to providing employment and opportunities equally, without distinction, to all of its people, takes on special meaning in the presence of a robust and vigorous development bank, that is able to respond in a timely manner to the numerous initiatives put forward in each country, in which the climate is constantly changing, produces a special dynamic in the relationship established between the Bank and its clients.

Recent events point to the importance of having a strong multilateral support system with a timely intervention response capability. However, the facts show that the design and content of the programs to be implemented need to reflect the political, social, and cultural nature of the society affected. Hence the recognition given to President Iglesias and his team who, in sharing this principle, have become our spokesmen in this multilateral family.

That is why we are pleased to note the Bank's constant efforts to adapt the role of the institution to the new circumstances. Recent discussions within the Committee of the Board of Governors point to a more flexible interpretation of the regulatory framework authorized by the Governors in 1994. The present concern over addressing the social commitment to our people, by reducing the growing margins of inequity, building a new relationship between the state and civil society, and observing the rights and obligations inherent in the democratic system constitute some of these common commitments.

Nevertheless, to achieve those objectives it is apparent that the Bank needs to have suitable policies and procedures. This reflects the importance that we are according to the tasks initiated by the Board of Directors and Management to develop in the short run concrete proposals for overcoming institutional obstacles within the Bank that prevent it from responding swiftly and efficiently to the problems of its clients.

Venezuela and the Bank in 1997

In 1997, the Bank and Venezuela continued their collaboration, through a sector loan for reform of the social security system that we expect to sign next month, a project to rehabilitate and strengthen management in a regional water supply subsystem, and two contributions that are qualitatively very important. The first is aimed at consolidating a social and cultural experience of which we are proud: the youth orchestra system, a mechanism that for over 20 years has demonstrated that thousands of children and young people come together through music and become integrated into society; and the second is a program in which the Republic is deciding to add resources to other public and private funds in order to finance programs and projects developed by civil society organizations. The Bank's decision to join with us in the design and formulation of these operations demonstrates its capacity for innovation and leadership in tackling the challenges that lie ahead.

Fulfillment of the objectives of the Eighth Replenishment

We note with interest the results obtained in the four years that have elapsed since the Eighth Replenishment. We see that the goals proposed are being approached and a significant contribution is being made to the financing of social and productive infrastructure. Also, its involvement is more frequent in institutional reform in areas such as education and health, justice and governance, not to mention those operations to improve financial, fiscal, and tax systems. The Bank's contribution to each of these areas has been significant.

I welcome enthusiastically the contribution that the institution has made to the move towards economic integration. 'The efforts expended in subregional assessments and strategies, the support for understanding of what trade liberalization means for goods and services, the competitiveness and globalization of the economic system, the financing of basic studies for bilateral integration and integration between countries in identifying programs and projects to facilitate mutual exchanges is vital to expanding trade flows which are already growing significantly.

Moreover, the increase in the number of publications and their quality, the organization of different events to promote public interest in issues such as violence and citizen safety, popular participation, the development of programs for small and medium-sized businesses, the role of the private sector in financing infrastructure, to name a few, affirm the important role played by the Bank in the changes sweeping our economies and societies.

The Bank and the private sector

The annual report notes the advances made in the interaction established with the private sector in the region. After an absence of several years from the Venezuelan market, the Corporation financed a project to expand the export capacity of a local firm and other initiatives are now under study. Amongst the first operations approved by the Multilateral Investment Fund are a pilot program for the creation of employment exchanges and another to strengthen regulatory functions in a market economy. Other operations, in the final stages of consideration, include participation by the Fund in the first specialized bank for microenterprise in Venezuela, a program that will be accorded high priority. It is our hope that later this year the participation of the Private Sector Department will materialize in at least one infrastructure project.

Words of appreciation

Lastly, a few words of thanks are due to the Bank's team which has been cooperating closely with our country, Vice President Nancy Birdsall, Manager Ciro de Falco, Deputy Manager Miguel Rivera, and the Division Chiefs, Mr. Aquino, Mr. Jeria, Mr. Fernández, and Mr. Aguilá, who in conjunction with the Country Office, were closely involved in gradually overcoming the problems in managing the portfolio and in identifying and formulating the operations. Also, I would like to note the role the Bank has played in making technical assistance available in areas of special interest and importance to the nation.

Let me also express publicly our gratitude to the people and government of Colombia for the courtesy they have shown and the superb organization of this event. To Cartagena de Indias and its citizens, many thanks for your warm hospitality.

Difficult circumstances put our capabilities and the institutions that we have created to the test.

Now more than ever, we need to join together to strengthen the IDB in order to produce, from that vantage point, creative solutions in the eternal search for growth with higher levels of well-being.

MR. GUILLERMO O. CHAPMAN, JR., GOVERNOR FOR PANAMA AND MINISTER OF PLANNING AND ECONOMIC POLICY

Once again, we are pleased to have the opportunity to share with you, at this gathering of our organization, the progress we have made in economic and social reform in our country. We are particularly delighted to do so here, in the beautiful city of Cartagena de Indias, whose geography and human warmth make us feel as if in our own country.

The results of our Government Program in 1997 were without question positive.

Privatization of the telecommunications sector was completed with a management contract to be opened after five years of exclusivity to international competition.

The privatization of electric power supply and distribution will be completed in 1998, and restructuring of the water supply sector has progressed to the stage of private-sector concession.

Since September 1997, Panama has been an official member of the World Trade Organization. Since January 1, 1998, we have reduced tariffs to a maximum of 15%, with the exception of rice and milk. This has cut the effective average national tariff rate to 8.3%.

Last February 26, new banking legislation was passed, modernizing provisions to conform with international standards.

As a result of reforms put in place between 1994 and 1997, the trend of slow long-term economic growth has been reversed, with a strong recovery in terms of production and employment.

Gross domestic product (GDP) grew in 1997 by 4.4% in real terms. This economic growth is the result of a 6.7% increase in exports of goods and services as well as a sharp rise in public and private investment in ports, roads, telecommunications, hotels, and housing. Employment rose by 5% and inflation was held to 1.2%.

The growth in 1997 was not conjunctural, as in the early 1990s. Among the contributing factors were: investor confidence; the prospect of the Canal's transfer in the year 2000; the privatization of State enterprises; and growth in private-sector credit at a rate of 11.4% in 1997.

The total assets of Centro Bancario Internacional grew by 7.9% in 1997, reaching a total of $36.2 billion. Centro Bancario was not affected by the financial crisis in Asia, and its position was indirectly strengthened as it showed signs of greater stability. Several local banks have issued medium-term financial instruments in international markets, and international banks are participating aggressively in the long-term mortgage market, which did not use to be the case.

Sound administration of public finance is important in Panama, since in our banking system it is the fiscal position, and not the balance of trade deficit, that determines debt repayment capacity. This in turn bears on the country's risk evaluation. During the 1994-1996 period, the fiscal accounts had, on average, a surplus of 0.3%. In 1997, the balance was a negative 0.6%, as a result of the temporary cost of certain structural measures, such as privatization and reform of the supplemental pension fund. For 1998-1999, for the same reasons, the results are expected to be similar to those in 1997, before achieving increasing surpluses beginning in the year 2000.

Panama remains well situated vis-à-vis the international financial markets. In 1997, a $500 million 5-year opening issue, at 7 7/8% was transacted, and in September the Republic invested $700 million in Global Bonds at 8 7/8%.

Of the three countries that announced Brady debt-swap transactions, Panama, the third country to announce, obtained a spread of 250 basis points over the Treasury bond rate, compared with 305 and 325 for the other countries. This transaction resulted in a net reduction of $113 million in the volume of Brady-Bond-denominated debt.

At the end of the day, we are convinced that the fundamental economic conditions in each country determine market preferences. Given the performance of the Panamanian economy in 1997, we believe we have a relatively sound position for market access, notwithstanding competition from the large emerging issuers and the situation created by the crisis in Southeast Asia.

We reiterate once again our appreciation to our kind hosts for their warm hospitality, and take this opportunity to commend the President and Executive Vice President, and Board of Executive Directors of the Bank, and its entire staff, for a year filled with accomplishments and good performance.

MR. JOSÉ ANGEL GURRÍA, GOVERNOR FOR MEXICO AND MINISTER OF FINANCE

I am delighted to be afforded yet another opportunity to take part in the institutional life of the Inter-American Development Bank, particularly in this charming and lovely setting of Cartagena de Indias, a city so imbued with the history and culture of Latin America and the Caribbean. I shall begin by conveying to the people and authorities of Cartagena my gratitude for their warm hospitality, and my appreciation to the Government of Colombia for its generous and cordial welcome.

I also would like to take a moment to congratulate the President of our Bank, Mr. Enrique Iglesias, for his reelection to a new term at the helm of our institution, this being an eloquent attestation to his vision and leadership. Under his stewardship, the Bank has spearheaded financing to Latin America and the Caribbean region, and it will remain in good hands in the years ahead.

On the whole, 1997 was a good year for the Latin American and Caribbean economy. As proof we have only to cite the growth in output, stable prices, and heightened investment, not to mention the US$73 billion dollars in foreign investment flows into the region — a 14 percent increase over 1996 figures.

The two cornerstones of robust and sustained economic growth in the region are fiscal and monetary discipline and structural change. The two preeminent challenges we face are employment and poverty.

In 1997, Mexico's gross domestic product grew by 7 percent, the strongest showing in 16 years. Driving the improvement were investment and exports, helped also by the gradual reactivation of domestic consumption. Today, thanks to the move begun some years ago to open up our economy to trade, we have a dynamic external sector, which has been pivotal to the recovery. Mexico's aggregate exports of some US$220 billion are over half our gross domestic product, and rank us tenth in the world for exports, and first in Latin America. One corollary of the growth in domestic product has been a significant boost in employment. Open unemployment fell to 3.2 percent, barely half the level posted in the throes of the crisis.

Our plan in 1998 is to continue to strengthen the bases necessary for vigorous, sustainable growth and to keep inflation in check. To that end, we will be working on three fronts.

The first aim, fostering internal saving, is being tackled by completely revamping the social security system, a process that will continue and be broadened in the months ahead.

There now are 17 pension fund management companies in operation in Mexico. We expect deposits in these pension accounts to stand at 3.5 percent of GDP by the year 2000.

Second, we are proceeding with structural reforms to make the nation's productive apparatus run more efficiently. Highlights of this process have been the privatization of railways, ports, and satellites, paralleled by increasing private-sector involvement in such newly deregulated spheres as airports, telecommunications, electric power generation, and natural gas distribution.

The third front we will be attacking is poverty reduction, this being a cornerstone of the Mexican government's economic and social strategy. The backlog of unmet social needs in our country is something the government must address. The administration of President Ernesto Zedillo is working staunchly to improve the standard of living of those of our people who live in poverty. The centerpiece of the process is the Education, Health, and Nutrition Program (PROGRESA), which will boost investment in human capital (nutrition, health, and education), infrastructure, and productive activities. We intend to move resolutely forward with this program, from which three-and-a-half to four million families stand to benefit.

On the fiscal and monetary discipline front, we are devoting an ever-increasing share of the budget to social expenditures — nearly 60 percent in 1998.

To make Mexico competitive and, even more important, to even out social inequities, we are focusing intensely on education spending. In today's globalized economy, a country will become efficient and competitive by boosting productivity, not by artificially manipulating economic policy instruments. But for productivity to rise the population needs to be healthy, well-nourished, and well-educated. We therefore are earmarking a quarter of the federal budget for education. With the IDB's support we are bolstering technical training and basic, secondary, and higher education. A loan agreement signed with President Iglesias at this meeting will finance a distance education project, taking advantage of modern telecommunications facilities to bring training and education to remote areas of Mexico..

On the macroeconomic side, 1998 forecasts point to continuing growth in gross domestic product and a steady decline in inflation, even in the present international climate that is still feeling the effects of the financial crisis in Southeast Asia and a fall-off in oil prices. In the wake of declining oil revenues, this past January we cut public spending by 0.4 percent of GDP. We will continue to act unflinchingly when confronted by any set of circumstances that could jeopardize achievement of the economic program targets we have set for ourselves.

We have greater political pluralism in Mexico today, with huge strides being made towards federalism and the consolidation of democratic processes. These far-reaching transformations in Mexican society are evident in the current makeup of the Legislative Branch and state and municipal governments. We now plan to move forward with the delineation of a State economic policy, an endeavor in which society's most varied groups and interests will cooperate in the common pursuit of the national interest, in order to achieve the necessary consensus for the economy to remain on its steady course and for its sound performance to continue regardless of political cycles.

I would now like to share with you a few thoughts on the Inter-American Development Bank Group. Four years have passed since the Governors met in Guadalajara to map out the Bank's new path. Today, we are pleased to see that the IDB has become the region's leading source of financing, has intensified its poverty-reduction activities, has tackled new areas such as modernization of the State, and has significantly heightened its profile in the generation of ideas.

It seems appropriate that, on the basis of these last four years' experience, Management should suggest to the Governors that they reflect on certain aspects of the IDB's future, so that the institution will have the flexibility it needs to carry out its task. With that in mind, I would like to comment on some of the specific proposals.

Allocation of resources by country group. As we have said on numerous occasions, the 65-35 distribution matrix reflects the structure of past replenishments, which were defined on the basis of set amounts for the lending program for a specified period. The object of this distribution was to ensure that all borrowing members would have access to IDB resources. With the Eighth Replenishment, this goal has been met, for all practical purposes, so that maintaining the matrix becomes unnecessary and its existence prevents the Bank from increasing lending volumes.

Institutional adjustment lending. When we instituted quick-disbursing loans, the main purpose was to cover balance-of-payments needs. Currently, the impact of the reform programs we have undertaken is not necessarily felt in the external-sector accounts but rather in the public sector. For this reason, including quick-disbursing loans to finance the fiscal costs of certain reforms on the menu of Bank instruments seems appropriate, as does expanding the proportion of total cost established for such purposes. Moreover, the support provided to prevent or contain financial crises ought not to be counted under this limit.

Matrix for foreign exchange financing. This matrix is based on criteria that no longer apply on the role of external financing in development projects. Currently, the matrix bolsters the negative effects of budget adjustments on projects. Its elimination would allow the Bank to act counter-cyclically in project execution. For this reason, greater flexibility in the amounts of Bank financing for such projects would be advisable.

Lending to the private sector and to local governments. Sound fiscal discipline is the hallmark of the development processes our countries are experiencing today, with growing decentralization of expenditures and reduced direct participation by the central public sector in project execution. For this reason, it is important for the Bank to explore alternative mechanisms to finance projects and to expand its range of credit instruments. The experience of the private-sector window is encouraging, and we should therefore expand its financing capacity and allow it to move into other activities. We also believe that providing financing to local governments is a promising avenue for the future of the IDB and we invite Management to conduct a study to determine how this could best be done.

We are very pleased about the agreements reached on the subject of concessional resources. All the IDB member countries worked together to make sure that resources would be available for the next two years to cover operations in the region's less developed countries and, at the same time, to enable us to participate in the debt reduction initiative for Bolivia and Guyana. We should take advantage of this time to study the issue of concessional resources in depth and find a satisfactory and permanent solution to the problem.

Before I conclude, I would like to mention the importance of reinvigorating the Inter-American Investment Corporation. We want the IIC to be dynamic, renewed, and equipped to promote the activities with which it was entrusted. For this reason, I invite the Committee of the Board of Governors to meet in order to devise more appropriate formulas that will strengthen the Corporation's presence as an important component of support for private activity in the region.

The countries of Latin America and the Caribbean have made enormous progress in the management of our economies. We now need to build on this progress to step up the fight against poverty and generate social equity. With decisive work in these areas, we will be able to enter the new millennium more confident and optimistic about our Bank and our region.

MS. KIRSTI LINTONEN, GOVERNOR FOR FINLAND AND UNDER-SECRETARY OF STATE, MINISTRY FOR FOREIGN AFFAIRS

It gives me great pleasure to be present here today and to address this distinguished audience. First of all, I would like to thank the City of Cartagena and the Government of Colombia for providing us with this opportunity to hold the Thirty-Ninth Annual Meeting of the Inter-American Development Bank in these fine facilities and splendid surroundings.

Mr. President, I would also like to congratulate you most warmly for your reelection, which you have certainly earned showing solid leadership and outstanding professional qualities while heading this important financial institution. I am convinced that the IDB will continue its successful work under your presidency in the years to come.

During your previous terms, the Inter-American Development Bank has come a long way and successfully adapted its role in a changing world characterized most strikingly by the concept of increasing globalization. The IDB itself has fully comprehended the opportunities and challenges of globalization and has been able to assist Latin American and Caribbean countries to adjust their policies and efforts in the same direction.

The IDB is tackling these challenges from various angles. As a prerequisite, the Bank has supported the reforms and adjustment programs in the region in a determined manner. Under this umbrella, the social dimension of globalization, the need to promote equality and poverty reduction have become trademarks of the IDB. Simultaneously, support for regional integration and promotion of human security have been other key elements of the Bank's policy. The IDB's role as a policy adviser for the member countries has proved beneficial, and thus deserves to be continued.

Increasing globalization has been an opportunity, some might even say a benefit, to the region. GDP growth in Latin America has been rather impressive in 1997, fueled especially by the dynamism of the private sector. Stability and reforms have been the key factors for the growing confidence of foreign investors towards Latin America. Of course, it is obvious that foreign direct investments are highly concentrated on a few countries, and that a more even distribution of investment in the area would be highly desirable. But, the trend as a whole is very encouraging and I am convinced that the economic dynamism will spread from these core areas to the whole region.

Supporting this development, the Inter-American Development Bank has established its prominence as the largest financing agency for development in Latin America and the Caribbean. Although lending levels in 1997 were lower than in previous years, lending to the poorest countries increased. The Bank came very near to the 35% target of the Eight Replenishment and therefore has to be commended for complying so closely with the recommendations given by the Governors.

The compromise reached on the IDB's concessional resources represents an important step towards the right direction in safeguarding the poorest countries' lending at a level which is conducive to their sustainable development. We trust that the proposed review is carried out as soon as possible.

We commend the IDB for assuming its responsibility in the alleviation of the serious indebtedness of some of its member countries. The HIPC initiative must be supported by all member countries to secure tangible reductions of the poorest countries' debt burdens.

With regard to the lessons learned from the Asian financial crisis we support the President's initiative to enhance the IDB's capacity in governance and financial sector issues in order to assist its borrowing member countries.

To Finland, Latin America and the Caribbean really are something of a challenge. With the background of accelerating globalization and dynamic development in Latin America, Finland is increasing its cooperation with the countries of the region at all levels and all fields of contact. Besides increasing political dialogue, our government actively promotes new ways to facilitate and encourage trade between Finland and Latin America.

There are also new forms of cooperation between my country and the IDB, for instance the Finnish Consultancy Trust Fund, which was launched during the visit of President Iglesias to Finland in June 1997. Results of this cooperation have been very satisfactory so far. The Bank staff has seized very smoothly the opportunity to utilize Finnish know-how and expertise in various fields. I am convinced that the prospects for future broadening and intensifying of our mutually beneficial work under the auspices of the Trust Fund are very bright indeed.

Understanding the growing importance of the Bank's input in supporting the private sector, and as a further milestone in cooperation between Finland and the IDB, the Finnish government has now given favorable consideration to membership in the Inter-American Investment Corporation.

Finally I would like to stress that Finland attaches great importance to the debate launched on the future of the IDB. We look forward to participating in these discussions. I trust that our deliberations will prove fruitful to both the Bank and its member countries in the context of the globalization.

MR. GEORGE FOULKES, ALTERNATE GOVERNOR FOR THE UNITED KINGDOM AND PARLIAMENTARY UNDER-SECRETARY OF STATE, DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

I should like to begin by thanking the Colombian Government for hosting this Annual Meeting of Governors in the beautiful historic city of Cartagena de Indias.

Britain has many ties with South America, through trade and history. We built railways, ports, bridges and mines all over the region. As recently as 1939, Britain supplied over a third of the region's imports. Today, unfortunately, our share is only around 2 per cent.

While we are fortunate that old historical ties provide us with a solid foundation for our relationship with the region, the accent now must be on the future. Our new British Government is committed to rebuilding ties with Latin America. We want to develop an increasingly substantial network of co-operation that goes far beyond diplomatic niceties. We have already taken steps towards this objective. My colleague, Tony Lloyd, recently visited Costa Rica, El Salvador, Belize and Guatemala for meetings with his counterparts, and our Foreign Secretary, Robin Cook, went to Panama for the EU/Rio Group meeting in February. I have a long-standing personal interest in the region.

In the Caribbean, too, Britain continues to have an important stake, not least because of our Commonwealth links. Only last month, I met some of you in Nassau at the UK/Caribbean Forum.

Turning to the Inter-American Development Bank itself, which serves both Latin America and the Caribbean, I should like to congratulate President Iglesias on his re-election for a third term. I hope that the achievements under his stewardship over the next five years will be as far reaching and successful as they have been over the past ten. The Bank has become a financially sound and influential institution, overtaking the World Bank as the principal source of external public finance for Latin America and the Caribbean. One of its key advantages is its strong relationship with borrowers. Through this, it is able to play a key role in promoting economic stability in the region; helping to strengthen the new democracies and rebuild social consensus in countries emerging from civil wars; and encouraging regional integration and decentralisation.

However, we still have great inequalities of wealth in this continent. Some 150 million people — or a third of the population — live in poverty; half of them in extreme poverty. Infant and maternal mortality rates remain unacceptably high. President Iglesias has often stressed the importance of education in helping people to move out of this poverty cycle. While almost universal access to primary education has been achieved, enormous problems of quality remain. Less than half the region's children go to secondary school. For this to change, appropriate economic reforms must be complemented by social reforms to ensure access of the poorest people in the region to basic health and education. The fight against poverty and inequality must remain firmly at the centre of the Bank's work. It was encouraging to see this expressed so eloquently in the opening session by you, Mr. Chairman, and endorsed yesterday by my colleague, Mr. Kato, the delegate from Japan.

A new British Labour Government was elected last May on a platform which placed international development at the heart of its programme. One of the Government's first actions was to create a new Department for International Development with a Secretary of State in the Cabinet. This signalled our determination to ensure that the challenge of global poverty is regarded as a central objective — both as a moral issue, and as a key element in ensuring that the world is a secure place for future generations. In November last year, we set out our policy in a White Paper on International Development — which has been highly acclaimed both at home and abroad. Our aim is the elimination of poverty in poorer countries.

These are not just fine words. We have accepted the international development targets designed to provide milestones against which progress towards this goal can be measured. These targets are the culmination of a series of United Nations conferences and meetings and, most importantly, are endorsed by all member states of the United Nations, both developing and developed countries, many of whom are also members of this Bank. The targets include a reduction by one half the proportion of people living in extreme poverty by the year 2015. This is supported by specific targets for universal primary education, reductions in infant and maternal mortality and environmental degradation.

They are deliberately designed to capture and convey the excitement and opportunity of global development in the 21st century. They are now firmly at the heart of the UK's fight against poverty. We are reorienting Britain's entire development effort towards the goal of the eradication of global poverty. This includes building closer partnerships with poorer countries which are working actively towards this end, and closer co-operation with the private and voluntary sectors. We do not over-estimate what we can do by ourselves; nor do we under-estimate what we can do with others. We are giving high priority to working with, and influencing, other international development agencies to sign up to this fight.

Its Vision Paper provides the Inter-American Development Bank with a golden opportunity to give an overwhelming endorsement to the international development targets. Some of them are within the region's immediate grasp — for example, in education where there are high levels of enrolment for primary education and where, in many countries, female enrolment and achievement levels exceed that of males.

We urge the Bank to commit itself to meeting these targets which are both realistic and achievable. By doing so, it would be adopting the commitments already endorsed by both the borrowing member countries of the region and the donor community. Measuring the effectiveness of our efforts is a daunting task. Quantified, time-bound targets which address the central issues of poverty, human development and the environment are not only an important way of harnessing international will for the challenges we all know have to be met. They remind us of what, at the most basic level, development is about.

In recent years, the UK's bilateral co-operation programmes in Latin America have been relatively modest in size, but we plan to increase our involvement in the region, focusing on 4 or 5 bilateral programmes, with increased support for poverty-linked programmes and sustainable environmental protection.

Specifically, we hope to extend our support to agro-forestry programmes for subsistence farmers in Bolivia and to health services development in Bolivia and Peru, as well as for environmental and forestry programmes in Brazil and Mexico. In addition, we are keen to examine the potential for new joint activities with the IDB, other multilaterals and regional agencies, concentrating particularly on Central America — a region with significant poverty problems where we have not been substantially involved in the past.

Currently, the UK holds the Presidency of the European Union. The EU is an important institution for Britain. We greatly value our membership and plan to deepen and intensify relations with our partners. However, the EU must not be an inward looking organisation and, I can assure you, values its relations with the Latin America/Caribbean region. In recognition of this, the EU and Latin America/Caribbean will be holding a Summit next year in Rio de Janeiro to discuss economic, commercial and cultural relations. We are using our Presidency to ensure a sound basis for the Summit and shall co-operate fully with the ensuing Austrian and German Presidencies to that end.

President Iglesias has been the main mover in ensuring that the Bank continues to face the challenges that lie ahead. We therefore welcome the decision to launch a discussion about its future role. It follows from what I said earlier that the British Government believes that we must take this opportunity to reinforce the message of IDB-8, that poverty reduction and social equity should be one of the "key areas of Bank activity".

We think it is very important to provide adequate Bank resources for the poorest countries of the region. We therefore welcome the agreement reached on FSO resources for 1998 and 1999 which will enable the Bank to maintain its lending to FSO countries and contribute its proportionate place of the HIPC costs for Bolivia and Guyana. However, it is essential also to identify concessional resources for the longer term, and HIPC funding for Nicaragua, taking appropriate account of IDB's substantial local currency resources.

IDB must continue to pay special attention to the needs of its smaller and poorer members and I endorse the suggestion of the delegate from The Bahamas for a special study.

Next year we shall be celebrating the fortieth birthday of the IDB. What is its future? There could be no better time to assess its role. It is worth recalling that the Bank is the largest and oldest of the Multilateral Development Banks and the first to reach the stage where it no longer needs injections of new capital. The number of countries in need of highly concessional resources is already small, and is likely to decline further over the next few years. As the needs of borrowers continue to change, the Bank will need to be ready to respond to the challenges ahead, in doing so let us remember the words of President Iglesias yesterday that this is not a commercial bank but a development institution.

MR. ARIEL DAVRIEUX, ALTERNATE GOVERNOR FOR URUGUAY AND DIRECTOR OF THE NATIONAL PLANNING AND BUDGET OFFICE

It is a privilege and an honor for us to gather here in Colombia, in the city of Cartagena de Indias, for this thirty-ninth meeting of our institution's Board of Governors.

Few places in the Americas offer such propitious and welcome surroundings for such an event. This is a city in which nature, tradition, development, and modernization come together in a particularly felicitous way.

It is also gratifying to see that once again, in 1997, the Bank and the various institutions of the IDB Group have been supporting and promoting economic and social development in Latin America and the Caribbean with their customary effectiveness, commitment and technical quality.

We also take satisfaction in the IDB's fine economic performance, with a real increase in ordinary capital and reduced borrowing costs. Maintaining the Bank's financial strength is important to us in our capacity as shareholders as well as borrowers, because it keeps the institution's credit rating sound and our countries' borrowing costs low. We commend the Bank's President, Board of Executive Directors, and Management for these results.

While the Bank is unwavering in its tradition of support for regional development, there have been two fundamental changes we must consider. First, the Inter-American Development Bank is today more powerful than in the past. And second, the countries of Latin America and the Caribbean have in recent years undertaken a remarkable transformation.

The transformations under way in the hemisphere have not only been profound, but are accelerating at an ever faster pace. Indeed, it can be said without exaggeration that Latin America and the Caribbean have changed more in the last decade than in the previous thirty or forty years.

Here we have an aspect of our region's contemporary history that poses a serious challenge to the Bank. Not only are the Bank's areas of activity different and more diverse than in the 1960s; not only were the issues now receiving the Bank's most dedicated attention absent from the development agenda four decades ago; but today, the very concept of development defining the Bank's objective and *raison d'être* has changed substantially.

Thirty-nine years ago, when the Bank set as its objective the development of Latin America and the Caribbean, the indicators of economic and social development in each and every one of the countries in the region were frankly unfavorable. Today, all of the region's countries certainly face development problems and needs.

But few countries display unfavorable indicators for all aspects of development. Problems such as poverty and marginalization are still very much present, but many countries have made decisive conquests in consolidating their economies, building basic infrastructure, and addressing social problems.

This is why some of the central issues being discussed in assessing the Bank's modus operandi are so vital: they are the seed of what the IDB may become in the next century. What specific instruments should be deployed for the C and D countries? How should our approach to concessional resources be redefined? What will be the role of our private sector window? What of the growing importance of technical cooperation? These and other questions must figure prominently on the agenda as we explore the Bank's immediate future.

As always, Uruguay aspires to be a central protagonist in the discussion of these key issues, which will require much attention and great effort. As a first and welcome step, the Committee of the Board of Governors has now agreed on a proposed solution laboriously crafted by the Working Group for meeting concessional financing needs over the next two years — including the debt alleviation initiative for the highly indebted poor countries — thus buying additional time to reach a longer-term agreement.

For Uruguay, 1997 has been a year of beneficial, productive, and amicable association with the IDB.

The association has been beneficial and productive in the sense that the IDB has been the main external contributor to Uruguay's excellent economic results. Loans approved in 1997 will go towards economic reform (reform of the state), agricultural development, improvements in infrastructure (road and urban) and social wellbeing. Overall, these loans represent 17% of the total for the past 37 years.

Or from another perspective, the 178 million dollars disbursed accounts for 15% of all our disbursements over the same period. This financing has been decisive in our efforts toward economic, social security, and State reform, as well as for the recovery in public investment levels.

In terms of loans approved as well as disbursements, the figures for 1997 equalled those for six years of average annual volumes.

Internally, stable policy and the structural changes implemented by Uruguay's coalition government have helped to consolidate economic growth. Following on the 4.9% increase in production in 1996, the 6% growth rate achieved in 1997, coupled with slow population growth, has meant a 10% rise, over two years, in goods and services available per capita.

Inflation has continued on a downward path from 44% in 1994 to 15% in 1997, a decrease of 10 percentage points per year. The rate for 1997 was the lowest since 1969, and the goal of single-digit inflation, something Uruguay has not seen since the 1950s, is expected to be reached this year.

Within a context of international and regional integration, exports to both MERCOSUR and the rest of the world continued to rise — by more than 10% in 1997. International reserves surpassed the government's target.

Fiscal performance has been a key factor in efforts to stabilize the economy and restore confidence. In 1997 — excluding spending on reform, which is financed with a high medium-term rate of return — the fiscal deficit was reduced to 0.5% of GDP. This made it possible to exceed the targets for international reserves and economic competitiveness. Real wages and real family income began to grow once again. And finally, unemployment, our most persistent problem, improved throughout the year, declining from 11.9% in the last quarter of 1996 to 10.3% for the same period in 1997.

Economic growth made it possible to finance the region's highest level of social spending (as a percentage of GDP) without creating inflationary pressures or increasing debt. It also allowed what ECLAC has termed the region's most egalitarian distribution of income to be maintained following a decade of improvement.

These results inspire us to take on new challenges, in which, once again, we will be relying on our association with the IDB. One example is the two contracts we signed in Cartagena just prior to this meeting: a citizen safety project for the prevention of violence, which has been increasing in Uruguay; and an urban renewal project to promote better use of available but underutilized infrastructure and accomplish highly cherished social, urban, and cultural objectives.

We cannot conclude without joining in the expressions of optimism that have been like a tonic throughout this meeting. The region of Latin America and the Caribbean is on the right track, and this encourages us to persist in our efforts. It must be recognized that much of this determination is bolstered by the knowledge that the IDB, our Bank, will be at our side.

For this, we are deeply thankful.

MR. ANTÔNIO KANDIR, GOVERNOR FOR BRAZIL AND MINISTER FOR PLANNING AND BUDGET

Mr. Chairman,

Allow me to begin by congratulating you on your election to oversee the work of the Thirty-ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank and Thirteenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation, here in the historic Caribbean city of Cartagena de Indias.

I would also like to commend Spain for its dedicated and efficient guidance of our work through these last twelve months of important discussions and delicate negotiations.

At our meeting one year ago in Barcelona, we noted that growth had resumed in Latin America and the Caribbean and gains had been made in the continuing fight against inflation, in the wake of the Mexican currency crisis. With the realization that the region had embarked on the right path toward stability and sustainable growth, pessimism had given way to cautious optimism. In 1997, despite an international climate shaken by the destabilizing impact of the crisis in Asia, the region showed its mettle, remaining firmly on the path toward monetary stabilization. Though the balance-of-payments current account had taken a turn for the worse, financing flows in the form of direct investment and longer-term sovereign debt continued to grow.

I would like to share with you a few brief comments on recent developments in the Brazilian economy, along with our views on the challenges that lie before us on the international stage and also as regards the role of the Bank.

Brazil has made significant headway toward stabilizing and restructuring its economy. However, rather than dwell on progress made on different fronts, this would perhaps be a good time to take a look at the serious challenges still facing us and the steps being taking to address them.

The most pressing issue today is how to balance the hard-won low inflation climate we have achieved in recent years against the need for more robust economic growth. The real challenge will be to launch into an agenda to dispel uncertainty — a task that will call for effective government action combined with essential policy coordination to see these structural transformations bear fruit.

Two cornerstones for sturdier growth in Brazil will be an adjustment of the public accounts and a more competitive economy.

Our country is moving resolutely forward in the process of revamping its fiscal system.

To begin with, it is tackling head on the two most evident bottlenecks on the budget front: payroll and social security. The very recent approval of government reforms, and social-security changes in the works, offer assurances that growth in these outlays will be considerably curtailed in the coming years, countering the trend until now.

Second, the pace of the privatization process has been stepped up sharply. Privatizations brought in close to US$20 billion in 1997, surpassing aggregate privatization receipts from the 1991-1996 period. Meanwhile, the privatization wave has moved irrevocably onto state government agendas as well. It is true that these privatization revenues are directly helping to even out fiscal imbalances and fund the current-account deficit, but they are achieving two other objectives in the process: (a) the impact of these privatizations on infrastructure availability and cost in Brazil will bolster that of the federal privatizations, and (b) these equity sales will close the final remaining gaps in deficit financing for the states, with stronger central-government control over monetary and fiscal policy.

But these structural changes are only one element in Brazil's short-run fiscal policy management plan. We have used, and will continue to use, all our room for maneuver to enhance fiscal performance in the short term. Already this year we have adopted a set of measures which represent a fiscal shift in excess of 2 percent of GDP, and we are presently exploring ways of further improving this showing.

What is clear, however, is that there can be no lasting improvement in the fiscal situation until the Brazilian economy is firmly on the path to sustainable growth, be this by way of the direct impact of growth on revenue intake and the ensuing easing of some unshrinkable expenses, be it by way of the anticyclical nature of some outlays.

External events have complicated Brazil's efforts to build a climate conducive to robust growth. On the competition front, the signs are promising: the exchange rate vis-à-vis the dollar is recovering; industrial productivity and the aggregate investment ratio are rising steadily; privatization initiatives and public utility concessions are removing the barriers that were holding up the expansion of economic infrastructure, and the public funds available for capital investment are being better targeted; the tax burden on exports and investment has been eased, and we are improving financial terms for exports, making more credit available to the export sector and bringing in credit insurance and guarantee schemes. These are important measures for the export trade, which requires long financing terms, and they will make the export business an option for an even broader range of microenterprises and small and mid-sized companies.

If Brazil's structural adjustment process does not bear full fruit within a short interval, the country will continue to require fairly stable inflows of capital for some years to come. Moreover, the smoothness of the transition, and its dependence on controlling shifts in aggregate demand, will hinge on international market conditions. If I have spoken at some length on this issue it is because I am certain that it is not unique to Brazil, being a question of concern in other member countries as well.

It is vital that the international community be clearly aware of the importance of relatively stable capital flows and real exchange rates, particularly for countries in the midst of structural adjustments. With the instruments currently in place to regulate the international economy I fear that we have, as yet, small assurance of the conditions needed to afford that relative stability.

Given today's increasingly interdependent world of finance and trade, with ever-faster information flows and constant innovation in the international financial system, it would be necessary to reflect on the effectiveness of the instruments available to the multilateral organizations.

From the standpoint of national governments, macroeconomic policy coordination efforts would need to be redoubled, so countries can weather ongoing balance-of-payments adjustments. In no event should a climate of competitive devaluations be allowed, which would disrupt capital flows and would mean unnecessarily high costs not only for countries directly engaged in adjustment programs but also for countries whose external accounts, for one reason or another, are perceived as being vulnerable.

To effectively perform this function, the Bretton Woods institutions and regional development banks need more than minor adjustments to their operations and capital contributions. They would need to rethink the logic of their actions, to make certain that situations of financial stress are dissipated, and act swiftly to safeguard the international economy at times of upheaval. But acting during the upheaval itself is not enough, particularly if this sets the stage for further and more jarring dislocations. It is indispensable that there be an effective warning system, to minimize the incentive to borrow too heavily, and so that financial institutions and investors do not become overexposed in any one country or region.

In tackling this problem, the Brazilian government has carefully examined the various proposals put forward to date. It is very important, in our view, that the international financial community and the other IDB member countries pool efforts to look closely at this very complex problem. Devising institutional safeguards to maintain fairly stable conditions for access to the international financial market, neutralizing waves of boom and bust, is absolutely essential if our countries are to carry through the structural reforms their economies need.

I have taken a few moments to summarize these recent developments in the regional economy, and in Brazil's economy, because I firmly believe that for the most part we are moving in the direction of consolidating the stabilization process and our macroeconomic fundamentals, and because it is precisely against this backdrop that I would wish to share some thoughts with you about the role of the Bank in the past, and its immediate future.

Three significant developments characterize the Bank's activities in the region during this decade. First, as the Seventh Replenishment unfolded, during the 1990 to 1993 period the institution played an important role in supporting the stabilization and structural adjustment processes that were taking form in Latin America and the Caribbean at the time. Second, as a result of the Eight Replenishment, during the period from 1994 to 1997 the Bank, in view of positive regional macroeconomic performance, directed a large proportion of its capacities and its instruments and mechanisms at reducing poverty and eliminating the inequalities that still persist; third, beginning in 1991, the Bank became the leading partner in providing multilateral financing for the economic and social development of the countries of the region. Enrique Iglesias' inspired guidance has much to do with the Bank's overall sound performance.

In numerical terms, the figures are no less remarkable. During the 1990 to 1993 period, the Bank loaned slightly over US$20 billion. The volume increased to US$25 million for the 1994 to 1997 period, a significant amount, albeit below the hoped-for US$30 billion. Over the interval from 1991 to 1997, the IDB came into its own as the region's most important partner by lending an aggregate of US$42.5 billion compared with the World Bank's US$36.8 billion.

The Bank's recent history has shown that it can adapt to specific needs in the region, both in terms of capital and of policies and instruments. On the threshold of the next millennium, we believe that the Bank should continue with this ongoing process of positive adaptation, and therefore improvement, to emerge as a flexible and efficient institution with the capacity to help us face current and future challenges.

In this context, I wish to thank the Bank's Management for submitting the document on a vision for the Bank's future, which includes recommendations on "new directions, modalities, or instruments". In this regard, I would like to touch on a few topics.

Brazil believes that the proposals contained in the document on the whole are positive. Three deserve special mention.

The first has to do with the compelling need to make the Bank's operational instruments and procedures more flexible. Brazil has consistently insisted on this point, considering that with effective changes in the Bank's operational procedures it could better respond to the needs of the member countries as well as reduce its administrative costs and reach the approval and disbursement goals established under the last capital replenishment.

The second proposal refers to changing the project financing matrix. In Barcelona I said that "with fiscal adjustments imposing budget constraints on the one hand, and the re-engineering of productive sectors requiring further investments on the other, it is time to look for mechanisms that will allow for flexibility in the Bank's rules on counterpart percentage requirements..."

Brazil also supports the proposal to increase the resources allotted for private-sector loans. The process that the region is engaged in of downsizing the public sector underscores this need, especially in the area of infrastructure financing. The possibility of loans without government guarantees to subnational government agencies, with the indispensable authorization of the Federal Executive Branch, seems worth considering.

The Bank's generally sound management and positive outcomes do not exempt it from a necessary critical look. From Brazil's point of view, there are two concerns that need to be confronted. The first has to do with the Bank's very identity; the second, with operational issues that increasingly limit the Bank's capacity to fulfill all its lending and disbursement objectives.

Since its inception, the Bank has had its own personality, marked by its Latin American and Caribbean character and by its emphasis on development. Felipe Herrera wanted the Bank to be a "development university". As Sidney Dell describes it, the Bank would not be its member countries' master, but rather their servant. Another significant characteristic of the Bank in its first 15 or 20 years was that it was a bank of projects, not programs. Both these characteristics were deliberately reinforced as a counterpoint to the World Bank, which was seen as more interfering and less adaptable to local circumstances.

Regional and international economic trends and changing demands of the borrowers themselves required the Bank to adapt. This process began under President Ortiz Mena but came into its own under President Iglesias. The changes introduced made the successful conclusion of the Seventh and Eighth Replenishments possible and reinvigorated the institution.

The Inter-American Development Bank is about to celebrate 40 years of service. But Latin America's desire for a regional banking institution far predates our Bank's creation: it was formally expressed at the First American International Conference held in Washington in 1889-90. Today, although we are not facing a capital replenishment process because — at least in terms of ordinary capital — one is not necessary, it is important that we think about the policies that will be steering the Bank. In such a process, I believe it essential not to lose sight of the essence of the institution, which is accurately reflected in its very name: Inter-American Development Bank. It needs to be emphasized that the IDB is not a welfare agency but a bank. As such, its efficient financial management and its credibility in the market are essential prerequisites for the exercise of any of its functions. It is imperative, perhaps above all, that its inter-American character be reinforced, since from the region's standpoint, the Bank is more than a lending institution. It is an important focal point of regional identity, of integration efforts, and a source of conceptual and operational lessons on development. This spirit of regional solidarity was evident once again in the negotiations concluded two days ago, in which borrowing countries agreed to provide the resources needed to fill the financial gap in concessional resources until 1999.

Lastly, the focus on development is essential and can be found in the Bank's origin and in its Charter as the preeminent objective of the institution.

I could not conclude without expressing my appreciation to the Government and people of Colombia for the warm hospitality we were afforded during this event. For my delegation and for me personally, it is particularly gratifying to be in this splendid city of Cartagena, so Colombian in its generosity and hospitality, so Latin American in its circumstances and contrasts, and so universal in its meaning and beauty.

FOURTH PLENARY SESSION

MARCH 17, 1998

INTER-AMERICAN INVESTMENT CORPORATION

I would like to thank the Government of Colombia and the city of Cartagena for the warm welcome we have received on the occasion of the Annual Meeting of our Board of Governors. It is an honor to be here.

The Annual Meeting is a privileged opportunity to establish and renew contacts with governments, financial institutions, and the private sector community. Such contacts help us better define our future course of action in a concerted effort to serve the interests of all those concerned about the economic progress of Latin America.

As was clearly demonstrated in the seminar hosted by the Corporation here in Cartagena last Saturday, SMEs need the continued support (especially with equity funding) and the leadership of institutions like the IIC, in order to help them to take full advantage of the opportunities arising from the stronger macroeconomic conditions prevalent in the region and the improved business environment for private sector development.

The year 1997 was the last of a three-year period during which the IIC embarked on a new phase in its institutional life. I am pleased to report to the Governors on the achievements of the Inter-American Investment Corporation in the implementation of the Action Plan for the period 1995-1997 adopted in Jerusalem in 1994. The plan called for the Corporation to leverage and improve the return on its limited resources while continuing to comply with its developmental mandate.

The action plan called for the Corporation to seek an adequate balance between its own profitability and the developmental impact of its operations. It also called for the Corporation to make more equity investments. Lending operations in the larger regional economies were to target companies with solid prospects for cofinancing. In the smaller economies, the preferred borrowers were to be small and medium-size companies with no alternative sources of long-term funding. The Corporation was also asked to step up cofinancing activities to achieve a greater multiplier effect; provide more advisory services, both to private sector equity funds and to other IDB Group members; increase its physical presence in its target region; and work more closely with the different arms of the IDB Group that provide support for the private sector. The plan also called for the Corporation to seek new member countries from among IDB member countries and to submit to the Board of Governors no later than January 1998 a proposal for a general increase in resources.

These goals have guided the IIC's operations during the past three years. I am happy to report that the Corporation has fulfilled all of them.

It has reported a profit in all three years. Developmental goals have also been achieved. The Corporation continues to target small and medium-size companies and is committed to this vital component of the region's private sector. That target market and that commitment are precisely what makes cautious portfolio management so necessary. Loss provisioning over the past two years accurately reflects the nature of the market that the Corporation seeks to serve. The purpose of these precautionary measures is none other than preserving the Corporation's capital so that it can continue to be used as seed money complementing the funding that the IDB and other sources can provide to the region's small and medium-size companies. Achieving a demonstration effect is also key to IIC operations.

Equity investments account for 45 percent of total approvals during the three-year period covered by the plan.

IIC participation in developmental investment funds, which provide excellent leverage for the limited resources that the Corporation can use for equity investing, has increased from seven funds at the end of 1994 to twenty-three at the end of 1997. Close to $100 million of IIC resources have gone to investment funds that have a total capitalization of more than $1 billion.

Cofinancing approvals increased from $221 million at the end of 1994 to $409 million at year-end 1997. Commitments increased from a total of $55 million to $226 million during the same period. Ninety percent of commitments have been disbursed. The multiplier effect of IIC's cofinancing program is 3:1.

The Corporation was asked to increase its cooperation with other members of the IDB Group. In this regard, the IIC participated in an advisory capacity in thirty-one Multilateral Investment Fund (MIF) projects and three IDB Private Sector Department projects. Corporation officers sit on the IDB Loan Committee for Private Sector Projects, and IIC coordinators are members of the IDB Credit Review Group.

Also in compliance with the action plan, the Corporation established a field presence in Uruguay in 1996 to take charge of supervising most of the IIC's portfolio in Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay. In early 1997 the Corporation transferred a member of its staff to Colombia to supervise and identify projects in Colombia, Ecuador, Peru, and Venezuela. These two regional presences, together with the one established in Costa Rica in 1992, have already paid off in more cost-effective monitoring of the Corporation's loan and equity portfolio and are allowing the IIC to forge closer links with the region.

The request that the Corporation seek new member countries was also met. Denmark formally joined the IIC in a July 1997 signing ceremony held in Washington. Discussions are under way with six other IDB member countries that have shown an interest in becoming members of the IIC. A membership application has been received from Suriname.

The IIC's debt-to-equity ratio was increased from 1:1 to 3:1 to allow the Corporation to channel additional resources to its developmental activities in the region. With the increased borrowing capacity, the Corporation received a $75 million loan from Deutsche Bank in 1995. In 1997, the IADB approved a $300 million loan for the IIC, and during the same year, Spain's Caja de Madrid approved a $100 million credit facility for the IIC.

The Corporation was asked to reduce operating costs and staff levels. In this regard, IIC's administrative and capital budget was reduced from $15 million in 1993 to $11.7 million in 1994. The average growth in the administrative budget during the 1995-1997 period was 3.5%. Total staff in 1992 was 108 employees. This number was reduced to fifty-seven in 1995. Headcount at the end of 1997 was sixty-one, forty-three professionals and eighteen administrative.

The Governors also directed the Corporation to actively search for innovative projects that have a valuable demonstration effect and the potential to be replicated. In this regard, since the Action Plan was adopted, the IIC approved investments in private equity funds that are sector-specific and use innovative mechanisms to channel financing to SMEs. The following examples are noteworthy:

- Latin Healthcare Fund. A $50 million fund that will invest in small and medium-size private companies that develop, own, or operate healthcare service companies in Latin America and the Caribbean. IIC investment: $5 million.

- Eldon Panamerican Fund. A $100 million fund that will invest in private insurance and insurance services companies throughout Latin America and the Caribbean. IIC investment: $8 million.

- FondElec Essential Services Growth Fund. A $100 MM fund that will invest in medium-scale infrastructure projects aimed at improving the range and quality of services such as power, gas, water, and wireless communications. IIC investment: $5 million.

- Banco Centroamericano, S.A (BANCENTRO) of Nicaragua will issue up to $10 million in 370-day notes to finance loans to growers and processors of agricultural products for domestic consumption and for export. IIC will underwrite $3.3 million of these notes, which will be traded on the various Central American stock exchanges.

Finally, the Corporation complied with the Governors's request that the institution initiate the process for requesting a general increase in resources. In the third quarter of 1997, the Corporation's management submitted to the Governors the initial documents calling for an increase in the institution's available resources. Discussion of the need for an increase in resources has begun.

The Year In Review

In 1997 the IIC's Board of Directors approved twenty-five projects in eleven countries totaling $150 million. Forty percent of the funds approved were for equity investments and 60 percent for loans. Seven of the equity investments went to developmentally-oriented country or regional investment funds, providing a 14:1 leverage of the IIC's equity investments for the year. Four of the loans were cofinanced; these operations used $33 million of the Corporation's own resources to mobilize a total of $25 million in funding from banks and other third parties.

IIC income from all sources in 1997 amounted to $33.6 million. Total expenses, including $13.7 million in provisions, were $31.4 million, producing a net profit of $2.1 million. Income from lending operations totaled $20.1 million ($19 million from interest and $1.1 million from fees). Capital gains and dividend income from the equity investment portfolio amounted to $4.9 million. Administrative expenses for the year were $12.1 million.

Developmental Impact

The IIC's activities to promote the economic development of Latin America and the Caribbean continue to yield positive results. It is expected that 1997 approvals will lead to the creation of over 7,300 jobs, generate annual exports worth $742 million, and contribute more than $1.9 billion per year to the regional GDP. The $150 million in IIC funding will support the execution of projects with a total cost in excess of $975 million. For every dollar earmarked by the Corporation for 1997 approvals, more than six dollars will go to investment projects.

Institutional Developments

The IIC compiled SME*Stat*, a database on small and medium-size enterprise in Latin America and the Caribbean. The database contains country-by-country figures on SME employment, manufacturing output, and export growth rates. Some of the findings of this analytical tool are included in the Corporation's 1997 Annual Report.

Program for 1998

The Board of Executive Directors approved a $13.9 million administrative budget for 1998. The Corporation will develop a program of activities that should increase by 20 percent the level of financing channeled to the region's SMEs. Continued emphasis on equity investments will be maintained. The Corporation will continue to provide advisory services to the other members of the IDB Group and to private sector funds that target Latin America and the Caribbean.

The 1998 work program calls for approving thirty new projects. Also, the Corporation will continue to emphasize cofinancing operations as a means to leverage its loan and equity investments. New funding channeled to the region by the Corporation in 1998 is expected to total $180 million. The program also calls for the IIC to ensure the soundness of its operations through the timely and effective supervision of existing projects.

1989-1997 Track Record

Eight full years of operations have brought cumulative approvals to 180 projects for a total of $764 million. Net commitments total $449 million, of which $400 million have been disbursed to 108 projects. Eighty-nine projects have been fully disbursed. In addition, participating banks have committed and disbursed $226 million under the Corporation's cofinancing program. The total cost of projects receiving funding from the Corporation exceeds $3 billion.

As of December 31, 1997, the Corporation had allocated 90 percent of its committed resources to finance small and medium-scale companies. Taking into account the projects financed directly and those reached through financial intermediaries and investment funds, the Corporation has provided support to 1,300 enterprises.

Increasing Resources for Changing Needs

The IIC's target region is changing. The economies of Latin American and the Caribbean are poised for renewed economic growth after a period of adjustment, structural reform programs, and stabilization. After a decade of economic stagnation, real growth in Latin America and the Caribbean is expected to average 5 percent p.a. in the final four years of the decade. Spurring this growth is the emerging free market sector, characterized by privatization of state-owned businesses, removal of price controls, and liberalization of trade and investment policy. Significant modernization and structural reform is also under way, particularly in the banking sector and the capital markets. The private sector is emerging as the main engine of economic growth in the region. But despite the burgeoning flow of direct and institutional investment, private equity participation in the long-term financing of SMEs is still at low levels. To realize their full potential, such enterprises increasingly require equity capital, loans at reasonable terms, and assistance in developing efficient production, marketing, and financial strategies. If the renewed surge in growth is to be sustainable, the region needs private investment that is willing to commit for the long term. And it needs institutions capable of providing and catalyzing those investment flows while shaping their developmental impact. A capital increase would give the Corporation the resources it needs to meet the region's changing needs.

Small and medium-scale enterprises in Latin America and the Caribbean have few options available to obtain long-term funding for their operating, maintenance, and growth needs. Commercial banks are often reluctant to lend to other than large, well-capitalized firms. Foreign investors and financial institutions do not normally focus on SMEs because they perceive the potential returns to be less attractive than in the larger-scale segment of the market. The lack of long-term funding on reasonable terms has led to severe decapitalization of the region's SMEs. Given the underdeveloped nature of many of the region's capital markets, IIC-sponsored private equity funds and direct investments in markets that may not be targeted by fund managers are an appropriate mechanism to partially address SME's equity needs.

A larger capital base would help the Corporation to better address the regional SME's equity needs, and, through leveraging, enable it to make more loans. An increase in capital would enhance the Corporation's capacity to pursue its mandate of fostering private-sector development throughout Latin America and the Caribbean, and would strengthen the institution by enhancing portfolio diversification. A larger and more diversified portfolio will reduce the volatility of the Corporation's earnings, by reducing the significance of inevitable occasional project failures.

Reduce Financial Vulnerability

Strict adherence to the IIC's developmental mandate to give preference to SMEs inevitably leads the Corporation to operate in the riskiest segment of the IDB Group's private sector target market. As a venture capital company seeking promising developmental opportunities in an inherently risky sector, the IIC must manage risk through policies and procedures that provide for agility in decision-making, effectiveness in portfolio management, efficiency in transaction structuring, and timeliness in problem resolution. However, only a larger capital base will provide the portfolio size and financial strength necessary to weather the economic and commercial fluctuations of its target market.

The IIC has been instructed by its Governors to use an increasing percentage of its resources to make equity investments. These investments are slow to mature and produce irregular returns. Some of them fail. And the cyclical nature of economic activity may lead to some losses in the portfolio. The IIC's limited paid-in share capital and total assets make it unnecessarily vulnerable even to small losses on investments. A larger capital base would mitigate IIC's risk and reduce net income volatility.

A capital increase would enable the Corporation's equity program to grow at a steady pace. The resources now available for equity investments will be depleted in 1998. A developmentally-oriented institution like the IIC must have the staying power to forsake short-term payback for the slower –but in the end more sustainable –return of projects leading to increased production, more jobs, and a larger economic base.

Conclusion

The Corporation has almost exhausted the initial capital contributed by its member countries. Although it could continue to operate at a similar pace, this limits its ability to fully comply with its mandate to serve small and medium-size enterprise in the region. This is particularly important in the case of relatively less-developed countries and the less-advanced areas of the larger economies, which face greater difficulties in attracting resources for the private sector –especially fresh capital. Equity investments are precisely what makes the Corporation's role unique within the IDB Group's strategy for supporting the private sector. That's why the Governors' decisions on funding the Corporation are so important for the future development of small and medium-size enterprise in our region.

The Inter-American Investment Corporation faces quite a challenge as it enters its ninth full year of operations. It must adapt to meet the changing needs and realities of its target market, both to take advantage of the surge in investment opportunities and to help ensure that the region's economic turnaround is sustainable and equitable. It must also carefully husband its limited financial resources in view of the prolonged lag between approval of any general increase in resources and actual payment.

Over the coming years, the IIC's management will work closely with the Board of Directors and the Board of Governors to set a course for the Corporation aimed at achieving all of these goals.

The Corporation's management believes that these annual meetings of its Governors provide an excellent opportunity for receiving comments, guidance, and suggestions from the highest authorities of its member countries as to its future operations. Rest assured that I am committed to weighing and complying with your observations and guidelines.

FIFTH PLENARY SESSION

MARCH 18, 1998

MR. FINN JØNCK, TEMPORARY ALTERNATE GOVERNOR FOR DENMARK AND HEAD OF DEPARTMENT, MINISTRY OF FOREIGN AFFAIRS

The annual meeting of shareholders is the time to take stock of development. We, as shareholders, have reason to be satisfied with the performance of the Bank. And if we haven't found sufficient encouragement in the activities of the Bank, our Colombian hosts have provided us with an overwhelming cocktail of hospitality and entertainment, that have made this meeting an unforgettable event.

The economic development in Latin America is encouraging. The Continent is on a steady path to recovery after years of turbulence. In 1997 the growth in production made continual progress with average GDP growth rates of around 5%.

The destabilizing effects of the financial crisis which swept Southeast Asia during the second half of the 1997 posed a genuine threat to Latin-American countries. Although, the impact on Latin American financial exchange and security markets at one stage was alarming, the consequences have until now been moderate. This underlines the remarkable economic strives which have taken place in Latin America. But the Continent must prepare itself for the second wave — the increasing competition in international trade following the sharp depreciation of Asian currencies.

The implementation of structural and sectoral adjustment programmes aimed at wide-ranging reform of economic policies and at improving the quality of economic management at sector levels must be continued.

In this context it should be noticed that the process of economic reform was carried out in almost all Latin-American countries by democratic governments. Although democratic rule thus prevails in the region, progress in good governance has been uneven. It is important that all countries make headway in this field, including full respect of fundamental human rights. I appeal to all countries to do so. We see international institutions like IDB playing an important role in consolidating democracy and the rule of law in Latin America.

I intend to address three issues in my speech: poverty, participation and the vision of the Bank. The percentage of people living in poverty has stabilised, although it still remains at a high level of 35% of the region's total population. The trend towards a worsening distribution of income between rich and poor has now stopped. A narrowing of the gap, however, still remains to be seen. Development will not be sustainable in societies with such strong roots of social tension.

Strong emphasis, therefore, must be given to reducing poverty in Latin America. This should be done by supporting:

- sound macroeconomic policies,
- broad-based economic growth,
- fair distribution policies, and
- human resource development.

We encourage the Bank to continue its efforts to make poverty reduction the centerpiece of its activities. The role of the Bank regarding investments in the social sectors cannot be under-estimated.

Denmark welcomes IDB's intentions to produce more in-depth country-level analyses on poverty and the social sectors, so as to enable the full integration of poverty reduction and social equity issues within the country programming process. It is also important to further strengthen the capacity of IDB's country offices in the social areas and to utilize IDB's important role in the region to encourage development in areas such as land reforms, micro-credits and rural infrastructure.

Poverty reduction can only be achieved if all citizens are given the opportunity to participate in the development process. An essential element of the Bank's poverty reduction strategy should be the creation of the right conditions for popular participation and good governance.

It is a prerequisite to sustainable economic growth and poverty reduction that countries are not tied down by unmanageable foreign debt. The debt initiative for the highly indebted poor countries paves the way to a new start for countries willing to pursue a sound macroeconomic policy. Denmark has from the outset strongly supported the HIPC- initiative. In Latin America we have offered support to Bolivia (ca. US$8 million) and Nicaragua (ca. US$8.5 million).

A participatory approach to development has become a catchword. In recent years it has become evident that stakeholder participation is fundamental to achieving sustainable development. Participation should be extended to all groups in society. Let me mention three aspects of participation:

Denmark is very supportive of the work in IDB regarding indigenous peoples. Indigenous issues such as the right to self-determination, intellectual and cultural property rights and environmental protection have gained increasing attention. We should all recognize the far-reaching consequences these issues have on the efficiency and effectiveness of development cooperation.

Another key issue of importance for Denmark is ensuring women's active participation in the development process. There has been considerable progress in addressing gender issues in the Bank's operations in recent years. However, major challenges remain in mainstreaming gender issues in IDB's lending programme as well as in IDB's institutional structures.

Thirdly, let me stress the important role that civil society can play in reducing poverty, improving the accountability and effectiveness of governments, and preserving the natural environment. The seminar on "Social Programmes, Poverty and Citizen Participation" last week here in Cartagena addressed some of the key issues related to citizen participation.

Denmark fully supports the Bank's endeavor to build consensus between civil society, the private sector and governments through consultations, seminars and joint workshop. The endeavors may get a stronger foothold, if a linkage is made to an institutional machinery, such as the proposed "Foundation of the Americas".

Now, turning to the vision of the Bank. Denmark supports the challenge undertaken by the Bank to define IDB's "raison d'être" at the brink of the twenty-first century. The environment in which the Bank operates has changed significantly over time, and particularly during the last decade. A favorable economic and political transformation has taken place in many borrowing countries. The process of progressive economic integration and an increasing accessibility to market financing have opened up the markets and brought in many new players.

We have studied with interest the draft vision paper. The paper adds a number of new themes to IDB's activities and proposes ways of implementing the themes.

However, fundamental questions regarding the overall role of the Bank need to be addressed further. This includes the issues of complementarity, competition, division of labor and coordination between IDB and other multilateral development banks as well as the relationship with the private sector.

In Denmark's view the main rationale of the Bank is to be a development institution, addressing primarily important issues such as poverty reduction and social inequity. The Bank should not compete with the private sector. The Bank should be guided by a long term development perspective. Key functions are investment in the social sectors, but also being a catalyst for private capital flows. The Bank's role in financing the private sector and the implications this might have on IDB's financial soundness as well as the question of the Bank's exposure to risks in connection with granting loans to local governments, without proper state guarantees, need be analyzed more in-depth.

Having clarified these fundamental questions regarding the future role of the Bank, we may review the targets set in IDB-8. The targets are the means by which we implement the policy. The targets set for poverty orientation — the 35% target for lending to the poorest countries and the 40% target for lending to poverty reduction and improvement in social equity — are in our view important benchmarks. We see the case for a flexible administration of the targets, but also the merit of maintaining them as important guiding posts for the work of IDB.

Allow me to conclude by reiterating that the Bank has been successful in meeting the development needs of its borrowing countries and seems well-positioned to maintain it's leading role on the Continent in the years to come.

Denmark wholeheartedly supports the achievements that have been made in 1997. Therefore, the Inter-American Development Bank can count on continued and unwavering support from Denmark in the years to come.

MR. ADRIANO TELLES DE MENEZES, TEMPORARY ALTERNATE GOVERNOR FOR PORTUGAL AND DEPUTY DIRECTOR-GENERAL, EUROPEAN AFFAIRS AND INTERNATIONAL RELATIONS DIRECTORATE

Personally and on behalf of the Portuguese delegation, I would like to thank the Colombian people and government for having organized this Annual Meeting and the people of Cartagena de Indias for their warm welcome to this lovely city.

I would also like to reiterate Portugal's appreciation of the leadership and dynamism that President Iglesias has brought to the IDB Group over the last ten years and congratulate him on his recent reelection.

Portugal's policy toward Latin America is set forth in the government's program, which states that:

"With the reestablishment of democracy and economic openness, Latin America is clearly regaining its position in the world system.

The process of regional integration in Latin America is an adequate response to economic globalization and should be supported as the way of the future.

The Portuguese Government will support agreements between the European Union and MERCOSUR that promote a free trade zone and inter-regional cooperation.

Portugal will promote closer ties and new relationships that are more pragmatic, more concrete, and more ambitious, not just with Brazil, but with other South American countries as well."

I also note with satisfaction that Portugal will organize and host the Eighth Ibero-American Summit of Heads of State and Government to be held in Oporto in October of this year. As well, the World Fair — Expo'98 whose key theme is "Oceans" — will open in Lisbon next May.

Latin America and the Caribbean continued to thrive in 1997 with average annual growth in GDP of close to 5%, a significant reduction in inflation in many countries, and a decline in unemployment. The region also saw record flows of private capital of over US$80 billion.

These economic indicators and the capacity of the financial markets to react to the Asian crisis show that Latin America and the Caribbean have embarked on a process of sustained growth.

However, it is necessary to step up efforts to ensure that the benefits of this growth are felt by the poorest people in the region.

As the IDB recognizes, the region continues to suffer from huge social inequalities — with one example being the 33 percent of the population, or close to 150 million people, who lived below the poverty line in 1995, with almost half of them suffering from abject poverty.

The IDB's role should continue to be directed above all to poverty reduction and the consequent reduction in social inequity through the rational use of its resources. The Bank's efforts in the health and education sectors and its support for microenterprise will be very important in this endeavor.

Four years after the Eighth Replenishment, we are pleased to note that the Bank has achieved significant results, particularly in its support for the social areas and poverty reduction, with close to 40% of the operations approved in that period targeted to them.

As for the Bank's future, we would like to thank President Iglesias for his initiative in launching a dialogue on important issues that will permit the Bank to adapt more easily to the needs that will arise shortly. This exercise could be enriched, in our opinion, by a specific analysis of the imbalances in development among the member countries, keeping in mind that some of them have already obtained full, direct access to international financial markets thanks to their macroeconomic performance, which we applaud.

With respect to the concrete proposals submitted by Management, we share the opinion that the IDB should become more flexible in its internal procedures, and particularly in decision-making processes. We therefore commend the proposal to establish task forces whose members are drawn jointly from the Board of Executive Directors and Bank Management.

We also share the opinion that the Bank should develop new instruments for credit and nonfinancial services. They will have to be designed in response to concrete needs and adjusted to intra-regional realities, with specific criteria for their application that will maximize the intrinsic synergy of the Bank in support of the region, tapping the IDB's comparative advantages over other international organizations.

As for the possibility of making the goals defined in the Eighth Replenishment more flexible, with regard in particular to the distribution of loans among the groups of borrowing member countries, in our opinion the Bank should find formulas that complement the 65/35% formula in order to:

- Continue in its function as a development bank with the prime obligation of helping to reduce poverty in the least-developed countries of the region; and

- Use its full financial capacity in the more highly-developed countries of the region which have specific support requirements stemming from imbalanced internal growth that leads to social tension. We should not forget that there are significant pockets of poverty in some of the Group A countries.

We view with interest the proposal to step up the Bank's activities in the private sector, since that sector is playing an ever-larger role in spurring the region's economic and social development agenda.

With respect to concessional resources, we are gratified by the agreement reached for the next two years, although it is only a short-term solution. We hope that continuing discussions on this issue, as agreed by the Committee of the Board of Governors last Sunday, will allow the Bank to reach a longer-term agreement as quickly as possible. Portugal is willing to look at other solutions that will reflect the different interests.

Last, Portugal will try, within its possibilities, to cooperate actively in strengthening the IDB Group in the context of its Latin American policy and in its capacity as a member of the IDB.

It is an honor to attend the Annual Meeting of the Board of Governors of the Inter-American Development Bank, representing Bolivia, in this warm and welcoming city of Cartagena. I should like to begin by conveying the greetings of President Banzer, and thanking the Bank for the support it has always given our country, with its presence through our most difficult moments, consistently supporting modernization programs and structural change.

I wish to commend Enrique Iglesias for his leadership of the Bank, congratulate him upon his reelection, and wish him the greatest success.

The indicators show that Bolivia has had an average growth rate of 4% for the last 10 years, a rate that is insufficient to overcome our poverty. Three out of every four Bolivians live below the poverty line: one out of every two in the cities and 95% in the rural areas.

A recent national gathering of representatives of civil society and national authorities confirmed the view that macroeconomic stability must be preserved and the reform process continued. The vision for Bolivia in the twenty-first century, reflected in the government program "For a Better Life", consists of sustainable development with emphasis on social well-being, the environment, and solidarity within the context of a market economy having a social bent.

The program is based on four principles: opportunity, equity, dignity, and institutional viability. The fundamental objective with regard to "opportunity" is to promote economic growth with stability and a more just distribution of income, through appropriate fiscal, monetary, and foreign-exchange policies that ensure sound public finance and improve physical and productive infrastructure within a more competitive environment.

According to the new function of the State, public investment will be allocated to infrastructure and social programs, while private investment (national and foreign) will go to productive capacity, so as to promote economic growth and create jobs.

Within this framework, one of the priorities will be to promote microcredit for small and medium-sized producers so that productive potential can be channeled into development of the more disadvantaged sectors. The importance of microcredit and microenterprise lies less in its contribution to GDP than in its contribution to employment.

Higher levels of public investment in health care, education, housing, basic services, and infrastructure, with priority given to rural areas and the most vulnerable population groups, will help to raise labor productivity and expand the potential for growth and income for the population.

Private investment will perform a fundamental function in promoting productive activities, and an aggressive export-promotion policy will be maintained in order to achieve external balance; to this end; foreign investment will enjoy the necessary protection.

As regards "dignity", the program will seek to get Bolivia out of the illicit drug circuit within five years, with a national plan to combat narcotics trafficking through prevention, interdiction, eradication, and alternative development.

It will be important to reaffirm the country's dignity, strengthen its national decision-making capacity, eliminate farmer dependence on the production of coca leaves, and protect society from the ravages of narcotics trafficking.

In terms of "institutional viability", the main objective is to develop specific programs for the development of institutional bases and the administration of justice that will restore institutional credibility and allow for transparent relations between government and the citizenry, ensure the continuity and sustainability of state policies, and develop the institutional capacity of the public sector to fulfill its function of service to the community.

Under the rubric of "equity", the central objective is to improve living conditions for our people, in particular those living in extreme poverty, creating equal opportunity for the attainment of higher levels of income.

Within a context of decentralized administration, a decisive role will be played by actions designed to expand and improve services in the areas of education, health care, basic sanitation, nutrition, rural development, and housing for the poorest groups, channeling public expenditure and investment toward these areas.

Bolivia has undertaken profound changes. The reforms have been implemented within a stable macroeconomic climate over the past 12 years.

The rate of growth projected for 1998 is 4.7%, assuming a total investment of US$1.6 billion, of which US$1 billion will come from the national and foreign private sector.

Fiscal policy is being approached so as to reduce the gap between income and expenditure, caused mainly by the pension reform and the loss of revenue from the surpluses of companies now privatized, notably in the hydrocarbons sector.

Monetary policy, overseen by an independent central bank, is directed toward maintaining stability and reinforcing the financial system, with a prudential regulatory regime.

Recent experience has shown us the need for greater rigor in supervising the financial system, as well as the importance of a stronger asset base to reduce the volatility of capital flows.

Another important concern is to monitor the quality and composition of the trade balance, the sufficiency of balance-of-payments financing, and the levels of public and private financing.

Net international reserves have reached their highest level in recent years, sufficient to cover imports for seven months. This guarantees the country's purchasing power and the stability of the system, a situation resulting in part from a sound foreign-exchange policy.

The projections for 1998 are as follows:

- 4.7% growth in GDP
- a 6.5% rate of inflation
- a public-sector deficit representing 4.1% of GDP, taking into account the cost of the pension reform
- savings and investment representing 19.1% of GDP

Because of the profound structural adjustments it has made in its economy, Bolivia qualified for the HIPC multilateral debt-reduction initiative.

This debt reduction will ensure balance-of-payments sustainability by reducing the present value of the debt-to-export ratio to 225%, permitting reallocations to finance social programs to alleviate extreme poverty through improvements in the quality and coverage of health care, education, and basic-service programs.

In this regard, I should like to express our appreciation to the Bank, to the international financial institutions, and to our nation friends who have helped us gain access to this facility. We also appreciate the efforts made to reach an agreement on concessional resources for the next two years, and trust that the task of finding a comprehensive solution can be completed in the near future.

With reference to the guidelines for future action, we do not believe the Bank should stray from its role of serving the region's least developed countries; the current indicative targets should accordingly be maintained.

We consider it prudent for the IDB to establish clearly its decision to help countries contend with special macroeconomic circumstances, in cases of crisis, with fast-disbursing loans and timely technical assistance, since financial crises can rapidly erode years of social and economic progress.

We consider timely the possibility of modifying the counterpart requisites, especially when countries encounter difficult fiscal circumstances, in order to avoid a paralysis in investment and the adverse impact it would have on growth and employment.

At the same time, we support the financing of new products, recognizing that the fiscal costs of transition constitute legitimate development expenses that make it possible to expand capacity by making better use of budget resources, in the context of a sound macroeconomic policy, with fast-disbursing loan components to contend with fiscal consequences.

We support steps being taken by the Bank to strengthen civil society by expanding economic opportunity to groups traditionally excluded, and suggest that care be taken to keep such activities current.

Financing for local governments will unquestionably be of growing importance, given that most countries in the region are transferring to them the responsibility for investment and service administration that were traditionally assumed by central governments. We believe that it is advisable and important, however, for all implications to be fully studied, especially as regards the guarantees and responsibility incumbent upon the central government, as well as the implications in terms of meeting macroeconomic targets.

We believe that direct lending to the private sector in our countries will act as a catalyst in attracting capital and credit at a time when the private sector is expected to meet the challenges of financing infrastructure works as well. Accordingly, it appears advisable to raise the total amount of private sector-lending without sovereign guarantee from 5% to 10%.

MR. ROBERT A. VORNIS, TEMPORARY ALTERNATE GOVERNOR FOR THE NETHERLANDS AND DIRECTOR, MULTILATERAL DEVELOPMENT FINANCING AND MACROECONOMIC POLICIES DIVISION, MINISTRY OF FOREIGN AFFAIRS

I would like to begin by thanking the Government of Colombia for permitting us to hold the Annual Meeting of the Inter-American Development Bank and the Inter-American Investment Corporation in this charming city. Located in the heart of Latin America, Cartagena illustrates the long history of relations between the "old" and "new" worlds.

The stability and economic results of Latin America and the Caribbean have achieved a level that permits the members of the Bank to look back with pride. However there are some aspects — for example income distribution and job opportunities — that are a source of concern for most of the countries of the region. It is not easy to create sustainable job opportunities, particularly for the smaller islands in the Caribbean, such as the Netherlands Antilles. I hope that closer cooperation and regional integration in the western hemisphere will make it possible to tackle problems of this kind with even greater effectiveness. Clearly the IDB is called upon to play a leading role in this process.

Looking to the future, to the twenty-first century, there are several issues that need to be resolved to ensure that the IDB Group will be in a position to tackle future challenges and carry out its mandate. I would like to say a few words about the main issues, i.e. concessional resources and the role of the Bank and the Corporation in the private sector. Last, I will deal with the main aspects of "Enriching a Historic Partnership".

Concessional resources

With regard to concessional resources, I am pleased that financing from the Fund for Special Operations, the Intermediate Financing Facility, and the Bank's participation in the Heavily Indebted Poor Countries (HIPC) Initiative for Bolivia and Guayana is covered to the end of 1999. However it is disappointing that we have been unable to reach an agreement to cover a longer period. A major effort will be necessary to ensure that sufficient funds are available after 1999. We should recall three things. First, any hardening of the terms of FSO loans or any form of graduation from the FSO or the IFF can only be done on the basis of objective macroeconomic criteria which demonstrate that a country has attained a higher level of development. In my view, the per capita GDP of the five countries that meet the eligibility requirements for the FSO is such that they should continue being "FSO only" for some years more. Second, after 1999, financing for the HIPC Initiative should be covered by all the members of the Bank. This could be done by charging the costs of debt reduction to the net income of the ordinary capital, rather then charging them to FSO reserves. Third, any long-term agreement on IDB concessional funds should look at the unsatisfactory situation that exists at present with respect to local currencies and their use. We must find a solution acceptable to all interested parties, which will permit those funds to be used to finance projects in the member countries with the greatest need for concessional assistance.

In this context, I note with great satisfaction that the issues of concessional resources and the Bank's future will be dealt with in a coordinated fashion and with a common deadline by a task force and an ad hoc committee of the Board of Governors, respectively. I am confident that we will be able to arrive at a satisfactory solution since all the member countries are free to participate in the deliberations, as has been the Bank's custom, and the Board of Executive Directors will help to prepare the technical aspects.

The role of the IDB in the private sector

Since the IDB is a public institution, its role in the private sector is similar to the role of national governments. The Bank should promote the development of a strong private sector in the borrowing member countries, promoting an environment that will bring this about. The key elements in a policy of this kind include the promotion of joint public and private ventures in the borrowing member countries and the development of a sound and transparent financing system together with local capital markets that operate adequately. Strong local capital markets would make it less necessary for the Bank to act as a financial intermediary and would reduce dependency on loans in foreign exchange in general.

Three elements should be considered in determining whether it is advisable for the Bank to increase direct financing for private projects. First, the debt in foreign exchange can pose a risk for macroeconomic stability in borrowing countries. The recent experience in Asia has shown that in this respect there is almost no difference between public and private debt. The IDB should think twice about the advisability of acting as a catalyst for lending in foreign exchange to the private sector if there is no security that a given project will generate sufficient benefits in foreign exchange to cover the debt and the dividends.

Second, the IDB has only limited experience in the field of private sector financing. Its young portfolio contains a small number of projects and to date the IDB has issued just one guarantee. It is too early to judge whether the Bank will be able to shoulder the risks of a larger private sector portfolio. If we look at the private sector portfolios of other institutions with greater experience, it appears that granting loans to the private sector could be riskier than the IDB's current portfolio suggests. Third, prior to providing direct private loans, the IDB should determine the extent to which it can accept the risks inherent in private entrepreneurial activities.

For the forgoing reasons, in this stage the limits on direct loans by the Bank to the private sector should not be relaxed. This is applicable to the 25 percent ceiling on project participation, to a maximum of US$75 million per project, and to the possibility of providing distinct treatment for guarantees and loans in the areas of reserves and loan-loss provisioning.

We would like to learn the opinions of other members of the Bank on these three aspects during the work of the ad hoc committee on the Bank's future.

To end my comments on the private sector, I note that among the IDB Group, the Inter-American Investment Corporation is in the best position to participate in private sector activities, thanks to its financial structure and the capacity of its staff. A capital increase would permit the Corporation to continue its valuable work, particularly though share investments.

Enriching a Historic Partnership

The report of the task force on guidelines for future Bank action and the report on the IDB-8 operational program provide an excellent synopsis of the Bank's activities in recent years. I firmly support the opinion expressed in the task force's report that the Bank has a singular ability to combine long-term financing with nonlending services.

This does not mean that I expect a completely new mandate for the Bank. Many of the priorities in the IDB-8 mandate continue to be relevant. Poverty reduction, social development, and environmental policies will continue to be necessary in the future. Along the same line, the Netherlands is in favor of maintaining the existing quantitative guidelines for IDB lending, such as channeling 35 percent of loans to Group C and D countries and the 15 percent limit on policy-based loans, including institutional adjustment loans. This does not preclude a more extensive discussion by the Board regarding the latter.

There can be no doubt that regional development banks (RDBs) should come to the aid of their member States in the event of financial emergencies. The IDB should also provide support of this kind in accordance with its mandate and the existing guidelines for loans. It goes without saying that the main focus of regional banks should be on sectors in which they have comparative advantages over other institutions. This means that the RDBs should not and cannot operate as providers of assistance for the balance of payments on a large scale. The IDB and other RDBs should leave the bulk of support for the balance of payments to the IMF. Therefore we are strongly opposed to establishing special guidelines for emergency assistance to be provided by the IDB.

Nor do we agree with reducing counterpart funds.

As I have said, the report on guidelines for future Bank action begins with a detailed analysis and goes on to present various ideas for new Bank policies. However the IDB should only act on those ideas if they are based on a more comprehensive view of its future role. In particular, we should ask what comparative advantages the IDB has over other actors in the field. Light should be shed, in particular, on whether the IDB is able to finance new activities, how it can do so, and what the repercussions would be for its administrative budget and for the necessary concessional funds.

Before taking any decision on specific proposals, we must obtain a complete overview of the IDB's future role, including the consequences for the administrative budget and concessional funds. Once we have that overview, I would firmly support proposals for stepping up the Bank's role in helping to develop local capital markets, increasing cooperation with local authorities provided that loans to them are guaranteed by the State, and work in other subject areas that can contribute to regional development.

With regard to the Bank's organization, I fully support a review of the budget process and would also welcome ideas to streamline procedures, provided this does not jeopardize the IDB's central development objectives.

Our meeting is drawing to a close. We will be taking home a profusion of plans and ideas to work on during the coming year. We look forward to detailed discussions on the best directions for the next stage. In a few hours we will leave the Bank in the competent hands of President Enrique Iglesias and his team. I can assure them that the Netherlands will continue demonstrating its commitment to the Bank and to the Historic Partnership of the shareholders to the benefit of future generations.

MR. BO JERLSTRÖM, TEMPORARY ALTERNATE GOVERNOR FOR SWEDEN AND DIRECTOR, DEPARTMENT FOR INTERNATIONAL DEVELOPMENT COOPERATION, MINISTRY FOR FOREIGN AFFAIRS

It gives me great pleasure to join previous speakers in expressing my sincere appreciation to our hosts, the Colombian Government, and the people of the historic city of Cartagena. The excellent facilities provided for the meeting and the genuine friendliness and hospitality of the Colombian people have created a truly inspiring environment for our deliberations. Having served on the Bank's Board of Directors some ten years ago, it is also a privilege and a particular pleasure for me personally to represent Sweden, and address the Governors at the 39th Annual Meeting of the IDB.

President Iglesias and I came to the Bank at a time when this institution was in dire straits. Since then, I have seen the Bank come back as perhaps the most important regional institution in Latin America and the Caribbean. To a great extent this has been made possible by the dynamic leadership of President Iglesias. Now that he has been re-elected, we are very confident that the Bank will continue to play a key role in the development of the region.

The winds of change are blowing all over our globe. Societies are being transformed rapidly and profoundly, and relations between the world's people along with them. Increasingly large numbers of people live in open societies and share in economic progress. Yet these new opportunities are also accompanied by new challenges. We share a concern to respond to new patterns of injustice and exclusion. We share a commitment to expand the life opportunities of everyone, to empower people to shape their own future and to enable nations and their common institutions to effectively deal with issues of global concern.

This was the leading theme when the Swedish Government, last year, together with the Colombian Presidency of the Non-Aligned Movement, co-chaired a high-level conference in Stockholm entitled "International Solidarity and Globalization: In Search of New Strategies". The overriding conclusion of the conference was a demanding imperative: To develop today's international norms and multilateral institutions into a framework that can enable global and democratic governance for the 21st century. It is ultimately in this broad perspective that we see the challenge for the IDB.

In recent months we have witnessed how stock exchanges and currencies in Europe, the United States and Latin America have moved nervously in response to the latest financial news from Japan, South Korea or Hong Kong. This serves as a stark illustration of the forces of globalization. One lesson quickly learned was that the Asian crisis was not exclusively an Asian problem. The Asian crisis also tells us that more factors are involved than just the financial elements. Good governance, democracy and social equity are equally important for longer term stable development.

The situation in Asia also emphasizes the need for strong and well coordinated multilateral financial institutions, at the regional as well as at the global level. This is confirmed once again by the role that the IMF, the World Bank and the Asian Development Bank have played in their efforts to stabilize the financial situation. And even more important than addressing financial crises as they break out, is to prevent them from occurring — to address the causes rather than the symptoms. One task for the IDB and the other financial institutions is therefore to develop and intensify their respective roles in financial policy reforms and institution building, in particular in strengthening the supervising capacity of the financial markets.

More generally, the challenges facing the IDB and the other development banks is to find the modalities for taking maximum advantage of the welfare-creating effects of globalization, and at the same time to address and preferably avoid, its negative effects.

It is in this context that I welcome the draft vision paper "Guidelines for Future Bank Action" and efforts to respond to the development needs of the region. I feel, however, that we must go further than the "Guidelines" — that the perspective needs to be broadened. A decade has passed since the Bank formulated its current vision. Major changes have taken place since then. Once again the time is ripe to initiate a broad discussion about where we are heading. Altered patterns of financing together with rapid changes in the global political and economic environment, raise a number of basic questions about the future roles and tasks of the MDB's and their methods of work:

- We see an emerging development where policy dialogue, dissemination of knowledge and best practices as well as capacity building are becoming as important as the channeling of financial resources;

- We see clear tendencies that normative issues such as good governance and enabling environments are becoming increasingly important in relation to operational issues such as project financing of physical infrastructure;

- We see an "opening up" of the MDBs, leading to new forms of cooperation and partnerships for dialogue and cofinancing together with other multilateral organizations, bilateral donors, the civil society, and not least the private sector.

We also see a need to discuss the IDB's comparative advantages in relation to other actors, including multilateral and bilateral agencies, the private sector and civil society. Otherwise, we will end up by adding new themes and activities, without removing any. In this discussion we should consider, in particular, how the Bank, with its close ties to the region, has a comparative advantage when it comes to initiating discussions and action plans on crucial issues for the region as a whole, for example, regional integration, the environment, peace and stability, disadvantaged children, indigenous peoples, corruption and domestic violence.

To assist the Bank and its shareholders to formulate this vision and the future role of the IDB, the same approach that was adopted ten years ago could be considered, by establishing an advisory panel with experts from both within and outside the region. The panel could consist of a broad spectrum of actors: the business community, academia, NGOs and civil society.

In the future, the IDB will have to utilize more resources to address the persistent high incidence of poverty and inequality, which has led to the exclusion of some 150 million people in Latin America from social, political and economic life. All over the region, there is an increasing awareness that the disparities are becoming unacceptable, not only from the point of view of equity. They may also be a threat to democracy and economic development! I am therefore pleased that the financing of IDB's participation in the HIPC initiative as well as IDB's concessional lending to the poorer countries of the region for 1998 and 1999 has been resolved. A key responsibility for us as shareholders of this institution is now to find a longer term solution for financing the Bank's concessional funds. On the same note, I wish to encourage the Bank to urgently address existing constraints on the Bank's ability to effectively participate in poverty reduction in the region, by reviewing the human resources policy of the Bank and continuing the work to ensure an adequate skills-mix at headquarters and at country offices, with a particular focus on the strengthening of country offices. The recently adopted poverty reduction policy gives a good framework that now has to be further operationalized. These measures are crucial for meeting the IDB-8 mandate and the new challenges ahead!

As stated in a recent report by the Swedish Government entitled "The Rights of the Poor", poverty is a multidimensional concept, which is best defined from the perspective of those people living in poverty — the poor themselves must take control of their future and lift themselves out of poverty. We believe that this perspective should be taken into account in the on-going work of the IDB to further develop its role in relation to poverty reduction and democracy. This was also a clear message from last week's IDB seminar "Social Programs, Poverty and Citizen Involvement", which Sweden co-sponsored with the other Nordic countries. The necessary conditions for the poor to have a fair chance to lift themselves out of poverty will not be achieved primarily through projects aimed at the most needy, or at certain sectors. More comprehensive support to economic, political and social processes is necessary to achieve lasting changes in which the poor themselves participate.

This must be a matter of cooperation at all levels: between governments, the business community and civil society. Therefore, we think that the IDB should give priority to the development of a strategy, which defines the concept of civil society and provides relevant tools for its strengthening and for improving the Bank's cooperation with stakeholders. Sweden is following with interest the consultative process initiated by the IDB to establish an independent mechanism — the Foundation of the Americas — to act as a catalyst and encourage a dialogue between governments, the private sector and civil society about the structural conditions for active civil society participation. This is an innovative approach that may draw some lessons from the modalities in place for the Consultative Group to Assist the Poorest (CGAP) dealing with micro credits. However, the Foundation is only one instrument and the brunt of the IDB efforts to support civil society must be undertaken within its own normative and operational umbrella.

I am convinced that the IDB is particularly well placed to be a key partner in the support of governments of Latin American and Caribbean members in their efforts to challenge existing social patterns and defective democratic systems. It is clear that the enormous social gaps are a partial explanation for many conflicts in the region. A more equitable distribution of resources should have been obtained long ago, but in many parts of the region comprehensive social reforms as well as tax reforms are impeded by established power structures.

A great deal more will have to be done to support borrowing member countries in the long and delicate processes of consolidating democracy. Based on newly established guidelines, Swedish support to sustainable democratic development and respect for human rights will be strengthened by:

- Initiating strategic analyses of the situation in combination with efforts at the international, national and local level and linking the efforts made through multilateral and bilateral channels as well as by non-governmental organizations;
- Combining dialogue with development cooperation interventions;
- Introducing international human rights instruments as a basis for dialogue and guidance;
- Directing more resources to policy development, programmes and projects in support of democratic processes in partner countries, including institutional capacity building.

Our cooperation with the IDB will be an integral part of this effort. We highly value the substantial work of the IDB in the field of modernization of the state and strengthening of civil society and we wish to see an even stronger focus on these issues, including anti-corruption, in the future. We are also looking forward to an expanded and innovative cooperation and exchange of experience between Sweden and the IDB on these issues in the future.

Sweden has a long history of vigorous trade and cultural links with the region. The cornerstone in the links between Sweden and Latin America has been within the economic realm. As early as in the 1890s, the telephone company, Ericsson, had already installed the first multiple telephone exchange in Chile and last year, the company celebrated 100 years of operations here in Colombia. Today, Ericsson mobile phones are blipping in the offices, in the streets, in Volvo cars and Scania trucks across the region. Of special importance are also the cultural ties which have been established as a result of the many great Latin American Nobel Prize winners in literature, of which one — Gabriel Garcia Marquez — has his roots in this beautiful region of Colombia. These ties have been further deepened through Sweden's long-standing commitment to and support for human rights and democracy during the decades of repression and wars. Looking to future cooperation, a high level manifestation entitled "Focus on Latin America", is to be held in Stockholm the 4-5 of May this year. The manifestation, which will be opened by the Ambassador of all of Latin America and the Caribbean

— Dr. Enrique Iglesias — will deal with the positive economic development in the region, Latin America as a growth market for Swedish industry, and Latin America as an exporter. Ministers from many Latin American countries as well as CEO's from Sweden's private sector will participate, including some of the major multinational companies which are active in the region.

Let me end on a personal note. More than 30 years have passed since I first came to Latin America. Being back repeatedly to all parts of the region I have witnessed with my own eyes the tremendous developments taking place, despite the 1970s being a lost decade politically in parts of Latin America. Despite the 1980s being a lost decade economically and socially in many parts of Latin America, the 1990s has meant a consolidation of democracy as well as economic and social developments. In my view, a proud and self confident Latin America can take the step into the new millennium.

MR. FRED JOSEPH, ALTERNATE GOVERNOR FOR HAITI, MINISTER OF ECONOMIC AFFAIRS AND FINANCE, AND MINISTER A.I. OF PLANNING AND EXTERNAL COOPERATION

First of all, I would like to thank the Government and people of the Republic of Colombia, and the mayor and people of Cartagena, for their generous hospitality. I would also like to extend my appreciation to the Secretariat of the Bank, which — as always — has spared no effort to make this Annual Meeting a great success.

Each year at this unique forum offered by the Annual Meeting of the Boards of Governors, the Republic of Haiti pays public homage to the Bank's authorities, and to President Iglesias in particular, for the assistance provided in the form of financing for our development program. Today I would like to continue that tradition by underscoring the importance of the IDB's assistance to my country in the past, present, and future.

It is true that exceptional circumstances — the vicissitudes of the difficult process of building democracy — have prevented Haiti from making use of all the concessional resources available to it. This, despite our pressing needs for fresh funding to carry out our projects in health, education, rural development and basic infrastructure, to mention only a few. The fact that major loans are pending ratification has had an adverse effect on promotion of our project pipeline.

This poses a dual hazard for our country. On the one hand, because funds have not been disbursed, actions undertaken by the government to improve living conditions for low-income groups have not been fully carried through. On the other, the fact that we have not used all of the funds has been interpreted by our partners as meaning that our needs are not so great and, accordingly, demand for concessional resources for the poorest member countries has been underestimated, giving the mistaken impression that the concessional resources currently available are sufficient to honor demand from Group D countries.

Another serious consequence of the difficulties we face in accelerating loan execution is that our government's action appears to be evaluated only according to how quickly concessional resources are used. Accordingly, our country benefits very little from the other instruments used by the IDB in aid of its borrowing member countries, particularly the poorest among them. By way of example, I would note that the MIF's operating programs for 1998 does not include even one project for Haiti. Nor has the Private Sector Department mentioned Haiti in its business plan. And the Inter-American Investment Corporation took a full year to consider a loan to a Haitian company.

Haiti should be judged, then, not only on how quickly it uses FSO resources, but on whether it is actually benefiting from all the instruments available at the Bank. It is imperative that we work on giving momentum to the C and D Action Plan and making more resources available under it, while improving coordination with the beneficiary country for the allocation of the available resources. We would also like to see a higher level of dialogue so that a more fruitful partnership can be developed. Given the importance of the Plan for institution building in the C and D countries, the resources involved need to be augmented beyond the year 2000.

As to the FSO, a solution should be found that: (i) allows the costs of financing the FSO shortfall to be distributed more fairly; (ii) provides for and facilities access to available resources including funds in local currencies; and (iii) minimizes the burden on each country while preserving the spirit of solidarity.

Haiti has been following closely the economic changes in the region that have accompanied the process of regional integration and the more general phenomenon of trade globalization. If we want our country to take part under the most favorable conditions, this process demands sacrifices, restructuring, important adjustments, and real achievements over the next few years.

We have decided to take up this challenge, and since democracy was restored, ongoing efforts have been made to generate favorable conditions for a pick-up in economic activity that should lead to the sustainable development and self-sufficiency of our nation. The efforts and the ongoing dialogue with the country's major financial partners were brought to fruition under an agreement with these partners in September 1996 on an ambitious three-year reform program. Tangible progress was made in the first year in many areas including public finance reform, modernization of the public sector enterprises, and reform of the financial system. Nonetheless, as our program proceeds and, paradoxically, as the efforts of the last three year begin to bear fruit, an increasing deterioration in the political climate led to the resignation of our prime minister last June.

The protracted crisis has made it impossible for the different political forces to arrive at a consensus on a new government team, leading in turn to a wait-and-see attitude on the part of financing agencies and national and foreign investors, adversely affecting the economic recovery. This behavior by the private sector and the international community is making our economy more fragile.

Our partners are not always aware, in fact, that we in Haiti are engaged in two struggles at the same time, sometimes at cross-purposes:

> On the one hand, the pressing need for economic change with an array of the necessary structural reforms and its implications in terms of commitment, authority, and quick and decisive decision making; and
>
> On the other, a dimension that is often forgotten: establishment of democracy and the rule of law, consistent with the separation of powers under Haiti's Constitution and political differences within the country.

This enterprise demands time. The time that is needed to obtain the adhesion of all the country's institutions has turned out to be longer in Haiti because of the inevitable length of the learning experience involved. Some reforms, under numerous programs that we have discussed together and to which the Haitian government is committed, have not yet led to success. This does not put into question, however, the willingness and capacity to find a way out of its present predicament.

That Haiti is temporarily without a full government team cannot and must not be used as an excuse for retarding the economic development program. This absence does not in any way detract from our existence and permanence as a nation, a State, and a people with pressing needs. This has also been demonstrated in recent months, since the country has continued along the road to reform, wherever possible.

The question that we must ask ourselves is therefore as follows: what is the best way to manage these constraints, and how do we fit it in with the design and implementation of the government's development program without repudiating our initial objectives? To do so, it would be desirable for Haiti's traditional friends to continue providing support so that we can secure the triumphs gained and reinforce our capacity to achieve concrete results in the real economy. This is the price of obtaining the commitment of the different sectors — political and economic — to the reform program. The political and economic dimensions are linked together so closely that if the political side is unable to move the economy forward, we must reverse the equation and use the economy as a lever for bringing about political change.

In the face of deadlocks and impasse, we need to be innovative. Haiti is unique on account of its history, its structures and situation, and its economic and geographical position. The types of cooperation it receives need to be adapted to take into account these unique features. We have been working towards reducing the functions of the State in order to improve the quality of the services it delivers. We are going to press ahead in this direction, but this will not be enough. During this transition phase, we need to make more direct use of the financial instruments available than in the past in order to tackle the problems of the real economy and to boost the productive capacity of the private sector.

Basic infrastructure and a better regulatory framework are essential conditions for our country's long-term development, as we are well aware, and despite the difficulties, work — perhaps slower than one would have — wished, is being done every day to this end. At the same time, despite the constraints imposed by the lack of infrastructure and a still untoward political, administrative and legal climate, the country is teaming with initiatives and private projects of all kinds but which cannot materialize owing to our inability to have access to the traditional sources of financing or the necessary expertise. The initial studies on a potential project pipeline, conducted with the help of the IDB are largely indicative of this. Areas targeted will enable us to fight more effectively for increasing employment, which as we know only too well, is one of the principal ingredients of social harmony. We need therefore to complete our efforts to strengthen the public sector through direct actions to bolster the private sector and to stimulate private enterprise. I believe in this complementarity and the favorable effect that the dynamic growth of our society and the private sector can have on strengthening our institutions, and making them more stable and efficient.

The process of modernizing our environment, our structures, and our institutions, to which different administrations have been committed since the restoration of constitutional order, is bound to come up against delays and setbacks, but the road has been laid and we will continue along on our way. We are going to pursue the task of financial reform and continue to push ahead with the modernization of enterprises in the public sector, reform of the financial sector, and, currently, an ambitious program of public sector reform, to mention only a few examples.

Economic development as never linear, and even the most advanced countries have had their share of political and institutional crises. The irreversibility of this process will be reflected in the results we obtain in terms of improving the quality of life of our people. Haiti's absorption capacity has been widely criticized. The way in which the calculation is made, based on the disbursement rate, is certainly not in our favor based on recent and past experience. Our absorption potential is however vast, and so are our needs. It is our joint responsibility to identify for the future those areas and sectors in which this capacity is already in place and functioning and to make every effort to ensure that future programs accord priority to these areas. I have mentioned some ways, and there are other avenues that need to be explored. We are all equally responsible for developing and adapting our mechanisms for intervention to come to grips with the inescapable reality of our plight. By that, I don't mean easing up on or accepting the problems with which the country is faced. I mean being flexible and being able to adapt to the situation, recognizing the particular political constraints and taking them into consideration in designing our operations to reach more swiftly our dual objective: the consolidation of democracy and our country's sustainable development.

It is my hope that the bonds of our cooperation with the IDB will be guided in the future by these concerns and this regard for efficiency.

MR. ARNOLD HALFHIDE, TEMPORARY ALTERNATE GOVERNOR FOR SURINAME, AND AMBASSADOR TO THE UNITED STATES OF AMERICA

I am honored to speak on behalf of the Government of Suriname at this thirty-ninth Annual Meeting of the Inter-american Development Bank, and also wish to express our sincere appreciation to the Government of Colombia and the wonderful people of Cartagena for their generous hospitality, which we have experienced since the day of our arrival.

The Government of Suriname wishes to commend the Management of the IDB for its accomplishments in assisting member countries in the formulation and implementation of investment programs and projects, together with structural reforms that support efficiency and economic growth in production sectors, as well as good governance and social sector development to improve the quality of life for our peoples.

After elections in 1996, and a period of high inflation and sluggish growth, the new coalition Government of Suriname has embarked upon a Program for Economic Recovery for the period 1997-2001. A minimum five percent real growth in GDP is the central objective, based upon the following major policy elements: (i) a trust in private sector led export growth in mining, agriculture, and forestry sectors, (ii) environmentally sustainable development, and (iii) social equity in income distribution and reduction of poverty. To this end and with the help of the IDB we will continue to work towards: a supportive and stable macro-economic environment, including fiscal prudence and monetary sound policies, diversified external financing, improved infrastructure, and several other supportive measures.

I would like to take the opportunity to emphasize our principal commitment to the sectoral reforms within the Trade and Agricultural Reform Program and the Financial Sector Reform Program for which we have requested funding by the IDB, as well as the Program for the Restructuring and Privatization of State Owned Enterprises that we will develop with assistance from the Bank. We have started to implement some of the reform measures, even before we began to discuss the program with the IDB.

Since our country has joined the Caribbean Common Market, CARICOM, in 1995, twenty years after our independence, the world has moved much closer towards regional integration and cooperation, and in this regard Suriname is actively engaged in trying to catch up with other countries in Latin America and the Caribbean. As an exporter of rice and bananas our country will have to compensate the loss of preferred European markets by lowering costs and improving quality during the period 1998-2002. We also have to address a lack of competitiveness of non-resource based manufacturing vis-a-vis other CARICOM countries. Suriname will need substantial external financing to meet the shortfall in domestic savings and we have to developed the domestic capital market, as well as ensure external technological inputs to modernize our production capacity. In this regard we hope to benefit from the support services provided by the IDB, CARICOM, and other regional partners in order to overcome those constraints.

To this date Suriname has been a relatively inactive member of the Inter-american Development Bank and other international financing institutions. During most of the past 22 years our country has received substantial bilateral grant funding, that was even larger than all other official development assistance combined with direct foreign private investments. This is remarkable, as is the fact that Suriname has to this date been a non-borrowing member of both the World Bank and the IMF. During the past 22 years Suriname borrowed only US$12 million from the IDB, while opportunities offered through its excellent non-financial services were underutilized. This will hopefully change soon, and we ask for special support in this matter.

Fortunately, Suriname has a very low public debt of only US$160 million or 22 percent of GDP, and a debt service of only two percent of export earnings. We wish to maintain a favorable debt repayment capacity by pursuing strong export growth as well as concessional borrowing, and we have asked the Bank for special consideration, to be allowed to use available IFF funds that would otherwise expire.

Of course we will continue to use the bilateral grant funds available, however, at the same time we wish to increase external financing through other sources, including direct private investment and concessional multilateral funding. In this respect we are encouraged by the financial and non-financial services offered by the IDB, particularly regarding the promotion of private investment and the implementation of the structural reforms to which our Government is committed.

We have made progress in developing an ambitious program with the IDB, covering tax reform that will help us to reduce the budget deficit and provide incentives for private investment, strengthening of our environmental management capability with a view to increased timber logging and gold mining. Furthermore the trade and agricultural sector reform to promote non-mining exports, financial sector reform to promote domestic savings, and the restructuring and privatization of several State Owned Enterprises. The planned administrative decentralization and good governance programs will especially empower the population in rural areas, while the health sector reform, the poverty alleviation and community development, as well as the low cost housing program will improve the living conditions of the poor.

Last year Suriname became a member of the Islamic Development Bank and of MIGA, the Multilateral Investment Guarantee Association. We hope to join the Caribbean Development Bank and the Inter-american Investment Corporation soon, since the Governors have approved the application for membership, and the formal Articles of Inscription will be signed in the coming days. We hereby call upon all private sector financiers to enter in discussion with us to support our development effort, particularly through direct foreign investments in the mining and energy sectors, in which Suriname has comparative advantages.

Finally, I would like to take the opportunity to thank President Iglesias and his staff for their inspiring efforts to ensure that the IDB continues to face the challenges that lie ahead, and express the hope that Suriname will benefit from the progress achieved in this regard.

MR. ANDREJ KAVČIČ, ALTERNATE GOVERNOR FOR SLOVENIA AND ADVISOR TO THE GOVERNMENT, MINISTRY OF FINANCE

We are pleased to note that during 1997 economic growth in the region increased to 5.2% while inflation further declined. By reaching the second most rapid growth rate since 1980 and expecting even faster growth in 1998, the economic and financial turbulence of the years 1994-1995 seem to be far away. Record capital inflows to the region indicate increasing confidence in economic prospects and development of the region. It is especially encouraging that unemployment fell for the first time since 1989. Therefore, we believe that despite turbulent Asian financial markets Latin America will be ready to cope with a more challenging global macroeconomic environment during 1998.

The Bank, remaining the region's main provider of multilateral financial resources during the 1994-1997 period, delivered an innovative and diversified lending program focused on social equity and poverty reduction, modernization of state and productive infrastructure. New instruments introduced during this time substantially improved the quality of its Eighth Replenishment mandate. We would like to express our satisfaction that the Bank's efforts to finance projects addressing poverty reduction and social equity resulted in 38% of overall lending, thus getting close to the targeted 40% of the lending volume.

We therefore urge the Bank to remain resolute in focusing on the priority areas. Its attention to improving efficiency in the social sectors, by ensuring adequate access and availability of appropriately designed and delivered services, especially to the lower income groups, should be maintained. Poverty alleviation cannot be successfully reached unless it is supplemented by properly elaborated programs of education, health care, care for children, social security reform, labor market development, indigenous development, etc. We would accordingly like to encourage the Bank to increasingly complement its lending instruments by non-lending activities such as research, training, consensus building, advisory services and others. We firmly believe that the dialogue and transfer of best practices with both governments and local governments is an important way of fulfilling the Bank's mandate in this area.

We have no doubt that the Inter-American Development Bank is and should remain a flexible institution to be able to respond adequately to the imminent needs of its borrowing members. It should continue to play its positive role in assisting countries in managing special macro-economic circumstances to avoid a devastating effect on the weakest and the most vulnerable segments of society. Being aware that immediate action is crucial to suppress such crises successfully, we support the Bank in joining international actions by providing financing for policy-based lending with fast-disbursing components. We believe, however, that financing limits should not be subject to free interpretation of the management of the Bank. Bearing in mind the limits set for the policy-based lending, we are of the opinion that the management should prepare transparent criteria defining to what extent and on what terms and conditions the Bank shall respond when emergency arises.

Looking at the IDB's priorities and supporting its flexibility that would enable it to deploy its assets to the changing and diverse needs of its borrowing members, we are pleased to learn that the overall lending to C and D group countries rose to above 32% in 1997. We do believe that implementation of C & D Action Plan contributed to this achievement substantially and request the Bank to continue its current efforts in this direction remaining committed to its basic targets set by the Eighth Replenishment. In particular we refer to the targeted allocation of 35% volume of total Bank's resources to C and D countries, reaffirming the long-standing history of regional solidarity and support for the smaller member countries. Though we are aware that the aforementioned medium-term target might not be attainable, we request the Bank to make every effort to get as close to the target as possible.

Bearing in mind the importance of the Bank's primary mandate of being a development institution, properly addressing the needs of poorer and smaller countries, we are fully aware that sufficient concessional resources need to be provided. In this respect we welcome the progress achieved in the direction towards a comprehensive and feasible solution, to mutual satisfaction of all the member countries. We trust that the document, recommending a definitive solution on concessional resources, as well as the clear vision of the Bank's mission in the 21st century, will be presented to the Board of Governors for consideration before or by the 1999 annual meeting in Paris and are eagerly waiting for it.

We note with satisfaction the progress made by the private-sector window. Its expanded role in infrastructure provision in Latin America proved the establishment of this window as a proper supplemental instrument of support to investment and growth and hence poverty reduction in the region. Though growing demand may be higher than the current ceiling permits, we are of the opinion that consideration of both, and an increase in the present limit and increase in the per project limit of the Bank's direct participation, could be worthwhile, provided that it would be predominantly to the advantage of C and D countries. Having said this, we would like to request the management of the Bank to also explore possibilities of maximizing the synergies of the Bank Group's private-sector activities.

Before concluding my address, I should like to commend President Iglesias for the results the Bank has achieved in the past years, as well as for turning the Bank into a flexible and "borrower-friendly" institution. It is my firm belief that under his new mandate further progress and enhanced credibility of the Bank can be expected.

Last but not least, allow me to pay tribute on behalf of the Government of the Republic of Slovenia and the Governor for Slovenia, Minister Mitja Gaspari, to the authorities of Colombia and to our host, the unique city of Cartagena de Indias. I would like to express my sincere appreciation to the Bank's management and other staff for the excellent preparation of this Annual Meeting and for the warmth and hospitality extended to us on this occasion by the people of Colombia.

It is a great honor for me to be addressing the Board of Governors here today. I would like to begin by expressing my sincere gratitude to Colombia, our sister republic, for its warm welcome and generous hospitality, and my appreciation to the organizers of this event, whose efficient arrangements bear the stamp of the Inter-American Development Bank. I can say with certainty that our countries have gained much, and always will gain much, from these gatherings.

The Administration to which I belong will be coming to the end of the constitutional term for which it was elected next August 15. Accordingly, I would like to provide an overview of the current situation in Paraguay and our accomplishments during this period.

First of all, the Government of Paraguay owes a special debt of gratitude to the Bank for its steadfast financial and technical support as we proceed with the most sweeping structural reforms in our nation's history, dating back to the dawn of democracy in 1989. Paraguay has sought, successfully, to create a macroeconomic environment that could serve as a springboard for sustainable and lasting economic and social development coupled with justice and equity.

Against this stable macroeconomic backdrop, the government of President Juan Carlos Wasmosy is putting in place conditions in which those who are prepared to tap the opportunities and comparative advantages offered by our economy and legal framework can work creatively and productively.

Taking stock of these past five years of efforts by the present administration, in which such huge strides have been made, we can say that the balance is largely favorable. Despite a measure of objection to some initiatives, and uneven growth from one sector to another, our economy's performance gives good reason for optimism for the future.

The tasks of entrenching a democracy in which citizens have full rights, and of consolidating structural reforms to stabilize the economy, are still very much under way in some countries in the region. These processes are absolutely crucial to place our countries firmly on the path to economic growth and social advancement.

Paraguay is firmly committed to deepening the ongoing reforms, to achieve progress with equity. The Paraguayan government that is now nearing the end of its term in office, which has so resolutely tackled the task of transformation, has sought to overcome the limitations that are delaying our growth and to redirect resources to achieve sustainable growth.

The Paraguayan economy experienced sustained macroeconomic growth with fiscal discipline and sound monetary management, despite the financial problems we have encountered. While up to 1995, GDP grew at an average real rate of almost 4 percent per year, this success was not repeated in 1996, in which growth slowed as a result of a number of factors, such as adverse weather conditions that affected the agriculture sector and financial system problems.

In 1997, however, we had a significant recovery, with growth of approximately 3 percent, double the 1996 figure.

Internal price stability has been one of the most significant achievements of the current administration's economic policy. It was the result of coordination between monetary and fiscal policies aimed at controlling inflation, which dropped from 20.4 percent in 1993 to 6.2 percent in 1997, the lowest level recorded in the last three decades. We hope to achieve single-digit inflation in 1998 through strict and disciplined application of effective measures.

With regard to the fiscal area, the Paraguayan government has paid close attention to public finances. Nevertheless, it doubled the resources allocated to the social demands of a society with accelerated population growth and a heavy burden of inherited social debts, and experiencing the effects of inclement weather arising from the El Niño phenomenon, which hit us hard this year. In order to improve income, modern information systems are being designed, together with improved tax audit and control mechanisms, for the purpose of increasing management capacity in tax collection. At the same time, on the expenditures side, a number of programs to restructure the central government are under way, whose priority objective is rationalizing public spending and making administrative management more efficient, in order to make the government's activities more transparent. The goal of measures adopted during the 1993 to 1997 period has been to target efforts on achieving a balanced budget. Hence, in 1997, the fiscal deficit represented only 0.2 percent of GDP, a level lower than that of the previous year.

Between 1993 and 1997, a prudent borrowing policy was adopted to allow Paraguay to fulfill its international financial commitments regularly, and foreign debt fell from 18 percent to 14 percent of GDP.

Our net international reserves situation is sound: between 1993 and 1996, they increased by 52 percent and we have been able to address the lack of liquidity experienced by a number of financial entities in the first half of 1997. The national government managed to control this crisis, through the involvement of the Central Bank of Paraguay, though not without a drop in the aforementioned reserves.

The Executive Branch is determined to clean up the financial system to reduce the cost of money and achieve sound management of savings. It is promoting the financial market by offering new financial options and improving competition. New institutions have been established, including trust companies, securitization, investment funds, rating agencies, and leasing.

On another subject, in addition to fostering a macroeconomic framework to support economic activities, the national government has tackled a number of structural reform efforts, in the political, economic, and social arenas, in order to start on the path to development.

Since 1989, Paraguay has undergone substantial reforms. Among the most outstanding is the design and organization of the Council of the Magistracy, the constitution of a system of electoral justice, and a new Supreme Court, thereby consolidating an autonomous and independent Judiciary Branch.

In the field of education, the main components of the education reform are being implemented, involving the complete structural and functional reorganization of the education system and the adoption of a new school curriculum for the various levels. We are aware that a good education is the most important instrument to help the country's competitiveness in MERCOSUR and the expanded markets, and is the best way to fight poverty.

A law was adopted in 1996 that created the National Health System, the main objective of which is to expand coverage of preventive and curative health care services, through improved coordination between the various institutions involved in the sector. The National Health System is based on a concept of decentralized and participatory health care services, which gives a prominent role to community organizations in the country's districts and departments.

In the economic field, taking into account that in order to achieve the objectives that have been set, it is essential that the regulatory instruments be effective and efficient, the Executive Branch has promoted economic and social legislation in order to formalize and clean up significant sectors and thereby strengthen the economy.

From 1993 to 1997, important laws were enacted, such as the Charter of the Central Bank of Paraguay, the general banking, finance companies, and other lending institutions act, the act establishing the guarantee fund for microenterprises and small and mid-sized businesses, the insurance act, the act establishing free zones. The In-bond processing industry act, the law governing the establishment of commodities markets, the law to prevent and suppress illegal acts involving money and asset laundering.

Another fundamental reform that has been fully studied is that of social security. We are currently promoting a new legal framework for the retirement and pensions system, in an effort to modernize it, make it more efficient, guarantee a dignified old age and the economic security so essential to those that require it, and also generate internal savings that will promote the development of financial markets.

The government is decisively applying the measures needed to achieve the objective of preventing and repressing criminal international activities such as bootlegging. A bill is currently being discussed in Parliament that would suppress this type of illegal behavior and protect intellectual property rights.

With regard to modernization of the State, the national government has privatized a number of public enterprises such as the national airline, the iron and steel industry, and spirits production. We already have a regulatory framework for telecommunications and are getting ready to submit bills to Congress to establish regulatory frameworks for the electricity, potable water, and environmental sanitation sectors. The purpose of this policy is to encourage private-sector participation in the production and delivery of certain products and services, in a competitive and efficient context.

Today, Paraguay is a member of MERCOSUR and, as such, is full of hope. Despite the greater responsibilities we are having to shoulder as a result, there are many advantages to participating in a market 40 times larger than our own, not to mention being a part of a region in the world — Latin America — that in the next decade will be the focus of greater foreign attention in the form of new investments.

With this backdrop, we have called upon our entrepreneurs to understand that they must increase their participation in the country's economic activity while encouraging training to improve competitiveness, which is the only way they will be able to take advantage of being part of MERCOSUR.

In all the reforms and policies we have been implementing to make the State more efficient and dynamic, we have tried not to lose sight of the fact that they apply to human beings and that therefore, necessarily, they need to be politically and socially viable.

The Inter-American Development Bank has been constant in its support. Pursuant to the Eighth Replenishment mandate, we received and continue to receive help through an innovative and diverse lending program that focuses on social equity, poverty reduction, and modernization of the State and infrastructure.

For this reason, we believe that the Bank ought to continue to implement a reform and restructuring process that is consistent with the member countries' needs and with the priorities of the Eighth Replenishment, the main objectives of which have been achieved.

We believe that the Bank should continue to be committed to supporting the social and economic development of all the member countries, while bearing in mind the different financial and technical assistance needs of those countries.

The Group C and D countries have demonstrated that, despite the difficulties, they can use what is earmarked for them in the distribution of resources and more. The figures indicate that these countries are improving their absorption capacity and the

Group C and D Action Plan plays an important role in this area. The Bank's efforts need to focus on these countries' improving their performance and receiving more resources and on satisfying their demand.

We are fully aware that to reach this objective, we must continue to have concessional resources available to us. We cannot but express our concern over the constantly shrinking access to these resources of supreme importance in terms of promoting development in the poorest countries. All the countries must be aware of the responsibilities assumed under the Eighth Replenishment in order to avoid running out of such resources in the near future.

In our economies, the high percentage of microenterprises and small and mid-sized businesses fully justifies the Bank's efforts to satisfy their financial or technical needs through the diligent work of the MIF and the Corporation.

Allow me to congratulate and thank the IDB for maintaining its leadership as the principal multilateral financial agency serving development in the region and for becoming an institution that increasingly and more effectively satisfies the needs of our countries. I should also like to thank the IDB, on behalf of President Juan Carlos Wasmosy's government, for the steadfast support he has received during his term of office, as he seeks a future full of hope and progress for the Paraguayan people. Since 1993, this support has taken the form of projects and technical cooperation operations that have served as and, in many cases, constituted the foundation for generating the strong and sustainable progress my country needs.

Mr. Iglesias, thank you for the support Paraguay has been receiving. We Paraguayans recognize and feel your sincerity and desire to serve with excellence.

In closing, allow me to thank our beautiful host city of Cartagena as well as the Management of the IDB and its staff for its excellent work in organizing this meeting and for the hospitality we have enjoyed.

On behalf of the people and Government of Peru, I wish to express thanks for the hospitality extended to us by the Colombian people and authorities. I also wish to thank the entire IDB staff for their efforts in organizing this event.

Latin America today occupies a key position in the concert of nations. Over the last decade, we have witnessed healthy growth that has been gradually improving the living standards of people throughout the region. In addition, and for the first time in many years, inflation appears to be under control with rates that are declining from year to year.

The solidity of regional macroeconomic policies and modernization and reform programs have enabled us to overcome the numerous obstacles in the international environment, beginning with the crisis in late 1994 and the recent crisis in Asia. Over those years, our people have learned to value, as never before, the benefits of stability and openness to the world. They have consistently rejected demagoguery and have given their confidence to government leaders who have acted with responsibility and transparency, resisting the pressures exerted against sustained and consistent macroeconomic management.

Our countries have resolved their debt problems and have adopted fiscal and monetary austerity policies. The challenges we face in the region continue to be enormous. Our programs must give increasingly urgent attention to the basic objective of improving and equalizing opportunities for all, with particular emphasis on measures to improve income distribution.

In the case of Peru, I must say with satisfaction that over the past seven years we have transformed our economy into an increasingly open, competitive, and dynamically growing market. These achievements have built upon the macroeconomic stability that has been achieved with sacrifice and effort by all Peruvians. The stabilization process has been based since 1990 on the establishment of an iron fiscal and monetary discipline, within an overall context of liberalization as regards capital flows and currency exchange. We have also been concerned with sustaining fiscal soundness over time. I refer in particular to the work performed to strengthen our financial system and eliminate contingencies hidden within our public budgets, particularly in the areas of labor and social security.

Our macroeconomic policies and an extensive and profound program of reforms have enabled Peru to grow by an average 7.2% annually over the last five years, based on a dynamic export sector that has achieved annual growth of nearly 20%, and sustained growth in investment, now accounting for 25% of product. Last year, inflation fell to 6.5%, the lowest rate recorded for 25 years. More importantly, however, we have been able over these past seven years to significantly reduce poverty and extreme poverty, and we expect within a few years to meet our objective of reducing poverty to less than 50% of the level prevailing at the beginning of the decade.

Over the medium term, our program is based on sustained growth of 6.5% annually, international inflation rates on the order of 2%, a reduction in our current account deficit to levels below 3% of product, and a continued fiscal balance, all within a context of fully liberalized capital flows and trade, and a continual increase in saving and investment levels.

To maintain such sustained growth, it will be necessary to put this past difficult year behind us, after suffering the combined effects of the Asian crisis and El Niño. As regards the Asian crisis, we have thus far been able to absorb the external shock with relatively little impact on our economy. The impact felt has consisted of declining prices for a number of our main export products. We believe this has resulted from a floating exchange rate within a context of fiscal balance, excluding revenues generated by privatization. We have established very strict Bank supervision regulations and are continuing with our broad and profound reform program.

With regard to El Niño, the investment in preventive measures in recent months has enabled us to lessen the damage to human life and infrastructure. According to our projections, which are included in our recently agreed program with the International Monetary Fund, by year end, we will have growth of 4%, inflation of 7% to 8%, and an increase in the current account deficit to 5.9% of GDP totally financed with direct foreign investment and other long-term capital, with continued fiscal balance; in the current context, this is a clear reflection of the soundness of our economy.

CONSIDERATIONS REGARDING THE IDB

We note with satisfaction that the Bank has fulfilled the mandate of the Eighth Replenishment, approved by the Board of Governors in 1994 during the Guadalajara Annual Meeting. During the period 1994-1997, the IDB has focused its attention on supporting the efforts of Latin American countries to reduce poverty and promote social equity. In addition, through its sector lending and technical cooperation programs, it has worked closely in the design and application of public sector economic reform and modernization programs in the region.

As regards the future vision of the Bank, we hope that the Committee of the Board of Governors can reach an agreement within the established timeframe that will result in the creation and improvement of instruments the IDB can use to contribute to accelerated development in our countries. In addition, as regards IDB support for the private sector, we concur with the proposal to raise the current limit from 5% to 10% of loan volume. This is particularly important in a context where the private sector, through privatization and concessions, is entering increasingly into the modernization of infrastructure and private services in our countries.

INTER-AMERICAN INVESTMENT CORPORATION

During these last three years, the Corporation has been implementing the Action Plan approved by the Board of Governors in Jerusalem, which seeks to achieve an appropriate balance between an acceptable rate of return and the development objectives inherent in its mandate. We note today with satisfaction that this Institution has made progress in that direction.

Under those circumstances, we agree with the initiative of the Committee of the Board of Governors to begin, in the near future, negotiations on a replenishment of the Corporation's capital.

To conclude, we wish to express our appreciation to you, Mr. President Enrique Iglesias, and to Bank Management, for the constant support provided to our country.

SIXTH PLENARY SESSION

MARCH 18, 1998

CLOSING SESSION

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

We have now reached the end of an intense and successful meeting that began in this city last Tuesday. I think I speak for all the participants when I express our deep appreciation to Colombia, in the person of President Samper, for his gracious invitation, for the kindnesses we have received, and for the efficient organization of this meeting. I would also like to express our sincere appreciation to the Heads of State, President Pérez Balladares and President Fujimori, who honored us with their presence at the inaugural session, and enhanced the significance of this meeting and the Bank's work.

Our thanks also to the Department of Bolívar, in the person of Governor Raad, who has accompanied and supported us throughout the meeting. Special thanks to Mayor Curi of the city of Cartagena, for his generous hospitality, for the honor of welcoming the Bank once again — for the third time in Colombia and the second time in Cartagena — and for all the support offered by Cartagena and its people.

I would like to express special appreciation to my dear friend, Minister Urdinola, for the support he has provided to this meeting, and to Minister Cecilia López for her strong commitment to all the tasks in which she assisted us. Our thanks as well to the Ministry of Foreign Affairs, in the person of Minister Mariana Mejía, for Colombia's impeccable protocol, which has made life so much easier and more pleasant for us. Special thanks also to this country's efficient and courageous armed forces, which have provided exemplary security and support services throughout our meeting. We are deeply grateful to them and wish to place our appreciation on record.

Minister of Culture Ramón Osorio, who was very involved in the first phase of organizing this conference, is to be commended for the outstanding Colombian culture, beauty, and creativity he has shared with our participants. The settings for the various events have been magnificent. Our thanks also to the Convention Center and to those who provided logistical support to make the meeting successful. Organizing meetings like this one is a very complicated task, of which we see only the surface. There is an entire contingent of people working very hard behind the scenes, often with little recognition. I would single out in particular Angela Holguín, whose help and cooperation has been essential. Nor can I neglect to mention Executive Director Angel, whose dedication, passion, and inspiration have been so helpful. Yesterday, he was awarded a medal by the government for his efforts in connection with this event which, to a large extent, has been a great personal accomplishment.

I would also like to express appreciation to the representatives of the private sector, civil society, and particularly, the financial institutions, who have been with us here. We particularly thank the latter for the opportunity they offered us to enjoy the splendid exhibitions that gave us a taste of the great profusion of folklore and art in this country.

What conclusions can we draw from this, one of our most highly attended meetings, with almost 4,000 people? The first thing that stands out is the prevailing optimism — despite the Asian crisis of the last few months — which we already had the opportunity to mention at the Barcelona meeting last year. This optimism was tested in 1997 and 1998 by the prospect of fallout from a faraway crisis, which also tested the political will to continue with the reform processes, keep our the policies on course, and grow while maintaining stability. The political will of the region's governments in this regard has proved solid.

In this regard, we are taking advantage of the lessons learned in difficult years, such as 1994 and 1995. Our demonstrated capacity to respond rapidly and effectively has raised Latin America's stature in international financial markets. We trust that the Asian countries will be able to resolve their problems very soon, but in the meantime, as Latin America enhances its status and image as a responsible player, a calm and careful approach to this crisis is in everyone's best interests.

I would like to share some thoughts inspired by the words of our Governors and Heads of State. It is not easy to paint a comprehensive picture of this meeting in only a few minutes, but I shall try to summarize our main accomplishments as I see them.

First of all, the presence of new interlocutors and representatives from civil society and the private and public sectors has been extremely valuable.

The seminar on social programs, poverty, and citizen participation gave us our just opportunity for a dialogue with representatives of numerous sectors of civil society, confirming the wealth of experience they can offer us in addressing fundamental social issues. As we seek to mobilize the capacity and will of the private and public sectors, we must also learn to draw on the enormous capital that civil society represents in the region. With the cooperation of these three interlocutors, policies may be implemented to speed up efforts to resolve Latin America's acute social problems. The Bank was asked to continue to help maintain and enrich the dialogue between these sectors and improve their development and training. As you know, initiatives are under way that we will be discussing with our Executive Directors, with a view to focusing on and providing assistance in these very areas.

In this context, it is the Bank's pioneering efforts that continue to distinguish us from other multilateral organizations. Now, for the first time, we are addressing the problems of peaceable coexistence among our citizens. It is very significant that the issues of social and domestic violence were discussed, which the Bank considers serious problems. Ministers and civil society representatives were invited to discuss this topic and the conclusion reached was that there are solutions to the problem. In addition, it gives me great satisfaction that during the course of the meeting we were able to sign two assistance operations, one for Colombia and the other for Uruguay. We are pleased that many Governors expressed particular interest in supporting this line of activity and in requesting the cooperation that the Bank is beginning to offer in this field.

The analysis of employment problems gave Ministers and academics the opportunity to examine the nature of an issue of much concern in many parts of the world. We are not the only ones afflicted with this problem. Very clear policy lines emerged here too and experiences were shared. We plan to continue delving into this matter and will hold additional meetings on the subject.

The Corporation conducted a very interesting seminar on emerging markets, examining the opportunities these offer and the risks inherent in the current international climate. The seminar focused on Latin America as an emerging market and the great benefits and potential risks entailed. In this regard, the seminar on bank supervision, including the topic of asset laundering, was another innovation at these meetings. Indeed, one of the ways to face up to the possible risks of linkage with the international community is to strengthen bank supervision — which we are doing — and to support the governments in the enforcement of signed treaties on the subject of money laundering. This is a very important area of collaboration between the public and private financial sectors, and these meetings provided an excellent framework for discussing it.

Another area covered was infrastructure in the Andean region and we also had the opportunity to attend a seminar on pension funds, which are becoming an important instrument for the development of capital markets. The Central American Bank for Economic Integration held an interesting meeting this morning, in which the future of an institution that is increasingly important to the region was discussed.

All these seminars constituted an important framework that made it possible to highlight the action of the Bank in numerous social and economic areas. We plan to continue to surround our annual meeting with a review of issues like these, which make the meetings particularly vital and increasingly attractive, while connecting the institution to other stakeholders who see the Bank as a platform for airing their concerns and promoting possible solutions.

A second, traditional activity, was the signature of agreements. We signed 19 loan contracts, totaling US$1.2 billion, and six technical-cooperation agreements — Small Projects and Multilateral Investment Fund — totaling US$13.5 million. An agreement establishing a US$80 million Fund for Agricultural Technology was signed by 16 countries, to support agricultural research, which we know will continue to be very important to our countries.

I would particularly like to mention a project that our friends in the press who are here and have given us so much support publicized beyond the context of this meeting. I am referring to the sanitation and potable water operation for the city of Cartagena. As evidence of our commitment to attacking the social problems of Latin America and Colombia, we want this meeting to leave behind the execution of an operation that responds to the concerns of the people of Cartagena. We want the Bank to be remembered not only for the presence of numerous friends, but also and fundamentally, for the special support we have given to the low-income sectors of the city of Cartagena. I wanted to highlight this operation, because it has given me great satisfaction to be able to support efforts to resolve this issue so menacing to low-income sectors.

A third topic refers to decisions on pending problems, and in particular, the FSO agreements. Under these agreements US$1.15 billion can be made available for allocation to FSO-eligible countries, and US$500 million for the interest-rate subsidy fund. The agreements will also enable the Bank to remain active on these two fronts. The most important element, however, is the approval of financing mechanisms for the Bank's support for debt reduction, particularly in the case of Bolivia and Guyana. These important gestures demonstrate once again a sense of solidarity that under current circumstances will be very important to the beneficiary countries.

A fourth point refers to the vision of the institution's future, on which we prepared a document for discussion, under a mandate from the Governors in Guadalajara. Its content is the fruit of a comprehensive effort on the part of Bank staff and people outside the Bank. One positive thing I would like to highlight is that we have wanted to share the analysis of the Bank's vision, as the institution turns 40, without linkage to a replenishment of resources. We consider it important for the Governors to begin discussing the subject, with support from the Board and on the basis of materials that the Bank's Management may provide. As made clear by the resolution of the Committee of the Board of Governors, this topic will be part of an active platform of discussion over the next few months, which will allow the Governors, the Board, and Management to work together.

We wanted to have the opportunity to bring up certain topics on many of which there is consensus. It is important to discuss the future of the institution. In fact, it is our duty to the member governments of the Bank, our societies, and the Board. The idea, in the end, is to put certain basic items on the table, such as local governments, civil society, and institutional reforms. All this is part of the agenda to bring the Bank up to date, so that we are asking not only the countries, but also the institutions to change. The institutions need to stay relevant, and therefore need to understand the problems of the region, to anticipate them and be able to respond by addressing the priorities that the governments attach to development needs.

The region is becoming increasingly diverse and heterogenous. We are faced with many demands from all sides, all of them completely legitimate, arising from countries in the process of real transformation. This variety will be the keynote of the next few years. The way in which the Bank will meet the various demands, how it will make sense of this significant objective, is a fundamental issue for this institution.

A fifth area of concerns had to do with problems arising from emergencies. First, I would like to mention El Niño, which President Fujimori brought up in a special way, and then was reiterated by the Governors for Ecuador and Bolivia. It was also mentioned by those countries experiencing drought. It is a natural phenomenon that has taken a serious toll on a number of countries in the region. The Bank's response was rapid but there is no doubt that close cooperation with these countries is still needed and we will do what is necessary to help them repair the damage.

Possible emergencies arising from financial crises were also mentioned. The Bank has responded well in the past and will continue to do so. I would merely like to reaffirm that when we speak of emergencies, in no way are we aiming to set up another Monetary Fund or to sidestep support procedures coordinated internationally. In this regard, we fully recognize the central role played by the Bretton Woods institutions and view our contribution as a supplement to their actions, never a substitute for them.

A topic of great significance is that of the peace processes, particularly in Colombia, as President Samper expressed, recognizing that the Bank has been supporting the consolidation of such processes. We supported Central America when the region experienced some very distressing times. The region came through not only with support from the Bank and other multilateral institutions but also from governments such as those of the European Union. We were called upon to participate in the United Nations-inspired mobilization.

Our experience therefore allows us to recognize that the roads to peace have to be paved with important agreements and that such agreements are made possible when there is development cooperation. Which is where we come in. This is how we can help generate good will and the mobilization of resources to undertake actions that contribute — and I have said this on more than one occasion — to paving the roads to peace. We sincerely hope that the Colombians will soon achieve the peace they so desire and deserve, not only because this is where the legitimate interests of Colombians lie but because it is also in the interest of the sister nations of Latin Americans who want to contribute to this eagerly-awaited and well-deserved peace.

A sixth point refers to expressions of support received from nonregional member countries. I welcome and appreciate the expressions of cooperation of European countries in the form of cofinancing and technical assistance. The Nordic countries, France, Italy, and the United Kingdom stand out in this regard. The European Union is an active collaborator of ours. These countries have always worked with us, supporting our initiatives in the area of cofinancing and technical cooperation.

I would particularly like to mention the cooperation we received from Japan, our top cofinancier with US$1.4 billion last year and other support on various fronts, including the Japanese Fund. Such cooperation has become a valuable component of our work and is currently applied to social projects and the improvement of banking systems. I celebrate the Governor for Japan's announcement at this meeting of the program for sharing of experiences between Latin America and Asia. It is a pioneering project that is very important to us as it will allow us to hear about and take advantage of very valuable experiences from both regions. At this time we also have something to offer, which is the innovative experience of INDES.

The seventh conclusion is a reaffirmation of the mandates. The Governors gave an extremely informative presentation regarding many fronts on which they would like to see Bank action. The great objectives of the Guadalajara meeting are still current and valid. However, other very significant objectives were formulated, including progress in education. I feel that we are faced with a challenge of enormous proportions, which we recognize as a basic obstacle to accelerating and improving the quality of development as well as to resolving the problems of poverty and social inequality. This is a central issue that calls for action by the inter-American system and no doubt commits the Bank to mobilize resources for national and regional projects. I assure you that we have taken due note of this mandate expressed by a number of governments and that we will give it high priority.

I hope that the governments of the nonregional member countries will participate actively in this since they have much to offer to this collective effort. I hope that the entire institution and all the governments, united by common traditions, culture, and ideals, will lend a hand. Let us make the Bank an important source of support in the education sector, by mobilizing the institution's entire family of countries.

The Governors placed particular emphasis on the topic of governance, which is on our agenda for future activities. For this reason, we are introducing new areas of focus in the Bank, such as those dealing with corruption and management of judicial and parliamentary systems. All of this involves what we now refer to as governance and, under that heading, transparency and efficiency, to achieve a true linkage between economic efficiency and social efficiency, which is fundamentally dependent on good governance. Adam Smith recognized this when he laid down the basic principles of the market economy, based on his knowledge as a professor of economics and, earlier, as a professor of ethics.

Support for financial systems was also urged. Both the institution and I are deeply committed to supporting small and medium-sized enterprises. Now that we are trying to expand our activities in this area, we warmly welcome the fact that the Governors have highlighted this matter.

I think it is clear that the role of the private sector in building the economic and social infrastructure of Latin America is growing, and with it that of our Private Sector Department. There has been broad-based consensus on this matter while at the same time questions and doubts have been raised that will have to be resolved during the negotiation process. What is important is that a window of opportunity has been opened. It must now be promoted and made available to small as well as large and medium-sized countries.

Discussion in this area also addressed the matter of guarantee systems, the development of capital markets, and small and medium-sized enterprises, which as I said are central to our present and future concerns. All of this adds an important new element to the traditional action of the Bank in the area of microenterprise.

Ninth, the Inter-American Investment Corporation. We are very pleased with the outcome of this meeting, in particular because the door has been opened for negotiations on a capital increase. We have been seeking this for many years and I think that this development is warranted in view of the way the Corporation is being managed. The governments have expressed their support and thereby have triggered a process to strengthen the IIC. Accordingly, we welcome the recent conclusions of the Committee of the Board of Governors.

A final general consideration has to do with celebrating the Bank's fortieth anniversary. This is very important and we could say that the groundwork for this celebration has been laid at this meeting. We are talking about many years of experiences shared by Latin America and the nonborrowing countries. I say this with all sincerity, since I have been working in the international arena for over a quarter of a century. I think that we should all be pleased to have established an institution capable of being close to the governments, deliberating with them, and assisting them in all areas of their economic development. Yesterday, the Governor for Brazil mentioned something that allows us to summarize this tenth point. He said: "We are a Bank, we are inter-American, we are a development Bank." These are the three dimensions with which the institution came to be. We are a bank because we lend money, which of course constitutes the original nature of the institution. It is very important to stress that the Bank, in taking on this important function, has done so while observing the principles of solidarity, with the unfailing support of the Governors, the Board of Executive Directors, and Management. We are committed to this principle of solidarity among the countries, which constitutes the guiding light of our work.

The Bank, moreover, is inter-American, that is, it favors the function of the region as such and all of us, I believe, should see Latin America and the Caribbean as our raison d'être. This is why economic integration — and I have said so dozens of times — is not just another theme at this institution but a central one. Felipe Herrera called it the "Bank of Integration", precisely to highlight that integration is one of the institution's key commitments.

As we are here in Colombia, we should remember Colombians who contributed so much to the Bank through their vision, in particular Alberto Lleras Camargo and Carlos Lleras Restrepo. It is important to confirm and reinforce once again our commitment to regional cooperation and integration efforts. We are also a development bank, a circumstance which requires us — unlike commercial banks — to see development as something that goes beyond financial support. This implies support for efforts to invest, to transmit and share experiences, to call for joint action, and to promote key sectors, such as the social sectors. I say this particularly to our Colombian friends, so that they remember that we want to continue to be the Bank of the social sectors, because that is an enormous challenge we face. We have learned to grow, we now have to learn to resolve social issues. We have to do so while fulfilling all the conditions that will ensure competitiveness and participation in a context of globalization, but while continuing to stress the social sectors.

These are the main thoughts I will take out of this meeting. In closing, I would like to say that the city of Cartagena has always been known as a magical city, a city that has inspired great utopias and epics. The magic has been obvious over the last few days, as we have walked its streets, discovered its hidden corners, felt the afternoon breeze, and participated in the magnificent celebrations that have been organized for us. The truth is that we are taking the magic of Cartagena with us.

We are also taking away the feeling that utopias persist in our region, as they should. Utopias are good because they encourage the spirit and the best in our Latin American and Caribbean societies, and promote our integration, which for us should be a great source of inspiration. Cartagena has contributed to this.

Lastly, an epic, which is the epic of economic and social development. We have experienced difficult times in Latin America. The decade of the 1980s was very complicated, but we are beginning to get away from all that. The epic of development is something more than a utopia, it is a constant struggle for high ideals: economic and social efficiency, living with respect and peace, and enjoying social justice as an effective ideal built day in and day out. The people and especially the history of our region are calling on us to fulfill these ideals.

REPORT OF THE COMMITTEE OF THE IDB BOARD OF GOVERNORS ON ITS ACTIVITIES SINCE THE LAST ANNUAL MEETING

The Committee of the Board of Governors, established pursuant to Resolution AG-5/70, held its Seventy-second Meeting in Barcelona, Spain, on March 16, 1997.

During the period elapsed since the Thirty-eighth Annual Meeting of the Board of Governors held in Barcelona, Spain, in March 1997, the Committee held its Seventy-third and Seventy-fourth Meetings in Washington, D.C., on September 9 and 10, 1997, and February 17, 1998, respectively.

I. Seventy-second Meeting (Barcelona, Spain, March 16, 1997)

Eighth General Increase in the Resources of the Bank. Progress report

The President of the Bank, Mr. Enrique Iglesias, gave a brief summary of the activities carried out by the Bank in 1996, citing certain features of the Bank's operations program.

He highlighted the following main issues:[1]

(a) evaluation of the fulfillment of the Eighth Replenishment objectives;

(b) number and quality of the loans and technical-cooperation projects;

(c) priority assigned to the social sectors;

(d) progress achieved in private-sector development;

(e) support for reforms for modernization of the State;

(f) support for intellectual work and regional forums;

(g) economic integration;

(h) performance of the Multilateral Investment Fund and the Inter-American Investment Corporation;

(i) Eighth Replenishment objectives that have not yet been achieved;

(j) new types of demands facing the Bank; and

(k) the availability of concessional resources.

The Chairman of the Committee reported that five Governors had requested that the issue of concessional resources be included on the agenda of a special meeting to be held in mid-year to discuss the matter.

The Committee took note of the statements made by the Governors for Nicaragua, Bolivia, the United States of America, Canada, Paraguay, France, Japan, Brazil, Uruguay, Germany, Mexico, the United Kingdom, Venezuela, Guatemala, and El Salvador.[2]

The Executive Vice President of the Bank, Ms. Nancy Birdsall, took the floor to express her views on the new requirements and the new circumstances in Latin America and the Caribbean.[3]

The Governor for Panama expressed support for the Executive Vice President's statement regarding the initiative to create the Foundation of the Americas.

The Chairman of the Committee noted that a consensus had been reached on the following two points: to convene a meeting of the Committee in mid-1997 to discuss concessional resources, and to support the Bank's participation in the Highly Indebted Poor Countries Initiative.

1 See paragraph 3.1 of document CA-383.

2 See Annex II to document CA-383.

3 See Annex III to document CA-383.

The Committee took note of the statement by the Governor for the United Kingdom.[4]

Lastly, the President of the Bank referred to the Bank's participation in the Highly Indebted Poor Countries Initiative, stating that the Bank could not remain on the sidelines and that it must participate, but that the Board of Executive Directors would review each specific case in order to determine what sort of assistance to offer to alleviate debt.

II. Seventy-third Meeting (Washington, D.C., September 9 and 10, 1997)

Eighth General Increase in the Resources of the Bank. Status of concessional resources

The President of the Bank, Mr. Enrique Iglesias, made a general presentation to continue the discussion on the issue of concessional resources.

He referred to the time constraints, diminishing concessional resources, and the proposals put forward to remedy the problem. He also mentioned the additional request regarding approval of the debt reduction system for Bolivia and urged the Committee to move forward in devising solutions to the scarcity of concessional resources.

The Chairman of the Committee opened the floor to the members of the Committee, and the Governors for Brazil, Venezuela, France, Jamaica, Argentina, the United States, Canada, Germany, Nicaragua, Chile, Japan, Mexico, Uruguay, and Colombia made statements.[5]

The Chairman of the Committee gave the floor to the other participants and the Governors for Bolivia and Ecuador made some remarks.[6]

Lastly, the Chairman of the Committee proposed that a working group that he would head be established to carefully examine the proposals made. An extensive discussion ensued on the number of members of the group, and it was subsequently decided that the session would be continued the following day.

During the second session, the Committee took note of the proposal presented by the Governor for Mexico on behalf of the borrowing countries that the working group be composed of all the Committee's members. This proposal was supported by the Governor for the United States, speaking on behalf of the nonborrowing countries.

The Chairman of the Committee expressed his satisfaction with the agreement reached and suggested that the Bank's Secretariat coordinate the operation of the working group and that its rules of procedure be the same as those governing the Committee.

The Chairman of the Committee then offered the floor to the President of the Bank, who reported on the current status of the Heavily Indebted Poor Countries Initiative.[7]

The Governors for Bolivia and the United States took the floor to express their appreciation and support, respectively, in regard to Mr. Iglesias's comments.

III. Seventy-fourth Meeting (Washington, D.C., February 17, 1998)

Future Bank action and evaluation of the Bank's operations program over the period 1994 to 1997, in the framework of the Eighth General Increase in Resources

At the Seventy-fourth Meeting, the Chairman of the Committee invited the President of the Bank, Mr. Enrique Iglesias, to give a brief account of the Bank's activities over the four-year period since the Eighth Replenishment was undertaken and to review the new orientations, modalities, and instruments the Bank could adopt for its activities in the coming years, taking into account the changes under way in the countries, the region, and the world as a whole. Mr. Stephen A. Quick, Manager of the Strategic Planning and Operational Policies Department, and Mr. Euric Bobb of the Office of the Presidency briefly presently the two documents distributed on these issues.

The President of the Bank then mentioned certain issues that constitute the foundation for identifying the challenges Latin America faces in the future:

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4 See paragraph 3.7 of document CA-383.

5 See paragraphs 3.3 to 3.16 of document CA-391.

6 See paragraphs 3.18 and 3.19 of document CA-391.

7 See paragraph 3.30 of document CA-391.

(a) Although the region had been able to recover a growth rate of over 5 percent, curb inflation almost to 10 percent, and increase investment to 21 percent, indicating a process of clear transformation with an obvious impact on the pace of growth, much remained to be done in terms of the economy, especially with respect to the promotion of savings and reform of financial sectors, as well as in the social sectors to achieve efficiency in social spending and sector reforms.

(b) There was a need to continue the challenges in institutional matters, to achieve strong economic integration in the region and the Hemisphere, and with the European Union. It was also important to take into account the lessons learned with regard to economic crises in the Hemisphere and the region.

The President of the Bank noted that the issue of concessional resources continued to be considered in parallel meetings by the working group established at the last meeting of the Committee. He referred to the points that Management deemed of import to improve the objectives and instruments of the Eighth Replenishment.

The Governors for Jamaica, Argentina, Japan, Canada, France, the United States, Italy, Chile, Brazil, Guatemala, Mexico, Uruguay, Venezuela, and Colombia then took the floor.[8]

The Chairman of the Committee then called a recess, and it was agreed that deliberations would continue in a second plenary session to be held later that afternoon.

When the meeting reconvened, the Governors for the United Kingdom, Costa Rica, Honduras, Switzerland, Norway, Germany, Jamaica, Italy, Costa Rica, Japan, France, the Netherlands, Canada, Brazil, Mexico, Argentina, Guatemala, the United States, Uruguay, and Colombia took the floor.[8]

At the Chairman's invitation, Mr. Iglesias took the floor and stated that he was pleased with the comments and observations made by the Governors. His understanding was that the Governors wished to have more in-depth information on the economic, financial, and risk implications of some of the proposals presented in the document.

He said that the points made by the Governors would be taken into account and summarized the issues as follows: (a) evaluation as a central objective; (b) the programming exercise as a main instrument; (c) support for the Bank's two distinct functions, finance and development, raising the issue of nonfinancial products; (d) support for the tasks Management is called upon to carry out within the Bank; (e) the need to clarify the relationship between general strategy and specific objectives indicated in the first part of the document; (f) the issue of flexibility and its implications, with regard to streamlining procedures; (g) the continuity of programs that would support at least a 35 percent allocation to Group C and D countries; (h) regularization of the emergency program; (i) reform of institutional adjustment loans; (j) revision of the matrix concept, comparing it with other multilateral institutions; (k) civil society and the need to specify its sphere of action; (l) local governments and the problem of guarantees; and (m) the private sector as an instrument for support for infrastructure in the countries. The President of the Bank indicated that these issues would be included in the revised version of the document on the future action of the Bank, which would be considered at the next meeting, to be held in Cartagena.

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[8] The original statements will be set forth in the *Summary of the Meeting*, currently in preparation.

REPORT OF THE COMMITTEE OF THE IIC BOARD OF GOVERNORS ON ITS ACTIVITIES SINCE THE LAST ANNUAL MEETING

The Committee of the Board of Governors, established by Resolution IIC/AG-3/92, held its Thirteenth Meeting in Barcelona, Spain, on March 15, 1997.

In the interval since the Twelfth Annual Meeting of the Board of Governors in March 1997 in Barcelona, the Committee had met at the Corporation's headquarters in Washington on September 10, 1997.

I. Thirteenth Meeting (Barcelona, Spain, March 15, 1997)

Action plan for the Corporation for the period 1995 to 1997, and status of IIC resources. Progress report

The Chairman of the Board of Executive Directors, **Mr. Enrique V. Iglesias**, gave a progress report on the action plan for the Corporation for the period 1995 to 1997 and the status of IIC resources. He recalled that at the Jerusalem meeting agreement had been reached on two important items: the action plan for the Corporation, and efforts to bring new countries into IIC membership.

As regards the action plan, Mr. Iglesias indicated that the goals set on that occasion were being achieved. The Corporation had been expanding its operations in Latin America and bringing in innovative financial products, such as investment funds, which were proving to be very valuable vehicles in small and mid-sized countries. He underscored that the Corporation had been accomplishing all of this very efficiently, reducing costs and staff and, as an important consideration, reversing the downturn in its operations. The Board had received a special report from the IIC portfolio review group, and the findings of the review were satisfactory according to the standards typically applied for institutions of this type.

He noted that the Corporation's action plan was being carried through effectively, and its continuity was opening up new options and fertile ground for the organization's future development. The past two years had also seen the Bank's and Corporation's activities become increasingly integrated, as the Corporation took active part in the Private Sector Coordination Committee chaired by the President of the Bank. Thanks to that committee's efforts, Mr. Iglesias noted, the different IDB Group arms were working more closely together. He commented that it was gratifying to see that the objectives set in Jerusalem were being attained. The Corporation also was showing itself to be an important support for small and mid-sized businesses, a sector of the Latin American economy which was in need of considerable development efforts.

Looking at the Corporation's performance from that broad standpoint, Mr. Iglesias remarked, its role would be better understood if due account was taken of the features that distinguished it from the World Bank's IFC. The Corporation operated more with small and medium-sized enterprises. This was an important distinction, because the Corporation sometimes was erroneously viewed as a sort of smaller IFC or as competing with the IFC. The IIC had a distinct and crucial role to play, to carry through the Bank's action in the private sector, and particularly with small and mid-sized businesses.

Moving to the second item, the question of prospective new IIC members, Mr. Iglesias said that he was pleased that promising talks were well under way with Denmark and Norway, particularly, and that there were firm indications that Suriname and Belize could soon be joining as full members. This would mark a further step toward what should be the objective of having all IDB member countries as members of the IIC, akin to the situation with the World Bank and IFC. He recalled that the matter of a capital increase for the Corporation had been discussed at the last meeting and left for reconsideration in 1998, and indicated that Management was prepared to bring options or suggestions to the Board of Executive Directors for consideration, and requested guidelines as to how to proceed.

In concluding remarks on this item, Mr. Iglesias stated that the Corporation had the resources to continue to operate that year, but keeping this question under active discussion would help shape agreements looking toward a future increase in the organization's resources.

The **Governor for Guatemala** then took the floor. He pointed up the important role that could fall to the Corporation, particularly in Central America. Even in unsettled political circumstances, Central America had managed to make significant gains, but those efforts could only bear fruit if the private sector played its proper part, and above all the small and mid-sized businesses that were the engine of growth of economies like Central America's. Though external capital flows could bolster local private capital, that would depend in some measure on the macroeconomic climate. He pointed out that at least in some cases investors were going to seek out companies already listed on the stock exchange, with advanced capitalization processes, which at a certain point in time would bring quick returns.

The Governor indicated that one element that could be built into the Corporation's plans was an effort to publicize what the Corporation could do to support small and mid-sized businesses, and the benefits they stood to gain. It was being seen that potential beneficiaries were not always fully aware of how the Corporation could be of service to them.

II. Fourteenth Meeting (Washington, D.C., September 10, 1997)

First General Increase in the Resources of the Inter-American Investment Corporation. Chapters I, II, III, and IV

The Committee considered document IIC/CA-46, which included Chapters I, II, III, and IV and an appendix entitled "Funding and leveraging alternatives", as information to guide the Governors in devising possible scenarios for presentation of a proposal on a first increase in the Corporation's resources. Chapter V ("Shareholding structure and financial parameters of the First General Increase in Resources of the Corporation") and Chapter VI ("Recommended procedures for implementation of the First General Increase in Resources of the Corporation") were to be prepared in due course, once guidance was received from the Governors. At its June 17, 1997, meeting, the Board of Executive Directors had taken cognizance of the above-mentioned report and, without expressing a view on the substance of the matter, authorized transmittal of the document to the Committee of the Board of Governors.

Mr. Enrique V. Iglesias, Chairman of the Board of Executive Directors, recalled that at the Committee's last meeting in Barcelona it had been informed of the status of compliance with the Corporation's plan of action for 1995-1997. The statistics and information at hand showed that the Corporation's operating results continued to be highly satisfactory. The Corporation had been working in areas of great interest to the countries, especially those that were less developed, one of the most important being the establishment of investment funds.

He underscored that the Corporation had been a very useful instrument for applying the MIF's third window, thereby becoming an important partner in the Fund's operations. It had also been working with the Bank's departments on the Private Sector Committee in studying infrastructure projects and the establishment of private funds. Clearly, the Corporation's activities were encountering limits imposed by its capital, and the strong feeling (widely shared by the Board of Executive Directors) was that a replenishment of resources needed to be considered.

Mr. Iglesias reported that Denmark was now a full partner, having been admitted to membership in the Corporation, and extended a welcome to that country, attending its first meeting. He stated that consultations were proceeding with other Scandinavian countries and with Canada, which appeared to be promising on the whole. The goal was that some day all the members of the Bank would be members of the Corporation.

He noted that the Board committee chaired by the Executive Director for Mexico had been working closely with Management on this process. A draft had been produced of chapters I to IV of what could become the proposal for the first increase in the resources of the Corporation. That material could serve as the basis for informing the Governors about possible future scenarios. The last chapter, which would establish parameters for activities that could be undertaken with a capital increase, had yet to be prepared.

Mr. Iglesias suggested that the precedents established in the Bank's Eighth Replenishment could be followed, and that the working group might continue preparing materials and alternatives regarding an increase in resources, all of which would be submitted to the Governors for consideration. He suggested that the working group closely monitor progress in the studies so that the Committee could discuss the issue prior to Cartagena and remit it to the plenary of the Board of Governors of the Corporation for its information and approval, which was becoming more and more pressing.

Mr. J. Rahming, General Manager *ad interim* of the Corporation, then presented a report on this item, informing the Governors on progress in 1997 on meeting that year's targets, which were expected to have been slightly surpassed by the end of November.

As for the development impact of the portfolio, Mr. Rahming made mention of job creation, contribution to GDP, and foreign exchange generation, and innovative projects the IIC was promoting.

As to the need for capital, he indicated that the approval capacity for doing more equity operation remaining as of the end of July 1997 was US$34 million; by the end of the year there would be only US$16 million left of approval capacity for new equity transactions. The Corporation was combing through the existing portfolio of older projects and where possible selling IIC equity positions to realize capital gains, which money would then be available for new projects.

On the lending side, Mr. Rahming reported, the Corporation was in a much more comfortable position. On August 26, the Board of Executive Directors had approved implementing the leverage increase from 1 to 1 to 3 to 1. This had been approved by the Governors and the Charter had been changed to accommodate that, but there was a conditionality that there be an outside evaluation of IIC portfolio and credit approval procedures. That had been done. The report was favorable and the Board had approved the implementation. Concurrently with that the IDB was processing a US$300 million loan for the Corporation.

He indicated that the study by the outside group had concluded that IIC procedures and the level of problems in the portfolio were reasonable. However, to implement the increase in leverage, to implement more business that could be done with that increase in leverage, the Corporation would either have to look towards a significantly higher administrative budget or increase productivity. With that in mind, with the goal of reducing project processing time and cost, an internal task force had been created, with an outside facilitator to keep the work on track.

Mr. Rahming reported that the Corporation was implementing recommendations that had been made by that internal task force. For instance, they were taking more of a team approach, pooling efforts in the various areas. Working as a team in a parallel fashion rather than sequentially, it would be possible to reduce the project cycle processing time significantly.

He noted that the Corporation was standardizing its financial evaluation criteria and creating operational guidelines, and was centralizing references to IIC policies and procedures, to be readily accessible to staff for project preparation.

He outlined a number of measures the IIC had taken, such as consolidation of procedures in one manual; earlier negotiations of term sheet provisions with clients; simplification of legal documentation; and streamlining and centralization of disbursement procedures.

Mr. Rahming stated that a Special Operations Unit had been created to attend to all problem projects. That unit would also be in charge of monitoring approval and implementation processes of problem projects, drawing lessons learned, to improve internal and external communications, keeping in mind the country needs, particularly in the private sector, and simplifying internal procedures and proposing an action plan for 1998-2000, which would be submitted to the Board of Executive Directors and if appropriate to the Governors for approval.

The Governors for the United States of America, Mexico, Switzerland, Brazil, Chile, Guatemala, Italy, Colombia, Argentina, Uruguay, Jamaica, Bolivia, and the Netherlands then took the floor to comment on this matter. The text of their statements is in Annex III to document IIC/CA-50.

Mr. Enrique V. Iglesias, Chairman of the Board of Executive Directors of the Corporation, said in closing that it was his impression that positions of support and some doubts regarding the capital increase had been reiterated. He reiterated that the Budget, Financial Policies, and Audit Committee of the Board of Executive Directors, which had been working very actively on these issues, could continue to examine and add to the chapters produced thus far.

The Committee of the Board of Governors agreed that it would continue its examination of this matter at a forthcoming meeting. To that end, it was agreed that the Budget, Financial Policies, and Audit Committee of the Corporation's Board of Executive Directors would continue to review the matter and present a document containing additional information, recommendations, and quantifiable options.

Other distribution:

Executive Directors
Managers
IDB Representatives

PARTICIPANTS

CHAIRMAN OF THE BOARD OF GOVERNORS
Antonio J. Urdinola

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
Nancy Birdsall

SECRETARY OF THE BANK AND THE CORPORATION
Carlos Ferdinand

ALEMANIA

GOBERNADOR

Klaus-Jürgen HEDRICH
Parliamentary State Secretary
Federal Ministry for Economic
Cooperation and Development

GOBERNADORES SUPLENTES TEMPORALES

Geert-Hindrich AHRENS
Ambassador of Germany to Colombia

Bernd BLANK
Division Chief
Regional Development Banks, IFAD
Federal Ministry for Economic Cooperation and Development

Harald REHM 1)
Division Chief
Federal Ministry of Finance

ASESORES

Markus BAUMANNS
First Secretary
Embassy of Germany in Colombia
Santafé de Bogotá

Christiane BÖGEMANN-HAGEDORN
Assistant to the Parliamentary State Secretary
Federal Ministry for Economic
Cooperation and Development

Andreas HARTMANN 1)
Senior Counselor
Office of the Executive Director
Inter-American Development Bank

Walter S. HOERSCH
Desk Officer
Ministry of Economics

Helga KIPPELS 1)
Deputy Head of Section
Federal Ministry for Economic
Cooperation and Development

Thomas PIESCH
Deputy Head of Division 402
Federal Ministry for Economic
Cooperation and Development

Gerd SCHETTING
Division Chief EXPO 2000
Federal Ministry for Economic
Cooperation and Development

Ernst THIEN
Division Chief
Deutsche Bundesbank

Lukardis VON STUDNITZ
Liaison Officer
EXPO 2000 Hannover GmbH

1) Asiste con cónyuge

ARGENTINA

GOBERNADOR SUPLENTE

Pedro POU
Presidente
Banco Central

GOBERNADORES SUPLENTES TEMPORALES

Pablo GUIDOTTI 1)
Secretario de Hacienda

Roberto Alfredo RECALDE 1)
Subsecretario de Inversión Pública
Ministerio de Ecónomia

Carlos A. LÓPEZ
Director Nacional de Proyectos con Organismos Internacionales de Crédito

ASESORES

Jorge AGUNDEZ 3)
Senador Nacional
Congreso de la Nación

Marisa Lila ALFIZ
Subsecretaria
Jefatura de Gabinete

Eduardo Pablo AMADEO
Secretario de Desarrollo Social
Presidencia de la Nación

Raul BARIDO 1)
Subsecretario de Control de la Jefatura de Gabinete

Carlos A. BERCÚN 1)
Subsecretario de Relaciones Institucionales

Ricardo BRANDA 1)
Senador Nacional
Congreso de la Nación

Alejandro CALDARELLI
Asesor de la Subsecretaría de Programación Regional

Carlos CARRASCO 1)
Embajador de la Argentina en Colombia

José María CARTAS 1)
Director Ejecutivo Suplente
Banco Interamericano de Desarrollo

Esteban DÓMINA 1)
Diputado de la Nación
Congreso Nacional

Rogelio FRIGERIO
Subsecretario de Programación Regional

Ana KESSLER 2)
Ministra
Secretaría de Pequeña y Mediana Empresa

1) Asiste con cónyuge
3) Asiste con otros acompañantes
2) Asiste con cónyuge y otros acompañantes

ARGENTINA

ASESORES (Cont.)

Miguel KIGUEL
Subsecretario de Financiamiento

1) Noemí LA GRECA
Representante Financiero en Estados Unidos

Oscar LAMBERTO
Diputado de la Nación
Congreso Nacional

1) María Laura LANZENI
Consejero
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

Norberto LÓPEZ ISNARDI
Coordinador Programa Informaciones y Negociaciones Crediticias

Daniel MARTIN
Asistente
Representación Financiera en Washington

Jorge Luis MIRANDA
Agregado Comercial
Embajada Argentina en Colombia

Federico MOLINA
Director Nacional de Informaciones y Negociaciones Crediticias
Ministerio de Economía y Obras y Servicios Públicos

Samuel MUZYKANSKI
Coordinador Ejecutivo
Ministerio de Interior

Gabriela PAGANI
Vice-Directora de Prensa
Ministerio de Economía y Obras y Servicios Públicos

Horacio PERNASETTI
Diputado de la Nación
Congreso Nacional

1) Caròla PESSINO
Secretaria de Equidad Fiscal
Jefatura de Gabinete de Ministros

A. Humberto PETREI
Director Ejecutivo
Banco Interamericano de Desarrollo

1) Alejandro D. QUIROGA
Subsecretario de Bancos y Seguros

Carlos A. VERNA
Senador Nacional
Senado de la Nación

1) Agustín VILLAR
Representante Financiero Alterno para Europa
Londres

Marcelo WIÑAZKY
Asesor de la Secretaría Jefatura del Gabinete de Ministros

1) Asiste con cónyuge

AUSTRIA

GOBERNADOR SUPLENTE TEMPORAL

Wolfgang MÜLLER
Chief Counsellor
Federal Ministry of Finance

ASESORES

Maria KRONSTEINER
Counsellor
Office of the Executive Director
Inter-American Development Bank

Walter MAYR
Director
Austrian Federal Economic Chamber

BAHAMAS

GOBERNADOR

William C. ALLEN
Minister of Finance and Planning

GOBERNADOR SUPLENTE

Ruth MILLAR
Financial Secretary
Ministry of Finance

ASESOR

Chet NEYMOUR
Senior Economist
Ministry of Finance and Planning

BARBADOS

GOBERNADOR SUPLENTE TEMPORAL

Tyrone BARKER
Parliamentary Secretary
Ministry of Finance and Economic
Affairs

ASESORES

Ralph CARVALLO
Permanent Secretary
Ministry of Finance and Economic
Affairs

Cleviston HAYNES
Central Bank of Barbados

BÉLGICA *

GOBERNADOR SUPLENTE

Frans GODTS
Directeur
Ministère des Finances

* No es miembro de la Corporación

BELICE *

GOBERNADOR SUPLENTE

Keith ARNOLD
Governor
Central Bank of Belize

* No es miembro de la Corporación

BOLIVIA

GOBERNADOR

Edgar MILLARES ARDAYA
Ministro de Hacienda

GOBERNADOR SUPLENTE

Miguel LÓPEZ BAKOVIC
Viceministro de Inversión Pública y
Financiamiento Externo
Ministerio de Hacienda

GOBERNADOR SUPLENTE TEMPORAL

Jorge CRESPO-VELASCO 1)
Ministro de Comercio Exterior e
Inversión

ASESOR

Juan CARIAGA 1)
Director Ejecutivo
Banco Mundial

1) Asiste con cónyuge

BRASIL

GOBERNADOR

Antônio KANDIR 1)
Ministro do Planejamento e Orçamento

GOBERNADORES SUPLENTES TEMPORALES

Synésio SAMPAIO GOES FILHO 1)
Embajador
Embajada del Brasil en Colombia

Amaury Guilherme BIER 1)
Assessor
Chefe da Assessoria Econômica
Ministério do Planejamento e Orçamento

Roberto JAGUARIBE
Secretário de Assuntos Internacionais
Ministério do Planejamento e Orçamento

José Linaldo GOMES DE AGUIAR
Chefe do Departamento da Divida Externa e de Relações Internacionais
Banco Central do Brasil

ASESORES

Lourenço ALONSO MARTINS
Coordenador de Gabinete
Departamento da Divida Externa e
Relações Internacionais
Banco Central.

Benvindo BELLUCO
Assessor Principal do Diretor Executivo
Banco Interamericano de Desenvolvimento

Fabio DE OLIVEIRA BARBOSA
Secretario Adjunto del Tesoro Nacional

José FOGAÇA
Senador

Fernando Antônio GOMES
Chefe do Departamento de
Capitais Estrangeiros
Banco Central do Brasil

Rodrigo AZEREDO SANTOS
Tercer Secretário
Embaixada do Brasil em Washington, D.C.

Maria do Socorro COSTA DE CARVALHO
Chefe do Departamento de Operações das Reservas Internacionais
Banco Central do Brasil

Carlos Eduardo DUTRA
Assessor Especial do Ministro da Fazenda
Ministério da Fazenda

Manuel José FORERO GONZÁLEZ
Coordenador Geral de Assuntos Econômicos
Secretaria de Assuntos Internacionais
Ministério do Planejamento e Orçamento

José Roberto LEAL FERREIRA FIORENCIO
Chefe do Departamento de Captação de Recursos
BNDES

1) Asiste con cónyuge

BRASIL

ASESORES (Cont.)

Leila MIRAGAYA MATZ
Diretora Financeira
Financiadora de Estudos e Projetos (FINEP)

Inácio MUZZI
Chefe da Assessoria de Comunicação Social
Ministério do Planejamento e Orçamento

Eugenio Pacceli RIBEIRO
Assessor Pleno
Departamento da Divida Externa e de Relações Internacionais
Banco Central do Brasil

Elcior SANTANA
Diretor Executivo Alterno
Banco Interamericano de Desenvolvimento

Santiago MOURÃO 1)
Assessor Especial
Ministério do Planejamento e Orçamento

Sonia PORTELA
Procuradora General de Hacienda

Isac ROFFÉ ZAGURY
Superintendente da Área Financeira e Internacional
BNDES

Antonio Claudio SOCHACZEWSKI
Diretor Executivo
Banco Interamericano de Desenvolvimento

1) Asiste con cónyuge

CANADÁ *

GOBERNADORES SUPLENTES TEMPORALES

James CARRUTHERS
Director General
International Financial Institutions
Multilateral Programmes Branch
Canadian International Development Agency

Richard SMITH
Senior Program Manager
International Financial Institutions
Multilateral Programmes Branch
Canadian International Development Agency

ASESORES

François LAFOND
Officer
Economic Relations with Developing Countries
Department of Foreign Affairs and International Trade

Michael G. MCLEAN
Vice President
International Markets
Export Development Corporation

* No es miembro de la Corporación

CHILE

GOBERNADOR

Eduardo ANINAT 1)
Ministro de Hacienda

GOBERNADORES SUPLENTES TEMPORALES

Pablo PIÑERA
Consejero
Banco Central de Chile

Felipe MORANDÉ
Gerente División Estudios
Banco Central de Chile

Andrés SANFUENTES 1)
Presidente
Banco del Estado

Francisca CASTRO
Asesora del Ministro de Hacienda

Guillermo LE FORT 1)
Gerente
División Internacional
Banco Central de Chile

Felipe PERUCCI 1)
Gerente Negocios Internacionales
Banco del Estado

ASESORES

Mario MARCEL 1)
Director Ejecutivo
Banco Interamericano de Desarrollo

Antonia SILVA 3)
Consejero
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

1) Asiste con cónyuge
3) Asiste con otros acompañantes

COLOMBIA

GOBERNADOR

Antonio José URDINOLA URIBE
Ministro de Hacienda y Crédito Público

GOBERNADOR SUPLENTE

Cecilia LÓPEZ MONTAÑO 1)
Directora
Departamento Nacional de Planeación

GOBERNADORES SUPLENTES TEMPORALES

Joaquín BERNAL RAMÍREZ 1)
Viceministro Técnico
Ministerio de Hacienda y Crédito Público

Miguel URRUTIA MONTOYA
Gerente
Banco de la República

Luis Bernardo FLÓREZ
Miembro de la Junta Directiva
Banco de la República

Antonio HERNÁNDEZ GAMARRA
Miembro de la Junta Directiva
Banco de la República

Nicolás Francisco CURI VERGARA 3)
Alcalde de Cartagena de Indias

Juan Pablo CÓRDOBA 1)
Director General de Crédito Público
Ministerio de Hacienda y Crédito Público

Salomón KALMANOVITZ KRAUTER
Miembro de la Junta Directiva
Banco de la República

Leonardo VILLAR GÓMEZ
Miembro de la Junta Directiva
Banco de la República

Orlando CABRALES 1)
Ministro de Minas y Energía

Miguel RAAD
Gobernador de Bolívar

ASESORES

Julio ANGEL 1)
Director Ejecutivo
Banco Interamericano de Desarrollo

Militza BUITRAGO DEL PORTILLO 1)
Secretaria General
Ministerio de Hacienda y Crédito Público

María Carmenza ARENAS DE MCLEAN 1)
Consejero
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

María Luisa CHIAPPE DE VILLA
Superintendente Bancario

1) Asiste con cónyuge
3) Asiste con otros acompañantes

COLOMBIA

ASESORES (Cont.)

María Alejandra GUTIÉRREZ
Asesora
Dirección General de Crédito Público
Ministerio de Hacienda y Crédito Público

María Angela HOLGUÍN
Coordinadora General por Colombia
Reunión Anual BID 98

José Darío URIBE
Gerente Técnico
Banco de la República

Lilian GUTIÉRREZ HERNÁNDEZ
Jefe de Prensa
Ministerio de Hacienda y Crédito Público

Gabriel MISAS ARANGO
Consejero Económico y de Competitividad
Presidencia de la República

Angela VALDERRAMA GUZMÁN
Jefe Grupo Emisiones Externas
Ministerio de Hacienda y Crédito Público

COSTA RICA

GOBERNADOR

Francisco de Paula GUTIÉRREZ 1)
Ministro de Hacienda

GOBERNADOR SUPLENTE

Leonardo GARNIER RÍMOLO 1)
Ministro de Planificación Nacional
y Política Económica

GOBERNADORES SUPLENTES TEMPORALES

Rodrigo BOLAÑOS ZAMORA 1)
Presidente
Banco Central de Costa Rica

Carlos ESPINACH P. 1)
Director por Costa Rica
Banco Centroamericano de Integración Económica (BCIE)

ASESORES

Marta ARREA BRENES
Vicepresidente Junta Directiva
Banco Central

Carlos MUÑOZ VEGA
Gerente
Banco Central

Leonel BARUCH
Asesor Económico del Presidente Electo

Sylvia SABORÍO
Consejero
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

1) Asiste con cónyuge

CROACIA *

GOBERNADORES SUPLENTES TEMPORALES

Vladimira IVANDIC
Head of International Department
Ministry of Finance

Jadranka GRANIC
Executive Director
International Deparmtent
Croatian National Bank

* No es miembro de la Corporación

DINAMARCA

GOBERNADORES SUPLENTES TEMPORALES

Thomas DJURHUUS
Head of Section
Ministry of Foreign Affairs

Finn JONCK
Ministry of Foreign Affairs

ECUADOR

GOBERNADOR

Marco A. FLORES TRONCOSO
Ministro de Finanzas y Crédito Público

GOBERNADORES SUPLENTES TEMPORALES

Adrián RIVADENEIRA 1)
Coordinador General
Ministerio de Finanzas y Crédito Público

Danilo CARRERA 2)
Presidente
Junta Monetaria

Fidel JARAMILLO 1)
Gerente General
Banco Central del Ecuador

ASESORES

Pedro AGUAYO CUBILLO 2)
Director Ejecutivo Suplente

María del Carmen DE MORLA
Vicepresidente
División Internacional y Corporativa
FILANBANCO

José GALLARDO ROMÁN
Gerente General
Banco del Estado

José MEDINA
Tesorero
FILANBANCO

Hector L. NUQUES COLUMBUS
Gerente de Banca de Desarrollo
Corporación de Inversión y Desarrollo - TECFINSA
Guayaquil

Juan Pablo VALDIVIESO
Consejero
Embajada del Ecuador

Gustavo CORDOVEZ
Embajador

Juan FRANCO PORRAS 1)
Gerente General
FILANBANCO

Guillermo LASSO
Gerente General
Banco de Guayaquil

José MORILLO BATTLE 1)
Superintendente de Bancos del Ecuador
Quito

José SAMANIEGO 1)
Director General de Estudios
Banco Central

1) Asiste con cónyuge
2) Asiste con cónyuge y otros acompañantes

EL SALVADOR

GOBERNADOR

Manuel Enrique HINDS CABRERA
Ministro de Hacienda

GOBERNADORES SUPLENTES TEMPORALES

Roberto Alejandro SORTO FLETES 1)
Viceministro de Inversión y Crédito Público

Enrique OÑATE M. 1)
Director por El Salvador
Banco Centroamericano de Integración
Económica (BCIE)

Gino BETTAGLIO
Vicepresidente
Banco Central de Reserva

ASESORES

Nicola Ernesto ANGELUCCI SILVA
Gerente General
Banco Multisectorial de Inversiones

Ricardo CALDERÓN LAM
Diputado Propietario
Asamblea Legislativa

Julio Antonio GAMERO QUINTANILLA
Diputado Propietario y Secretario de la
Junta Directiva

Alejandro Dagoberto MARROQUÍN
Diputado Propietario
Asamblea Legislativa

Alejandro RIVERA
Diputado

Roberto SIMÁN
Presidente
Banco Multisectorial de Inversiones

Francisco R. BERTRAND GALINDO
Superintendente del Sistema Financiero

Dinora M. CUBÍAS UMAÑA
Director General de Inversión y
Crédito Público

Nelly LACAYO DE ANDERSON
Consejero
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

René Mauricio NARVÁEZ HINDS
Gerente de Finanzas
Banco Multisectorial de Inversiones

Guillermo RUBIO FUNES
Embajador de El Salvador en Colombia

1) Asiste con cónyuge

ESLOVENIA *

GOBERNADOR SUPLENTE

Andrej KAVCIC
Advisor to the Government
Ministry of Finance

* No es miembro de la Corporación

ESPAÑA

GOBERNADOR

Rodrigo de RATO Y FIGAREDO 1)
Vicepresidente Segundo del Gobierno y
Ministro de Economía y Hacienda

GOBERNADORES SUPLENTES TEMPORALES

Jaime LORENZO
Subdirector General de
Instituciones Financieras Multilaterales

Pedro MEJÍA 1)
Consejero Comercial
Embajada de España en Estados
Unidos

Yago PICO DE COAÑA
Embajador de España en Colombia

Elena PISONERO
Jefa del Gabinete del Vicepresidente
Segundo del Gobierno y
Ministro de Economía y Hacienda

María PÉREZ RIBES
Subdirectora General de Política
Comercial con Iberoamérica y ACP

Oscar VÍA
Subdirector General de Fomento
Financiero de las Exportaciones

Luis CARDERERA
Director General de Comercio Exterior

Francisco OCHOA
Jefe de Prensa del
Vicepresidente Segundo del Gobierno y
Ministro de Economía y Hacienda

ASESORES

Pedro Pablo BAJO
Consejero Económico y Comercial de
España en Colombia

Angela SÁNCHEZ ZAMUDIO
Asistente
Oficina Comercial de España en
Colombia

José MATRES
Subdirector General de Relaciones
Económicas Multilaterales y de Cooperación
Aérea, Marítima y Terrestre
Ministerio de Asuntos Exteriores

1) Asiste con cónyuge

ESTADOS UNIDOS

GOBERNADORES SUPLENTES TEMPORALES

Larry SUMMERS
Deputy Secretary of the Treasury
Department of the Treasury

Daniel ZELIKOW
Deputy Assistant Secretary
Asia, the Americas and Africa
Department of the Treasury

John HURLEY
Economist
Office of Multilateral Development Banks
Department of theTreasury

William E. SCHUERCH 1)
Deputy Assistant Secretary
Department of the Treasury

Wesley MCGREW
Director
Office of Latin America and Caribbean
Department of the Treasury

ASESORES

Kelle BEVINE
Counselor
Office of the Executive Director
Inter-American Development Bank

Kelly Ann CRAWFORD
Deputy Director
Office of Public Affairs
Department of the Treasury

Stephanie FLANDERS
Special Advisor
Department of the Treasury

Bruce JUBA
Senior Counselor
Office of the Executive Director
Inter-American Development Bank

Sheryl SANDBERG
Special Assistant to the Deputy Secretary
Department of the Treasury

Mark SCHNEIDER
Assistant Administrator
Burearu for Latin America and Caribbbean
AID

Juan BRACETE
Financial Economist
Bureau of Economic and Business Affairs
Department of State

Nelson CUNNINGHAM
National Security Advisor
The White House

Lawrence HARRINGTON
Alternate Executive Director
Inter-American Development Bank

Robert MCENTIRE
Associate Department of Commerce Liaison
Office of the Executive Director
Inter-American Development Bank

L. Ronald SCHEMAN
Director Ejecutivo
Inter-American Development Bank

Roman H. WASLIEWSKI
U.S. Embassy
Santafé de Bogotá

1) Asiste con cónyuge

FINLANDIA *

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Under Secretary of State
Ministry for Foreign Affairs

GOBERNADORES SUPLENTES TEMPORALES

Ritva JOLKKONEN
Deputy Director General
Ministry for Foreign Affairs

Pauli Pekka KARINIEMI
Advisor
Government of Finland
Ministry of Foreign Affairs

* No es miembro de la Corporación

FRANCIA

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Sous Directeur
Endettement et Développement
Direction du Trésor

Bertrand PERISSE
Chef du Bureau
Bureau Aide au Développement
Direction du Trésor

Philippe MARION
Conseiller
Ministère de l'Economie

ASESORES

Guy AZAIS
Ambassadeur de France en Colombie
Santafé de Bogotá

Henry BIROLLEAU
Chef du Protocole

Georges CAHUZAC
Administrateur
Banque interaméricaine de
devéloppement

Jean GANIAGE
Direction du Trésor

Marc LAUTRE 1)
Conseiller financier pour l'Amérique
latine et les Caraïbes
Ambassade de France
Méxique

Dominique LEBASTARD
Attaché financier auprés de
l'Ambassade de France à Brasilia

Chantal MICHEL
Chargée de mission
Caisse Française de Développement

Arnaud PRUDHOMME
Chef du Bureau H3
Sous Direction Affaires bilatérales
Direction du Trésor

Richard ROUQUET
Responsable pour les Organismes
multilatéraux et les Banques de Développement
Ministère de l'Equipement, des Transports et
du Logement

Patrick SALLES 1)
Conseiller
Ministère des Finances

Alain TOUBIANA
Conseiller Economique et Commercial
près l'Ambassade de France à
Santafé de Bogotá

Alain VIZZAVONA
Directeur adjoint
Caisse Française de Développement

1) Asiste con cónyuge

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Ministro de Finanzas Públicas

GOBERNADOR SUPLENTE TEMPORAL

Julio Roberto SUÁREZ GUERRA 1)
Vicepresidente
Banco de Guatemala

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Violeta LUNA DE CASTILLO
Asesora del Ministro
Ministerio de Finanzas Públicas

Mefi Eliud RODRÍGUEZ GARCÍA
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Ministerio de Finanzas Públicas

1) Asiste con cónyuge

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Bharrat JAGDEO
Minister of Finance

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Rajendra RAMPERSAUD 1)
Counselor
Office of the Executive Director
Inter-American Development Bank

1) Asiste con cónyuge

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Ministre de l'Economie et des Finances,
Ministre a.i. de la Planification et de
la Coopération Externe

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Gouverneur
Banque de la République d'Haïti

1) Michel CONTENT
Chargé de mission à la Direction Générale
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Coopération Externe

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Membre du Cabinet du Ministre de
l'Economie et des Finances

Pierre Richard LEROY
Conseiller Principal à l'Unité de
Programmation et de Coordination
Ministère de l'Economie et des Finances

Ericq PIERRE
Conseiller Principal
Cabinet de l'Administrateur
Banque Interaméricaine de Développement
Washington, D.C.

Roland PIERRE
Governeur Adjoint
Banque de la République d'Haïti

1) Asiste con cónyuge

HONDURAS

GOBERNADOR

Gabriela NÚÑEZ DE REYES
Ministra de Finanzas

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Presidente
Banco Atlántida

Daniel FIGUEROA
Vicepresidente
Banco Central de Honduras

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Banco FICOHSA
Tegucigalpa

Fernando VEGA MONTOYA
Presidente de la Comisión de Banca

Orlando GARNER
Director General de Credito Publico

1) Asiste con cónyuge

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Director
International Affairs and External Relations
Bank of Israel

Esther SHUMINER 1)
Bank of Israel

ASESOR

Marina BARDA
Alternate Executive Director
Inter-American Investment Corporation

1) Asiste con cónyuge

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GOBERNADOR SUPLENTE TEMPORAL

Giuseppe MARESCA
Deputy Head of International Affairs

ASESORES

Biagio BOSSONE
Foreign Financial Relations
Bank of Italy

Pablo FACCHINEI
Advisor
Ministry of the Treasury

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GOBERNADOR

Omar DAVIES
Minister of Finance and Planning

GOBERNADOR SUPLENTE

Shirley TYNDALL
Financial Secretary
Ministry of Finance and Planning

ASESORES

Wesley HUGHES GEORGE
Director General
Planning Institute of Jamaica

Sharon WEBER
Special Assistant to the Minister of Finance and Planning

JAPÓN

GOBERNADORES SUPLENTES TEMPORALES

Takatoshi KATO
Special Adviser to the Minister of Finance

Sakura SHIGA
Deputy Director-General
International Finance Bureau
Ministry of Finance

ASESORES

Nagamori EIJIRO
Primer Secretario
Embajada de Japón en Colombia

Hiroshi IWAO
Researcher
Ministry of Foreign Affairs

Toru KODAKI
Executive Director
Inter-American Development Bank

Takashi OYAMA
Adviser
International/Credit and
Market Management Department
Bank of Japan

Kosuke YOKOO
Section Chief
Office of the Vice Minister of Finance for
International Affairs
Ministry of Finance

Mitsutaka INAGAKI
Counselor for Financial Affairs
Embassy of Japan

Takuji KINKYO
Deputy Director
Development Institutions Division
International Finance Bureau
Ministry of Finance

Shinji MAEDA
Special Assistant
Embassy of Japan in Colombia

Masahiko TANAKA
Deputy Director
Development Institutions Division
International Finance Bureau
Ministry of Finance

MÉXICO

GOBERNADOR

José Angel GURRÍA 1)
Secretario de Hacienda y Crédito Público

GOBERNADOR SUPLENTE

Martín WERNER 1)
Subsecretario de Hacienda y Crédito Público
Secretaría de Hacienda y Crédito Público

GOBERNADORES SUPLENTES TEMPORALES

Carlos GARCÍA MORENO 1)
Director General de Crédito Público
Secretaría de Hacienda y Crédito Público

Ricardo OCHOA RODRÍGUEZ
Director de Organismos Financieros Internacionales
Secretaría de Hacienda y Crédito Público

ASESORES

Marcela ALVAREZ CUESTA
Secretaria Particular Adjunta del Secretario de Hacienda y Crédito Público

Jaime CORREDOR ESNAOLA 1)
Director General
BANOBRAS, S.N.C.

Guillermo GÜEMEZ 1)
Subgobernador
Banco de México

Julio César MÉNDEZ RUBIO 1)
Director Adjunto de Finanzas
BANCOMEXT, S.N.C.

Arturo OLVERA VEGA 1)
Director Adjunto de Ingeniería Financiera
BANOBRAS, S.N.C.

Federico PATIÑO MÁRQUEZ 1)
Director Adjunto de Fomento
Nacional Financiera, S.N.C.

Samia AVALOS ZETTER
Secretaria Particular del Secretario de Hacienda y Crédito Público

Mario Alberto GARCÍA BARAJAS
Subdirector de Políticas y Estudios
Secretaría de Hacienda y Crédito Público

Oscar IGNOROSA
Director de Comunicación Social

Rodrigo OCEJO
Director de Captación de Crédito Externo
Secretaría de Hacienda y Crédito Público

Rodolfo PADILLA DEL BOSQUE
Economista en Jefe de Subgerencia
Organismos Internacionales del Banco de Mexico

Moisés PINEDA PADRÓN 1)
Director Ejecutivo
Banco Interamericano de Desarrollo

1) Asiste con cónyuge

MÉXICO

ASESORES (Cont.)

Marcos RAMÍREZ MIGUEL 1)
Director Adjunto Finaciero
Nacional Financiera, S.N.C.

Miguel SILICEO VALDESPINO 1)
Director Ejecutivo de Captación
BANCOMEXT, S.N.C.

Enrique VILATELA 1)
Director General
BANCOMEXT, S.N.C.

Carlos SALES GUTIÉRREZ
Director General
Nacional Financiera S.N.C.

Andrés VALENCIA BENAVIDES
Embajador de México en Colombia
Santafé de Bogotá

1) Asiste con cónyuge

NICARAGUA

GOBERNADOR

Noel J. SACASA C. 1)
Ministro de Economía y Desarrollo

GOBERNADORES SUPLENTES TEMPORALES

Noel RAMÍREZ 1)
Presidente
Banco Central de Nicaragua

Luis DURÁN-DOWNING 1)
Asesor Asuntos Económicos
Presidencia de la República

Mario FLORES 1)
Gerente General
Banco Central de Nicaragua

Mario DE FRANCO
Ministro de Agricultura

Azucena CASTILLO
Viceministro de Economía y Desarrollo
Ministerio de Economía y Desarrollo

Carlos Antonio NOGUERA PASTORA 1)
Director Ejecutivo
Fondo de Inversión Social de Emergencia

ASESORES

Humberto BELLI PEREIRA 1)
Ministro de Educación

Orlando CASTRO GUTIÉRREZ 1)

1) Asiste con cónyuge

NORUEGA *

GOBERNADORES SUPLENTES TEMPORALES

Leif LUNDE
Royal Ministry of Foreign Affairs

Aud KOLBERG VEDELD
Assistant Director General
Royal Ministry of Foreign Affairs

Paal I. AAVATSMARK 1)
Senior Executive Officer
Department for Global Issues
Royal Ministry of Foreign Affairs

ASESORES

Helge SEMB 2)
Senior Counselor
Office of the Executive Director
Inter-American Development Bank

Tom TYRIHJELL
Adviser
Ministry of Foreign Affairs

* No es miembro de la Corporación
1) Asiste con cónyuge
2) Asiste con cónyuge y otros acompañantes

PAÍSES BAJOS

GOBERNADORES SUPLENTES TEMPORALES

Robert A. VORNIS
Director
Multilateral Development Financing and Macro Economic Policies Division
Ministry of Foreign Affairs

Jan Willem VAN DER KAAIJ
Head
Multilateral Banks Division
Ministry of Finance

ASESORES

Thijs BIENEFELT
Ministry of Foreign Affairs

Wouter LOK
Deputy Head of the Central America and Caribbean Division
Ministry of Foreign Affairs

PANAMÁ

GOBERNADOR

Guillermo O. CHAPMAN JR. 1)
Ministro de Planificación y
Política Económica

GOBERNADOR SUPLENTE

Miguel HERAS CASTRO
Ministro de Hacienda y Tesoro

GOBERNADOR SUPLENTE TEMPORAL

René LUCIANI
Director
Unidad Técnica de Políticas Públicas

ASESORES

Romulo ABAD
Embajador en Mision Especial

Rogelio NOVEY
Director Ejecutivo Suplente
Banco Interamericano de Desarrollo

Allida de LIMA
Jefe de Protocolo del Presidente de Panamá

Luis VARCACIA
Embajador en Misión Especial

1) Asiste con cónyuge

PARAGUAY

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Miguel Angel MAIDANA ZAYAS 1)
Ministro de Hacienda

GOBERNADOR SUPLENTE

José Ernesto BÜTTNER LIMPRICH 1)
Viceministro de Economía e
Integración
Ministerio de Hacienda

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Victor María CHAMORRO ABADIE
Presidente
Banco Nacional de Fomento

Guillermo SERRATI GAUTIER
Miembro Titular del Consejo
de Administración
Fanco Nacional de Fomento

Hermes GÓMEZ GINARD 1)
Presidente
Banco Central

Walter A. VILLALBA ZALDÍVAR 1)
Director de Política de Endeudamiento
Ministerio de Hacienda

1) Asiste con cónyuge

PERÚ

GOBERNADOR

Jorge CAMET
Ministro de Economía y Finanzas

GOBERNADOR SUPLENTE

German SUAREZ CHAVEZ
Presidente del Banco Central de Reserva

GOBERNADORES SUPLENTES TEMPORALES

Fritz DU BOIS
Asesor del Ministro de Economía y Finanzas

Mario TOVAR VELARDE
Vicepresidente
Banco Central de Reserva del Perú

Alberto PANDOLFI ARBULU 2)
Presidente del Consejo de Ministros

Alejandro GORDILLO 1)
Embajador del Perú en Colombia

ASESORES

Roberto ABUSADA
Asesor del Ministro de Economía y Finanzas

Marino COSTA 1)
Ministro de Salud

Humberto GOBITZ
Asesor del Ministro de Economía y Finanzas

Italo MUÑOZ
Asesor del Ministro de Economía y Finanzas

Carlos ORELLANA
Secretario de Prensa de la Presidencia

Carlos REATEGUI TRIGOSO
Congresista de la Republica

Jose SANCHEZ VEGA

Julio CARDENAS VELARDE
Jefe de Gabinete de la Secretaria General de la Presidencia

Manuel DEZA 3)
Consejero
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

Carlos LEON TRELLES
Congresista de la Republica

Martín NARANJO
Superintendente de Banca y Seguros

Demetrio PATSIAS MELLA
Congresista de la Republica

Pedro REY 1)
Ministro Consejero
Embajada del Perú en Colombia

Jorge VALDEZ CARRILLLO
Director General de Politica Bilateral

2) Asiste con cónyuge y otros acompañantes
1) Asiste con cónyuge
3) Asiste con otros acompañantes

PERÚ

ASESORES (Cont.)

Alberto YAGUI 1)
Director Ejecutivo Suplente
Banco Interamericano de Desarrollo

1) Asiste con cónyuge

PORTUGAL *

GOBERNADORES SUPLENTES TEMPORALES

Adriano TELLES DE MENEZES
Subdirector-Geral da Direcção-Geral de Assuntos Europeus e Relações Internacionais
Ministério das Financas

Nuno LEAL DE FARIA 1)
Director Adjunto
Departamento de Relações Internacionais
Banco de Portugal

ASESOR

Teresa C. COSTA
Conselheira
Escritório do Director Executivo
Banco Interamericano de Desenvolvimento

* No es miembro de la Corporación
1) Asiste con cónyuge

REINO UNIDO *

GOBERNADOR SUPLENTE

George FOULKES
Parliamentary Under-Secretary of
State for International Development

GOBERNADOR SUPLENTE TEMPORAL

Margaret CUND
Head
International Financial Institutions
Department

ASESORES

Alexandra ARCHBOLD
Alternate Executive Director
Inter-American Development Bank

Phillipa HOFFMAN
Private Secretary
Department for International
Development

* No es miembro de la Corporación

REPÚBLICA DOMINICANA

GOBERNADOR

Héctor VALDEZ ALBIZU 1)
Gobernador
Banco Central

GOBERNADORES SUPLENTES TEMPORALES

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Secretario de Estado de Finanzas

Manuel GARCÍA ARÉVALO 1)
Miembro de la Junta Monetaria
Banco Central de la República
Dominicana

ASESORES

Rafael CAMILO 1)
Director de la Oficina Nacional de Planificación

Clarissa DE LA ROCHA DE TORRES
Directora
Departamento Internacional
Banco Central de la República Dominicana

Julio ORTEGA 1)
Subsecretario Técnico de la Presidencia

Ernesto SELMAN 1)
Director Ejecutivo Suplente
Banco Interamericano de Desarrollo

1) Asiste con cónyuge

SUECIA *

GOBERNADORES SUPLENTES TEMPORALES

Bo JERLSTRÖM
Director
Division for Internatioal Development Cooperation
Ministry for Foreign Affairs

Asa ANDRAE
Desk Officer for the IDB
Division for International Development Cooperation
Ministry for Foreign Affairs

Eivor HALKJAER
Director
Department for Latin America
Swedish International Development Cooperation Agency

ASESORES

Marita ANDERSSON
Counselor
Office of the Executive Director
Inter-American Development Bank

Björn STERNBY
Ambassador of Sweden to Colombia

Marie ROSENCRANTZ
Second Secretary
Embassy of Sweden in Santafé de Bogotá

Torsten WETTERBLAD
Senior Policy Advisor
Swedish International Development Agency

* No es miembro de la Corporación

SUIZA

GOBERNADOR

Nicolas IMBODEN
Ambassador, Delegate of the Swiss
Federal Council for Trade Agreements
Federal Office for Foreign Economic Affairs

GOBERNADOR SUPLENTE

Adrian SCHLÄPFER
Chief, Latin American Section
Swiss Development Cooperation
Federal Ministry of Foreign Affairs

GOBERNADOR SUPLENTE TEMPORAL

Dominique JORDAN
Desk Officer for the IDB
Federal Office for Foreign Economic Affairs

SURINAME *

GOBERNADORES SUPLENTES TEMPORALES

Arnold HALFHIDE
Ambassador of Suriname to the
United States of America
Washington, D.C.

Winston CALDEIRA

ASESORES

S. KHEDOE-BHAROS

Adeline WEINERMAN

* No es miembro de la Corporación

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GOBERNADOR

Trevor SUDAMA
Minister of Planning and Development

GOBERNADOR SUPLENTE

Carlyle GREAVES
Permanent Secretary
Ministry of Planning and Development

ASESORES

Winston DOOKERAN
Governor
Central Bank of Trinidad and Tobago

Hamid O'BRIEN
Alternate Executive Director
International Monetary Fund

Eric JAMES
Counselor
Office of the Executive Director
Inter-American Development Bank

URUGUAY

GOBERNADOR SUPLENTE

Ariel DAVRIEUX
Director de la Oficina de Planeamiento y Presupuesto

GOBERNADORES SUPLENTES TEMPORALES

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Banco Central del Uruguay

Julio Mario IGLESIAS ALVAREZ
Vice Presidente
Banco de la República Oriental del Uruguay

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Ministerio de Economía y Finanzas

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Aureliano BERRO
Secretario General
Banco Central del Uruguay

Javier BONILLA SAUS
Consjero Principal
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

Carlos C. STÉNERI 1)
Representante Financiero en los Estados Unidos de América
Washington, D.C.

1) Asiste con cónyuge

VENEZUELA

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Ministro de Hacienda

GOBERNADOR SUPLENTE

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Ministro de Estado
CORDIPLAN

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Directora General Sectorial de Secretaría
Ministerio de Hacienda

Luis Alfonso LINARES
Director General Sectorial de Finanzas Públicas
Ministerio de Hacienda

ASESORES

Rianet ANGARITA
Director Análisis

León ARISMENDY
CORDIPLAN

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Cámara de Diputados

Tabeila BRIZUELA
Representante ante el
Fondo Monetario Internacional

Enzo DEL BUFALO 1)
Director Ejecutivo
Banco Mundial

Maritza IZAGUIRRE
Directora Ejecutiva
Banco Interamericano de Desarrollo

Gina MONTIEL
Consejero
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

Julián NEBREDA
Consejero
Oficina del Director Ejecutivo
Banco Interamericano de Desarrollo

1) Asiste con cónyuge

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Raúl Boada

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Colombia and Peru

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Ernesto A. Selman

Panama and Venezuela

Maritza Izaguirre
Rogelio Novey

United States of America

L. Ronald Scheman
Lawrence Harrington

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Austria, Italy and The Netherlands

Bruno Mangiatordi
María Kronsteiner

Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago

Barry J. Malcolm
George L. Reid

Bolivia, Paraguay and Uruguay

Orlando Bareiro Aguilera
Raúl Boada

Brazil

Antonio Cláudio Sochaczewski
Elcior Santana

Chile and Ecuador

Mario Marcel
Pedro Agüayo Cubillo

Colombia and Peru

Julio Angel
Alberto Yagui

Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua

María Antonieta de Bonilla
Edgard Antonio Guerra

Dominican Republic and Mexico

Moisés A. Pineda
Ernesto A. Selman

France, Germany and Switzerland

Marco Ferroni
Georges Cahuzac

Israel, Japan and Spain

Toru Kodaki
Marina Barda

Panama and Venezuela

Maritza Izaguirre
Rogelio Novey

United States of America

L. Ronald Scheman
Lawrence Harrington

COREA

Joonhyok Alex KIM
Deputy Director
Ministry of Finance and Economy

Dong-kyu SHIN
Counselor for Financial and Economic Services

REPÚBLICA POPULAR CHINA

Xiurong CAO
Deputy Division Chief
International Department
People´s Bank of China

Jian Hong OU
Second Secretary
Embassy of the People´s Republic of China in Colombia

Zhenming WANG
Deputy Director
International Department
People´s Bank of China

Yi YU
Division Chief
International Department
People's Bank of China

Qiping LIAO
Councellor
Ministry of Foreign Affairs

Jiliang SHI
Deputy Governor
People´s Bank of China

Zhanfeng WANG
Section Chief
General Affairs Office
People´s Bank of China

TAIPEI, CHINA

Tai-lai CHANG
Executive Assistant
Department of International Organizations
Ministry of Foreign Affairs

Chien-chung LAI
Assistant Secretary General
International Cooperation and
Development Fund

Su-yuan LIN
Assistant Director General
Foreign Exchange Department
Central Bank of China, Taipei

Yao-shing WANG
Deputy Director General
Bureau of Monetary Affairs
Ministry of Finance

Shu-o HUANG
Executive Assistant
Taipei Commercial Office in Colombia

Pan-shek LIN
Representative
Taipei Commercial Office in Colombia

Jia-Dong SHEA
Deputy Governor
Central Bank of China, Taipei

OBSERVADORES

ASIAN DEVELOPMENT BANK
P.O. box 789
Manila 0980

Ramamurthi SWAMINATHAN 1)
Secretary

ASOCIACIÓN LATINOAMERICANA DE INSTITUCIONES FINANCIERAS DE DESARROLLO (ALIDE)
Paseo de la República 3211
San Isidro
Lima

Carlos GARATEA YORI
Secretario General

Ricardo PALMA-VALDERRAMA 1)
Representante Especial
ante Organismos Internacionales

Noel LEZAMA MARTÍNEZ 1) a)
Presidente

BANCO CENTROAMERICANO DE INTEGRACIÓN ECONÓMICA
Apartado Postal 772
Tegucigalpa

Rubén Rafael BARAHONA COELLO
Jefe de Protocolo

José Manuel PACAS CASTRO
Presidente Ejecutivo

Jorge RODRÍGUEZ-MANCERA
Director Ejecutivo por Colombia

Ligia Lucia TAMAYO
Asistente del Director por Colombia

Chung-Dar LEI
Director por la República de China

Víctor PORTNOY 1)
Director por Argentina

Félix Garrid SAFIE PARADA
Asesor Jurídico a.i.

Marvin TAYLOR DORMOND 1)
Contralor

1) Asiste con cónyuge
a) También representa a Fondo de Crédito Agropecuario

BANCO LATINOAMERICANO DE EXPORTACIONES
Apartado 6-1497
El Dorado
Panamá

Daniel CASAL 1)
Primer Vicepresidente
Crédito y Mercadeo

José CASTAÑEDA 1)
Vicepresidente Ejecutivo

Christopher E.D. HESKETH 1)
Primer Vicepresidente - Tesorero

Rafael LUCK CHIN
Vicepresidente de Crédito y Mercadeo

BANCO MUNDIAL
Room MC12 - 750
1818 H Street, N.W.
Washington, D.C.

Mario DEL CARRIL
External Affairs Manager for Latin America and the Caribbean

Clemente DEL VALLE
Principal Financial Specialist
Capital Markets Development Department

John GARRISON
Civil Society Liaison Officerr
World Bank

Anthony ODY
Special Advisor to the Vice President

Guillermo PERRY 1)
Chief Economist
Latin America and the Caribbean Region

Felipe SAEZ
Representante Residente
Santafé de Bogotá

Andrés SOLIMANO 1)
Director, Country Management Unit for Colombia, Ecuador and Venezuela
Latin America and the Caribbean Region

CARIBBEAN COMMUNITY
Bank of Guyana Building
P.O. Box 10827
Avenue of the Republic
Georgetown

Carla BARNETT
Deputy Secretary-General

1) Asiste con cónyuge

CARIBBEAN DEVELOPMENT BANK
P.O Box 408
Bridgetown

Neville NICHOLLS
President

COMISIÓN ECONÓMICA PARA AMÉRICA LATINA Y EL CARIBE (CEPAL)
Edificio Naciones Unidas, Casilla 179-D
Avenida Dag Hammarskjold
Santiago

José Antonio OCAMPO
Executive Secretary

COMMISSION OF THE EUROPEAN COMMUNITIES (CEC)
200 Rue de la Loi
1049 Brussels

Eduardo LECHUGA
Santafé de Bogotá

COMUNIDAD ANDINA DE NACIONES
Paseo de la República 3895
San Isidro
Lima 18

Sebastián ALEGRETT 1)
Secretario General

Jorge VEGA 1)
Director General

CONSEJO MONETARIO CENTROAMERICANO
Apartado Postal 5438
1000 San José

Juan José PAIZ 1)
Secretario Ejecutivo, a.i.

Adriana PRADO-CASTRO
Coordinadora Regional Cam 96.001
Prog. Naciones Unidas

1) Asiste con cónyuge

CORPORACIÓN ANDINA DE FOMENTO
Edificio CAF, Torre Central, Piso 10
Altamira
Ave. Luis Roche y 1ª Transversal
Caracas 5086

Camilo ARENAS
Ejecutivo Principal
Vicepresidencia de Instituciones Financieras

Felix BERGEL 1)
Gerente de Emisiones Internacionales

Ana Mercedes BOTERO
Secretario y Jefe de
Relaciones Externas

Lilliana CANALE NOVELLA
Representante en Colombia

Stephen FOLEY 1)
Vice-Presidente

L. Enrique GARCÍA 1)
Presidente Ejecutivo

Rodrigo NAVARRÓ 1)
Gerente Corporativo

Luis PALAU 1)
Vice Presidente de Banca Corporativa

Hugo SARMIENTO
Vice Presidente de Finanzas

Claudia ZAMBRANO
Asesora de Prensa

CORPORACIÓN FINANCIERA INTERNACIONAL
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 204333

Stefania BERLA
Senior Syndications Officer

Haydee CELAYA 1)
Manager
Capital Markets Division
Latin America and Caribbean
Department

Bonnie L. GALAT
Senior Syndications Officer

Suellen LAZARUS
Senior Manager

EUROPEAN INVESTMENT BANK (EIB)
100 Blvd. Konrad Adenauer
L-2950 Luxembourg

Luis MARTI 1)
Vice President

Patrick THOMAS 1)
Director for Asia and Latin America

1) Asiste con cónyuge

EUROPEAN INVESTMENT BANK (EIB) (Cont.)

Matthias ZOELLNER 1)
Lending Operations in Latin America

FEDERACIÓN IBEROAMERICANA DE ASOCIACIONES FINANCIERAS
Tucumán 612, 2° Piso
1049 Buenos Aires

Aldo R. DEFILIPPI TRAVERSO 1)
Consejero

Gianni GARIBALDI URAGA
Consejero

Augusto César MAGLIANO 1)
Secretario Ejecutivo

Alexander TURNER
Consejero

Isabel DROHAN 3)
Consejera

Rosa María GELPI
Miembro del Consejo Directivo

José NICOLINI LORENZONI 1)
Consejero, Vicepresidente Primero

FEDERACIÓN LATINOAMERICANA DE BANCOS
Carrera 11A No. 93-67, Oficina 202
Santafé de Bogotá

Maricielo GLEN DE TOBÓN
Secretaria General

FONDO FINANCIERO PARA EL DESARROLLO DE LA CUENCA DEL PLATA
España 74
Sucre

Rene Carlos DELGADO VERTIZ
Director Ejecutivo por Uruguay

Carlos Aníbal MARTÍNEZ
Director Ejecutivo por Argentina

Raúl Ernesto LAFUENTE PEÑA 1)
Secretario Ejecutivo

Luis Fernando TERRAZAS SALAS 1)
Presidente del Directorio Ejecutivo

1) Asiste con cónyuge
3) Asiste con otros acompañantes

FONDO LATINOAMERICANO DE RESERVAS (FLAR)
Carrera 13 No. 27-47, Piso 10
Santafé de Bogotá

Roberto GUARNIERI 1)
Presidente Ejecutivo

Manuel MARTÍNEZ
Secretario General

FONDO MONETARIO INTERNACIONAL (FMI)
700 - 19th Street, N.W.
Washington, D.C. 20431

Francisco BAKER MEIO
Senior Information Officer
External Relations Department

Alfredo LEONE
Jefe de División de Asuntos
Financieros y Bancos

Armando S. LINDE
Senior Advisor

Claudio M. LOSER
Director
Western Hemisphere Department

INSTITUTO INTERAMERICANO DE COOPERACIÓN PARA LA AGRICULTURA
Apartado Postal 55
2200 Coronado
San José

Larry M. BOONE
Subdirector General

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
107, Via del Serafico
00142 Rome

Raquel PEÑA MONTENEGRO
Director
Latin America and Caribbean Division

1) Asiste con cónyuge

INTERNATIONAL INVESTMENT BANK (IIB)
7, Masha Poryvayeva Str.
D-557 Moscow

Raúl AMADO-BLANCO Deputy Chairman	1)	Alexej SHEMAKIN Senior Adviser

NACIONES UNIDAS
Room 3800
New York, New York 10017

Kristian HOLGE Asesor Colombia UNDCP		Patricia LLERENA Asesora en Lavado de Activos UNDCP
Klaus NIHOLM Representante en Colombia UNDCP		Rodrigo PARIS-STEFFENS Director General ILANUD

NORDIC DEVELOPMENT FUND (NDF)
P.O. Box 185
00171 Helsinki

Maria BOURONCLE Regional Manager		Jens Lund SORENSEN President

NORDIC INVESTMENT BANK (NIB)
Unioninkatu 30
SF-00171 Helsinki

Erkki KARMILA Executive Vice President	1)	Lars-Ake OLSSON Vice President
Jon SIGURDSSON President	1)	

1) Asiste con cónyuge

OPEC FUND FOR INTERNATIONAL DEVELOPMENT
Park Ring 8
1010 Vienna 1

Luis GONZÁLEZ ROJAS 1)
Senior Operations Officer

ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD)
2 rue André Pascal
75116 Paris Cedex 16

Jean BONVIN
President
Development Centre

ORGANIZACIÓN DE LAS NACIONES UNIDAS PARA LA AGRICULTURA Y LA ALIMENTACIÓN (FAO)
Via delle Terme di Caracalla
00100 Rome

Maria Guilhermina TEXEIRA SOARES
Representante en Colombia

ORGANIZACIÓN DE LOS ESTADOS AMERICANOS
17th and Constitution Avenue, N.W.
Main Building No. 20
Washington, D.C. 20006

Ricardo AVILA
Jefe de Gabinete
Oficina del Secretario General

Zoila GIRÓN
Senior Specialist

David BEALL
Secretario Ejecutivo
CICAD

Benno SANDER
Director de Desarrollo Social y Educacion

1) Asiste con cónyuge

ORGANIZACIÓN PANAMERICANA DE LA SALUD (OPS)
525 - 23rd Street, N.W.
Washington, D.C.

George ALLEYNE
Director

Edward GREENE
Consultant

Maritza ROMERO PORTUONDO
Consejera Mujer, Niñez y Adolescencia

Catherine DICKSON
NGO Liaison Officer
Office of External Relations

Irene KLINGER
Chief
Office of External Relations

PROGRAMA DE LAS NACIONES UNIDAS PARA EL DESARROLLO (PNUD)
One United Nations Plaza
New York, NY 10017

Sofía BOTERO URIBE
Asesor Técnico Principal
Program NU para el Desarrollo

Paolo OBERTI
Representante Residente
Santo Domingo

Majorie THORPE
Resident Representative

Fernando E. ZUMBADO J.
Assistant Administrator

Doreen BOYD
Poverty Adviser

Pedro José SALCEDO DONADO
Consultor PNUD

Francesco VINCENTI
Representante Residente
Programa de las Naciones Unidas para el Desarrollo

SISTEMA ECONÓMICO LATINOAMERICANO (SELA)
Av. Francisco de Miranda
Ed. CEPE, Piso 1
La Carlota
Caracas

Eduardo MAYORBE
Asesor Especial

UNITED NATIONS CHILDREN'S FUND
3 United Nations Plaza
New York, NY 10017

Marta MAURAS
Directora Regional para América Latina
y el Caribe

Sarita MENENDEZ
Oficial Nutrición

Alberto MINUJIN
Regional Advisor on Social Policy
for Latin America

Marisol QUINTERO
Oficial Asistente de Comunicaciones

UNITED NATIONS EDUCATIONAL, SCIENTIFIC AND CULTURAL ORGANIZATION (UNESCO)
7, Place de Fontenoy
75352 Paris 07 SP

Jorge NIETO MONTESINOS
Jefe, Unidad para la Cultura

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre
Wagramer Strasse 5
A-1400 Vienna

Jorge CEQUEIRA
Consultor

Víctor HINOJOSA-BARRAGAN
Oficial encargado del Programa de Promoción
de Inversiones

Peter SKUPCH
Country Director for Colombia