



ANNUAL MEETING OF THE BOARDS OF GOVERNORS

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REMARKS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS OF THE
INTER-AMERICAN DEVELOPMENT BANK AND THE
INTER-AMERICAN INVESTMENT CORPORATION
AT THE INAUGURAL SESSION

Martus Antônio Rodrigues Tavares

1. First of all, I want to welcome you personally and on behalf of the Brazilian government. After 22 years, Brazil is once again host to the Annual Meeting of the Boards of Governors of the Inter-American Development Bank and of the Inter-American Investment Corporation.
2. The IDB has historical ties with Brazil. We are honored that the birth of the institution was inspired by President Juscelino Kubitschek, who in 1958 proposed to the countries of Latin America that they should launch a plan of cooperation to foster progress in the region.
3. In the last four decades, the Bank has been transformed into an institution that goes far beyond purely technical and financial considerations. Today, not only is it the leading source of multilateral credit, but it is also a resource center for the analysis and discussion of any regional issue.
4. It is an honor and a great responsibility to be addressing you in my capacity as chairman of the Boards of Governors. I would like to discuss some of the main concerns of the region with respect to the role of the Bank in promoting our development.
5. Since our last meeting in Santiago, Chile, in March 2001, the international economic situation has changed, and unfortunately for the worse. A series of unfavorable developments and, of course, the tragic events of September 11 in the United States, have increased tension and undermined confidence among investors, and have brought to the surface some of the weaknesses afflicting our region.

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

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

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

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

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

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

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

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

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

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

16. At the same time, we cannot overlook the fact that capital flows have been very volatile in recent years, regardless of policies adopted to stimulate investment. The emerging countries have only limited capacity to influence or reduce this volatility.
17. As you know, a debate over the world's financial architecture is under way in the multilateral financial institutions, and in particular the International Monetary Fund, with heavy involvement of the industrialized nations.
18. Many of our macroeconomic problems have been aggravated by increasing difficulties in accessing international financial markets. We therefore need to pool our efforts to restore and expand those flows.
19. On this point, I believe the IDB has an essential and strategic role to play.
20. On one hand, it needs to exert its influence solidly in defense of the region's interests in discussions with other multilateral agencies. Recent episodes indicate how urgent it is to seek a change in the international financial architecture so as to reduce the instability of financial flows and make them more predictable.
21. On the other hand, the Bank needs to provide help to countries of the region in situations where the flow of capital is interrupted. In this respect, the new Emergency Line that is being voted on is an important achievement and could be supplemented, perhaps, with other mechanisms.
22. I also want to highlight the work of the Committee of the Board of Governors, which has devoted the last few months to discussing proposals for enhancing the Bank's capacity to respond to the new needs of the borrowing member countries.
23. We also need to reinforce the concept of development effectiveness, which means choosing projects with a greater impact on poverty reduction and environmental preservation. (In Brazil, we have adopted this practice with our Avança Brasil programs.)
24. It is important to remember that the IDB has been engaged in important reforms since 1998, and that it has come up with new instruments for meeting the region's needs. The agreement on the Fund for Special Operations is unquestionably an achievement that must be preserved.
25. Another substantial advance is the increase in the limit on lending to the private sector from 5 percent to 10 percent of the Bank's capital. I suggest that this initiative be combined with other measures to give the private sector more flexible access to loans, bearing in mind the diminishing capacity of the public sector to finance infrastructure works.
26. Brazil and, I believe, the other countries of Latin America and the Caribbean have no doubts as to the basic objectives of the IDB, which are oriented towards reducing

poverty and social inequity and supporting sustained growth. All of us concur that the priority areas of activity should be social development, modernization of the State, competitiveness and regional integration.

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

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

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

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

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

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

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

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

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

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

37. Direct income transfer programs amounted to about US\$12 billion last year, a figure that makes those programs among the largest in the world.
38. It is true that the unfavorable international economic situation in 2001 meant that Brazil's economic growth expectations were frustrated to some extent. The country ended the year with GDP growth of 1.5 percent.
39. At the same time, the prompt economic policy response helped to bolster the confidence of economic agents. As well, despite short-term instability, our macroeconomic fundamentals continued to improve, thanks to the policy of setting inflation targets, consistent with a floating exchange rate and fiscal discipline.
40. With stable domestic prices, exports rose by 5.7 percent, securing a trade surplus of US\$2.6 billion. Combined with the inflow of foreign investment of more than US\$20 billion, the result was equilibrium in the balance of payments.
41. The difficulties of 2001 also served to restore our own confidence in the country and in our capacity to confront and overcome other challenges. And they reinforced our conviction that reforms are key to the success of policies for enhancing the region's competitiveness.
42. I also would like to say something in this distinguished forum about our neighbor Argentina, Brazil's principal partner in South America, and one that is strategic to our bilateral trade, to building MERCOSUR and to the defense of democracy.
43. We have been following developments in Argentina's economic and social situation very closely, and particularly the turmoil that marked the end of the convertibility regime at the beginning of 2002.
44. We have been and will be making common cause with Argentina, both in our words and in our actions.
45. I am confident that the Inter-American Development Bank has the sensitivity to understand the urgent need for efforts to avoid a more prolonged economic decline in Latin America and the Caribbean. That would mean more sacrifices for our people, and it could compromise support for the reform process.
46. It would surely be a setback that no one wants to see.
47. Let me close my remarks by thanking you for electing me to chair the Boards of Governors. I assure you that Brazil will live up to your expectations. Please consider yourselves very welcome, and enjoy the beauty and hospitality of our land.