INTER-AMERICAN DEVELOPMENT BANK INTER-AMERICAN INVESTMENT CORPORATION

ANNUAL MEETING OF THE BOARDS OF GOVERNORS

FORTALEZA, BRAZIL

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,

AT THE INAUGURAL SESSION OF THE ANNUAL MEETING OF THE BOARDS OF GOVERNORS

11 March 2002

A. Introduction

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

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

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

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

B. The region's economy in 2001

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

This disappointing showing can be attributed to three main factors.

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

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

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

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

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

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

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

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

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

> If these forecasts are borne out, Latin America and the Caribbean stand to gain with recovery of commodity and services markets particularly in the assembly and tourism industries, prime movers of these economies that are so closely linked to the U.S. economy.
>
> But even in the best case it would likely be 2003 before we see any generalized improvement. Given the slow-growth forecasts, this year does not look promising.

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

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

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

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

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

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

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

- **Reducing social costs**

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

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

- **Rekindling growth**

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

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

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

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

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

- **Lessening external vulnerability**

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

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

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

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

- **Regional integration**

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

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

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

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

C. Questioning the reforms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

> **First**, country institutions need to be equipped to underpin the reform process. At the outset, reform programs focused more on enacting well-designed laws and standards than on the caliber or independence of the institutions that would be called upon to implement them, or on the incentives in place for that purpose. In other cases there were no political and societal oversight mechanisms to watch over those institutions and make sure they operated efficiently and transparently.
>
> The early reforms set out to dismantle price controls, lower tariffs, privatize State enterprises, and eliminate distorting financial-market interventions, and thus required little institutional support. The problem in subsequent stages was that countries were unable to develop the institutions needed to regulate privatized enterprises, apply and enforce financial regulation and oversight standards, collect taxes, and establish new mechanisms to support efficient financing and expansion of markets.
>
> A **second** factor is the role of the international economic situation. As we noted earlier, the volume, makeup, and cost of funds available to Latin America and the Caribbean have been volatile. As a result, the volatility on the international scene diminished the reforms' impact on investment and growth and heightened macroeconomic instability. Two imperatives now are to increase savings, as I noted earlier, and to advance on the agreements concluded at last year's landmark World Trade Organization meeting in Doha. As the Director-General of the WTO pointed out a few weeks ago, cutting barriers to agricultural and textile trade in half would, by itself, boost developing-country income by more than US$200 billion over the next fifteen years.

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

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

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

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

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

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

D. New challenges for the Bank

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

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

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

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

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

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

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

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

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

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

In such situations the Bank's role is to supplement the core function of the International Monetary Fund, fitting its support within its mandated lines of action.

The IDB, like any financial institution, cannot be immune from financial risk. With that in mind, the watchwords of our financial management have always been prudence and moderation. Thanks to that philosophy and the member countries' commitment, throughout our history, to this great cooperative we know as the IDB, our institution's securities have consistently earned the highest ratings in financial markets. This should be a source of immense pride for the Bank and all its shareholders.

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

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

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

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

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

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

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

E. Closing remarks

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

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

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

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

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

> **First**, the process which led up to the Charter's signature shows that more and more leaders and authorities share the public's concerns about democracy's failings in our region.
>
> **Second**, on the matter of threats to democracy the Charter addresses not only sudden or irregular interruptions of the democratic institutional political process—coups d'état, as they are known—but also any unconstitutional deviation from or rupture of the democratic order, such as self-administered coups, the dissolution of legislatures, electoral fraud, and media shutdowns.
>
> **Third**, the Charter is one piece of a larger process to build the democracy clause into hemispheric integration processes.

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

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

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

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