



ANNUAL MEETING OF THE BOARDS OF GOVERNORS

FORTALEZA, BRAZIL

AB-2199
CII/AB-836
12 March 2002
Original: Spanish

**ADDRESS BY THE GOVERNOR FOR PERU
AT THE THIRD PLENARY SESSION**

Pedro Pablo Kuczynski

1. I would like to begin by thanking the Brazilian people and authorities for the warmth and hospitality they have demonstrated during this meeting. I would also like to congratulate President Iglesias and the Management of the Bank and the Corporation for their commendable performance in today's difficult economic climate.
2. The message we would like to send today is that the Bank should continue to cooperate with the countries of Latin America and the Caribbean in working towards sustained development. The loans that support policy reforms are crucial to this task, particularly for countries like ours, which are in gradual transition toward the use of domestic and international capital markets. Such access, which is always tenuous, does not mean that the Bank should provide less cooperation for countries in transition. Hence, I echo the remarks by the Governor for Colombia.
3. Another very important area is private investment. We believe that the Bank should provide more support and devote more funds to this task, similar to what the European Bank for Reconstruction and Development is doing. The Gurría Report contains many ideas that merit study and development. We should not be timid. Without private investment in the 21st century, neither growth nor employment will be possible.
4. I would like to express our support for the agreement reached recently on the IDB's new lending framework for its borrowers. We believe that the situation in the region requires an appropriate and firm response from the international community to preserve the great transformations that have been made in recent years, which have placed the region, once again, on the long road to sustainable development. Given the context, we have greater need than ever for a Bank that gives its borrowers sufficient flexibility to respond, in a relevant and timely fashion, to the new demands arising in the region.
5. We are pleased that the IDB's new lending framework maintains the policy-based loans (PBLs) as a tool to help preserve economic stability in our countries and combat poverty by deepening structural reforms in our economies. At a time when the effectiveness

of many reforms is being questioned in some sectors, must be shown that it is precisely a lack of depth and perseverance in applying these reforms that has made it impossible for some economies to increase their productivity in a globalized world, which has led to lower levels of well-being.

6. I firmly believe that in order to restore sustained growth in the region we must intensify structural reforms and implement the so-called second-generation reforms. This will raise our productivity to enable us to compete in a globalized world and will extend the benefits of the market economy to large sectors of our population. Therefore, when I talk about sustained growth, I am not simply referring to ongoing growth in our economies. I am also referring to inclusive growth.

7. It is highly important for the IDB to continue to support us in implementing these reforms, both financially and with technical assistance. We hope that the caps we have approved for the different categories of loans do not become a constraint on the Bank in achieving its development objectives in the region. We urge Management and the Board of Executive Directors to continue to seek new lending instruments that respond to the countries' new and growing demands, maintaining its relevance for its borrowers while watching over the institution's financial health.

8. I would like to underline that the IDB plays another very important role in the region related to the development of the private sector in our countries. The various Bank facilities should be reinforced to give the private sector in our countries access to long-term financing on appropriate terms.

9. We are pleased with the increase in the cap on private sector lending from 5 percent to 10 percent and the removal of the restrictions on nationality that had formerly been placed on the Inter-American Investment Corporation in lending to small and medium-sized industry in the region. We hope that the Private Sector Department can continue providing financial support for the private sector that invests in infrastructure, channeling its own resources and encouraging private banks to participate in its projects. We also hope that it can play an important role in developing our capital markets, which is a determining factor for increasing savings in the region. The private sector is the engine of growth and its relative importance has increased in relation to the public sector, which must use its scarce resources to combat poverty and promote suitable conditions to enable private investment and lead to sustained growth.

10. The IDB has played an important role in promoting these conditions in the countries and we believe that this is the time to step up the Bank's role in support of the region's private sector. The upcoming negotiations on free trade areas make it a priority to boost the region's competitiveness. The IDB has much work to do in promoting the use of new technologies through new foreign investment, training for human resources and, in general, mobilizing external financing for the region.

11. We commend the establishment of a task force to facilitate replenishment of the Multilateral Investment Fund, whose mandate has recently been extended to 2005. It would also be advisable to use this replenishment exercise to give it a new mandate that responds to our countries' new needs, particularly in areas linked to international trade.

12. With regard to the Inter-American Investment Corporation, we understand Management's efforts to comply with the Charter's mandate, which calls for promoting development by lending long-term capital to small and medium-sized enterprises in the region, while obtaining returns on its operations. The Corporation's current structure undoubtedly makes it difficult to comply with this mandate. Making relatively small loans to mid-sized enterprises in a region where market volatility often leads to instability, with an administrative structure based in Washington, means that administrative and monitoring costs are considerable and complicates the project-identification process. We urge the Corporation's Board of Directors and Management to tackle these problems, drawing on the experience of successful institutions that lend to SMEs.

13. Much has been said recently about the impact of the IDB's programs on the region's development. It is important for the benefits of these reforms to reach our poorest citizens. This task is a shared responsibility of the countries and the Bank. In this regard, I would like to acknowledge and firmly support the Bank's efforts to improve its tools for measuring the impact of its projects on country development and the fight against poverty.

14. In conclusion, I would like to renew the invitation that Peru has extended at recent Annual Meetings to host the Annual Meeting of the Board of Governors in 2004. It would be a great pleasure for the Peruvian people and government to receive you in our country.