

SANTIAGO, CHILE

AB-2101  
CII/AB-752  
19 March 2001  
Original: English

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

*William E. Schuerch*

1. I would like to begin by thanking the Chilean authorities and Minister Nicolas Eyzaguirre for hosting this meeting and on behalf of President Iglesias and fellow Governors to say how pleased we are to be in the beautiful city of Santiago.
2. The United States would like to express its appreciation for the honor of chairing the Board of Governors during a challenging and successful year for Latin America and the Caribbean and for the Inter-American Development Bank.
3. During the campaign, President Bush promised to look to the South “as a fundamental commitment” of his presidency and to make the next hundred years the “Century of the Americas.” Increased trade, free-markets and democracy are at the heart of President Bush’s strategy to achieve this goal. President Bush desires an equal partnership with all of the countries in Latin America based on mutual respect and trust. Secretary O’Neill and the entire Treasury team are strongly committed to working with each partner country to make the Inter-American Development Bank even more effective at development and poverty reduction. The U.S. has always played an important role in the success and effectiveness of the IDB, and the new Administration will continue its leadership and support for reform and growth.
4. Last year in New Orleans, we reflected on what the previous decade had meant to Latin America, on how it was a period of reform, a period when governments began to embrace free markets and global integration. Even during times of difficulty, when reform historically has waned, many governments pushed forward.

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

- Brazil's balance of payments crisis just two years ago was greatly diminished due to appropriate and quickly implemented policies that reassured both investors and consumers. Today, Brazil is expected to have one of the highest growth rates and lowest inflation rates in the region.
- In 1998, when sinking oil prices jeopardized Mexico's budget deficit target, the government cut spending on three different occasions. Market confidence increased, and Mexico received an investment grade rating in March 2000.
- And of course, Chile stands out as an example of how appropriate policies can alter the course of an economy. I first visited Chile in 1981, when the face of economic hardship could be seen in the empty shops and closed down businesses. That is clearly not the case today. Now we see a vibrant economy nurtured by extensive, sustained economic reforms.

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

#### *Fiscal and Monetary Discipline*

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

#### *Trade and Integration*

8. Trade with this hemisphere is a priority for President Bush. As the former governor of a major border state, he has seen the free exchange of goods and services across borders spark economic growth, opportunity, dynamism, fresh ideas and democratic values. He understands that trade liberalization can enable countries to benefit

from expanding regional and global trade and can help boost our collective recovery from the present economic slowdown. For these reasons, President Bush has recently reaffirmed the United States Government's strong commitment to trade negotiations such as a Free Trade Agreement with Chile and renewal of the Andean Trade Preference Act. The Bush Administration is also looking forward to upcoming discussions on the Free Trade Area of the Americas at the Buenos Aires Trade Ministerial and the Quebec Summit of the Americas.

#### *National Balance Sheets*

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

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

#### *Strengthening Financial Systems*

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

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

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

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

### *CHFI*

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

### *Sound Policies, Transparency and Corruption*

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

### *Role of the IDB*

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

18. Important progress has been made in the past few years in achieving key goals of the 8th Replenishment. We agree with focusing implementation on four areas: social sector reform, modernization of the state, competitiveness and regional integration. Implementation, however, must promote our fundamental goals of poverty reduction, social equity and environmentally sustainable growth.

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

### *Review of Policies and Instruments*

20. Just as the region continues to face challenges, so too does the Bank. Looking to the future, we need to be sure that the IDB's range of policies and lending and non-lending instruments are meeting today's needs and are ready for tomorrow's challenges. We welcome the recent discussion papers and are ready to consider these and related

MDB reform issues in the context of a Governors' working group. We must keep in mind that the world increasingly asks if development assistance really works. Taxpayers are increasingly skeptical and frustrated with development programs that fail to achieve results. "Are we getting what we've paid for?" is a legitimate question that needs a solid answer, particularly as we consider new lending programs, which propose to move even further away from traditional investment approaches.

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

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

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

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

#### *HIPC Debt Relief*

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

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