PROCEEDINGS

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

Eleventh Annual Meeting
of the Board of Governors of the Corporation

Buenos Aires, Argentina, March 1996
This publication contains the official record and supplementary information relating to the Thirty-seventh Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Eleventh Annual Meeting of the Board of Governors of the Inter-American Investment Corporation, held jointly in Buenos Aires, Argentina, March 25–27, 1996. It includes the resolutions adopted between the Thirty-sixth and Thirty-seventh Annual Meetings of the Bank and in the course of the latter and those adopted between the Tenth and Eleventh Annual Meetings of the Corporation and in the course of the latter. It also contains the addresses delivered at the meetings and lists of participants, including official delegations, officers of the meetings, senior officials and members of the Board of Executive Directors of the Bank and of the Corporation, and observers from nonmember countries and international organizations.
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OFFICIAL RECORD OF THE MEETING
The Thirty-seventh Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Eleventh Annual Meeting of the Board of Governors of the Inter-American Investment Corporation were held in Buenos Aires, Argentina, March 25-27, 1996. The Inaugural Session took place in the Liberator Room of the Sheraton Hotel Buenos Aires. The plenary working sessions of the Boards of Governors of the Bank and the Corporation, as well as the Seventieth Meeting of the Committee of the Board of Governors of the Bank and the Twelfth Meeting of the Committee of the Board of Governors of the Corporation were also held in the Liberator Room.

The Inaugural Session opened with Mr. Jacob A. Frenkel, Governor for Israel, in the Chair. The agendas for the Meeting of the Bank and the Meeting of the Corporation (see page 9) were then approved. The Mayor of Buenos Aires spoke a few words of welcome. The outgoing Chairman said a few 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 last Annual Meeting. Mr. Domingo Cavallo, Governor for Argentina and Minister of Economy, was elected Chairman and presided over the Meeting.

His Excellency Mr. Carlos Saúl Menem, President of Argentina, was present during the Inaugural Session.

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

1. Report of the Chairman of the Boards of Governors of the Bank and the Corporation and the Chairman of the Committee of the Board of Governors of the Bank on the work completed since the last Annual Meeting.

At the Inaugural Session, the Bank’s Board of Governors approved the report from the Committee of the Board of Governors of the Bank and the Board of Governors of the Corporation on the work developed since the last Annual Meeting.

1 Documents GN-1934 and CII/GN-104 contain detailed summaries of the meetings.
2 Documents AB-1714 and CII/AB-384 contain the text of said reports.

At the Inaugural Session, the President of the Bank reported to the Board of Governors on the institution’s activities in 1995, the current situation and the outlook for Latin America and the Caribbean.

3. At the Second Plenary Session, the Governors approved the financial statements of the ordinary capital resources, the Fund for Special Operations, and the Intermediate Financing Facility account for the fiscal year ending December 31, 1995, as set forth in Resolutions AG-1/96, AG-2/96 and AG-3/96, respectively.

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$15,500,000 in convertible currencies from the General Reserve of the Fund for Special Operations, as set forth in Resolution AG-2/96.


Resolution AG-4/96, concerning the site and date of future Annual Meetings of the Boards of Governors of the Bank and the Corporation, was adopted at the Fifth Plenary Session. Thanks were expressed for the invitations extended by the Governors for Spain and Colombia, and for those extended during the Thirty-seventh Annual Meeting of the Board of Governors. The Board of Executive Directors was also 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 appearing in document AB-476-2.

5. Election of the Board of Executive Directors for the 1996-99 period.

At the Closing Session, held immediately after the Fifth Plenary Session, the results of the thirteenth general election of the Board of Executive Directors of the Bank were announced. The Governors empowered to vote under Article VIII, Section 3(b)(ii) of the Agreement Establishing the Bank, elected the following persons Executive Directors, to remain in office from July 1, 1996 until June 30, 1999:

Mr. Guy Lavigueur Canada
Mr. A. Humberto Petrei Argentina and Haiti
Mr. Antonio Cláudio Sochaczewski Brazil and Suriname
Mr. Moisés Pineda Dominican Republic and Mexico
B. Matters Considered by the Board of Governors of the Corporation


At the Fourth Plenary Session, and pursuant to the provisions of Article IV, Section 2(c) of the Agreement Establishing the Corporation, its Governors approved the financial statements of the Inter-American Investment Corporation for the fiscal year ending December 31, 1995, in the terms appearing in Resolution CII/AG-1/96.

2. At the Fourth Plenary Session, the Corporation’s Board of Governors took note of the report from the Chairman of the Board of Executive Directors on its activities and of the report of the General Manager ad interim of the Inter-American Investment Corporation on its work and on its plan for the immediate future.

3. Election of Executive Directors of the Inter-American Investment Corporation for the 1996-99 period

At the Closing Session, held immediately after the Fifth Plenary Session, the fifth general election of Executive Directors of the Corporation was held. The Governors empowered to vote under Article IV, Section 4(c) of the Agreement Establishing the Corporation elected the following persons Executive Directors, to remain in office from July 1, 1996 to June 30, 1999:

Mr. A. Humberto Petrei
Mr. Antonio Cláudio Sochaczewski
Mr. Moisés Pineda Padrón
Miss Maritza Izaguirre
Mr. Julio Angel
Mr. Andrés Solimano

Argentina and Haiti
Brazil
Dominican Republic and Mexico
Panama and Venezuela
Colombia and Peru
Chile and Ecuador
Mr. Javier Bonilla Saus
Mrs. María Antonieta del Cid de Bonilla
Mr. Barry Malcolm

Mr. Jan Heidsma
Mr. Gert-Robert Liptau
Mr. Germán Bejarano

Bolivia, Paraguay, and Uruguay
Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua
Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago
Austria, Italy, and the Netherlands
France, Germany and Switzerland
Israel, Japan and Spain

Carlos Ferdinand
Secretary of the Bank and of the Corporation
AGENDAS

Agenda of the Thirty-seventh 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 accomplished since the last Annual Meeting

2. Election of the Chairman of the Board of Governors

   • Ordinary capital resources
   • Fund for Special Operations
   • Intermediate Financing Facility Account

4. Election of Executive Directors for the term 1996 to 1999

Agenda of the Eleventh Annual Meeting of the Board of Governors of the Inter-American Investment Corporation

1. Election of the Chairman of the Board of Governors


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 Tenth Annual Meeting

5. Election of Executive Directors for the term 1996 to 1999
RESOLUTIONS ADOPTED BETWEEN THE THIRTY-SIXTH AND
THIRTY-SEVENTH ANNUAL MEETINGS OF THE BANK
RESOLUTION AG-5/95
SELECTION OF OUTSIDE AUDITORS

WHEREAS the Board of Executive Directors asked Bank Management to use international competitive bidding procedures as the basis for making a recommendation to the Board of Governors for the selection of outside auditors for the five fiscal years 1995 through 1999;

WHEREAS Bank Management conducted an international competitive bidding process using procedures and methodologies reviewed and approved by the Budget, Financial Policies and Audit Committee of the Board of Executive Directors;

WHEREAS the firm of Arthur Andersen LLP was selected as a result of the international competitive bidding process and has agreed with the Bank to a five year contract for external auditing services; and

WHEREAS the Board of Executive Directors has recommended to the Board of Governors that the firm of Arthur Andersen LLP be selected to serve as outside auditors of the Bank with respect to each of the fiscal years 1995 through 1999;

The Board of Governors

RESOLVES:

That, pursuant to Article VIII, Section 2(b)(x) of the Agreement Establishing the Bank, the firm of Arthur Andersen LLP is selected, with respect to each of the fiscal years 1995 through 1999, to serve as outside auditors to certify to the general balance sheet and the statement of profit and loss of the Bank, in accordance with Section 10 of the By-Laws.

(Adopted April 25, 1995)

RESOLUTION AG-6/95
REMUNERATION OF THE PRESIDENT OF THE BANK

WHEREAS:

The Committee of Governors designated pursuant to Resolution AG-7/91 has examined the situation with respect to the remuneration of the President of the Bank and made recommendations in that regard;

The Board of Governors

RESOLVES:

To accept the recommendations of the Committee and, pursuant to Article VIII, Section 2(b)(iii), of the Agreement Establishing the Bank, to increase by seven percent the
remuneration paid to the President of the Bank. The said increase shall be effective April 1, 1995.

(Adopted May 31, 1995)

RESOLUTION AG-7/95
REMUNERATION OF EXECUTIVE DIRECTORS

WHEREAS:

The Committee of Governors designated pursuant to Resolution AG-8/91 has examined the situation with respect to the remuneration of the Executive Directors and the Alternate Executive Directors and made recommendations in that regard;

The Board of Governors

RESOLVES:

To accept the recommendations of the Committee and, pursuant to Article VIII, Section 2(b)(v), of the Agreement Establishing the Bank, (a) to increase by 2.75 percent the remuneration paid to the Executive Directors; and (b) to confirm that the total remuneration of the Alternate Executive Directors stands at the equivalent of 85 percent of the total remuneration paid to the Executive Directors. The said increase shall be effective April 1, 1995.

(Adopted May 31, 1995)

RESOLUTION AG-8/95
ESTABLISHMENT OF A TECHNICAL COOPERATION FUND

WHEREAS the Committee of the Board of Governors has given consideration to the possibility of establishing a Technical Cooperation Fund (hereinafter referred to as “FONTEC”) and has submitted recommendations to that effect to the Board of Governors;

WHEREAS technical cooperation is a key component of the Bank’s operations, affording as it does considerable support for project generation, institution-strengthening, and human-resources training through programs and projects that assist in efforts aimed at economic modernization, productive efficiency and social development;

WHEREAS the region’s need for technical cooperation is more pressing now than ever, as economic and financial transformations unfold and countries face new challenges in the sphere of social and economic development;

WHEREAS the nonreimbursable technical-cooperation funding expected to be available in the future is not expected to keep pace with the demand for such assistance on the part of its regional borrowing member countries;
WHEREAS establishing a Technical Cooperation Fund would be the best means of attracting and making use of a larger volume of financial resources for technical cooperation, within a consolidated strategy framework with objectives and targets to coordinate and otherwise ensure the efficacy of this area of the Bank's activity; and

WHEREAS under the terms of Article VI, Section 3(b), of the Agreement Establishing the Bank, the Board of Executive Directors may utilize a portion of the net income of the Fund for Special Operations (hereinafter referred to as “FSO”) to meet the expenses of providing nonreimbursable technical assistance;

The Board of Governors

RESOLVES THAT:

Section 1. Establishment and Objectives

(a) There is hereby established an independent account, to be known as the Technical Cooperation Fund Account (hereinafter referred to as the “FONTEC Account”), which shall consist of such monies as may from time to time be deposited thereto in accordance with the provisions of Section 3 of this resolution.

(b) The purpose of the FONTEC Account is to provide nonreimbursable financing for the Bank’s technical-cooperation operations with its developing member countries, in conformity with the policies governing such operations.

(c) The objectives of FONTEC are:

(i) To seek actively to attract and make effective use of technical-cooperation funds from a variety of sources.

(ii) To establish a consolidated strategy framework with objectives and targets to ensure effective and systematic management of technical-cooperation operations.

(iii) To contribute in the promotion of the Bank’s program of activities for the preparation of studies and the development of programs and projects that conform to the priorities established in the course of its programming exercises.

(iv) To help consolidate technical-cooperation policies, resources, and procedures, with the aim of greater institutional efficiency.

Section 2. Administration of the FONTEC Account

(i) The Bank shall have full powers to perform such acts and enter into such agreements and adopt such measures as may be necessary in pursuance of
achieving the objectives of the FONTEC Account, subject to the provisions of this resolution and to such regulations governing the operation of FONTEC as may be adopted by the Board of Executive Directors.

(ii) Until monies held in the FONTEC Account are expended for technical-cooperation operations that conform to the purpose of that account, the Bank may, with due regard to the policies and rules and procedures governing the investment of the Bank’s resources, invest those monies in securities, which may not include the Bank’s own debt securities. The Bank likewise may convert FONTEC Account holdings in one currency to another currency, as required for operations to be funded from the FONTEC Account. The income from such investments shall be deposited to the FONTEC Account and used for FONTEC operations.

(iii) The accounts, records, and financial statements of FONTEC Account monies and operations shall be kept and stated in dollars of the United States of America, and shall be segregated from the other accounts and records of the Bank, so as to allow for the identification of assets, liabilities, income, costs, and expenditures corresponding to the FONTEC Account, treated as a financial unit independent of the other operations of the Bank. The accounting system adopted shall allow also for the identification and recording of the source and application of the funds variously made available to FONTEC by virtue of this resolution. The financial statements of the FONTEC Account shall be audited by the Bank’s external auditors.

Section 3. FONTEC Resources

The FONTEC Account shall consist of funds in convertible currencies from the following sources:

(a) That portion of the net income of the FSO in convertible currency which the Board of Executive Directors shall make available each year to the FONTEC Account to meet the expenses of providing nonreimbursable technical assistance.

(b) Income on investments of the liquid assets and financial income of the FONTEC Account.

(c) Such additional contributions as may be placed at the disposal of the FONTEC Account by member and nonmember countries and by other national or international institutions and agencies.

Section 4. Termination of the FONTEC Account

Should the Board of Governors elect, for any reason, to terminate the FONTEC Account, all direct and contingent obligations of the Account which have been incurred in confor-
mity with this resolution and the regulations governing FONTEC shall be cancelled or provision made for their payment. The balance, if any, of monies in the FONTEC Account which have been allocated thereto pursuant to Section 3(a) and 3(b) of this resolution shall be restored to the FSO or shall be distributed pursuant to Article IV, Section 10, of the Agreement Establishing the Bank, as the Board of Governors shall determine, and the balance, if any, of contributions made to the FONTEC Account under Section 3(c) of this resolution shall be restored to the respective donor countries, institutions, and agencies.

(Adopted March 23, 1995)

RESOLUTION AG-9/95
TRANSFER OF ADDITIONAL RESOURCES TO THE INTERMEDIATE FINANCING FACILITY ACCOUNT

WHEREAS the Committee of the Board of Governors has studied the possibility of enlarging the resources of the Inter-American Development Bank (the “Bank”) by means of increases in its authorized capital stock and in the resources of the Fund for Special Operations and through additional contributions to the Intermediate Financing Facility, and has presented a report and appropriate recommendations thereon to the Board of Governors;

WHEREAS the Board of Governors has determined that Article IV, Section 10 of the Agreement Establishing the Bank includes the right of the Governors to distribute and to allocate to a separate account, by agreement of the members, assets of the General Reserve of the Fund for Special Operations which has been provided for from the net profits of such Fund;

WHEREAS, pursuant to Resolution AG-12/83 of December 12, 1983, entitled “Creation of an Intermediate Financing Facility”, the Board of Governors approved the creation of an Intermediate Financing Facility for the Bank and pursuant to Resolution AG-3/90 of January 17, 1990, entitled “Transfer of Additional Resources to the Intermediate Financing Facility Account”, the Board of Governors approved the transfer of additional resources to the Intermediate Financing Facility Account (the “Account”); and

WHEREAS the Board of Governors has concluded that further action to increase the resources of the Account would be desirable;

The Board of Governors

RESOLVES THAT:

Section 1. Additional resources

There shall be allocated annually to the Account in convertible currencies of the General Reserve of the Fund for Special Operations (the “Fund”) an aggregate amount sufficient
to support the annual levels of Intermediate Financing Facility financing determined by
the Board of Executive Directors. These amounts shall be allocated annually to the Acc-
ount by the Board of Governors at the time of the approval of the statements of profit and
loss pursuant to Article VIII, Section 2(b)(viii) of the Agreement. The amounts referred to
in this paragraph may be appropriately adjusted by the Board of Governors for appropri-
ate reasons related to the funding of the Account. These amounts shall be in addition to the
allocations to the Account being made from the General Reserve of the Fund pursuant to
Resolutions AG-12/83 and AG-3/90.

Section 2. Provisions relating to the account

The provisions of Resolution AG-12/83 contained in Section 4. "Utilization of Resources",
Section 5. "Administration of the Account", Section 6. "Termination of the Account" and
Section 7. "Amendment", shall apply to the additional resources to be provided hereunder.

Section 3. Entry into force

This resolution shall enter into force only if, on or before October 31, 1994 or such later
date as the Board of Executive Directors shall determine (a) the increase in the authorized
capital stock and the resources of the Fund for Special Operations provided for in Docu-
ment AB-1704 have come into effect and (b) votes in favor of this resolution have been
received from member countries representing a majority of the total voting power of the
member countries.

( Adopted March 24, 1995)

RESOLUTION AG-10/95
INCREASE OF US$40 BILLION IN THE AUTHORIZED
CAPITAL STOCK AND SUBSCRIPTIONS THERETO

WHEREAS the Committee of the Board of Governors has studied the possibility of
enlarging the resources of the Inter-American Development Bank (the "Bank") by means of
increases in its authorized capital stock and in the resources of the Fund for Special Opera-
tions and through additional contributions to the Intermediate Financing Facility, and has
presented a report and appropriate recommendations thereon to the Board of Governors;

WHEREAS the Board of Governors has concluded that action to increase the author-
ized capital stock of the Bank would be desirable;

WHEREAS Article II, Section 2(e), of the Agreement Establishing the Bank, pro-
vides for increases in the capital stock of the Bank; and

WHEREAS the regional developing member countries as a group, and the United States,
pursuant to Section 7(b) of the General Rules Governing Admission of Nonregional Coun-
tries to Membership in the Bank, have waived, on a limited basis, their minimum shareholding rights under Article VIII, Section 4(b) of the Agreement Establishing the Bank;

The Board of Governors

RESOLVES THAT:

Section 1. Increase in the authorized capital

(a) Subject to the provisions of paragraph (b) hereof, the authorized capital stock of the Bank shall be increased by US$40,000,001,466, divided into 3,315,806 shares, each having a par value as provided in the Agreement Establishing the Bank.

(b) Such increase shall become effective only if, on or before October 31, 1994, or such later date as the Board of Executive Directors shall determine, member countries shall have deposited with the Bank an appropriate instrument, by which they agree, subject to such legal requirements as may be appropriate in the respective countries, to subscribe to at least 2,486,855 shares of the increase of authorized capital stock in accordance with Section 2 of this resolution.

Section 2. Subscriptions

(a) In accordance with Article II, Section 3(b), of the Agreement Establishing the Bank, each member may subscribe to the respective number of shares as follows:

<table>
<thead>
<tr>
<th>Member country</th>
<th>Paid-in shares</th>
<th>Callable shares</th>
<th>Total shares</th>
<th>Total subscriptions expressed in millions of United States dollars¹</th>
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<td>Member country</td>
<td>Paid-in shares</td>
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<td>Total shares</td>
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<td>9,523</td>
<td>9,898</td>
<td>119.40</td>
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<td><strong>Finland</strong></td>
<td>355</td>
<td>8,958</td>
<td>9,313</td>
<td>112.35</td>
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<tr>
<td><strong>France</strong></td>
<td>4,166</td>
<td>105,793</td>
<td>109,959</td>
<td>1,326.48</td>
</tr>
<tr>
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<td>104,675</td>
<td>108,780</td>
<td>1,312.26</td>
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<td>105,793</td>
<td>109,959</td>
<td>1,326.48</td>
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<td>364,339</td>
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<td>9,523</td>
<td>9,898</td>
<td>119.40</td>
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<td>31,872</td>
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<td>2,255</td>
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<td>3,232,908</td>
<td>3,315,806</td>
<td>40,000.00</td>
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</tbody>
</table>

¹ Translated into current United States dollars at the rate of US$12,063.43238 per share pursuant to provisions of the Agreement Establishing the Bank that each share of the Bank’s capital stock shall have a par value of $10,000 expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1959. The General Counsel of the Bank has rendered an opinion that since the effectiveness on April 1, 1978 of the Second Amendment to the Articles of Agreement of the International Monetary Fund, which eliminated par values of currencies in terms of gold, the Special Drawing Right (SDR) has become the successor to the 1959 U.S. dollar as the standard unit of value of the Bank’s capital stock. The Bank’s governing boards have not yet made a decision on this matter.

² Unassigned in order to provide for possible membership of the Republic of Bosnia and Herzegovina and the Federal Republic of Yugoslavia.

(b) Each subscribing member shall represent to the Bank that it has taken all necessary action to authorize its subscription and shall furnish to the Bank such information thereon as the latter may request.
The subscription of each member to the additional paid-in capital stock shall be on the following terms and conditions:

(i) The subscription price per share shall be the par value of each share as provided in the Agreement Establishing the Bank.

(ii) The subscriptions of members to paid-in capital stock shall be in six equal installments, effective, respectively, on December 31 in each of the years 1994 through 1999, or such later dates as the Board of Executive Directors shall determine, and payments for each installment are due within 30 days of the respective effective dates established hereunder.

(iii) The subscription of each member to the paid-in capital stock shall be paid entirely in the currency of the respective member which shall make arrangements satisfactory to the Bank to assure that its respective currency so paid to the Bank shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations, or shall agree to convert on behalf of the Bank its respective currency so paid into the currencies of other countries for the purposes of the Bank's operations. The entire paid-in subscriptions shall be subject to the provisions of Article V, Section 1(b)(i), of the Agreement Establishing the Bank.

(iv) The Bank may accept non-negotiable, non-interest-bearing promissory notes or similar securities in the form contemplated in Article V, Section 4, of the Agreement Establishing the Bank, in lieu of the immediate payment of all or any part of a member's subscription to the paid-in capital stock. Each promissory note or security shall be redeemed in five equal annual encashments over the 1994-2003 period.

The subscription of each member to the additional callable capital stock shall be on the following terms and conditions:

(i) The subscription price per share shall be the par value of each share as provided in the Agreement Establishing the Bank.

(ii) The subscriptions of members to the callable capital stock shall be in six equal installments, effective, respectively, on December 31 in each of the years 1994 through 1999, or such later dates as the Board of Executive Directors shall determine.

Section 3. Voting power

The provisions of Section 7(b) of the General Rules Governing Admission of Nonregional Countries to Membership in the Bank shall apply to the capital increase provided for in this resolution, with the same force and effect as if fully set forth herein.

(Adopted April 20, 1995)
RESOLUTION AG-11/95
INCREASE IN THE RESOURCES OF THE FUND FOR SPECIAL OPERATIONS AND CONTRIBUTIONS THERETO

WHEREAS the Committee of the Board of Governors has studied the possibility of enlarging the resources of the Inter-American Development Bank (the “Bank”) by means of increases in its authorized capital stock and in the resources of the Fund for Special Operations and through additional contributions to the Intermediate Financing Facility, and has presented a report and appropriate recommendations thereon to the Board of Governors;

WHEREAS the Board of Governors has concluded that action to increase the resources of the Fund for Special Operations would be desirable; and

WHEREAS Article IV, Section 3(g), of the Agreement Establishing the Bank provides for increases in the resources of the Fund for Special Operations through additional contributions by the members;

The Board of Governors

RESOLVES THAT:

Section 1. Increase in the resources of the Fund

Subject to the provisions of this resolution, the resources of the Fund for Special Operations shall be increased through additional contributions by the members in the form of Basic Contributions, Supplemental Contributions, and Special Contributions (referred to individually or collectively as a “Contribution” or “Contributions”) in amounts not less than those indicated for the respective members, in terms of the applicable units of obligation, in Tables I and II attached to this resolution.

Section 2. Instrument of Contribution

(a) To make a Contribution under this resolution, the member shall deposit with the Bank an Instrument of Contribution formally confirming the member’s intention to contribute and specifying the applicable unit of obligation and the amount of its contribution in the applicable unit of obligation as set forth in Table I attached to this resolution.

(b) Subject to the provisions of Section 2(c) below, the Instrument of Contribution shall constitute an unqualified commitment by the member to the Bank to make payment of the Contribution in the manner and on the terms set forth in or contemplated by this resolution. For the purposes of this resolution, a Contribution covered by such an Instrument shall be called an Unqualified Contribution.

(c) As an exceptional case, where an Unqualified Contribution commitment cannot be given by a member due to its legislative practice, the Bank may accept from that member an Instrument of Contribution which contains the qualification that
payment of all installments of the Contribution is subject to subsequent budgetary appropriations. Such an Instrument, however, shall include an undertaking to seek the necessary appropriations, at the rate specified in Section 5(b) below, during the period of the increase and to notify the Bank as soon as each such appropriation is obtained. For the purposes of this resolution, a Contribution covered by such an Instrument shall be called a Qualified Contribution, and it shall be deemed to be Unqualified to the extent that appropriations have been obtained.

Section 3. Entry into effect

(a) None of the Contributions shall become payable unless on or before October 31, 1994, or such later date as the Board of Executive Directors shall determine, member countries shall have deposited with the Bank Instruments of Contribution representing Unqualified and Qualified Contributions totalling not less than the equivalent of US$648 million of the increase in the Fund for Special Operations.

(b) Instruments of Contribution deposited on or before the effective date of the increase shall take effect on that date, and Instruments of Contribution deposited after such date shall take effect on their respective dates of deposit.

Section 4. Contributions

(a) Each member shall make its Contributions in one of the freely convertible currencies designated by the Bank for the purposes of this resolution.

(b) The Basic Contributions shall be made in four equal installments, which shall be effective, respectively, on December 31 in each of the years 1994 through 1997, or such later dates as the Board of Executive Directors shall determine. Supplemental and Special Contributions shall be made in six equal installments which shall be effective, respectively, on December 31 in each of the years 1994-1999, or such later dates as the Board of Executive Directors shall determine. Payments for each installment of the Unqualified Contributions are due within 30 days of the respective effective dates established hereunder. Payments in respect of a Qualified Contribution shall be made within 30 days as and to the extent that each installment has become Unqualified and should be made on the respective annual payment dates specified in the foregoing provisions of this paragraph.

(c) The Bank may accept non-negotiable non-interest-bearing promissory notes or similar securities in the form contemplated in Article V, Section 4, of the Agreement Establishing the Bank, in lieu of the immediate payment of all or any part of a member’s Contribution to each installment. Such promissory notes or securities shall be encashed by the Bank in accordance with the terms of the Fund for Special Operations encashment schedule set forth in paragraphs 4.11 and 4.12 of Document AB-1704.

(d) The payments of each member shall total the amount, in terms of the applicable unit of obligation, as indicated for the respective member in Table I attached to this resolution.
(e) Currencies of all the members held by the Bank which are derived from these additional contributions shall not be subject to the maintenance of value provisions of Article V, Section 3, of the Agreement Establishing the Bank.

(f) Notwithstanding the foregoing provisions of Section 4, no member shall be obligated to make any payment in respect of its Basic Contribution except to the extent that its contribution has become available for loan commitments as specified in Section 5 below.

(g) In the period beginning on the sixth year after the effective date of the replenishment agreement and ending on December 31, 2004, the Bank will, by periodic transfers from the Ordinary Capital net income, consistent with prudent financial management, make up any shortfall in the unallocated special contributions existing during that period which is not covered by member country contributions pursuant to the agreements set out in the footnotes to the table contained in paragraph 4.11 of Chapter IV of Document AB-1704.

Section 5. Conditions for loan commitment

(a) For the purpose of loan commitments by the Bank, each Unqualified Contribution shall be divided into four equal tranches and, subject to Section 4(b) and Section 6 hereof, shall become available for loan commitments as follows:

(i) the first tranche: as from December 31, 1994 or on such subsequent date the relevant Instrument of Contribution takes effect;

(ii) the second tranche: as from December 31, 1995;

(iii) the third tranche: as from December 31, 1996; and

(iv) the fourth tranche: as from December 31, 1997;

(b) Each Qualified Contribution (unless it has become unqualified as scheduled) shall become available for loan commitments as and to the extent that it has become unqualified, which should occur at the rate of one-fourth of its total amount in each of the four years covered by the increase on the dates provided for pursuant to Section 4(b) hereof.

Section 6. Limiting commitments

If there are Qualified Contributions to the Basic Contribution which have not been made unqualified at the rate, to the extent and on the dates specified in Section 5(b) above with respect to the second, third and fourth installments, the Bank shall promptly notify all member countries, and member countries which have made Unqualified Contributions, or whose Qualified Contributions have become unqualified at the rate, to the extent and on the dates specified in Section 5(b) above may, after consultation with the Board of Executive Direc-
tors of the Bank, notify the Bank in writing that the Bank should refrain from making loan commitments against their Basic Contributions to the respective installment. The maximum amount of such reduced loan commitments shall be in proportion to the extent that the respective installment of the relevant Qualified Contribution has not become unqualified.

Section 7. Meeting of member countries

If, in the course of the increase in the resources of the Fund for Special Operations, delays or readjustments in the making of contributions or their availability for loan commitments prevent, or appear likely to prevent, the substantial attainment of the goals of the increase, the Bank will convene a meeting of representatives of the member countries to review the situation and consider ways of obtaining the necessary contributions.

TABLE I — CONTRIBUTIONS TO THE INCREASE OF THE FUND FOR SPECIAL OPERATIONS

<table>
<thead>
<tr>
<th>Member country</th>
<th>Unit of obligation</th>
<th>Amount in units of obligation</th>
<th>US$ equivalent</th>
<th>SDR equivalent</th>
<th>ECU equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regional borrowers</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Argentina</td>
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<td>9,638,640</td>
<td>11,857,483</td>
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<tr>
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<tr>
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<td>9,638,640</td>
<td>11,857,483</td>
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<tr>
<td>Chile</td>
<td>3,762,896</td>
<td>2,708,533</td>
<td>3,332,044</td>
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<tr>
<td>Colombia</td>
<td>3,762,896</td>
<td>2,708,533</td>
<td>3,332,044</td>
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<tr>
<td>Costa Rica</td>
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<td>388,025</td>
<td>477,349</td>
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</tr>
<tr>
<td>Dominican Republic</td>
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<tr>
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<td>527,272</td>
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<td>Amount in units of obligation</td>
<td>US$ equivalent</td>
<td>SDR equivalent&lt;sup&gt;2&lt;/sup&gt;</td>
<td>ECU equivalent&lt;sup&gt;2&lt;/sup&gt;</td>
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<tr>
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<tr>
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<td>4,170,852</td>
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<td>5,327,240</td>
<td>6,553,585</td>
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</tr>
</tbody>
</table>

Pending<sup>4</sup> 1,138,720 819,651 1,008,337

Additional unallocated<sup>5</sup> 96,000,000 69,100,800 85,008,000

Total nonregional members 791,949,736 570,045,420 701,271,491

GRAND TOTAL 1,000,004,736 719,803,409 885,504,194

1 The amount in units of obligation is based on the average exchange rates between the U.S. dollar, the SDR or the ECU for the 180 calendar day period ending April 10, 1994 based on IMF representative exchange rates and the SDR value of currencies published by the IMF, or the ECU value of currencies published by the Wall Street Journal.

2 Rounded to the nearest unit.

3 To be paid at the time of and in equal proportions to future contributions to the US$96 million Unallocated Special Contributions within six years of the effective date of the Replenishment by contributions from regional countries. Any remaining gap in the unallocated portion of the Special Contributions six years after the effective date of the Replenishment will be covered by transfers from the net income of the Ordinary Capital.

4 Amount which must be contributed by those nonregional member(s) wishing to subscribe the 2,255 unallocated OC shares, in case Bosnia and Herzegovina and the Federal Republic of Yugoslavia do not join the Bank. Should they join, this amount will not be contributed to the FSO-8, but Bosnia and Herzegovina and the Federal Republic of Yugoslavia would be expected to contribute US$282,000 to the Basic FSO-8 Increase.

5 Additional unallocated special contributions to be paid within six years of the effective date of the Replenishment by contributions from nonregional countries. Any remaining gap in the unallocated portion of the Special Contributions six years after the effective date of the Replenishment will be covered by transfers from the net income of the Ordinary Capital.

NOTE: Those members who have not specified their unit of obligation as indicated in the above table shall do so at the latest when they submit their Instrument of Contribution.
## TABLE II — BASIC, SUPPLEMENTAL, AND SPECIAL FSO CONTRIBUTIONS (US$ EQUIVALENT)

<table>
<thead>
<tr>
<th>Member country</th>
<th>Basic</th>
<th>Supplemental</th>
<th>Special</th>
<th>Total FSO contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regional borrowers</strong></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Argentina</td>
<td>11,352,000</td>
<td>2,038,720</td>
<td></td>
<td>13,390,720</td>
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<td>Bahamas</td>
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<td>46,335</td>
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<td>304,335</td>
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<td>11,352,000</td>
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<td></td>
<td>13,390,720</td>
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<td>3,190,000</td>
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<td></td>
<td>3,762,896</td>
</tr>
<tr>
<td>Colombia</td>
<td>3,190,000</td>
<td>572,896</td>
<td></td>
<td>3,762,896</td>
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<td></td>
<td>539,073</td>
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<tr>
<td>Dominican Republic</td>
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<td>732,526</td>
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<td>Ecuador</td>
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<td>111,526</td>
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<td>732,526</td>
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<tr>
<td>El Salvador</td>
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<td>Honduras</td>
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<td>539,073</td>
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<tr>
<td></td>
<td>—</td>
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<td><strong>Subtotal regional borrowers</strong></td>
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<td><strong>Regional nonborrowers</strong></td>
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<td><strong>Total regional members</strong></td>
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<td>59,000,000</td>
<td>208,055,000</td>
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<td>Member country</td>
<td>Basic</td>
<td>Supplemental</td>
<td>Special</td>
<td>Total FSO contributions</td>
</tr>
<tr>
<td>---------------</td>
<td>---------</td>
<td>--------------</td>
<td>---------</td>
<td>-------------------------</td>
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<tr>
<td>Nonregional</td>
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<td>6,901,000</td>
<td>—</td>
<td>500,000</td>
<td>7,401,000</td>
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</table>

Pending\(^2\) — 1,138,720

Additional unallocated\(^3\) — 96,000,000

Total nonregional members — 50,813,000

GRAND TOTAL — 199,868,000

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1. To be paid at the time of and in equal proportions to future contributions to the US$96 million Unallocated Special Contributions within six years of the effective date of the Replenishment by contributions from regional countries. Any remaining gap in the unallocated portion of the Special Contributions six years after the effective date of the Replenishment will be covered by transfers from the net income of the Ordinary Capital.

2. Amount which must be contributed by those nonregional member(s) wishing to subscribe the 2,255 unallocated OC shares, in case Bosnia and Herzegovina and the Federal Republic of Yugoslavia do not join the Bank. Should they join, this amount will not be contributed to the FSO-8, but Bosnia and Herzegovina and the Federal Republic of Yugoslavia would be expected to contribute US$282,000 to the Basic FSO-8 Increase.

3. Additional unallocated special contributions to be paid within six years of the effective date of the Replenishment by contributions from nonregional countries. Any remaining gap in the unallocated portion of the Special Contributions six years after the effective date of the Replenishment will be covered by transfers from the net income of the Ordinary Capital.

(Adopted June 6, 1995)
RESOLUTION AG-1295
AMENDMENTS TO THE AGREEMENT ESTABLISHING THE
INTER-AMERICAN DEVELOPMENT BANK,
THE REGULATIONS OF THE BOARD OF GOVERNORS AND
THE GENERAL RULES GOVERNING ADMISSION OF NONREGIONAL
COUNTRIES TO MEMBERSHIP IN THE BANK

WHEREAS during the discussions held in connection with the Eighth General
Increase in the Resources of the Bank the Board of Governors concluded that it would be
desirable to amend certain provisions of the Agreement Establishing the Inter-American
Development Bank and other basic Bank documents dealing with the respective voting
powers of member countries, the representation of the regional developing and nonregional
member countries in the Bank, and certain voting majorities; and

WHEREAS Article XII of the Agreement Establishing the Inter-American De
velopment Bank provides for the process of amending the Agreement;

The Board of Governors

RESOLVES THAT:

Section 1. Amendments of the Agreement Establishing the Bank

The Agreement Establishing the Inter-American Development Bank shall be amended
as follows:

1. Article III, Section 12 shall read:

"On all loans, participations, or guarantees made out of or by commitment of the
ordinary capital resources of the Bank, the latter shall charge a special commission.
The special commission, payable periodically, shall be computed on the amount out-
standing on each loan, participation, or guarantee and shall be at the rate of one per
cent per annum, unless the Bank, by a three-fourths majority of the total voting power
of the member countries, decides to reduce the rate of commission."

2. Article IV, Section 9(b) shall read:

"(b) All decisions of the Bank concerning the operations of the Fund shall be adopted
by a three-fourths majority of the total voting power of the member countries,
unless otherwise provided in this article."

3. Article V, Section 1(e) shall read:

"(e) Gold or currency held by the Bank in its ordinary capital resources or in the
resources of the Fund shall not be used by the Bank to purchase other currencies
unless authorized by a three-fourths majority of the total voting power of the
member countries. Any currencies purchased pursuant to the provisions of this paragraph shall not be subject to maintenance of value under Section 3 of this article.

4. Article VII, Section 1(iii) shall read:

"(iii) with the approval of a three-fourths majority of the total voting power of the member countries, invest funds not needed in its operations in such obligations as it may determine;"

5. Article VIII, Section 2(e) shall read:

"(e) A quorum for any meeting of the Board of Governors shall be an absolute majority of the total number of governors, including an absolute majority of the governors of regional members, representing not less than three-fourths of the total voting power of the member countries."

6. Article VIII, Section 3(b)(ii) shall read:

"(ii) One executive director shall be appointed by the member country having the largest number of shares in the Bank, not less than three executive directors shall be elected by the governors of the nonregional member countries, and not less than ten others shall be elected by the governors of the remaining member countries. The number of executive directors to be elected in these categories, and the procedure for the election of all the elective directors shall be determined by regulations adopted by the Board of Governors by a three-fourths majority of the total voting power of the member countries, including, with respect to provisions relating exclusively to the election of directors by nonregional member countries, a two-thirds majority of the governors of the nonregional members, and, with respect to provisions relating exclusively to the number and election of directors by the remaining member countries, by a two-thirds majority of the governors of regional members. Any change in the aforementioned regulations shall require the same majority of votes for its approval."

7. Article VIII, Section 3(c) shall read:

"(c) Each executive director shall appoint an alternate who shall have full power to act for him when he is not present. Directors and alternates shall be citizens of the member countries. None of the elected directors and their alternates may be of the same citizenship, except in the case of:

(i) countries that are not borrowers; and

(ii) borrowing member countries, in cases determined by the governors of the borrowing members pursuant to a three-quarters majority of their total voting power and a two-thirds majority of their total number."
Alternates may participate in meetings but may vote only when they are acting in place of their principals."

8. Article VIII, Section 4(b) shall read:

"(b) No increase in the subscription of any member to the ordinary capital stock shall become effective, and any right to subscribe thereto is hereby waived, which would have the effect of reducing the voting power (i) of the regional developing members below 50.005 percent of the total voting power of the member countries; (ii) of the member having the largest number of shares below 30 percent of such total voting power; or (iii) of Canada below 4 percent of such total voting power."

Section 2. Amendment of Regulations of the Board of Governors

Section 1(d) of the Regulations of the Board of Governors shall read:

"(d) A quorum for any meeting of the Board of Governors shall be an absolute majority of the total number of Governors, including an absolute majority of the Governors of regional members, representing not less than three-fourths of the total voting power of the member countries."

Section 3. Amendments of General Rules Governing Admission of Nonregional Countries to Membership in the Bank

The General Rules Governing Admission of Nonregional Countries to Membership in the Bank shall be amended as follows:

1. Section 7(b) shall read:

"(b) No increase in the subscription of any member to the ordinary capital stock shall become effective, and any right to subscribe thereto is hereby waived, which would have the effect of reducing the voting power (i) of the regional developing members below 50.005 percent of the total voting power of the member countries; (ii) of the member having the largest number of shares below 30 percent of such total voting power; or (iii) of Canada below 4 percent of such total voting power, provided that, notwithstanding the foregoing provisions and the provisions of Article VIII, Section 4(b), of the Agreement Establishing the Bank, any resolution of the Board of Governors for an increase in the ordinary capital stock of the Bank shall specify that (1) in order to prevent the voting power of the regional developing members as a group from falling below the set percentage, any member of the group may subscribe to shares allocated to another member of the group if the latter member does not wish to subscribe to such shares; (2) the provision relating to percentages of voting power may be waived by the regional developing members as a group with respect to (i), and by the United States and Canada with respect to (ii) and (iii), respectively; and
any member of the group of nonregional members may subscribe to shares allocated to another member of the group if the latter member does not wish to subscribe to such shares."

2. Section 8 shall read:

"Since nonregional countries shall have the right to elect not less than three executive directors with their own votes as provided in Article VIII, Section 3(b)(ii), of the Agreement Establishing the Bank, as amended by the resolution referred to in Section 1(a) hereof, the Regulations for Election of Executive Directors, provided for in said Article of the Agreement, are amended to read as set forth in Annex I hereto. These amendments shall become effective on the same date as these General Rules enter into force."

3. Section 9 shall read:

"The agreement of a two-thirds majority of the total number of governors of nonregional members shall be required for the approval of an increase in the number of executive directors of the Bank beyond a total number of fourteen executive directors."

Section 4. **Entry into force**

This resolution and all the provisions thereof, including the foregoing amendments to the Agreement Establishing the Inter-American Development Bank, the Regulations of the Board of Governors and the General Rules Governing Admission of Nonregional Countries to Membership in the Bank shall enter into force on the date on which the official communication referred to in Article XII (c) of the Agreement Establishing the Inter-American Development Bank has been addressed to members certifying that this resolution has been adopted by the requisite majorities.

(Adopted July 12, 1995)

**RESOLUTION AG-13/95**

**SITE AND DATE OF THE THIRTY-SEVENTH ANNUAL MEETING OF THE BOARD OF GOVERNORS**

The Board of Governors

RESOLVES:

That the Thirty-seventh Annual Meeting of the Board of Governors shall be held in Buenos Aires, Argentina, from March 25 to March 27, 1996.

(Adopted July 18, 1995)
RESOLUTION AG-14/95
EIGHTH GENERAL INCREASE IN THE RESOURCES OF THE BANK
AMENDMENTS TO THE REGULATIONS
FOR THE ELECTION OF EXECUTIVE DIRECTORS

WHEREAS, during the discussions held in connection with the Eighth General Increase in the Resources of the Bank, the Board of Governors concluded that it would be advisable to amend certain provisions of the Agreement Establishing the Inter-American Development Bank ("Agreement") and other basic Bank documents dealing with the respective voting powers of the member countries, the number of Executive Directors representing the regional developing and nonregional members, and certain voting majorities;

WHEREAS, such discussions of the Board of Governors were formalized in the Report on the Eighth General Increase in the Resources of the Bank, Document AB-1704, approved by Board of Governors Resolution AG-6/94 of August 12, 1994;

WHEREAS, the President of the Bank submitted to the Bank's members, by correspondence dated November 23, 1994, a proposed resolution appearing as Annex D to Document AB-1704 which contains amendments to the Agreement, the Regulations of the Board of Governors and the General Rules Governing Admission of Nonregional Countries to Membership in the Bank;

WHEREAS, the amendments to the Agreement provide, in relevant part, for the addition of two members to the Board of Executive Directors, one representing the regional developing members and another representing the nonregional members;

WHEREAS, the proposed resolution appearing as Annex D to Document AB-1704 was approved by the Board of Governors on July 11, 1995 as Resolution AG-12/95;

WHEREAS, the member countries have been consulted by the Management of the Bank and have expressed their intentions concerning the constituencies of each Executive Director upon the implementation of the amendments approved to the Bank’s basic documents; and in particular, the Governors for the Regional Developing Member Countries (GRULAC) have specified the arrangements for representation of those constituencies, including the instances in which the Executive Director and the Alternate may be of the same nationality; and

WHEREAS, Document AB-1704, in paragraphs 5.1 and 6.13, advises that amendments to the Regulations for the Election of Executive Directors are required to complement the amendments to the Agreement;

The Board of Governors,

RESOLVES THAT:
The cited provisions of the Regulations for the Election of Executive Directors shall be amended to read as follows.

1. Section 1 shall be amended to read as follows:

“The Governors eligible to vote in accordance with Article VIII, Section 3(b)(ii), of the Agreement Establishing the Bank shall elect thirteen Executive Directors.”

2. Section 3 shall be amended to read as follows:

“The Governors for the regional developing member countries shall elect nine Executive Directors in accordance with the following provisions:

(a) This section shall apply exclusively to the regional developing member countries, and the total voting power of those countries shall be counted as 100 percent for the purposes hereof.

(b) Each Governor eligible to vote under this section shall cast in favor of a single person all the votes to which the member country he represents is entitled under Article VIII, Section 4(a), of the Agreement Establishing the Bank.

(c) In the first place, as many ballots as are necessary shall be taken until six persons have been elected Executive Directors in the following sequence:

   (i) Each of two candidates has received a number of votes constituting not less than the sum of the votes appertaining to the country with the greatest voting power and to the country with the least voting power.

   (ii) One candidate has received a number of votes constituting not less than the sum of the votes appertaining to the country with the third greatest voting power and to the two countries with the least voting power.

   (iii) One candidate has received a number of votes constituting not less than the sum of the votes appertaining to the country with the fourth greatest voting power and to the two countries with the least voting power.

   (iv) Each of two candidates has received a number of votes constituting not less than the sum of the votes appertaining to the country with the fifth greatest voting power and to the four countries with the least voting power.

(d) In the second place, Governors whose votes have not been cast in favor of any of the Directors elected under paragraph (c) shall elect three Executive Directors on the basis that only countries individually having not more than two and one-half percent (2-1/2%) of the eligible votes may present candidates and vote. The three candidates who receive the greatest number of votes shall be deemed
elected, provided that one candidate receive the votes of at least four countries and the other two candidates receive the votes of not less than three countries each. As many ballots shall be taken as are necessary to reach this result.

(e) After the balloting has been completed, each Governor who did not vote for any of the candidates elected shall assign his votes to one of them. The number of votes appertaining under Article VIII, Section 4(a), of the Agreement Establishing the Bank to each Governor who has voted for or assigned his votes to a candidate elected under these Regulations shall be deemed for the purposes of Article VIII, Section 4(d)(ii), of the Agreement to have counted toward the election of such candidate.”

3. Section 4 shall be amended to read as follows:

“The Governors for the nonregional countries shall elect three Executive Directors in accordance with the following provisions:

(a) This section shall apply exclusively to the nonregional member countries and the total voting power of those countries shall be counted as 100 percent for the purposes hereof.

(b) Each Governor eligible to vote under this section shall cast in favor of a single person all the votes to which the member country he represents is entitled under Article VIII, Section 4(a), of the Agreement Establishing the Bank.

(c) The three candidates receiving the largest number of votes shall be Executive Directors, provided that no person shall be deemed elected unless he has received the votes of three or more nonregional Governors constituting at least 25 percent of the total eligible votes, but provided further that he shall not have received more than 40 percent of such total votes. As many ballots as are necessary shall be taken until three candidates have been elected.

(d) After the balloting has been completed, each Governor who did not vote for one of the candidates elected shall assign his votes to one of them. The number of votes appertaining under Article VIII, Section 4(a), of the Agreement Establishing the Bank to each Governor who has voted for or assigned his votes to a candidate elected under these Regulations shall be deemed for the purposes of Article VIII, Section 4(d)(ii), of the Agreement to have counted toward the election of such candidate.”

4. Section 7 shall be amended to read as follows:

“(a) The election shall take place during the Annual Meeting of the Bank and in accordance with these rules of procedure.

..................................................”
5. Section 8 shall be amended to read as follows:

“(a) The election shall consist of four separate stages. The Executive Director referred to in Section 2 of these Regulations shall be elected in the first stage. The six Directors referred to in Section 3(c) of these Regulations shall be elected in the second stage, the three directors mentioned in Section 3(d) thereof in the third, and the three Directors referred to in Section 4 in the fourth.

(b) Each Governor may participate in only one stage of voting.

(c) For each stage of the voting the Secretary shall announce the names of the official candidates and of the countries eligible to vote.”

6. Section 9 shall be amended to read as follows:

“.................................
(b) Each Governor entitled to vote shall deposit a ballot, signed by the Governor, in the ballot box designated by the Secretary.

.................................”

Effective Date: The effective date of the proposed amendments shall be the date of its approval by the requisite majorities.

(Adopted November 21, 1995)

RESOLUTION AG-15/95
EIGHTH GENERAL INCREASE IN THE RESOURCES OF THE BANK
RULES FOR THE ELECTION OF EXECUTIVE DIRECTORS
FOR THE TRANSITIONAL PERIOD

WHEREAS, during the discussions held in connection with the Eighth General Increase in the Resources of the Bank, the Board of Governors concluded that it would be advisable to amend certain provisions of the Agreement Establishing the Inter-American Development Bank ("Agreement") and other basic Bank documents dealing with the respective voting powers of the member countries, the number of Executive Directors representing the regional developing and nonregional members, and certain voting majorities;

WHEREAS, such discussions of the Board of Governors were formalized in the Report on the Eighth General Increase in the Resources of the Bank, Document AB-1704, approved by Board of Governors Resolution AG-6/94 of August 12, 1994;

WHEREAS, the President of the Bank submitted to the Bank's members, by correspondence dated November 23, 1994, a proposed resolution appearing as Annex D to Document AB-1704 which contains amendments to the Agreement, the Regulations of the Board of Governors and the General Rules Governing Admission of Nonregional Countries to Membership in the Bank;
WHEREAS, the amendments to the Agreement provide, in relevant part, for the addition of two members to the Board of Executive Directors, one representing the regional developing members and another representing the nonregional members;

WHEREAS, the proposed resolution appearing as Annex D to Document AB-1704 was approved by the Board of Governors on July 11, 1995 as Resolution AG-12/95;

WHEREAS, the member countries have been consulted by the Management of the Bank and have expressed their intentions concerning the constituencies of each Executive Director upon the implementation of the amendments approved to the Bank's basic documents; and in particular, the Governors for the Regional Developing Member Countries (GRULAC) have specified the arrangements for representation of those constituencies, including the instances in which the Executive Director and the Alternate may be of the same nationality;

WHEREAS, Document AB-1704, in paragraphs 5.1 and 6.13, advises that amendments to the Regulations for the Election of Executive Directors are required to complement the amendments to the Agreement; and, therefore, the Board of Governors has been submitted for its approval a proposed resolution appearing as Annex II to Document DR-405-1 providing for such amendments;

WHEREAS, the next regular election of the Board of Executive Directors, to be held at the 1996 Annual Meeting, shall designate a Board membership to be effective on July 1, 1996; and

WHEREAS, due to the integral nature of Document AB-1704 and taking note of the relationship of the changes in the membership of the Board of Executive Directors to the Eighth General Increase in the Resources of the Bank, it is proposed to establish a Transitional Period for the introduction of the two additional Executive Directors prior to the effective date of such regular election;

The Board of Governors,

RESOLVES to adopt the following Rules for the Transitional Period:

1. There shall be a Transitional Period for the Board of Executive Directors for which the two additional Executive Directors provided under the Eighth Replenishment shall be elected.

2. The effective date of the Transitional Period shall be the date upon which the two Executive Directors have been elected as provided herein. The Secretary of the Bank shall notify the members of the effective date of the Transitional Period.

3. Given that the next regular election of the Board of Executive Directors, to be held at the 1996 Annual Meeting, shall designate a Board membership to be effective on July 1, 1996, the Transitional Period shall end on June 30, 1996.
4. The respective constituencies of the Executive Directors during the Transitional Period are identified in Annex A hereto.

5. Those member countries which shall be represented by a newly-elected Executive Director during the Transitional Period, as identified in Annex A hereto, shall elect their respective Executive Director for the Transitional Period: one Executive Director shall be elected by the regional developing members concerned, and another Executive Director shall be elected by the nonregional members concerned. The election shall be carried out in accordance with the procedures for filling a vacancy in the Board of Executive Directors as provided by the Regulations for the Election of Executive Directors, and shall be conducted without calling a meeting of the Board of Governors and by any rapid means of written communication.

6. Those member countries which shall not be represented by one of the two Executive Directors elected for the Transitional Period shall not be required to take any action under these Rules. Those Executive Directors who have been appointed or elected as of the effective date of the Transitional Period shall continue in office.

7. In the event of any vacancy in the Board of Executive Directors during the Transitional Period, a successor Executive Director may be appointed or elected in accordance with Part III of the Regulations for the Election of Executive Directors.

8. Any question arising in connection with the implementation of these Transitional Rules shall be resolved, at the request of any Governor, by the Chairman of the Board of Governors, subject to appeal to the Board of Governors at the request of the Governor concerned. Whenever possible, questions shall be submitted without identifying the member country or Governor concerned.

Effective date: The effective date of this resolution and all the provisions thereof shall be the later of the following: (1) the date of its approval by the requisite majorities; or (2) the date of approval of the proposed resolution appearing as Annex II to Document DR-405-1 providing for amendments to the Regulations for the Election of Executive Directors. Notwithstanding the foregoing, in no event shall the Rules provided for in this resolution be effective with regard to the election of Executive Directors after the end of the Transitional Period as defined in paragraph “3.” of these Rules.
Eighth General Increase in the Resources of the Bank

Rules for the Election of Executive Directors for the Transitional Period

Constituencies of the Executive Directors for the Transitional Period

In accordance with the Bank's Charter and the Regulations for the Election of Executive Directors, there shall be fourteen Executive Directors of the Bank.

There shall be nine Executive Directors representing the regional developing members with the following respective constituencies:

1. Argentina and Haiti.
2. Brazil and Suriname.
3. The Dominican Republic and Mexico.
4. Panama and Venezuela.
5. Chile and Ecuador (EXECUTIVE DIRECTOR ELECTED FOR THE TRANSITIONAL PERIOD).
6. Colombia and Peru.
7. Bolivia, Paraguay and Uruguay.
9. Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago.

There shall be three Executive Directors representing the nonregional members with the following respective constituencies:

1. Austria, Denmark, Finland, France, Norway, Spain and Sweden (EXECUTIVE DIRECTOR ELECTED FOR THE TRANSITIONAL PERIOD).
2. Belgium, Germany, Israel, Italy, the Netherlands and Switzerland.
3. Croatia, Japan, Portugal, Slovenia, and the United Kingdom.
There shall also be one Executive Director elected by Canada, and the other appointed by the United States.

(Adopted November 21, 1995)

RESOLUTION AG-16/95
SITES AND DATES OF THE THIRTY-EIGHTH AND THIRTY-NINTH ANNUAL MEETINGS OF THE BOARD OF GOVERNORS

The Board of Governors

RESOLVES:

That the Thirty-eighth Annual Meeting of the Board of Governors will be held in Barcelona, Spain, from March 17 to 19, 1997, and that the Thirty-ninth Annual Meeting of the Board of Governors will be held in Cartagena, Colombia, from March 30 to April 1, 1998.

(Adopted November 29, 1995)
RESOLUTIONS ADOPTED AT THE THIRTY-SEVENTH ANNUAL MEETING OF THE BANK
RESOLUTION AG-1/96
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, 1995, containing the general balance sheet and the statement of profit and loss, are approved.

(Adopted March 25, 1996)

RESOLUTION AG-2/96
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; and

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, 1995, containing the general balance sheet and the statement of profit and loss, are approved.


(Adopted March 25, 1996)
RESOLUTION AG-3/96
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, 1995, containing the general balance sheet and the statement of changes in fund balance, are approved.

(Adopted March 25, 1996)

RESOLUTION AG-4/96
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 Spain and Colombia have, prior to the Thirty-seventh 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 held in 1997 and subsequent years; and

It is expected that during the Thirty-seventh Annual Meeting of the 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 Spain and Colombia, as well as such other invitations as may be extended during the course of the Thirty-seventh 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 27, 1996)
RESOLUTION CII/AG-2/95
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, the firm of Price Waterhouse is selected, with respect to the fiscal year 1995, 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 April 20, 1995)

RESOLUTION CII/AG-3/95
REPORT ON THE ACTION PLAN FOR
THE INTER-AMERICAN INVESTMENT CORPORATION FOR THE PERIOD 1995-97 AND FOR THE MOBILIZATION OF ADDITIONAL FINANCIAL RESOURCES

WHEREAS:

The final report issued by the Committee of the Board of Governors on the action plan and mobilization of resources for the IIC, has been examined by the Board of Governors;

The member countries recognize the pressing need to take all adequate action to ensure that the IIC continues extending its support for the developmental needs of the region;

The Board of Governors

RESOLVES:

To approve the report entitled “Report on the Action Plan for the Inter-American Investment Corporation for the Period 1995–97 and for the Mobilization of Additional Financial Resources” issued as Document CII/AB-472 and to recommend that the member countries take such action as may be necessary and appropriate to give effect to the resolution contained in said report.

(Adopted June 2, 1995)
WHEREAS, the Committee of the Board of Governors concluded that it would be desirable to amend certain provisions of the Agreement Establishing the Inter-American Investment Corporation (the "Agreement") and other basic Corporation documents;

WHEREAS, the issues deemed desirable by the Committee of the Board of Governors to amend include: (a) new membership of the Corporation; (b) an increase in the Corporation's borrowing capacity; and (c) easing of regional majority voting control requirement in projects funded by the Corporation;

WHEREAS, Article VIII, Section 1 of the Agreement provides for the amendment thereof;

The Board of Governors

RESOLVES THAT:

I. Amendment of the Agreement Establishing the Inter-American Investment Corporation

1. Section 1(b) of Article II shall be amended to read as follows:

“(b) The other member countries of the Bank and non-member countries of the Bank may accede to this Agreement on such date and in accordance with such conditions as the Board of Governors of the Corporation may determine by a majority representing at least two-thirds of the votes of the members, which shall include two-thirds of the Governors.”

2. Section 1(c) of Article II shall be amended to read as follows:

“(c) The word "members" as used in this Agreement shall refer to member countries of the Bank and non-member countries of the Bank which are members of the Corporation.”

3. Section 1(b) of Article III shall be amended to read as follows:

“(b) Make direct investments, through the granting of loans, and preferably through the subscription and purchase of shares or convertible debt instruments, in enterprises in which a majority of the voting power is held by investors with Latin American citizenship, and make indirect investments in such enterprises through other financial institutions. In addition, in limited cases to be approved by the Board of Executive Directors, make direct investments in small and medium-scale enterprises located in developing regional member countries, whose voting
power is majority-owned by nonregional investors and in which significant generation of otherwise unavailable local added value is present;”

4. Section 7(a) of Article III shall be amended to read as follows:

“(a) Borrow funds and for that purpose furnish such collateral or other security as the Corporation shall determine, provided that the total amount outstanding on borrowing incurred or guarantees given by the Corporation, regardless of source, shall not exceed an amount equal to three times the sum of its subscribed capital, earned surplus and reserves;”

II. Entry into Force

This resolution and all the provisions thereof, including the foregoing amendments to the Agreement Establishing the Inter-American Investment Corporation, shall enter into force on the date on which the official communication referred to in Article VIII, Section 1(c) of the Agreement Establishing the Inter-American Investment Corporation has been addressed to members certifying that this resolution has been adopted.

(Adopted September 27, 1995)
RESOLUTIONS ADOPTED AT THE ELEVENTH ANNUAL MEETING OF THE CORPORATION
RESOLUTION CII/AG-1/96
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, 1995, containing the balance sheet and the statements of income and retained earnings and of cash flow, are approved.

(Adopted March 26, 1996)
SCHEDULE OF SESSIONS

Thursday, March 21
9:30 a.m. Seminar on Education Reform

Saturday, March 23
9:30 a.m. Seminar on Integration of Physical Infrastructure in the MERCOSUR countries, Bolivia, Chile and Peru
3:30 p.m. Seminar on “Subregional and Hemispheric Integration: Relevant Experiences”
4:00 p.m. Preliminary session (Heads of Delegation to the Eleventh Annual Meeting of the Board of Governors of the Corporation); and Meeting of the Committee of the Board of Governors of the Corporation

Sunday, March 24
9:00 a.m. Seminar on “Fiscal Institutions to Overcome Volatility”
4:00 p.m. Preliminary session (Heads of Delegation to the Thirty-seventh Annual Meeting of the Board of Governors of the Bank); and Meeting of the Committee of the Board of Governors of the Bank

Monday, March 25
9:30 a.m. Inaugural Session (First Plenary Session)
3:30 p.m. Second Plenary Session

Tuesday, March 26
9:30 a.m. Third Plenary Session
3:30 p.m. Fourth Plenary Session (Inter-American Investment Corporation)

Wednesday, March 27
9:30 a.m. Fifth Plenary Session and Closing Session
ADDRESSSES

FIRST PLENARY SESSION

March 25, 1996

Inaugural Session
Address by Mr. Jacob A. Frenkel, Outgoing Chairman of the Boards of Governors, Governor for Israel and Governor of the Bank of Israel

It is a great honor for me to open the proceedings at this Thirty-seventh Annual Meeting of the Board of Governors of the Bank and Eleventh Annual Meeting of the Board of Governors of the Corporation, and to extend my warmest welcome to all those in attendance.

From the outset, I must express my thanks to the government and people of Argentina, as well as to the mayor and citizens of Buenos Aires, for the warm hospitality they have shown us in welcoming us to this beautiful city on the shores of the River Plate, where the historic and the modern are joined together to form a rich cultural heritage.

The year 1995 has not been easy for the economies of Latin America and the Caribbean. The economic panorama during 1995 was dominated by three features. The first and most significant was the Mexican financial crisis that arose at the end of 1994 and also had major repercussions for Argentina. The second was the consolidation of the stabilization program in Brazil. The third noteworthy feature, on the other hand, was the similarity of the other countries' economic performance to that of 1994. Economic growth in Latin America and the Caribbean slowed down from almost 5 percent in 1994 to about one percent in 1995, giving rise to a drop in per capita income by contrast with the increase of the four preceding years. This turn of events is attributable almost entirely to the sharp contraction of activity in Mexico and to a lesser extent in Argentina. As a result of the crisis both countries underwent a change in total demand, with falling consumption and investment (partially offset by increases in exports) and a steep rise in unemployment.

The events in Mexico began in December 1994 with a sharp devaluation of the local currency and a reversal of capital inflows, which soon occurred also in Argentina. That the crisis has been so swiftly contained is a tribute not only to the determined action by the authorities but also to the solidarity and prompt reaction by the international community. The causes of these events, which culminated in an accelerated loss of international reserves, are still being debated, and many lessons have already been learned. But whatever are the reasons, they reflect the susceptibility of the region to shocks and the inherent volatility of the economies in the region, a subject to which I shall return.

The other important development is the stabilization package—the Real Plan—that was introduced in 1994 in Brazil, the largest economy in the region, and that continued to impact the economy in 1995. Brazil managed to bring down its inflation from the giddy four-digit levels of recent years to just 22 percent in 1995. It was this change that contributed to the drop in inflation in the region as a whole to 25 percent—the lowest level in the past 25 years.

The region faces what can be termed the "challenge of volatility." Because volatile quantities tend to be unpredictable, volatility yields uncertainty and an economy afflicted with uncertainty does not operate optimally. This phenomenon, its causes, and possible remedies have been analyzed by the Chief Economist of the IDB and documented in the excellent special report "Overcoming Volatility." This work and its findings also reflect a new perception on the part of the IDB of its role in the region in the dawn of the new millennium. One important finding can be summed up as follows: it is not the shocks alone, but their interaction with the prevailing institutional structure and the economic policy regime that deter-
mines macrocosmic volatility. Furthermore, it is the failure to account for this interaction that leads to excessive emphasis on crisis management instead of ensuring that economic institutions and policy regimes are well adapted to a volatile economic environment, thus helping to absorb rather than amplifying, shocks to the economy.

Let me now review the activity of the Bank in 1995 and the challenges of the period ahead. Last July, the Executive Board declared the approval by the Board of Governors of the resolutions of the Eighth General Increase in the Resources of the Bank. This capital replenishment, the largest in IDB history, has the declared objective to reduce poverty and promote social equity in the region. The completion of the Eighth General Increase marks a new era in the orientation and activities of the Bank. That the Bank has now been firmly established as the principal agent of both economic and social development in the region is a clear tribute to the unique personality of President Iglesias: his leadership, vision, determination, and absolute commitment. In 1995, IDB lending (at $7.2 billion), for the second consecutive year, exceeded World Bank lending to the region, although, of this sum, $2 billion represents fast-disbursement loans to Argentina and Mexico. The share of lending to countries in the C and D group has not reached the 35 percent target and it is important that in 1996 the IDB continue in its endeavor to attain this target. I welcome the initiation of the action plan to increase disbursements by means of (i) improving the absorptive capacity in the C and D countries, (ii) reviewing the Bank’s lending policies to these countries, and (iii) examining the possibilities to increase the resources for concessional lending.

The exposure to volatility in the region and its socioeconomic consequences—which have been borne out yet again by the events of last year—underscores and reaffirms the new orientation of the Bank’s lending policies. In particular, it points to the need to strengthen the operation for poverty reduction and the promotion for greater social equity, as well as for programs to modernize the State and strengthen civil society. Because it is the poor who are particularly vulnerable to macroeconomic volatility, it is all important to target the poor in the Bank’s programs. In this respect, we welcome the effort to complete the strategy paper on poverty, which will set out a general framework for poverty reduction, guiding staff on the types of policies and projects which are most likely to be effective in reducing poverty. It is encouraging to see that 47 percent of loans and 42 percent of lending volume were poverty-targeted in 1995. Linked to the policy for poverty reduction is the Bank’s initiative to strengthen State management and to reinforce democratic institutions in order to enable citizens better to exercise their rights. This area is rightly seen by the Bank as the complementary process to the change in the role of the State and of various social agents that is taking place in Latin America and the Caribbean, a change that has grown out of the unprecedented consensus as to the role of the marketplace and the need to consolidate democratic systems. In this context, the Bank should be commended for policies and projects designed to target specific social groups, in particular the establishment of the Indigenous Peoples and Community Development Unit as well as the IDB advisory council for Women in Development and the Women in Development Unit. It is encouraging to see that the Women in Development Unit is becoming involved in the program preparation process to ensure greater participation of women in projects financed by the Bank.

Parallel to the initiative on Women in Development that followed from the forum on that subject at the Thirty-fifth Annual Meeting, the IDB and Israel initiated the Youth in Development Forum, which took place in Jerusalem last year with the participation of 100
young delegates from Latin America and the Caribbean and 30 more from nonborrowing
countries. I am encouraged to see that this seminar was followed up, last July, in a meeting
in Washington for a small group of the young participants in order to discuss how the
recommendations of the Youth Forum should be followed up.

The year 1995 marked the first year of operation of the newly established Private
Sector Department of the Bank to meet a growing demand for investment and infrastruc-
ture in the region. Until today, private investment in public infrastructure in the region has
been fairly modest. The Bank's goal is to catalyze the participation of the private invest-
ment community, which will permit private development funds to flow in the volume
needed. The year 1995 saw the successful completion of the restructuring of the Bank,
which is now poised to perform the objectives set to it under the Eighth Increase of Re-
sources. The management of the Bank and, in particular, Vice President Nancy Birdsall
should be commended for the efficiency with which this restructuring has been carried
through.

As part of the Eighth Increase in the Resources of the Bank the nonregional member
countries shouldered much of the burden—they doubled their share of the Ordinary Cap-
tal and contributed two-thirds of the increase in the FSO. The growing involvement of the
nonregionals is reflected in the resolution to increase their representation on the Executive
Board from two to three seats. I am happy that the implementation of this resolution has
now been resolved.

Let me now turn to my own part of the world and share with you the Israeli experience
regarding capital movements, which has some bearing on the Latin American experience,
in this respect. As you know, the Israeli economy is a small, open and diversified, economy.
A per capita income of around $17,000 places it among the 20 most developed economies
of the world. It is regarded by the international financial community as an emerging mar-
et—fast growing with a promising potential.

There have been three important factors that influenced the economic developments
in Israel in this decade:

• The massive wave of immigration, mostly from the former Soviet Union, which
  added some 15 percent to Israel's population and labor force within five years.
  This addition consists of highly skilled workers and professionals, primarily in
technical areas like engineering—areas that are deemed to be Israel's long-term
  comparative advantage.

• Geopolitical developments associated with the peace process in our region—
developments that have improved considerably the economic climate and re-
gional prospects.

• The macroeconomic policy and structural reforms that have been implemented
during this period.

These three factors have influenced economic development quite dramatically and are
reflected in a substantial acceleration of growth (GDP rose at an average rate of 6 percent
per annum during the last five years). This has been accompanied by a significant increase
in real investments (rising at an annual average of 15 percent), a drop in the rate of unem-
ployment to a record low of 6 percent by end-1995 (compared with over 11 percent in
1992), a rise in exports associated with penetration into new markets, and a decline in the
rate of inflation from an average of 18 percent during 1986–91 to around 8 percent in
1995.
These positive developments, however, are clouded by a deterioration of the balance of payments. Although the widening of the current account deficit reflected in large measure the increase in investments associated with the need to absorb the massive wave of immigrants, it is of concern, in view of the decline in domestic savings. (Nevertheless, the external debt is mainly long term and its ratio to GDP continued to decline in recent years reflecting the fast growth of the economy). You may wonder how economic policy in Israel has managed to achieve a remarkable growth rate and a decline in unemployment and inflation, all at the same time when other industrial countries had rather low rates of growth and persistent levels of unemployment. The answer, I believe, lies in part in the policy mix that was adopted. The new immigrants mostly have been absorbed by the business sector rather than by the public sector; budget deficit as a fraction of GDP has been on the decline and is projected to be less than 3 percent in 1996; the composition of government spending shifted towards activities that generate growth (fine infrastructure investment and education); and monetary policy, conducted by an independent Central Bank, aimed at reducing the rate of inflation and attaining the inflation targets. At the same time, there has been a concerted effort to press on with the process of structural reforms, trade and capital markets liberalization, measures that enhance competition, and a privatization program.

The struggle to achieve stability has not been free of the difficulties and dilemmas as in some Latin American countries: relatively high interest rates, capital inflows, intervention in the market for foreign exchange, accumulation of foreign exchange reserves, and the necessity to sterilize the monetary consequence. These are associated with the lessons I can share with you, which are:

- An environment of macroeconomic stability—budgetary control and low rates of inflation are key conditions for investment and growth, a necessary but not a sufficient condition.
- The pursuit of such stability must be supported by a structural reform process that increases the flexibility of the economic system, reduces rigidities, and increases competition in the marketplace.
- Macroeconomic policies and structural policies are complementary policies that reinforce each other.
- Even if in the short term a restraining monetary policy may appear to have a cost, it pays off in the end. It is cheaper to deal seriously with a small problem soon rather than having to deal with a larger problem later on. Problems do not go away by themselves.
- The fight for stabilization requires the existence of suitable monetary instruments and a developed capital and money market. You cannot enter this fight without being armed with these instruments and the determination to fight back.
- Credibility is one of the most important assets of policymakers; it is never owned, it is always rented.
- Policies must be cast with a long-term prospective: excessive fine-tuning is self-defeating.
- The strategy of liberalization and deregulation must be supported by strong supervisory and regulatory agencies.
- Inflation does not buy sustainable growth; it destroys it.
• Inflation and budget deficits do not create productive jobs—they are counterproductive.
• Good economics is good politics.

The year also saw the continuing struggle for peace in my own region, the Middle East. Earlier in the year on the occasion of the Thirty-sixth Annual Meeting of the Board of Governors of the IDB, as many of you will recall, the late Prime Minister Yitzhak Rabin addressed us in the inaugural session in Jerusalem. In his address he said:

“Peace between diplomats is only the opening of the gate of peace. Unless peace is translated into the life of the average Egyptian in Cairo and Alexandria, of the life of the Palestinian in Gaza . . . it will not be a stable and solid peace. In the context of the Arab-Israeli conflict, beyond overcoming hatred of the past, we must overcome terror in the present by the enemies of peace, by those who do not support peace.”

Little did he know how appropriate and relevant these words would be. He was assassinated on his quest for peace on November 4th last year.

In spite of these traumas I strongly believe that the road on which we have embarked is not a blind alley. However, in order to reach its destination it has to be buttressed by economic growth and stability. In the same paragraph of his address the late Yitzhak Rabin said:

“The real problem is economic and social development. Without outside assistance and local efforts, without openness, without regional cooperation, to the opportunities possible, the peace on paper will remain so. It has to be translated into the life of the people. Unless the international community participates in the solution of regional problems, and in assisting those who have the courage to overcome the past...unless the international community is part of it, I am afraid that we will not achieve in the Middle East or in other parts of the world what can be achieved to bring hope, life and progress to many countries on earth.”

Indeed, in the wake of recent acts of terror the international community has been stirred into action; the international conference on terror prevention that was convened in our region a fortnight ago reflects the growing international awareness of the global impact of regional crises and conflicts—what happens in one part of the world has immediate global repercussions, it concerns us all. An ever increasing mobility of people of goods and services, and the burgeoning of electronic communication systems, all these require greater international cooperation and assistance. This throws into relief the importance of international organizations, both political and financial, and their growing involvement in resolving conflicts and economic crises. It also throws into relief the role of the IDB as we approach the new millennium.

And finally, to conclude these remarks, I should like to express my thanks to Enrique Iglesias, this great leader and President of the Bank, as well as to his staff, for all the support they have given me during my term as Chairman of the Boards of Governors, which comes to an end here today.
Thirty-four years ago, Buenos Aires hosted the Third Annual Meeting of the Inter-American Development Bank.

Argentina was going through a critical period in its history. Just weeks earlier, one of the country’s great presidents, Arturo Frondizi, had been ousted by a coup, following a four-year period that had seen a revival of the country’s democratic institutions.

President Frondizi, a visionary and courageous politician, had launched a stabilization and development plan in 1959. Foreign investment flows were high, and the country’s productive structures were being modernized, especially in the wake of the so-called “oil war.” But political instability and the excessive power of corporative groups that put their interests above those of the country triggered new frustrations.

Although President Frondizi had the assistance of Ministers Alvaro Alsogaray and Roberto Alemán, and the Minister of Finance at the time the Bank’s Annual Meeting was held in Buenos Aires was Federico Pinedo—all three eminently qualified and highly prestigious—the fragile political situation did not allow the country’s promising steps toward recovery to develop into a pattern of stability and sustained development over time.

Fortunately, the Thirty-seventh Annual Meeting of the IDB finds Argentina in a very different place politically. It has been 13 years since Argentina returned to a democratic form of government. This democracy has already shown its strength in the face of several institutional and economic crises. A similar state of affairs prevails in virtually all the other nations of the hemisphere.

For nearly seven years now, President Menem has been at the fore of a program of economic stability and growth that is every bit as courageous as the one instituted by President Frondizi. Just as courageous, but much broader, in that it entails a complete overhaul of the country’s economic and social institutions. Argentina’s political institutions operate with the openness and transparency that is mandated by the Constitution.

This democratic experience is consistent with political trends that are taking shape across the globe. The same phenomenon is occurring in each and every one of the nations of Latin America.

For all these reasons, developments in Argentina and Latin America over the next few decades will bear little or no resemblance to the situation that followed the Third Annual Meeting of the Bank in Buenos Aires in 1962.

Democracy is firmly in place and the economic and social changes of the past few years are now solidly entrenched, strengthened by the healthy change in mentality among the citizens of each of our nations, by broad popular support.

These transformations are based on basic tenets of individual behavior and collective organization that are built not on complicated technocratic formulas but rather on the experience of our nations’ trials and tribulations and on the sensibility and common sense of our peoples.

These changes stem from a renewed appreciation of the virtues of saving and productive work as individual philosophies; of competition, open economies, and balanced bud-
gets as sound organizational principles; and of equal opportunity, solidarity, and justice as fundamental ethical values.

The 1990s have witnessed Argentina's return to a course of stability and growth. We are well on our way to recovering from the deep recession that hit the country in 1995, and we will continue to move forward at a fast pace. More so than sector-based initiatives, the driving force will come from the deepening of economic and social reforms.

The priorities on the agenda for 1996 include implementing additional measures aimed at making the labor market more flexible, coupled with a far-reaching reform of health care for the active work force as well as for retirees and pensioners, an effort that will entail reorganizing the country's social insurance system.

Undoubtedly, the most serious problem facing us now is the high level of unemployment. It is very clear to us, however, that if we had acceded to the calls for devaluation and monetary expansion in 1995, rather than supporting stability and economic market reforms, unemployment today would be even higher.

This does not mean that the issue does not concern us: on the contrary. However, finding a solution to the problem hinges on the accuracy of the analyses. To understand why unemployment is high in Argentina, it is necessary to compare the situation in the 1990s with the one prevailing in the 1980s.

During the 1980s, growth in the number of jobs—accompanied by characteristic low productivity—actually reflected the spreading phenomenon of hidden unemployment. This was corroborated by a drop in gross domestic product on the order of 10 percent between 1980 and 1990.

Furthermore, the unemployment rate was also underestimated, owing to the discouraging climate for potential workers, meager participation of women and young people in the labor force, and migration by Argentinians to other countries in search of better prospects. On average, only 39 percent of the population was active in the labor force.

In the 1990s, the opening up of the economy, competition and the reorganization of the State lifted the veil that hid these components of unemployment. With more women and young people participating in the labor force, a reversal in migratory flows prompted by the return of Argentinians, and the influx of numerous contingents from neighboring countries to the local labor market, the population active in the work force rose to around 42 percent.

We are resolved to transform the unemployment problem into an opportunity for more vigorous economic development. We need to modernize the institutions that govern the workings of the labor market by simplifying labor regulations, reducing social security costs, and improving our population's education levels and qualifications. By so doing, we have no doubt but that local and foreign companies will recognize the competitive advantages of our human capital.

Our meeting here presents an ideal forum to express how pleased the Argentine government is with the support received from the IDB for our "Proyecto Joven," or Youth Project. This is just one example of how the objectives of economic efficiency can be dovetailed with those of social equity, when the proper tools are available. By means of innovative management approaches, one of our most serious problems has now begun to be addressed: unemployment among young people who have not completed their schooling.

One innovative feature worth highlighting is the fact that an effort was made to identify the needs of the business sector in conjunction with each company's willingness to
take on young people as interns. Another was the entirely novel approach of working entirely through the private sector, with funds being allocated to training institutions on the basis of tender processes.

Over 60,000 young people at serious risk of being left out of society's mainstream have been given the chance to take a productive part in a progressively more competitive labor market.

Thousands of firms have benefited from this supply of labor that has been custom-trained for their specific needs. I would like to point out here that the IDB's contribution towards those achievements was not limited to financial support. Just as important as the Bank's financial support was the sharing of experiences with other countries, a process in which the Bank was instrumental.

Faced with the financial difficulties besetting the region in 1995, the Bank proved itself an institution truly able to rise to the occasion. Without the Bank's active intervention, without the insight of its President, our friend Enrique Iglesias, the outlook today would be quite different.

We are pleased to see, moreover, that the Bank is not only dealing with the most pressing issues but also with those that are most important.

We are certain that full and proper use will be made of the Eighth Replenishment resources, which will make loans totalling $7 billion per year possible. Renewed support for public sector reforms aimed at achieving good governance within a democratic system, emphasis on education and training, direct lending to the private sector, the environmentally positive nature of the projects and the enhanced role for women in development are all elements that point to the creative interaction between the region's economic course and the concerns and positions of the Bank's Executive Directors and staff.

I would now like to address a relatively new item on our agenda, but one that will require a considerable effort in terms of international cooperation.

When we examine the instability of national economies and the causes of the crises that precipitate recession and unemployment, attention is almost always focused on the volatility of financial flows, on trade restrictions, and on variations in the terms of trade between countries. These are significant phenomena that warrant special consideration.

However, among the root causes of so many national crises that have ended up affecting the global economy through financial and commercial channels, the significance of another factor should not be underestimated: the inability of the country's institutions to curtail wasteful spending, do away with corruption, and enforce tax legislation.

In order to surmount the crisis that has kept the economies of our countries stagnating for decades, sacrifices will have to be made. However, this effort will be borne more easily if the privileges and injustices arising from waste, corruption and tax evasion can be eliminated.

This is not just a matter of ethics. Success in this effort will result in more budgetary resources being available for improving education and health care for our children and allowing our elderly to live in dignity.

In Argentina, significant progress has been made towards simplifying the tax system by applying the rule of law. The government also was successful in dismantling the corrupt system of management of State-owned enterprises, and has brought the budget and inflation both under control. The system of border controls has improved considerably and financial operations have become more clearly defined.
Still, much remains to be done in the struggle against tax evasion, administrative corruption, and money laundering. We are aware that these phenomena are not unrelated; indeed, one feeds into the other.

We have negotiated agreements for customs and judicial cooperation, and we will soon sign an agreement to exchange tax information with the United States and would like to do so with all the countries in the hemisphere.

We have recently reinstituted a system of nominal stock registration, and our tax laws assess higher rates for the assets and earnings of companies set up in tax havens or under offshore arrangements.

This allows us to identify cases in which capital movements seek to benefit from the legal framework that some countries provide for anonymous transactions.

If we are truly committed to the struggle against poverty and marginality, it is essential that we move to a much higher level in terms of law enforcement and punishment for crimes. To supplement the action being taken at the national level, which I know for a fact is the case in many countries, international cooperation, too, needs to be more supple and more effective. Given the nature of these crimes, isolated action at the national level will never be truly effective.

We can no longer talk in euphemisms. Tax havens and jurisdictions whose laws seem to be drafted to favor money laundering cannot be viewed as an acceptable component of smoothly operating capital markets. Any element that undermines a nation’s fiscal soundness and protects corruption also debases our free economic institutions and undermines the well-being of our peoples.

I wanted to bring this issue before the Board of Governors because, as the IDB’s President has noted on numerous occasions, the Bank not only lends financial support for the development of our nations but it also provides a forum for discussing problems that can only be resolved through broad international cooperation. This topic is also on the agenda to be discussed at the next meeting of Economics Ministers of the Americas, to be held in New Orleans, as a continuation of the Miami Summit.
Remarks by His Excellency Carlos Saúl Menem, President of the Argentine Republic

It is my pleasure to extend to you our warmest welcome to Argentina on this, the occasion of the Thirty-seventh Annual Meeting of the Inter-American Development Bank.

Over the years, the Bank’s annual meetings have become a traditional forum for discussion not only of the Bank’s affairs, but also of the current realities and future of our societies. With the attendance of prominent leaders from throughout the world, we in Latin America will have the opportunity, during this meeting, to exchange views and generate ideas on ways to enhance the workings of our economies and the lives of our people.

You are being welcomed here by a country in the midst of transformation, with all of the excitement and uncertainty inherent in any period of change—a country anxious to share with you the new, dynamic and invigorating realities we face, as do all of our sister nations in the region.

This meeting is taking place at an important juncture in Latin America’s history, with democracy prevailing in virtually every corner of the hemisphere. The great majority of our nations have embarked upon a process of far-reaching structural reforms to lay the foundations for sustained and steady growth.

Underlying these changes is a strong conceptual framework that has led us to rethink how economies work, and has left us persuaded that neither openhanded spending nor openhanded monetary policy can work economic miracles.

We have all come to understand, as well, that integration with the global market may be a slower, less spectacular course, but is unquestionably a more solid and lasting means of promoting growth, employment and a better distribution of resources.

Here and now—and I hope well into the future—the new key words for Latin America are investment, technology and productivity.

I speak to you here not as a theoretician but as a politician who faces, every day, the tremendous challenge of leading his people, with that difficult combination of perception and anticipation that is the essence of governance.

In its recent history, Argentina has come up against serious dilemmas as we tackled the daunting task of halting the decline of a nation plagued by inflation and stagnation, seemingly paralyzed by a state that had interjected itself into every quarter, smothering creativity and all the while setting off an unparalleled process of collective impoverishment.

What were our choices? Retreat in the face of conflict, or deepen our reforms?

Were we to look closely at one tree, or forge onward into the forest?

We chose to continue forward, knowing that whatever mistakes we might make in the details, we would be leaving the old Argentina behind us, and would be sowing the seeds of a new Argentina and restoring the faith of our citizenry. And renew their faith we did, rehabilitating our finances, restoring the value of our money and with it the value of work.

We also won back the world’s confidence, as we normalized relations with our creditors, with the help of the Bank and the other institutions who came to our assistance.

Our people understood what we were striving for and stood by us, time and time again. They understood that we were preparing fertile ground which they in turn would cultivate, as would their children, who until a few years ago had but one avenue waiting
for them: emigration. At the ballot box, our citizens again and again said “yes” to change, “yes” to productivity, and “yes” to joining the world economy.

Today we can present both to our own people and to the international community a sound and steady nation, with growth unfettered by inflation or macroeconomic imbalances, and with fully functional democratic institutions.

Our nation likewise affords tremendous investment possibilities, because investors know that they can plan and expect returns.

For all of these reasons, I am satisfied that our choice of a given path nearly seven years ago was not opportunistic or a response to problems of the moment; it was an eminently rational approach from a social, economic and political standpoint.

There will, unquestionably, be immense challenges in the years ahead. We will need to consummate the process of state reform, drive down the unemployment rate, increase domestic saving and combat poverty. But we are confident that we are on the right path, and if we do not deviate from it, we will win out.

The issue of unemployment warrants special mention. The alarming numbers of unemployed in our country at present may indeed be echoed in most corners of today’s world, but this is scant comfort when the lack of gainful employment takes such a terrible toll on our people.

The unemployment problem has many roots. One dimension is structural; another has to do with the sophisticated technologies now at our disposal. The transition from a planned economy stewarded by the public sector to a market economy and an efficient state has also played a role, as has turbulence on the international front last year, which held down our growth.

If investment in the services sector or in large industry are not enough to ensure full employment, what then must we do to remedy our unemployment problem? I have reflected at length on this question. There is no easy solution. The prerequisite for any definitive solution to unemployment—and I cannot overemphasize this—is a well-ordered economy.

But in addition, we need modern, flexible legislation that not only does not frighten off entrepreneurs but gives them incentives to create jobs.

Experience has shown us, here and around the world, that small and medium-sized businesses create the most jobs. It is to this sector that we should target all our efforts, making available to these businesses reliable and affordable electric power, transportation and communications services and doing away with the myriad of obstacles and barriers to market access.

We need to encourage the active involvement of the financial sector, through reasonable lending rates and terms. This is a matter that I touch upon with great concern, because it is a matter of unfinished business in Argentina. It defies comprehension that with annual inflation now below 1 percent, loan rates in our country still hover around or exceed 20 percent, and that our banks still hold to outdated approaches as they determine security requirements for prospective borrowers. We thus await the consummation of the sweeping changes in the nation’s banking system, building into economic calculations the opportunities afforded by convertibility, which is, and will remain, the essence of our economic plan.

I hope as well that this new dynamic will produce financial institutions that work more closely with individual borrowers and savers and with small and medium-sized businesses, following the successful examples of the Spanish “Cajas de Ahorro” and
the regional banks in the United States, as a means of encouraging individuals and families to save and delivering specialized services to those of our citizens with fewer means.

In such a climate, and with the security afforded by our commitment to stability, small and medium-sized business will undoubtedly alleviate, if not eradicate, our unemployment problem.

I trust that you will forgive me for these references to my own country, and will understand how they fit into the context I mentioned earlier: the excitement of knowing that we in Latin America are at a crossroads in our history, with untold opportunities that we simply must seize. I hope that the thoughts I have passed on to you today may help guide your work during the days ahead.

I should now like to share with you some ideas on MERCOSUR, and underscore how confident we are of the future of this venture. This great quest, the product of our common history and fruit of the efforts of so many illustrious statesmen, is today a reality exceeding our greatest expectations.

It seems like only yesterday we were signing the treaties that gave birth to this common market, yet the region is today a whirlwind of business arrangements, investments and contacts between the entrepreneurs of our nations.

One would say that no time at all had passed since we gave shape to this enterprise in Asunción, yet we have crossed the Atlantic to move toward integration with the European Community, to multiply our markets and close a final chapter in the lamentable history of barriers to trade.

It is very satisfying indeed to be able to affirm to this group of leaders of Latin America’s financial and production sectors that MERCOSUR is no longer one of our dreams: it is our destiny. MERCOSUR is a new form of state, which will be reshaping how we think and transforming our culture as harmonious relations with fellow member nations become our frame of reference.

But MERCOSUR is much more than that: it offers us also the ultimate avenue toward peace in the hemisphere, and the hope of tackling from multiple, united fronts the triple scourge of terrorism, drug-trafficking and crime.

It will take all the creativity we can muster to rise to the challenges today, and those that no doubt await us in the years ahead, as this shared space for development takes even firmer root. We hope to see other of our sister nations join in before long.

A new state of this type calls for a new body of laws, but this cannot be left to the legal profession or legal scholars alone. It is politicians and the owners and operators of businesses who will reap the benefits in this new arena, and they too must have a say here.

Ultimately, it is the growth of our economies that will determine MERCOSUR’s growth. Here, the Inter-American Development Bank has a crucial role to play, to foster strong growth in the hemisphere.

Perhaps the greatest tribute I can pay to the IDB’s efforts in our region is to say that its work plays an integral part in day-to-day decision-making in our nations. When it is time for us to think about new investments to develop our nations’ resources to the fullest, or to bring in new technologies, or to foster social development in our countries, the IDB is there, with funding, to be sure, but above all with a staff that is prepared to work side by side with our people to nurture these ideas and see them translated into concrete projects to spur our growth.
There is little else that I could say here about the IDB’s endeavors that is not already well known to all of you. Under the wise and admirable stewardship of our friend Enrique Iglesias, the Bank has worked to transform itself, to pursue with even greater vigor its crucial role in Latin American development.

One of the greatest virtues of this cherished institution, and of its President, is their will and ability to tackle new challenges as and when they arise, to serve the region’s present needs and prepare to respond to those that may present themselves.

One sound manifestation of the Bank’s concern in this area is its decision to focus its efforts on support for social policies in our countries, in the form of funding and also management technology. I applaud this decision, and endorse it wholeheartedly. The reduction of poverty is today a global objective, framed at a recent United Nations summit meeting. Absolutely convinced as I am of the merits of a market economy, and likewise convinced that growth along consistent foundations offers the best hope for a society to advance, I here affirm categorically that economic and social progress are not mutually exclusive.

Ruinous inflation has taken its heaviest toll on the neediest of Argentina’s people. But even the poor of Argentina can attest to rises in purchasing power when the economy is stable and growing. Argentines know all too well that inflation and disorder are the worst enemies of prosperity.

When economic growth and social advancement do in fact collide it is because short-term problems have been tackled with magic remedies and demagogy.

Economies have gone through cycles since the world began. The problem arises when structural considerations are sidestepped in the desire to deal with cyclical circumstances. It should not surprise us that the instant solutions propounded by some to alleviate social problems invariably produce exactly the opposite effect.

One commitment that will be required of us is to allocate the resources needed to move swiftly toward the goal of equity. It is very clear that to staunch the wounds left by so many years of deterioration we need aggressive policies to pick up the pace of social progress. Only a state that takes in revenues and spends them wisely will have the vast resources that are required to carry through policies of these dimensions.

But success in this quest will not be achieved by money alone. We need new, participatory approaches and creative techniques. We must make certain that every cent invested reaches the intended beneficiaries. We must strengthen community organizations and train social sector managers: this is the new language of social policy.

Argentina’s experience with the IDB in this sphere has been heartening indeed. We have already put together many initiatives, and expect to announce many others in the near future. I would thus urge the Bank to continue along this path, and would encourage all the member countries to offer more resources to help in the pursuit of this common goal.

In closing, I should like to ask the Governors to give very special attention to the situation of the poorest nations in the region. Latin America is an inseparable whole. There can be no lasting equilibrium until socioeconomic gaps are narrowed, such that every citizen will have the same opportunity for personal growth and social advancement, with support from all the Bank’s member countries. I hope that this question can be looked at in this forum, and that a positive decision will be forthcoming.

It is my hope that the days you will be spending with us in Argentina will be enjoyable and productive ones, and that out of your deliberations there will emerge an even stronger,
more creative, more active Inter-American Development Bank. I wish all of you a future of constant renewal as you proceed resolutely on the path toward growth and productivity. Let us not fear change; let us embrace the new consciousness afoot in the world to improve the lot of our peoples.

May God’s blessing follow you, and may this gathering inaugurated here this morning achieve all of its noble purposes.
I should like to begin by expressing my appreciation to the authorities of Argentina, and the City of Buenos Aires in particular, for the magnificent reception we have received, which will assuredly be key to the success of this Thirty-seventh Annual Meeting of the Board of Governors of the Bank and Eleventh Annual Meeting of the Board of Governors of the Inter-American Investment Corporation.

Our surroundings—the excellent services and facilities placed at our disposal, coupled with the warmth of traditional Argentine hospitality—have provided us with a truly favorable atmosphere for the performance of our work here.

We are meeting at a unique moment for Latin America and the Caribbean, and for the Bank as an institution at its service, with the region poised for a further thrust towards building a more just society upon the foundations laid by the reforms and initiatives of recent years.

The seminars that preceded this meeting have confirmed to us that education, and integration in the broadest sense—beyond the economic sphere per se—will occupy a central place in any future strategy to secure the growth with equity to which we aspire. Argentina generally, and Buenos Aires in particular, have always led the way in these areas. Some of their foremost figures have succeeded in reconciling action with reflection, and intellectual pursuits with participation in public life. Through their achievements they have transcended Argentina’s borders to go down in the history of America, and they continue to stand today as an invaluable source of inspiration.

With God’s help, may our deliberations here be inspired by those eminently Argentine and American figures—Juan Bautista Alberdi, Domingo Faustino Sarmiento and José Hernández, to name just a few. May their examples serve to guide our steps on this important occasion and help us to gain a true understanding of our peoples’ needs so that we may productively and effectively build our region’s future.

The Bank in 1995

In 1995, the Bank began to reap early benefits from its administrative reorganization, in terms of both more effective management of the existing portfolio and development of new activities and operations consonant with the IDB-8 mandate. There was a marked increase in the production of country papers and related programming exercises accompanied by a qualitative enhancement in the role of the Board of Executive Directors in this function, a change which has enabled the Bank to sharpen country focus in its operations.

Extensive evaluation of the loan portfolio in each country in partnership with the borrowers and executing agencies is proving to be invaluable. The second portfolio assessment exercise, prepared in accordance with the recommendation of the Task Force on Portfolio Management (TAPOMA), was also a major step forward in establishing benchmarks for assessing the full developmental impact of Bank lending and in shifting the culture away from a preoccupation with approvals to a concentration on results. Another
important innovation related to these changes has been the establishment of specific and measurable targets for each project presented to the Board, with the widespread use of the logical framework methodology during the project appraisal stage.

Our analysis shows that the toughest obstacle in the way of getting best results from the projects we finance is pervasive institutional weakness among executing agencies. The Bank will work harder in the future with our borrowers to remedy this situation. Although project implementation is the borrowers’ responsibility, we believe that the Bank can assist greatly in this process, including action to further strengthen its presence in the field. A task force chaired by the Executive Vice President undertook a comprehensive review of the Country Offices during 1995, and recently submitted a report which proposes major changes in the functions, staffing and mechanisms for integration of the work of our offices located in the field with the operational departments at headquarters. We expect that the implementation of these recommendations over the next few years will contribute to a considerable improvement in the quality of the Bank’s portfolio of operations and, hence, its contribution to economic and social development in our borrowing member countries.

While the full effect of these changes will only be seen in the years ahead, both the borrowing countries and the Bank can feel gratified about the improved performance reflected in disbursements during 1995. The pace of project execution continued the acceleration which started in 1994. Disbursements reached a record level of $4,818 million, reflecting the improved performance of the portfolio of traditional investment loans as well as an unexpectedly large increase related to fast-disbursing loans approved in the course of the year. Given the high level of disbursements, the Bank was a source of net capital flows to the region in spite of the early repayment of close to $1 billion by one borrowing country.

The loans approved by the Bank in 1995 consolidated its position as the major provider of long-term loan capital for the region, particularly for the smaller countries. Total new lending increased by 38 percent to a record level of $7,224 million for 74 projects in 22 of our borrowing member countries. Virtually the entire net increase in loan approvals was related to the Bank’s initiative in joining with other international financial institutions to provide greater assistance to Mexico and Argentina in dealing with an economic emergency. The approach taken in doing so incorporated an important qualitative shift compared with the traditionally narrow focus on financial balances: both countries took major steps to protect and enhance the quality of spending on social services and the Bank supported these efforts with loans totaling $950 million. The demonstrated capacity of the Bank to respond quickly and effectively in a complex situation is yet further testimony to its vocation for service to the region.

The Bank strayed from some of the quantitative guidelines of IDB-8, given the nature of the increase in lending required to deal with the economic problems faced by two of its largest borrowing countries in 1995. Countries in Groups C and D accounted for 23 percent of the total new commitments approved, compared with a mandate of at least 35 percent, while the share of sector loans was 34 percent or more than double the 15 percent guideline. Also, loans to the social sectors fell somewhat short of the targets of 40 percent by volume and 50 percent of the number of operations.

The Bank’s decision to involve itself fully in efforts to deal with the economic crisis—in my view, an entirely appropriate course of action—obscured the picture of its true efforts in support of the smaller countries in the region. The number of projects approved
for countries in Groups C and D increased from 37 in 1994 to 43 in 1995, but the value of approvals was virtually identical at $1,645 million. Approvals from the Fund for Special Operations (FSO) at $769 million set a record and, faced with a concessional resource constraint, the Bank mobilized $470 million of cofinancing on soft terms for 19 operations in the Group C and D countries. Further testimony of the Bank’s vocation to the task of development in its smaller member countries is the considerable effort invested in technical cooperation, principally to strengthen institutions: in 1995, the Bank approved $39.5 million on a grant basis for the Group C and D countries.

One positive aspect of our efforts to comply with the IDB-8 mandate was the launching of the initiative of direct lending to the private sector without government guarantee for infrastructure projects. The Bank approved only five loans for $146 million, but its presence leveraged additional funding to permit investment financing for projects valued at $980 million or almost seven times its direct contribution. It should be noted that two of the five loans were to countries in Groups C and D, thereby signaling the Bank’s intention to use this instrument as well, to the greatest extent possible, in the smaller member countries.

Activities in support of private sector development also included important advances in strategy formulation, consolidation of the program of the Multilateral Investment Fund (MIF), and revitalization of the Inter-American Investment Corporation. As far as strategy is concerned, the Bank is paying special attention to medium-sized, small and microenterprises. We engaged in extensive consultation with interested parties in developing a $500 million, five-year program for microenterprise development—Micro 2001—and management will soon submit to the Board of Executive Directors a revised strategy for lending to this sector.

MIF funding was approved in the amount of $66 million for 32 projects, including creative pilot efforts in worker retraining, entrepreneurial development and alternative dispute settlement mechanisms. Approvals with MIF funds have now reached $157 million for 70 projects in 17 countries, while disbursements in 1995 amounted to $21 million. The small size of its operations, the number of executing agencies with little or no familiarity with the Bank, and the innovative nature of many of the projects present the MIF with a special challenge for effective supervision of this portfolio.

The IIC began in earnest to implement the Action Plan approved by its Board of Governors at Jerusalem last year. Fully three-quarters of the $36.6 million approved in 1995 were equity investments, and the Corporation also approved $36.4 million in new cofinancing and secured a further $74 million from existing arrangements.

In 1995, the Bank was intensively engaged in a series of activities geared towards better equipping itself to carry out key aspects of the IDB-8 mandate more effectively. For example, the Bank sponsored consensus-building exercises in an effort to learn from others in defining concepts and mechanisms for operations in the area of modernization of the State and strengthening civil society. We participated in the United Nations Fourth World Conference on Women in Beijing, the World Summit for Social Development in Copenhagen, and in hemispheric working groups on trade and capital markets as a follow-up to decisions taken at the Miami Summit.

Such activities provide the intellectual ferment which, it is hoped, will stimulate the design of innovative interventions in the new and difficult areas covered by our mandate. By way of example, we have taken the lead in starting a process to facilitate implementation of the strategies for social development adopted at the Copenhagen summit. To this end, I have
invited former President Aylwin of Chile, whose vision inspired and made the Summit for Social Development a reality, to lead this important exercise in six countries on a pilot basis over the next two years. The primary objective is to cooperate, at the country level, on developing priorities and long-term strategies as a means of facilitating concrete follow-up on the Summit recommendations. This will contribute to enriching the Bank's portfolio of operations aimed at effecting poverty reduction and social reform. At the Beijing Conference, we made a commitment to get involved in programs to deal with domestic violence—one of the major social challenges in family life in our region—and I am pleased to note that we recently approved a loan that included a component addressing this issue.

While actively seeking to respond in the best possible way to its mandate, the Bank is engaged in a continuous process of innovation. In 1995, the Bank moved boldly in the area of modernization of the State and strengthening civil society by approving eight operations covering activities such as administration of justice, alternative dispute settlement mechanisms and improvement of legislative processes. Steps were also taken to incorporate full consideration of gender issues at an early stage in project design. We have also begun to develop a data base on all projects in the portfolio or under consideration which touch on indigenous populations, and we played an active role in the launching of the Indigenous Peoples Fund, which is dedicated to promoting the rights and interests of indigenous people throughout the region. The Bank has thus shown itself to be true to all of the mandates recently entrusted to it, and to a prudent and effective use of the resources received to perform these tasks.

Economic and Social Situation in Latin America and the Caribbean in 1995

When we met in Jerusalem last year, short-term prospects for Latin America and the Caribbean were very uncertain. It was difficult to predict how widespread or long-lasting the financial turbulence in the region would be or whether the affected countries could really maintain the adjustment measures required to surmount the crisis. On balance, it is fair to say that subsequent developments surpassed expectations of the most optimistic forecasts.

Many recent indicators point to an emerging positive picture for the region taken as a whole. A return of confidence in the future of our economies is reflected in a strong recovery of financial markets signaled by the rebound in equities, surging prices for Brady bonds and falling domestic interest rates. With the exclusion of Argentina and Mexico, economic growth in 1995 was down only slightly from the 1994 rate and capital inflow actually increased. While the adjustment to the crisis has been particularly painful for Argentina and Mexico, both countries have achieved a major adjustment, and now seem poised for recovery with a sustainable external position.

Nevertheless, a gap continues to exist in the region between macroeconomic achievements and their concrete expression in people's quality of life. Certainly the social costs that arose in the wake of declining output—especially the scourge of unemployment—have persisted. That the issue is not a simple one is amply demonstrated by experiences in both developed and developing countries. Along with declining incomes, modified production patterns and a scaling back of the State, we are seeing massive numbers of new job-seekers, including many more women and young people, entering the work force.

In order to turn the situation around it will be necessary to restore growth, promote job training, support small and medium-sized enterprises, and make job markets more flex-
ible. The dramatic drop in unemployment in Chile shows that consistency and perseverance in the application of reforms, when backed by specific state policies, can contribute to solving the problems that are now of concern in so many countries.

All in all, events during the last year stand in sharp contrast to those of the early 1980s, when the end of a capital inflow episode plunged the region into a widespread, deep and long-lasting crisis. Why the difference? I would proffer four reasons.

First and foremost, the region met the challenge posed by the recent crisis with a prompt and courageous adjustment effort. Latin America stayed the course of reform through very difficult circumstances.

Secondly, the region was well served by the economic reforms of the past decade which strengthened the capacity of our economies to adjust in the face of adversity. Here I would point to the special importance of two reforms: trade liberalization and regional integration, and fiscal reform. The increased openness and export orientation of economies achieved as a result of the region’s trade liberalization efforts helped to ensure that the current account adjustment required by the curtailment of access to international capital took the form of expanded exports, rather than a sharp and disruptive contraction of imports. The intensification of regional integration enabled the more rapidly-growing economies such as Brazil and Chile to serve as engines of growth in the region. Both Argentina and Mexico were in turn able to achieve prompt adjustment of the fiscal situation because of structural changes in the tax regime that had already been made by those countries.

The other two reasons were external in nature, but were only taken full advantage of because of the positive internal changes which I just mentioned. Unlike the situation in 1982, the international situation was benign, since growth among our industrial country trading partners was moderate, the region’s terms of trade were fairly strong, and world interest rates generally declined throughout the year. Finally, the region’s response to the crisis found strong support from the international community, including actions by the Bank to which I have already made reference.

The Governments of Argentina and Mexico deserve our special recognition for having taken on the formidable challenges facing them without adopting short-term measures that might have reversed progress already made on reforms. That would have brought short-term relief at the price of long-term sacrifice, and ground would have been lost on the hard-won gains both countries have realized by dint of rigorous reform over the last five years.

The past year’s results bear out the soundness of their policies. The external problem is in hand, confidence is returning both at home and abroad, financial collapse was averted, and the economies of both countries are growing again.

We have reason to feel a measure of satisfaction with the record of recovery. But, far from becoming complacent, we should be aware that the region might face other major shocks in the future, when international factors may not be as favorable as they were in 1995. It is therefore imperative to review the lessons from the experience of 1995 in order to ensure that our policy framework is strong enough to minimize the risk of future crises, or at the very least contain their damage. Let me highlight what I consider to be among the most important lessons.

In the first instance, we must recognize that the seeds of economic problems are often sown in periods of economic boom. We must therefore manage good times with as much care as we do economic emergencies. In this regard, two areas of special concern are the roles of fiscal policy and of domestic financial systems.
Fiscal policy has all too often amplified rather than absorbed the impact of economic shock in our region. Our economies tend to lose access to international financial markets during a downturn, with the result that countries are forced to choose fiscal contraction, just when a more stabilizing fiscal policy would be more appropriate. But a key reason for loss of market access during downturns is the failure to pursue the kind of cautious fiscal policy during periods of economic boom which would allocate extraordinary revenues to uses such as debt repayment or the accumulation of reserves. In a similar manner, easy lending when the economy is buoyant tends to prepare the ground for banking failure when it turns down with the consequence of exacerbating the downward spiral. Strengthening banking supervision and oversight should be a matter of immediate priority for all the governments.

A second lesson can be drawn from the dangerously high risks and volatility inherent in using short-term resources to finance persistently high external imbalances. This matter was the subject of discussion at last year’s meeting in Jerusalem. Experience shows that the worst hazards of external vulnerability become internalized and amplified as large amounts of funds flow into domestic financial systems. Accordingly, we have to reduce our high dependency on external resources, especially short-term capital. The appropriate long-term response is to bring about sustained increases in domestic savings, including, as a first step, adequate bank oversight and attainment of a healthy fiscal position.

Thirdly, we have learned that the solution to the instability that has affected the countries of the region lies not only in perfecting skills in crisis management, but rather in long-term, structural and institutional reforms in economic management. We need to make our economies more resilient and to construct and strengthen institutional arrangements that would function almost automatically to mitigate the impact of shocks.

Our economies can be made more resilient by continuing the process of trade liberalization and regional integration. Last year, exports to subregional partners bolstered the efforts of Argentina, Mexico and Venezuela to correct trade imbalances. Once more, regional integration—joined now by hemispheric integration—acted as a countercyclical safeguard for those countries in an unfavorable environment. The progress of “open regionalism” through the deepening of rules-based systems with effective enforcement mechanisms would improve the investment climate, enhance competitiveness and stimulate specialization. Indeed, there is already considerable evidence that intra-regional exports tend to involve products with higher skill intensity than those exported to the rest of the world. Being here in Buenos Aires, I need hardly tell you that MERCOSUR is one of the most dynamic expressions of the renewed desire for integration in our region. We must also recognize that work programs emerging from the meetings of trade ministers in Denver last year and just a few days ago in Cartagena have launched a collective hemispheric effort on the part of 34 governments that is truly a landmark in the history of commercial relations in the Americas.

The strengthening of budgetary institutions and of regulatory arrangements for the financial system are critical actions needed to create a built-in capacity for better management of our economies. In the case of budgetary institutions, it would be desirable to forge political consensus to facilitate prompt action in offsetting shocks through prudent management of fiscal policy. As far as the financial system is concerned, regulatory agencies must be given the political backing and enforcement authority to deal swiftly and effectively with all financial institutions. Perhaps most difficult but of paramount importance over the longer term, we can develop the State and build a civil society working to create a reservoir of
goodwill among different social groups so that, in the aftermath of a shock, the task of forging timely agreement on a package of policies would not prove insurmountable.

Challenges Posed by the Quality of Development

I have spoken here today of a continuing and fundamental challenge: staying the course of the reforms and carrying them further to prevent and manage crisis situations. But there is another that is equally urgent and important: improving the quality of development so that society can absorb the social costs that inevitably accompany change. Both challenges call for stronger public institutions and even more effective governance. Here lies the greatest challenge for the region in the years to come and, by extension, the Bank.

Markets and private activity cannot develop in a governmental vacuum. They require efficient governments to provide a sound legal framework, to implement appropriate regulations to stimulate economic activity, and to help establish the sense of social equity and shared purpose that are essential for sustainable growth over the long run. If governments in the region are to fulfill their proper role of promoting the quality of economic development, as reflected in the daily lives of our people, a major effort will be required to strengthen the institutional capacity of the State.

Deepening reforms to continue modernizing production patterns, together with appropriate social policies to improve the quality of life in our societies, will require the questions of institutional development and reform of the State to be addressed urgently and with the same political courage that informed the changes of recent years. A new State for a new Latin America.

Let me share with you my thoughts on certain areas of activity to enhance the quality of development that warrant the highest priority at this time. These are areas in which the Bank can greatly assist our countries, especially where there is broad consensus with the governments.

Education

The experiences of industrialized and developing countries alike indicate that education has been the cornerstone of economic and social progress attained by peoples everywhere. The region of Latin America and the Caribbean is no exception. But education’s role has become truly critical at a time when much of the world is being swept by momentous changes centered around a common axis of modern technology.

The industrialized countries are undergoing a transition from production-based societies to knowledge-based societies, a shift which underscores the importance of placing education at the forefront of their concerns. But the challenge in Latin America is one of much greater proportions, despite the efforts and achievements of the 1960s and 1970s. The reasons include both the depth and complexity of the structural changes taking place in the region and the considerable gaps in educational coverage, efficiency, quality and the quantity of resources in our region as compared to other emerging regions and particularly the industrial world. Among the tasks of development in our region, education must be given urgent attention if we wish to see democracy take root and bring our countries to full participation in the economic and social progress brought about by technological advances and modern knowledge.
The seminar on education held last Thursday recognized the renewed importance being accorded by governments in the region to the educational sector, and the greater budgetary efforts being made, even in these difficult times of adjustment. But these efforts are not widespread, and will need to be increased significantly if we are to close the existing gaps.

The shortcomings of educational systems are even more acute when viewed from the standpoint of various ethnic and social groups, as well as regions. Major disparities abound, to the detriment of equity as well as social and political stability. The elements of the problem are manifold and complex. Primary and secondary school teachers earn low salaries and lack technical training geared to today's needs, and the value of their work is not adequately recognized by society. Teaching as a career has become less appealing, and has lost some of its mystique as a noble social calling.

Secondary education has always served a dual function in preparing young people either to join the workforce or to pursue higher education. That duality appears to have increased, in many cases because it has virtually lost its relevance for a majority of students. Although there are a number of experiments that have taken place with forging more direct links between secondary education and the working world, creating too close a match between the two can introduce other constraints, especially when the aim is to impart more versatile skills that will be responsive to the needs of rapid technological change.

Much attention has been given in Latin America to higher education. Budget constraints affecting public education have in turn prompted new and different formulas to emerge that involve private funding and management in traditional university education as well as a proliferation of other tertiary training. Although private participation is highly desirable, it should take place in the context of a definite policy whereby private efforts are made to dovetail with the aims of education overall. Such a policy will clarify the relationship between private and public university education, and its absence could jeopardize the quality, equity and quantity of higher learning as well as the related activities of research and dissemination of knowledge.

There are some who believe that the chief problem with education in Latin America and the Caribbean is one of efficiency in spending rather than a lack of resources. That interpretation has some validity, especially given the current acute scarcity of public funds and the heavy competing demands for investment in physical infrastructure and technology to support private sector activity. However, this is too complex and too serious an issue to be addressed merely by making resource use more efficient.

Our region spends less per student, at all levels, than any other region in the world. Only in primary education is there a region (sub-Saharan Africa) that spends less than Latin America. Worse still, the gap between Latin America and the rest of the world continues to grow. Educational outlays in real terms increased significantly throughout the world during the 1980s, matching and even topping overall output growth and far outpacing demographic growth. The United States and Canada posted annual increases of 3.2 percent and Asia, 6.9 percent. In Latin America, however, total expenditure remained virtually stagnant, and the outlay per capita declined steadily.

Latin America and the Caribbean face a dual challenge in the years to come with respect to education: it will be necessary to invest significantly more in human resources while better managing the use of available resources. I am well aware of the difficulty of the task considering current budget constraints and legitimate demands from other quar-
ters, but clarity of purpose is paramount in this sector so essential to the economic and social development of our countries.

**Development of Medium-sized, Small and Microenterprise**

Equitable social development continues to be the greatest task facing the region today. Fortunately, achieving it begins to look more feasible as economies in most of the region’s countries gain in vigor. Always an important objective, social development has become a vital necessity if we are to nurture and consolidate democratic life. One of the principal instruments at hand in addressing this issue is the extraordinary potential for synergy that lies in the activities of medium-sized, small and microenterprise. By recognizing that potential and employing comprehensive policies to exploit it, we can make a major contribution to the region’s efforts to achieve economic development and social equity as we move ahead into the 21st century and a new millennium.

The estimated 50 million of these enterprises now in existence employ close to 150 million of the region’s people—80 percent of the economically active population—and contribute a 40 percent share of regional GDP. However, these figures imply a considerable disparity, on the order of a 1 to 6 ratio, in average labor productivity between this sector and the rest of the economy. Although no estimates are available on comparative productivity within the sector, it would seem reasonable to assume that even greater discrepancies exist between medium-sized and small enterprises, on the one hand, and microenterprises on the other.

Despite the absence of reliable data, contrasts in productivity are sufficiently marked to be identifiable as the primary reason for the vulnerable and fragile nature of these economic units, as well as a major source of inequality in income distribution and poverty. The problem appears to have worsened in the wake of the economic crisis that beset many countries during the 1980s. Contributing factors included continuing and even accelerating migration from country to city, in addition to reduced employment opportunities in state and corporate environments as a result of structural reforms and adjustment policies.

Developing this sector, then, is a matter of urgency and crucial importance. The essential aims of efforts to foster these enterprises include (a) strengthening their ability to create new jobs; (b) boosting their productivity and competitiveness; (c) fostering improvements in technology, organization and administration; (d) training executives, technicians and skilled workers; (e) improving access to investment and working capital on competitive terms; and (f) bringing microenterprises into the mainstream and giving them an edge through greater competitiveness that will serve as an incentive to join the formal economy. This last will mean providing technical assistance to enable these enterprises to gain access to the banking system.

This is a formidable task that involves mobilizing the combined efforts of the private sector, nonprofit nongovernmental organizations, and the State. Political determination and a broad-based consensus among social and economic groups in each country are prerequisites for bringing such efforts to fruition. These initiatives must be stimulated from within the countries, although technical and financial cooperation from abroad can play an important supportive and catalytic role. The Bank has expanded the cooperation activities with this sector that it pioneered among international economic cooperation agencies with the founding of the Small Projects Program in 1978, and the launching of the 2001
program in support of microenterprises in the region at a meeting held last November. The same sense of purpose led us to join with the Bolívar Program to organize a successful meeting of small and medium-sized enterprises in Punta del Este last year, where we offered to develop comprehensive promotion programs for such enterprises in coordination with interested governments (PROPYMES Program).

**Quality of Life in the Cities**

Improving the quality of life is the fundamental objective of any development initiative, and is deeply rooted in the aspirations of peoples and governments throughout Latin America and the Caribbean. Although that objective applies equally to rural and urban milieus, the contemporary phenomenon of urbanization has placed unprecedented strains on cities everywhere. While the numbers of those living in rural areas declined in absolute terms at a rate of 0.5 percent per annum over the 1990–1995 period, the urban population has been rising at a rate of 2.7 percent per annum. In just 15 years, the region’s urban population jumped from 65 percent of the total in 1980 to 75 percent in 1995, bringing the number of people now living in cities to 350 million.

Among the most appealing features of cities are the modern lifestyles they offer, together with expectations of better jobs, higher incomes and access to basic social services—education, health care, housing, social security, and a clean, safe environment—that ideally make life more liveable for individuals and families. Clearly, our major cities are far from having met those aspirations for the great majority of rural migrants. One might quite legitimately wonder, then, what social and economic consequences and political tensions that situation may have engendered.

The region has seen a combination of positive and negative developments. On balance, the results of development in the 1980s and 1990s have been increasingly unsatisfactory. Although physical infrastructure in cities and the vast network of urban services have mushroomed in a continuing effort to meet complex burgeoning demand, in many instances the causes and symptoms of social exclusion have worsened. The predicament is at its worst in the megalopolises of Latin America and the Caribbean, where signs of escalating diseconomies of scale and declining social well-being are unequivocal.

The erosion in the quality of urban life has its origins in a weave of many different factors. Among them are deteriorating environmental conditions, sometimes leading to lethally high levels of pollution, exacerbated by the lack of adequate services and insufficient water supply and sanitation, insufficient productive employment and depressed real wages, deficits in housing (low-income housing in particular), reduced social spending by the public sector, and the worsening crime and insecurity that in many cities today pose a grievous threat to civic life.

Without a doubt, urban unemployment has become one of the worst ills plaguing the countries of Latin America and the Caribbean. Open unemployment in some of the region’s larger cities increased by 50 percent to 200 percent between 1980 and 1995. One especially distressing aspect of this problem is that it has taken its heaviest toll on women and young people, who have come to occupy a rising share of the workforce over the past twenty years. On the other hand, in some of the countries posting the highest economic growth in recent years, unemployment has remained moderate and even fallen to the levels of the early 1970s. As unemployment has worsened, real wages in the countries hardest hit by economic recession have stagnated or fallen drastically.
Housing problems are of concern as well, although they vary greatly in nature and intensity from one country to another, and even within the countries themselves. Millions of Latin American families live in seriously substandard housing with no regular water and sewerage services or electricity, under conditions of acute uncertainty. An estimated 10 to 15 million families are living in such unacceptable conditions, in makeshift housing with overcrowding rates more than double those of the industrial countries. Although the problem does not affect cities exclusively, and certain deficiencies can be even more critical in rural areas, the urban phenomenon affects the well-being of a comparatively larger population.

This situation poses formidable challenges for the countries in the region and can be expected to worsen. Clearly, the task is a collective one and calls for mobilizing all of society. The State, both at the central level and at the provincial and local levels, bears an inescapable responsibility for devising and implementing appropriate policy and for regulation and oversight of collective action. A new avenue for state action has arisen in initiatives already under way in several countries to decentralize some basic functions to local and municipal governments, especially education and health care. This will pave the way for greater direct participation by civil society in activities of immediate interest that shape the lives of citizens. A clear awareness exists today that community organizations must play a decisive role in decision-making and policy-setting on national and international matters of significance to society.

Among policies intended to enrich the quality of life in Latin American cities, we must (a) design programs that will lead to economic growth in tandem with productive job creation; (b) invest generously in human capital, especially in basic education, technical and occupational training, health and housing; (c) foster the development of medium-sized, small and microenterprise and bring employment and economic activity fully within the formal economy; (d) promote social security and employment systems, ensuring that their benefits actually reach low-income groups; (e) improve environmental conditions, especially air, water and sanitary services; and (f) promote appropriate legislative measures and policies to improve citizen safety and social harmony.

**Institutional Development and Reform of the State**

The State in Latin America was shaped by the region’s unique cultural values and by realities prevailing both domestically and internationally throughout this century. Now is the time to revisit the way our institutions are organized and operate, and equip them to meet the challenges we face in the passage to the 21st century and the new millennium.

Reform of the State is central to the endeavor to update institutions. The task involves rethinking and redefining the State’s fundamental continuing social and economic role, as well as its size and forms of management. In this as in other matters, each country’s needs are unique; there can be no single generic answer to every situation. Still, as in the past, we believe there are certain principles and elements, born of pioneering practices in our own region and elsewhere in the world, that can enrich the process of reflection on how to effect institutional reform in the different countries of Latin America and the Caribbean.

This is not the time to enter into the question of these reforms, which of course must be defined and identified within each society, but it must be recognized that early discussions have not been entirely free of controversy. One viewpoint assumes that reform obeys
primarily, if not solely, ideological dictates in establishing what the State should and should not do. Another sees reform simply as trimming the size of the State. A third envisions reform as adjusting only certain State functions such as financial management, while leaving other areas such as legislatures, administration of justice and decentralization to a later stage. Finally, there is the view that reform should be confined to state institutions, with a redistribution of functions between the State, the market and civil society. Nurturing and consolidating democratic life calls for involving an ever broader and more diverse range of social agents, allowing many social development initiatives to be designed and carried out more efficiently. This list of the various positions serves to illustrate the complexity of the tasks to be contended with in effecting these reforms, which nevertheless cannot be deferred further.

How can the Bank help our countries to move forward, to take on successfully the task of reform to lay the basis for more durable and equitable growth?

Countries in our region compare unfavorably on many indicators of social development with others elsewhere in the world that have similar income levels. The solution to this unsatisfactory situation in the first instance requires better use of resources already devoted to social expenditure, given the tight fiscal situation of most governments and the imperative of leaving the private sector with adequate resources on terms and conditions that permit it to compete globally. We must take a hard look at the traditional delivery mechanisms for these services, searching all the time for those fundamental reforms that would significantly raise the efficiency of expenditure and the effectiveness of our efforts.

The deep reforms that will be needed will vary from sector to sector and from country to country. However, a common feature will be some redistribution of benefits from groups that prosper under today’s dispensation to the less influential. Such reforms will be difficult to design, let alone implement. But our societies have to face the challenge with urgency, if we are to marshal our considerable human and natural resources to strengthen our competitiveness in the world economy and, consequently, to enrich the quality of life of our people.

The IDB-8 mandate specifically calls on the Bank to support the efforts of its borrowing member countries to reform the delivery of social services. However, the resources which the Bank can disburse in any year for programs in the social sectors are but a fraction of total expenditure by the countries. Accordingly, the Bank’s contribution in the form of policy advice is more valuable than its financial input. The Bank is uniquely placed to draw on cross-country experience, to learn from the implementation of projects that it finances and, generally, to accumulate knowledge about best practices and their applicability in different situations.

However, the implementation of deep-seated reforms requires a great deal of time and much more than access to the techniques needed to implement them. It has to be rooted in a broad national consensus that cuts across political and other interest groups so that consistency in the reform agenda carries over from one administration to another. To be avoided is the tendency to respond to difficulties, including cyclical crises, by changing direction. It is necessary to persevere in the path chosen, which is the fruit of long and at times painful experiences with trials, failures and successes. I believe that the most valuable contribution that the Bank can make to social reform in the region is to engage the stakeholders in the countries and to facilitate the forging of national consensus. This is the context in which you should see the initiative to which I referred earlier.
Concluding Remarks

At forums held in recent years, we have underscored the economic, social and political transformations taking place in the Latin American and Caribbean countries in response to the crisis of the past decade that was unleashed by external debt problems. ECLAC has called the 1980s the "lost decade." The title is apt considering the income and social setbacks of that time, as well as the hyperinflation that threatened to demolish economic foundations and rend the social fabric in our countries. Today, with those hazards overcome, we can focus on the positive features of those years, which saw democracy restored and structural adjustment and stabilization policies implemented with great determination and political courage.

With the crisis of 1995, those reforms were subjected to three major trials. The challenge, first, was to the commitment to staying the course on policy; second, the ability to make corrections to overcome problems and contain the crisis to prevent it from taking on systemic proportions and spreading throughout the region, as occurred in the 1980s. Thirdly, international cooperation was put to the test.

The region's response was positive on all three fronts. Adjustment policies were implemented without sacrificing the reforms under way, thereby safeguarding future recovery. The crisis was confined to Mexico and Argentina. International cooperation, from governments as well as multilateral institutions, rose to the task as well. The response to these three challenges in 1995 bears witness to the broad-based political backing for reforms undertaken in the 1990s.

Questions are sometimes raised about the effectiveness of reform policies from the standpoint of legitimate social impatience, especially on the part of those groups that have borne the brunt of past and present adjustment programs. Heavy social costs have been sustained, among them unemployment. Naturally there is fatigue. It must be kept in mind, however, that these social costs are not necessarily, or entirely, attributable to adjustment programs. They often stem from earlier, longstanding and deeply rooted imbalances. It is impossible in practice to address social problems with substantive solutions unless economies are sound and minimum macroeconomic equilibria are in place, with fiscal balance first and foremost among them. The successes achieved by Chile and the countries of Southeast Asia in the social sphere bear out this fact.

The inevitable stage of macroeconomic adjustment, however, must be accompanied by a renewed concern with social issues. Our focus should expand to include not only growth—which we now see materializing—but also the quality of growth. We have advocated determined action in support of substantive social reforms to accompany the economic reforms now in progress. Today we have underscored certain areas where urgent and decisive action is needed by governments. Among them are education, small and microenterprise, and the quality of life in our cities. These areas will inevitably call for stepping up the actions already being taken by governments.

Governments should take firm steps to reconcile all aspects of economic reform and other action in favor of quality growth, if solutions are to be found to social problems. We invite and urge our governments to improve the quality of State action on all fronts. The market clearly plays a fundamental role in the allocation of economic resources, with private enterprise as its principal agent. Alongside it, however, we need a renewed State that can effectively take on responsibility for development, regulation, supervision and
overeight while marshaling forces to solve society's major ills by fostering growth and enhancing its quality.

These issues must also be seen in the context of globalization, a challenging phenomenon that now shapes our world and must be contended with by each country in its own way. As globalization extends further into the weave of international relationships, it will inevitably leave its mark on social and economic policy in the areas of production, technology, investment, financial flows, lifestyles and even our values.

Fundamental in this respect is an active awareness and participation by a modern State as well as private enterprise, and by other civil society organizations that have always played a vigorous part in our societies and are gathering strength today as our democracies take hold. In developing countries such as ours, the links between these three agents are paramount, and we will have to learn to manage them as time goes on. If we are successful, the creative forces unleashed will enable us to make use of the positive features and opportunities held out by globalization, and to diminish the not inconsiderable risks.

The experiences of 1995 have also shown that regional and continental integration processes can generate synergy in relationships between countries at the same time as they build new defenses to guard against shocks from the outside.

The past year has left us with invaluable lessons in hand and has confirmed that despite the difficulties weathered, the region is moving in the right direction. Policies will increasingly be put to the test as our leaders assume responsibility for meeting increased demand for quality. The Bank, as an institution at the service of its member countries, has an obligation to answer the trust placed in it by the governments with renewed creativity and flexibility, as we adjust to the new demands of our countries and carry out internal reforms to equip ourselves to accommodate them.

The Board of Executive Directors and the management and staff of the Bank are fully cognizant of the opportunity to continue serving our countries at this time of change in the region, and we are doing everything within our power to live up to your expectations.

As one who has had the privilege of living in this region for many years and sharing in its hopes and frustrations, its successes and failures, I look towards the coming century and the new millennium in a spirit of responsible optimism, buoyed by the kind of elemental confidence of which Martín Fierro speaks in the great Argentine poem:

To vanquish any foe,
To escape from the darkest fate,
Experience has taught me this:
Stronger than any shield,
Surer than the force of arms,
Is the faith you have in yourself.
ADDRESSES

SECOND PLENARY SESSION

March 25, 1996
Address by Mr. Domingo F. Cavallo, Governor for Argentina and Minister of Economic Affairs and Public Works and Services

As I noted in my remarks this morning, 1995 was a difficult year indeed. An international crisis of confidence was triggered in the wake of the devaluation of the Mexican peso, which had strong repercussions on the emerging economies, and in many Latin American countries in particular. Suddenly, the promising reform processes launched in the final years of the 1980s were in peril. All too fresh in our collective memory were the drastic shifts in economic policies essayed in the past to respond to crises like the one facing the region in 1995.

This time, however, our peoples and our governments elected to stay the course, eschewing demagoguery and accepting short-term sacrifices, aware as we were that this would protect the gains we had achieved thus far and guarantee a better future for generations to come. Most countries that forged ahead with pursuing monetary stability, balanced budgets, State reform, opening their economies, and moving forward with regional integration. Today, we can affirm with satisfaction that, by and large, the right decisions were made, and thanks to those decisions, 1996 promises to be infinitely easier for most of our countries than the difficult year we have just left behind.

Nevertheless, it would be reasonable to suppose that last year's crisis has left more than one wound unhealed, and more than one unanswered question, which will need to be addressed if we are to continue to build on the progress made to date. To that end, we will need to redouble our efforts this year to put our economies on an even faster growth track, increase the ranks of the employed, and strive for more equitable distribution of income. These are outstanding and inescapable obligations, which can be made good only through the reform programs now under way in our countries.

Fortunately, we did not have to come to grips with this problem on our own: the Inter-American Development Bank stood ready to provide crucial support. Assuming the leadership role that falls to it so naturally, the Bank acted expeditiously and efficiently to afford the kind of timely assistance its member countries needed. In Argentina, specifically, the Bank’s loans for rehabilitation of provincial banks and social sector reform were decisive in finding a way through the crisis. As we attested at last year’s annual meeting in Jerusalem, without the Bank’s action, and particularly the support of its president, Enrique Iglesias, the outcome of the crisis would have been vastly different. In all probability, were it not for their efforts we would today be discussing not hemispheric integration or educational reform but ways of subduing far grimmer situations.

Last year’s financial difficulties put the IDB to the test, and the IDB came through. Since the institution may need to be prepared to contend with future contingencies along these lines, we as its governors should be flexible, and equip it with the instruments it needs to rise to the demands of its member countries. This is not to say that the targets set by the governors should be abandoned, simply that it should be acknowledged that there may be occasion to depart from them in the short term. For instance, the 15 percent ceiling on sector lending set by the governors for the Eighth Replenishment has not proved, in practice, to be the best course, and thus merits serious discussion on our part.
We are confident that the IDB will step up its already considerable efforts to foster progress in areas such as poverty reduction, reform of the State, and economic integration, which are so crucial to Latin America.

Decisive as the Bank’s support during last year’s crisis may have been, it was but one of many highlights of the organization’s contribution to our countries. I should like to turn here to a number of its achievements on the institutional and operations front.

Over the course of the year the Bank completed final arrangements for implementing the Eighth Replenishment agreements reached two years ago in Guadalajara, which raise its lending capacity to over $7 billion a year. The time it has taken to consummate these agreements illustrates just how complex a task this was, requiring of all the parties a genuine willingness to negotiate and forge consensuses. In the end, we have been able to realize all these commitments and strike forth boldly on this new stage in the Bank’s life.

A further highlight of 1995 was the approval of the first direct loans to the private sector without government guarantees. This is a particularly gratifying development for Argentina, since we were at the forefront of discussions that enabled the Bank to adjust its policies in order to rise to new needs in the region, and contribute to the success of privatization programs. A further source of satisfaction for Argentina is that two of the five operations approved in 1995 were for companies in our country, in the areas of port infrastructure and electric power, both of which are vital for the advancement of our nation.

Worthy of mention also in the IDB Group’s private sector activity are the achievements of the Inter-American Investment Corporation. There is no need to recount here the past problems of the Corporation. Happily, an arrangement was worked out by the governors to enable the Corporation to continue to operate, and this was given definitive shape at the meeting in Jerusalem. With clearer guidelines in place and after resolute efforts, the Corporation cut its operating expenses by nearly 20 percent and posted a surplus, pursuant to the directives handed down by its Board of Governors. We commend the Corporation’s management for these accomplishments, and urge it to continue in this direction, so that it will be in a position to seek a true capital increase in the coming years.

Impressive though all of these achievements may be, they should not tempt us to relax ongoing efforts to enhance the Bank’s work in our region. Progress has unquestionably been made on a number of fronts, but much remains to be done. Board-management relations are one such area. As part of the Bank’s sound move toward the division of tasks, the Board is delegating to management the institution’s day-to-day operations—its “micro-management,” to use the English term—so as to concentrate on broader issues like programming, policies and operations evaluation. This change in culture is calling for adjustments and efforts on the part of the board and management alike. The Board should circumscribe its work and leave management to discharge its functions without undue board interference; management, for its part, should dispatch its work, assume the responsibilities falling to it, and attend to needs and requests of the Board, as the body charged with setting broad policies for the institution. We feel certain that if progress here has been slower than might have been wished, it is purely because the task itself is so new and so challenging. We urge both parties to redouble their efforts, to make for an even more efficient Bank.

It is frequently said that the Bank’s greatest capital is its human resources. Without a solid complement of highly motivated staff, the huge volume of funding that the institution and its member countries together are able to mobilize would have very little impact
on development. We therefore cannot overemphasize the importance of a recruitment pro-
cess that is open, competitive and transparent to ensure that positions are filled by the best
candidates. Good practices in this regard should avert the need for expensive separation
programs in the future, which in the end must be paid for by the borrowing member
countries.

I spoke earlier of the need for flexibility in the Bank’s support for structural reforms.
Another challenge before us at present is the scarcity of concessional funds for the less
advanced countries in the region. In the interval of less than two years since agreement
was reached at the Guadalajara meeting on an increase in the Fund for Special Operations,
it has become evident, to no one’s great surprise, that the funds available cannot meet the
demand, even with far fewer countries eligible for this funding. All our governments know
how difficult it is, in an era of very tight budgets, to approach parliaments for more inter-
national aid funds. But the flame of solidarity that has guided the Bank’s work for decades
can continue to burn brightly only if an additional effort is forthcoming on the part of the
entire membership, each country contributing its fair share in accordance with its eco-
nomic possibilities. The solution cannot be one whose cost would be defrayed by a hand-
ful of borrowing member countries.

The problem before us is a complex one, but it must be addressed so a joint solution of
the membership can be arrived at in a reasonable time-frame. Argentina will faithfully
discharge the responsibilities passed on to it with the chairmanship of the Board of Gov-
ernors, to see that the Bank has the resources needed to fulfill its founding mission of
fostering development in the region. We are certain that in so doing we can rely on the
support of our 45 fellow member countries.
I would like to express my appreciation, first of all, for the warm reception we have received from the Argentine government and the City of Buenos Aires at this Annual Meeting of the Boards of Governors of the Bank and the Corporation.

We are delighted that this event is taking place in a country and city with which we have strong, longstanding ties as well as many shared goals for the future.

The Inter-American Development Bank has arrived at this meeting with highly satisfactory results in hand. Its President, management and staff have good reason to feel proud of the work they have done in the past year.

We have taken note of the year’s record amount of Bank lending for the region’s countries, a fact that reaffirms the enormous importance that IDB financing holds for Latin America.

We would also like to congratulate the Bank on its initiatives of the past year in entering new areas of activity such as modernization of the State, strengthening civil society, the reform of justice systems, poverty reduction, and the ongoing struggle to achieve equality on every level. All of those initiatives responded to objectives set under the Eighth General Increase in Resources. We would also point to the need for continued Bank support in consolidating economic reforms and developing productive sectors, as well as supporting countries’ efforts to reduce poverty and effect social reform.

In considering the important achievements realized by this institution, with its deep understanding of realities prevailing in our countries, we are induced to look ahead and recognize that new and greater challenges will continue to arise as we advance upon the complex ground of development.

In this connection, my government has several comments to make on the Bank’s current avenues of action.

First of all, the results of the administrative reorganization have begun to make themselves felt in our countries. The Bank’s new operating structure has invigorated the project programming and preparation process, translating into a shorter turnaround time for operations.

We would underscore the importance of the technical cooperation provided by the Bank, especially to the smaller countries, in support of project preparation and institutional strengthening activities. We would emphasize the need for the Bank to have sufficient resources available to it on a timely basis so that it may meet the growing needs of the countries in the new spheres in which it will be working.

We would also emphasize the importance of the MIF as an ideal instrument for financing small projects and microenterprise. However, it would appear in view of the number of projects approved to date and the difficulties encountered in the identification and preparation of new operations that the MIF has not yet reached an operating level consistent with the substantial resources available to it.

Finally, we would congratulate the Corporation on the efforts deployed in the past year to adjust its organizational structure to perform more efficiently its mandate of supporting small and medium-sized private enterprises in the region, following the guidelines
laid down by the governors in Jerusalem. Since we see the Corporation as a consummate vehicle for carrying out such operations, the time is ripe for undertaking negotiations leading to its effective capitalization.

This meeting coincides with the first anniversary of a new administration in our country, and I would like to mention briefly the principles that have guided our actions during this period.

The cornerstone of our government’s economic strategy is greater openness to private enterprise in the context of regional integration. We have moved in this direction by carrying out a consistent stabilization program together with certain basic structural reforms, in the conviction that such reforms are essential if investment levels are to rise. Moreover, reforms and stable economies are prerequisites for revitalizing exports and making the public sector run more efficiently. They are also key to freeing up resources for more efficient use in social investments in sectors such as education and health care. But more vibrant investment and economic growth, against a backdrop of stability, must be achieved without compromising the country’s financial standing.

Our economy has always been exposed to the vicissitudes of the external environment, and we are particularly vulnerable to regional shocks. That is in the nature of a small economy located among the largest of South America. But the greatest difficulties we have faced in tempering the impact of external shocks are attributable to persistent domestic constraints.

In an economy such as Uruguay’s, excessive public spending rapidly depletes the instruments available to counteract negative shocks when they occur, opening the way to greater distortions and internal imbalances. Accordingly, it is essential that we undertake without delay to rethink the role of the State.

We have concentrated our efforts on reforms of social security, the State, and the educational system. Those reforms have already been sanctioned by Parliament. Social security reform is bringing about a mixed system with State coverage of minimum services and a funded system through pension fund administrators.

The reform of the State now under way is intended to step up public sector participation in areas which are its purview or are highly complementary with private activity, withdrawing from those which the private sector can operate more efficiently.

There are two prongs to the planned cutback in public spending: first, to ensure intertemporal balance in fiscal accounts and reduce the fiscal deficit to continue lowering inflation; and second, to ease the tax burden on the private sector in order to stimulate economic growth.

In this connection, we are pleased to announce that during the year just past, macroeconomic variables have evolved in full accordance with the stabilization program.

In addition to the reforms outlined, however, there is another of central importance to our government: reform of the educational system. The aim is not to raise the literacy rate, which is already 96 percent of the population. Needed now are adjustments to educational structures that will boost our competitiveness through a more open and more integrated economy.

Finally, we would underscore the importance of the continuing support we have received from the Bank throughout the process of structural reform being carried out by the Government of Uruguay. That support has taken a number of different forms, culminating in the recent approval of loan financing to this end.
Address by Mr. Guillermo Perry Rubio, Governor for Colombia and Minister of Finance

The Annual Meeting of the Inter-American Development Bank provides a great opportunity for the governors to examine the situation in our hemisphere, the important role this multilateral institution has been playing in regional development, and the tools available for finding a solution to the complex problems that characterize the late 20th century. We wish to express our appreciation to the authorities of the Bank for their efforts in the organization of this event and to the Government of Argentina for its hospitality.

Latin America in 1995

A year ago, when pessimism over the region’s situation and its future capacity seemed to be taking hold in a number of sectors, we affirmed, before this very assembly, that the economic difficulties affecting some of our nation friends should not obscure the immense achievements of Latin America as a whole, nor lead to superficial generalizations about the situation of all the countries. We were right: the crisis did not have the devastating effects anticipated. The recession was contained, and, if Mexico and Argentina are excluded, the region’s growth rate rose to 4.2 percent, exports rose at a healthy rate of 7.5 percent and there was a great increase in foreign investment in several countries, especially Colombia, Peru and Brazil.

We are not unaware, however, of the limitations the crisis placed on the region’s possibilities for growth, or of the serious currency exchange and financial problems that several countries have had to confront.

Fortunately for us, Colombia was among the group of countries that did not suffer the so-called “tequila” and “tango” effects, and was able to confirm once again the solidity of its economy in the face of external shocks.

A Good Year for the Colombian Economy

In a remark unusual for its reports, the Executive Board of the International Monetary Fund affirmed that the “favorable results of the Colombian economy in 1995, and the manner in which it absorbed the shocks affecting the regional economy, attest to the sound and consistent management of its economy.”

Indeed, our GDP growth rate of 5.3 percent was well above that in most countries in the region; inflation fell by three percentage points and broke the old psychological barrier of 20 percent; the country’s real rate of exchange regained its former competitiveness; nontraditional exports began once again to increase more rapidly than imports for the first time since the trade liberalization process began, bringing the trade deficit down from 3.3 percent to 3.1 percent of GDP; the excessive growth brought on by private consumption, rising indebtedness and public spending was reduced; investment rose to its highest level in recent decades, 27.5 percent of GDP (based on 1975 prices), with particularly noteworthy growth in foreign investment in nonpetroleum activities. Also significant was the halt in the downward trend of domestic saving.

In short, 1995 can be considered a very good year for the Colombian economy.
The Colombian Economy: The Region's Most Stable

The recent report of the Inter-American Development Bank evaluating the stability of the main macroeconomic variables during the period 1970 to 1992, and the accompanying effects on economic growth in a wide sample of countries, not only demonstrated the close correlation between stability and medium-term growth, but also ranked the Colombian economy as the most stable in the region, with levels significantly higher than the rest of the developing world and with a volatility, for some of the variables, lower than the average for developed countries. This fact explains, to a large extent, our high rates of growth.

For instance, the standard deviation for GDP growth was barely 2 percent in Colombia, compared with 4.7 percent for Latin America as a whole, 3.4 percent for Southeast Asia, and 2.2 percent for the industrialized countries. Colombia, together with Brazil, had the highest growth rate in the region for that period (4.5 percent).

Colombia's stability has been maintained even though our country is among the most vulnerable to fluctuating terms of trade, given its traditional dependence on the rising and falling international prices for coffee, and now, petroleum. The IDB study concludes that Colombia has learned, as few have, how to manage the effects of erratic variations in the value of its primary product exports.

In maintaining a stable economy Colombia has had to contend with far more than external shocks. Despite a long history of violence and the complexity of our social and political problems, Colombians have been able to manage their economy in an orthodox and responsible manner, avoiding abrupt changes in macroeconomic policies and insulating the economy from the volatility so characteristic of many developing countries. For this reason, the Colombian economy grew steadily throughout most of the period of partisan violence during the 1950s, continued to grow at satisfactory rates during the emergence and consolidation of guerrilla groups in the 1960s, and more recently, during the painful period of drug trafficking-related violence, which cost us the lives of prominent national figures as well as humble compatriots.

It should therefore come as no surprise that both in 1995 and in early 1996, our sound and prudent economic management has led to very successful results, notwithstanding the deceleration of world economic growth, the "tequila effect" and the domestic political crisis.

The Current Situation

In recent days, political events have again tested the great capacity of the Colombian economy to absorb disturbances of various kinds, without great trauma. Interest rates have fallen in relation to the level last December, the security markets are continuing the recovery begun early in the year, the exchange rate has been easily maintained within established parameters, and the spreads for Colombian bonds in overseas markets have not been affected and remain below 150 points for five-year bonds and about 200 points above Treasury rates for 7-year and 10-year bonds—among the lowest in Latin America.

In February, the government placed, very successfully, $400 million in "Yankee" bonds, of which $200 million were 20-year bonds, with a spread of 260 base points above the Treasury rate. This was the first time 20-year bonds had been issued by a Latin American
government, opening the door to long-term issues for private and public enterprises, not only in Colombia, but throughout Latin America.

The possibility thus created to obtain long-term external private financing will be particularly important for the development of infrastructure projects, which our region urgently requires.

Prospects for the Future

In 1996 we expect to grow by approximately 4.5 percent, and in subsequent years by more than 5 percent, as a result, among other factors, of the high investment levels we have been experiencing (27.5 percent of GDP in 1995 compared with an average of 19.7 percent for the decade) and of the stimulus created by commercial exploitation of the new oil fields, which will increase crude oil exports from $2.2 billion per year now to more than $4.6 billion in 1998. A competitive real rate of exchange, which will be maintained thanks to the establishment of the Savings and Petroleum Stabilization Fund, a more prudent policy for private and public external debt, and orthodox fiscal and monetary policies, will help to ensure balanced growth in the various sectors.

Our confidence in the future of Colombia extends to Latin America as well. That confidence increases on occasions like this one, when we can feel the renewed vigor of a region that is conscious of its history and optimistic about its future.

Our faith in the future of Latin America enables us to reiterate our commitment to the processes of integration we are now engaged in and to the programs defined by our Presidents at the Summit of the Americas. We are convinced that current difficulties in some of our countries, whether they be political or economic, should not create artificial obstacles to these initiatives or open the door for those who believe the creative energy of multilateralism, international cooperation and integration should give way to unilateralism and isolation.

In our judgment, multilateralism must characterize international relations not only in the economic sphere but also in the activities of the world community in all areas of general interest, such as the struggle for peace and human rights and against criminal organizations and drug trafficking.

The Role of the IDB

The satisfactory response offered by the IDB to the difficulties created for several countries, as a result of the crisis in Mexico, and the promptness with which fast-disbursing loans were approved for that country and for Argentina, provide proof once again of the possibilities offered by multilateral action and solidarity. We have seen with great satisfaction how these operations have contributed to the cancellation of short-term debt and the recovery of full access to international markets for all countries in the region.

Having overcome these difficulties, we must not neglect the objectives defined for the Bank during the Eighth Replenishment period. After all, one of our greatest challenges is to eradicate poverty and improve the efficiency of our governments.

During this meeting, however, the governors should not refrain from studying ways to make these objectives more flexible, particularly those concerning participation in fast-disbursing loans, offering the IDB the tools it requires to continue responding promptly
and effectively to the needs of our countries, and helping to solve the problems characterizing today's global economy. The mandates of the Eighth Replenishment must not become a straightjacket that prevents the Board from adopting decisions in extraordinary circumstances, or keeps the Bank from playing its fundamental role of assisting the region in solving its most urgent problems.

In 1995, IDB lending reached the highest level in its history, $7.3 billion, making it the largest multilateral development credit institution for our region.

The IDB's new efforts to support the private sector, either through its new department, or through the MIF and the Inter-American Investment Corporation, enable us to remain optimistic about a relationship we consider essential for our region. We are sure that during 1996, the volume of operations with the private sector will significantly increase and that the IIC can continue to improve its levels of efficiency, thus demonstrating the wisdom of strengthening its capacity for action through a replenishment of capital.

As we approach the 21st century, a Latin America that has become urbanized, that is halfway down the road to industrialization, that is fighting to compete in the world market with exports different from its traditional commodities, whose borders are now open to world production, must now take a great leap forward and leave behind the Latin America of old if it is to close the gap between its needs and its resources, its rich and its poor, its men and its women, its cities and its countryside. For such formidable challenges, the tools successfully used by the developed countries will not be enough.

The Inter-American Development Bank, under the leadership of Enrique Iglesias, with his great knowledge of the region, and Nancy Birdsall, with her keen intellect and analytical capacity, can meet the intellectual challenge of finding new solutions for new times and new problems, of leading the great debate on what may become the agenda for Latin America in the 21st century. We in our region must not be distracted by debates of the past. The problems we now face require a capacity for leadership, the best human and material resources, and the ability to forge consensus. In our judgment, our very own multilateral institution, the Inter-American Development Bank, fulfills these requisites.

To conclude, I should like to express our appreciation for the excellent organization of this meeting, which sets a very high standard indeed for the preparations we will soon be making for the 1998 meeting in Cartagena, where the warmth and cordiality of our Caribbean people await you.
When we last came together a year ago, in the wake of Mexico's financial crisis, the atmosphere was tense. The outlook was uncertain. The hard-won gains of nearly a decade of economic reform were in doubt.

Latin America has met the test of adversity. With the strong support of the United States and the international community, countries have held fast to market-oriented reforms and investors have responded favorably.

There is no better example of a commitment deepened by adversity than that of our hosts. Argentina's strong macroeconomic policies have kept crisis at bay, and you see now the results: this is perhaps the only country in the world now experiencing zero digit inflation, an inflation rate of less than one percent. This country's structural reforms, too, are an example for many of us. I congratulate President Menem on his strong leadership and commitment to follow the reformist course, and Minister Cavallo on its implementation.

I also want to thank our hosts for their magnificent hospitality offered in this splendid city. I hope that we in the United States will have the opportunity to reciprocate in kind by hosting the last IDB annual meeting of the millennium in the year 2000.

**Insufficient Growth**

At the past two meetings I spoke about a second generation of reforms beyond those that are the basis for market-oriented growth. I underscored their significance: for growth to be enduring and sustained, it must be inclusive. Investing in people—a nation's greatest resource—through education, primary and women's health, and other basic social investments that yield high returns for a society. Environmental concerns must be woven inextricably into the fabric of economic policy so that development is sustainable. Improving democratic governance and civil society—modernizing the state—so that people can participate in the decisions that affect their daily lives.

The Mexican crisis, and the volatility of capital flows in its wake, remind us that this next generation of reform, however important, cannot succeed without an enduring commitment to create an environment where investment is ample to drive rapid growth. As we have emphasized in recent years, growth is not a sufficient condition for successful development, but it is a necessary one.

Yet, despite meaningful reforms, growth in Latin America is not what it could be. Given the region's real growth rates of just 2.7 percent during the past decade, it will require nearly three generations before per capita income will double. This is not good enough in a world where per capita income is doubling in many countries—Korea, Thailand and Indonesia to name a few—about every ten years. Latin America can and must grow faster. In my view, growth of more than five percent per year for the next decade is a minimal objective. This would allow per capita income to double in each generation, fulfilling every parent's dream: a better life for their children.
Developing Financial Markets to Mobilize Savings

The task of financial markets is to raise the savings essential for growth, and to mobilize them effectively. In any economic history, the tools of finance should figure just as highly as the tools of science and technology in the improvement of human welfare. Roman contract law from which many of your own laws are descended, the quipu records kept by Inca accountants, or the development of modern stock exchanges—all of these have done as much to bolster human prosperity as have the development of electricity or railroads. Improvements in financial techniques, from the development of stock markets, to the securitization of bank debts, to modern procedures for dealing with insolvency, enable the economy to derive more with the same capital resources. Financial innovation is as close as I can imagine to the proverbial “free lunch” that economists usually say is unattainable.

Recognizing the enormous contributions that financial markets have to offer our economies, Secretary Rubin looks forward to meeting with the Finance Ministers of this hemisphere in New Orleans on May 17 to consider the many things we need to do to make financial market development and integration a reality. I would like to preview that discussion by outlining what I see as the crucial areas for action if the nations of this region are to exploit the full potential of modern financial markets to contribute to growth.

A Healthy Macroeconomic Environment

It has become axiomatic that, with the stock and mobility of international capital larger than ever, the potential consequences of having the wrong government policies in place have never been greater. Just as good policies are rewarded more richly than before, mistaken policies are punished more severely. The events of last year have taught us an important corollary in determining macroeconomic policies: governments may hope for the best, but they must plan for the worst.

The need to contain inflationary pressures is now universally accepted. Inflation corrodes markets, discouraging the accumulation of capital and distorting its allocation. Inflation hurts the poor most, and undermines democracies as citizens mistrust governments that cannot maintain the value of their currencies and protect their savings.

Even more fundamental than the need to avoid inflation is the need to provide for an adequate level of savings. Only through adequate saving can nations avoid a cruel choice between excessive reliance on foreign capital, with all the attendant risks, and inadequate capital investment. I am convinced that, for the next 15 years, nothing is more important for growth in the Americas than an increase in savings.

Today saving rates throughout the region—and I include North America—are too low. Latin America’s gross domestic saving rate in 1994 was just 19 percent as a share of GDP. And this rate has fallen during the previous decade. Only Chile’s rate of nearly 27 percent during the decade approached the high rates found in much of East Asia, where saving rates in the mid-thirties are typical.

The challenge for all of us in the Americas is to generate the kind of virtuous circle that has been observed in Chile and many Asian countries in which savings begets growth begets savings begets growth.

National savings is the sum of public and private savings. Governments, therefore, have it within their means to raise national saving rates directly by reversing public
dissaving. To that end, I was impressed by the results of a paper prepared by the IDB Chief Economist for these meetings. It highlights the importance of budget process reforms to control deficits. In my own country, the adoption of so-called “pay-go” procedures, in which proposals for new spending or tax cuts must be presented with identified means of financing them, have made an important contribution to getting budget deficits under control. Independent checks on government forecasts by the Congressional Budget Office have helped as well. Of course, the most appropriate mechanisms will vary from country to country.

Although the region has by and large accepted the imperative of fiscal discipline, efforts must be made to address the hidden deficits imposed by many countries’ social security systems. Rates of contributions are not keeping pace with future obligations, creating a hidden shortfall of savings. Countries should make a concerted effort to close that spending gap through social security and pension reform, and the creation of alternative, private institutions that can do the job of saving better.

Chile is a good example. Its national savings rate has soared in tandem with the institution of private pension funds and the opening of its domestic stock market to these institutional funds. Other countries, such as Uruguay, Bolivia and Mexico, are making important progress in social security and pension reform, with the support of the IDB. Shifting the burden of the saving function from governments to the private sector should, by raising the returns that accrue to the individual, promote higher rates of private saving in the long run. Governments should also reexamine their tax rules that affect savings, such as those applied to investment income, borrowing and depreciation.

Sound macroeconomic policies are a prerequisite for growth, but in some instances they have not been enough to compensate for the legacy of past mistakes. The excessive debt burdens that some countries inherited, no matter how sensible their current policies may be, will block growth if they are not addressed. The United States has launched an initiative to participate in debt reduction by bilateral creditors for the world’s poorest countries, for which five Latin nations are eligible. In addition, the U.S. Congress recently approved a pilot program which will enable some lower income Latin American and Caribbean countries to buy back debt owed to the United States at a discount, provided they agree to commit resources to the environment and child survival.

Privatization

Strong macroeconomic policies must be underpinned by microeconomic reforms to support financial market development. Foremost among these is privatization. Low inflation doesn’t make up for not getting a dial tone when you pick up the receiver or having a brown-out that shuts down an assembly line.

Governments in Latin America have already shed many state-owned enterprises and the results are beginning to show. Companies that were once chronic drains on public treasuries are now contributing to national saving as profits are plowed back into productive investment.

Privatization also provides enormous stimulus to capital market development and integration. Privatized businesses have deepened national securities markets dramatically, and they have produced prime names to attract global investors through listings on the world’s leading exchanges.
There is a much more direct reason why privatization is so important: better business performance. Experience around the world confirms what economic logic suggests—that private sector businesses provide better and more reliable service. The light stays on, the phones stay connected, and the water is kept clean.

In view of privatization's clear benefits, I am troubled by World Bank estimates that the value of assets privatized in Latin America has been declining for several years now. Doing more faster is especially urgent in light of the region's gaping infrastructure needs, estimated at $50 billion to $60 billion a year, but, in recent years, only half met.

**Strengthening Access to Financing**

We must also ensure that working people and small-scale entrepreneurs enjoy the opportunities for advancement that finance affords.

Microenterprise development must lie at the core of this region's efforts to end poverty: all individuals should have access to the tools that allow them to reach their fullest potential. If Latin America and the Caribbean are to tap their citizens' entrepreneurial talents, then entrepreneurs and small enterprises must have access to financial services. But it is estimated that less than 5 percent of your microentrepreneurs have that access.

From a project supporting credit unions in Trinidad and Tobago, to support for rural financial institutions in the Dominican Republic, to efforts to enhance the laws and regulations on which credit guarantees work for small businesses here in Argentina, the IDB's Multilateral Investment Fund is beginning to play a role in getting the structures that support microenterprise in Latin America and the Caribbean up to speed. This is an essential effort, and it must be accelerated.

Finance, though, is more than borrowing. Consider the ways in which creation of futures exchanges for local varieties of grain and produce can help small holding farmers lock in returns and hedge against risk. The IDB is supporting just that kind of effort to develop standard futures contracts on local crop varieties in the Dominican Republic, Nicaragua, Costa Rica and El Salvador, with the help of the Chicago Mercantile Exchange.

**Market Integrity**

For financial markets to flourish, governments must also create a strong regulatory and supervisory environment. Countries need to adopt regulations that make sense: that strike the right balance between preserving soundness and confidence within financial systems and preserving incentives for innovation and competition. Panama's new securities markets laws, or the Chilean exchange's new self-regulatory mechanisms are steps in the right direction.

Improvements to the legal infrastructure that support financial markets must extend beyond the realm of securities—to modern bankruptcy regimes and property registration mechanisms that are indispensable if land or real property is to be used as collateral for credit. These laws, in turn, must be supported by strong institutions and enforcement mechanisms. That means that governments, with the help of the IDB, and each other, should concentrate on generating the skilled corps of accountants, bank supervisors and securities regulators and judges necessary to put this regulatory infrastructure in place and ensure its honest enforcement.
Fighting Money Laundering to Protect Financial Integrity

Protecting the integrity of financial markets is not complete without addressing money laundering. By some estimates, as much as $300 billion in criminal money bleeds into the world financial system yearly. Some $100 billion in drug-related money is thought to flow through my country’s financial system each year. One of South America’s drug trafficking organizations earns an estimated $2 billion in profits yearly—more than Pemex, more than Microsoft. That money buys drugs and weapons, politicians and judges. It can undermine financial, economic and even entire political systems.

At the Summit of the Americas, President Clinton and his counterparts agreed to combat the scourge of narcotics trafficking and money laundering. Last year, at a conference in this city, participating nations agreed to enact the laws and take the steps necessary to insulate their financial systems from the flow of criminal proceeds. I am delighted to note that even in the short time since this agreement was signed, eight countries—the Dominican Republic, Chile, Bolivia, Jamaica, Mexico, Paraguay and Uruguay—have proposed, passed or adopted some of the legislation needed to pour content into this agreement, such as criminalizing money laundering or adopting strict currency and suspicious transaction reporting rules.

Now we must move beyond having the right laws on the books to enforcing them vigorously. Knowing about large, suspicious transactions means nothing unless you do something about them. The United States stands ready to support this region’s efforts to counter money laundering, whether through information exchanges, assistance with technology or sharing our experience about the effectiveness of crime fighting methods. I call on the IDB to assist us in this vital effort.

A Culture of Transparency

The private sector, as well as governments, plays a vital role in regulating financial markets. And for this, public disclosure of data is vital. In the history of corporate finance in the United States, generally accepted accounting principles have had a far greater impact than any government action ever taken to bail out an individual enterprise. Marking assets to market in financial businesses has mattered more to the preservation of financial safety and soundness than any government regulatory intervention. And, the most important lesson of recent macroeconomic problems in Mexico, and of banking difficulties in a number of countries, is the need for transparency.

In the past, governments have resisted the need to be open about the state of their financial health. They thought it was better to try to keep a screen to hide behind during difficult times, rather than face financial reality head on. When one depended on borrowing from a few banks there was perhaps no need to be open to a wider public. But make no mistake: in today’s world of portfolio investment and securitized international debt, countries that resist the calls for transparency have paid a price and will continue to do so—in higher interest rates that stifle growth during both good times and bad, and in financial disaster that strikes unexpectedly, without the salutary signals that markets can send.

In the wake of Mexico’s liquidity crises, the IMF is drawing up a standard set of financial data that all countries should release. This hemisphere should lead the world in embracing and implementing these criteria, to harness markets’ ability to monitor our
economic performance, and to obtain the capital we need to raise our growth rates. Why don't we all agree in New Orleans to do as Mexico did this year: put our financial data on the internet.

The message for the private sector is the same. If companies want the finance they need to grow, they will need to accept that investors will insist on knowing what is in the books. Improving national accounting standards, while moving toward an internationally accepted norm, as Mexico is doing with its banks this year, is crucial if Latin companies are to expand beyond family businesses to become global ones.

The Role of the IDB

I have concentrated on what is necessary to drive forward private sector investment and growth. Let me turn now to the IDB. The IDB has recognized, and continues to recognize, the need to adapt to changing circumstances. Like all development banks, its role must be to support and complement, not supplant, the private sector. This was a priority of the United States and the IDB in the Eighth Replenishment. And two years later it is the priority today. Complementing and supporting the private sector means more social lending; it means more resources for countries that have less private market access and more innovative approaches to spurring the private sector. It also means modernizing the state.

The Bank took a big step in targeting 40 percent of lending and 50 percent of operations on social sectors, including the environment and microenterprise. It is following through on implementation. The Bank has honed its work in catalyzing private sector resources and made infrastructure financing a priority in this effort. And, while the Bank has made a good start identifying needs for financial market development, it should develop creative ways to intensify these activities, so that this critical component of development does not lag.

The Bank has also recognized the need to examine its concessional lending program. In the inaugural session of this meeting, President Iglesias invited the Board of Governors to consider new and viable solutions to extending assistance to the Bank's poorest members. We support this proposal and look forward to participating in this exercise. The IDB is now a major financial institution, with greater lending to the region than the World Bank. And, as is the established practice in the World Bank, the existing financial capacity of the IDB will be mobilized to meet this need.

In addition, the United States is prepared to respond to the interest that many countries have shown in expanding the applications of the dollar window to conform to their financial profiles. Let me commit, on behalf of the United States, to fully cooperate with Bank management to ensure that the Bank's window can be amplified to meet borrowing members' needs. I urge the Bank, in turn, to tailor its credits to meet these same needs.

I have spoken today about what nations in this region need to do in order to move ahead. We in the United States have an enormous stake in the future of Latin America and the Caribbean. Our ties run long and deep, and are intensifying every day as our trade and investment flows expand. That is why President Clinton made a commitment to free trade in the hemisphere by 2005, and why he acted to provide financial support to Mexico last year.

To be sure, there are many voices of isolation in my country from the far left and far right who question the wisdom of the United States' commitment to international leadership and
multilateral engagement. This question will be debated in the future, as it has in the past. I am confident that voices of isolation will not carry the day. The broad center will hold. Americans recognize the price we paid for isolation after World War I and the benefits we reaped from engagement after World War II. And as President Clinton emphasized at his speech at the IMF and World Bank’s Annual Meeting last fall, active, continuing and strong participation of the United States is a pillar of our international engagement.

With our active engagement in the region, a stronger Inter-American Development Bank, and the tremendous opportunities modern capital markets have to offer, I look forward to celebrating the doubling of living standards of Latin America in this generation.
Address by Mr. Omar Davies, Governor for Jamaica and Minister of Finance and Planning on Behalf of the English-speaking Member Countries of the Caribbean

It gives me great pleasure to speak today on behalf of the Governments of the Bahamas, Barbados, Guyana and Trinidad and Tobago, as well as my own country, Jamaica. I wish to convey our sincere appreciation to the Government of Argentina for its warm welcome, generous hospitality and for the excellent arrangements made for the hosting of this meeting in the picturesque city of Buenos Aires.

In recent years, this meeting has assumed increasing importance for the countries of our constituency, as the Bank solidifies its position as the principal supplier of multilateral development finance to the developing countries of our hemisphere. The assistance provided by the IDB has contributed, in no small measure, to the general recovery of Caribbean economies from the economic downturn of the 1970s and 1980s.

Performance of the Caribbean Economies in 1995

The economic performance of the countries of the Caribbean constituency in 1995 was mixed. The economies of Barbados, the Bahamas, Guyana and Trinidad and Tobago registered moderate rates of growth. The slowdown of the Barbados economy reflected stagnant tourism activity and weak demand precipitated by tight fiscal policy. In the case of Guyana, all of the major sectors performed well, with the exception of gold mining, whereas Trinidad and Tobago's performance was attributable to the improved output of the manufacturing and services sectors and to a lesser extent to growth in the oil sector. By comparison, preliminary estimates indicate only marginal growth in the Jamaican economy. This was influenced by continued decline in the manufacturing sector, the effects of work stoppages associated with wage disputes, and a slowing of growth in agriculture resulting from a drought during the first half of the year. Inflation has been relatively stable in most countries.

Assessment of the Bank’s Work in the Caribbean over the Past Year

In the Caribbean during 1995, the Bank’s performance has been mixed. There was a substantial increase in the value of loans and technical cooperations approved for the subregion over the 1994 level. A total of $244.6 million was committed and we were also recipients of $5.3 million in grants from the MIF. However, with the exception of Trinidad and Tobago, we continued to experience substantial net negative outflows of resources to the Bank.

Major Challenges for the Caribbean Economies

Recognizing the changes that have been taking place in the international economy, including trade liberalization, integration of international capital markets and the growing interdependence among countries, we have been trying to position our economies to be adaptable, resilient and competitive.
Over the past decade and a half, some of our countries have implemented major stabilization and structural adjustment programs. Some of these programs are still ongoing. They have targeted all the critical areas of policy: monetary and fiscal policy, including exchange rates, trade policy, deregulation and privatization, and reform of the public sector and social services. These restructuring initiatives have helped to strengthen our economies and to increase our capacity to integrate into the competitive global economic environment. However, the adjustments have given rise to difficult socioeconomic problems in the short term. These dislocations have exacerbated the problems of unemployment, poverty and socioeconomic inequity. At the same time, private sector responsiveness to the increasingly-liberalized environment has not been as dynamic as was projected, leading some governments to pursue a more proactive approach. And although in all our countries, revenue-to-GDP ratios are well above the average for developing countries, social services and social security benefits are still not adequate.

Some parts of the picture are more encouraging. In particular, our economies, on the whole, are becoming more efficient, with notable improvements being made in the performance of the export sectors, including signs of a growing diversification of the goods and services produced and exported. The challenge will be to consolidate and expand on these gains.

The debt obligation remains burdensome for at least one country of our subregion, while another is only just overcoming it. Servicing a disproportionately large debt preempts a sizable portion of public revenue that could otherwise be allocated to the social sectors and poverty reduction. Debt relief thus remains an essential aspect of our strategy for equitably distributing the fruits of economic growth.

Development Agenda of Caribbean Countries for the Medium Term

These challenges define the first order development agenda for countries of our constituency in the medium to long term. Prominent in that agenda will be growth that reduces poverty and inequality with a minimum of social conflict, while laying the basis for greater stability and dependence on a limited range of exports. The basic elements of the desired mix of social and economic policies include:

- The pursuit of a set of macroeconomic policies consistent with short-term stability and long-term growth.
- The pursuit of sustainable export-led growth, predicated on a more diversified structure of production.
- Strengthening the role of the private sector as the engine of growth.
- Instituting and sustaining poverty reduction programs, focusing on areas such as the expansion of the safety net, improvement in the delivery of social services, especially education and health, and providing for reasonably adequate social security benefits.
- Implementing initiatives to raise the general level of efficiency of the production system by improving physical infrastructure, strengthening public institutions and developing human resources.
- Mobilizing increased domestic savings to finance a greater proportion of investment, while improving the efficiency of capital.
- Managing external and domestic debt so as to reduce excessive servicing burdens and maintain future borrowings at sustainable levels.
The Bank's Role in Accomplishment of the Development Agenda

The needs of individual countries naturally require different emphases in borrowing programs, but all will continue to rely heavily on access to the Bank's resources on affordable terms. Directly germane to this is the need to establish the dollar-denominated financing option. We therefore urge timely resolution of the deliberations on this issue.

May I now offer a few suggestions on ways in which the Bank and the IIC might better serve our subregion. As already mentioned, adjustment programs have generated some social dislocation, adding to the buildup of social debt in our countries. Constituency members now need the Bank's assistance to put in place longer-range programs aimed at the sustained development of their social sectors. But integration of social sector development into broader public sector investment programs is the challenge for which Bank assistance would be valuable.

Our countries have all embraced the strategy of economic development in which the private sector drives the economy, with government intervening to manage macroeconomic policy, correct market failures and ensure social justice. The Bank has been helpful in assisting us to develop this broad strategy. However, beyond this, much assistance is needed to invigorate the private sector itself. Bank assistance in this area could be directed, for example, to stimulating latent entrepreneurship, promoting, supporting and catalyzing the establishment of joint ventures in social and economic infrastructure between the public and private sectors.

We note with interest the operationalization of the Private Sector Department of the Bank and, in particular, its focus on financing economic infrastructure projects. However, we are concerned about the total absence of projects from our subregion, and the fact that the private sector window remains virtually unknown to the private sector in our countries. We would, therefore, recommend that management renew its promotional work in each country of our constituency, this time focusing comprehensively on the potential of the range of private sector related facilities available through the Bank, the IIC and the MIF.

The crippling effect of Guyana's debt overhang on its pursuit of socioeconomic development has been a matter of concern to both multilateral and bilateral donors. We are happy to learn of the efforts at last being undertaken jointly by our Bank, the World Bank and the IMF to arrive at some solution for the poorer countries saddled with excessive debt. However, I would not have served my constituency well if I neglected to use this opportunity to ask the Bank to use its influence to bring about a speedy conclusion to these deliberations.

May I also recall that this matter of debt engaged the attention of the Commonwealth Finance Ministers at their annual meeting held in Kingston, Jamaica in October 1995. Ministers implored the multilaterals concerned, such as the IDA and the World Bank, to hasten to find exit strategies for these countries. Similar requests were also made to the IMF to implement a debt initiative proposed by the British government which called for a special window in the Enhanced Structural Adjustment Facility to provide a platform for making longer-term and more concessional loans, thus creating in effect an exit opportunity for eligible countries from IMF debt.

Another issue raised at that forum, and which is still relevant to us, is the matter of money laundering and financial crimes currently being grappled with by many develop-
ing countries. Their experience suggests that a comprehensive approach needs to be taken with these matters. These countries, however, do not have the specialized skills necessary to deal with these problems. We are, therefore, calling on the Bank to assist our constituency with technical and financial support to effectively deal with these problems. This support should cover both short-term technical assistance as well as help with the creation of the relevant institutions.

For those countries of our constituency less burdened with debt, the Bank’s technical support would be welcomed in designing strategies to optimize the use of external and domestic loan resources, while keeping future endeavors of debt servicing at affordable levels.

While proceeding with the deepening of the CARICOM process of integration and its widening into the recently established Association of Caribbean States, the countries of our constituency, as well as our CARICOM partners, the Eastern Caribbean States, have committed themselves to participation in the Free Trade Area of the Americas and to the Western Hemisphere’s Plan of Action. The effective participation of all Caribbean countries in those ambitious efforts will require substantial assistance and we look forward to being able to rely on the Bank.

We recognize the need to achieve a faster pace of project implementation and disbursement of funds in all our countries. Poor project performance is affected by a number of factors including absorptive capacity, excessive conditionalities and the role of country offices. We will work with management to develop, as soon as possible, a complement of proactive policies and measures to address absorption deficiencies to rationalize the whole approach to conditionalities, and to implement proposals designed to strengthen the capabilities of country offices.

It would be remiss of me if I neglected to comment on the proposals before the Board of Executive Directors for the allocation of FSO and IFF resources, which includes sizable reductions for two countries in our constituency. It is indeed unfortunate that these countries would have received initial allocations, factored them into their investment planning and subsequently have these provisions reduced due to the mechanical application of some formula, without consideration for their overall developmental needs. We sincerely hope that the final determination of this matter would be much more favorable from a Caribbean perspective.

Looking Ahead

There remain a few issues which we believe the Bank ought to tackle in the near future. First, it is becoming clearer to us that the multiple targets which the Bank has set, for example, for the distribution of resources between A and B, and C and D countries, the FSO/OC allocation, social sector and poverty reduction lending, policy-based lending and private sector lending are not necessarily consistent with one another. It is already apparent that the AB/CD split may not be achievable without a higher proportion of FSO and IFF resources. Contradictions are likely to arise with respect to other targets as well, such as, for example, the social sector and policy-based lending targets. Every effort will have to be made to mobilize additional concessionary resources to ease the critical bottlenecks. The conventional approach to targeting allocations to policy outcomes may warrant a fresh look.
Second, the Bank needs to develop and implement a transparent framework which will enable it to respond swiftly, adequately and even-handedly to natural disasters and policy emergencies in Latin American and Caribbean states. As underscored by the enormous damage left by the 1995 hurricanes, the countries of our subregion remain extremely vulnerable.

Third, we believe that the Bank should make a start in assisting its borrowing member countries to strengthen and add to their stock of social capital. It is being increasingly recognized not only how vital social assets are to the quality and sustainability of development, but how much they contribute to the effectiveness of programs of development of social services and human resources. We see many possibilities for productive investment in social capital, such as in local authorities and civic organizations, for deepening and widening social engagement in our societies, including stimulating the habit of philanthropy.

In conclusion, we appeal to the Bank to examine the special developmental problems and needs of small island economies, as the basis for designing appropriate national and subregional programs to address them. This issue has already been raised in subcommittees of the Board of Executive Directors, but now requires more substantive preparation to advance its integration into the Bank’s mainstream. We are convinced that a fuller understanding of the peculiar characteristics and needs of our countries would assist the Bank to serve us better.

I hope that these deliberations in Buenos Aires will be fruitful, and I wish you every success.
I would like to thank the government and the people of Argentina for hosting this meeting and for their wonderful hospitality.

Because of Canada's longstanding partnership with our Latin American and Caribbean neighbors, I am delighted to represent Canada at this annual meeting of the Bank. The fact that the IDB is the primary agent of development assistance in the region, and is recognized as such by Canada, only adds to my enthusiasm.

The development assistance component of Canada's new foreign policy stresses support for sustainable development to reduce poverty and contribute to a more secure, equitable and prosperous world. In the region, this means support for activities that promote democracy, economic liberalism, poverty reduction, and preservation of the environment. While we have been encouraged by the movement toward stable democratic government and trade liberalization in the hemisphere, many challenges remain, including narcotics trafficking, income inequity, environmental degradation, the fragility of democracies, human rights abuses and private sector development.

A turning point for the region was the Miami Summit. It provided a framework for regional cooperation to preserve and strengthen democracy, promote prosperity, eradicate poverty and guarantee sustainable development in the hemisphere. The summit gave the Bank an especially important role in areas such as education, health, the environment and small and microenterprises. It also envisaged a supporting role for the Bank in the areas of human rights and democratic development.

We will keep under review the role of the IDB in helping to achieve these goals. We welcome the full participation of the Latin American and Caribbean countries in this process.

I will devote the remainder of my remarks to current issues facing the IDB. Let me begin by commending President Iglesias for helping to shift the focus of the IDB to issues critical for sustainable development in Latin America and the Caribbean. The Bank's current emphasis is on poverty reduction, social equity, state modernization, private sector development and regional economic integration. These have been priorities on Canada's development agenda for some time now, including our agenda regarding the international financial institutions.

Much has been done by the IDB in these areas. In poverty reduction, for instance, lending targets for 1994–95 have been surpassed. Nevertheless, we have some concerns over the current approach taken by the Bank to poverty reduction. For Canada, targeting poverty reduction means working directly with the poor. It means basic health, primary education and micro-credit. It also requires targeted interventions to ensure that the poor's specific needs are addressed and obstacles to a sustainable better life are overcome.

In this connection, the Bank has been slow to take the lead in formulating a poverty reduction framework. To successfully implement the Eighth Replenishment agreement, the Bank should expand its efforts on investment projects that directly benefit poor people, rather than focusing on policy-based lending.
We are especially pleased, for example, with the role of the IDB in Haiti—a country of primary concern to Canada. The Bank’s work in this country can serve as a test case, an opportunity to publicly show what the Bank can achieve in terms of impact on poverty reduction by working in a collaborative way to enhance operational effectiveness and available funding.

Work of this nature will require strategic leadership that aims at qualitative as well as quantitative results. The use of results-based performance indicators to measure the Bank’s impact will be crucial.

Another area where the Bank has done well is the development of its strategy in modernization of the State and strengthening civil societies. The operational work being done in this area and the closer links with other hemispheric institutions, particularly the Organization of American States, are impressive. However, further progress is required on good governance and excessive military spending. The allocation of scarce resources to unproductive uses constrains progress towards sustainable development.

We believe that the IDB should be looking at means to encourage the productive allocation of resources by borrowing members. Canada is currently in the process of identifying positive actions, in this regard, in concert with like-minded partners. This review includes bilateral ODA policies and programming and considers an expanded mandate for the UN Arms Register.

In the area of strengthening civil societies, we are particularly pleased with the establishment of the Inter-American Institute for Social Development by the Bank. Canada looks forward to cooperating with this new institution.

Let me now turn to the need for the Bank to use its soft resources more effectively in view of declining ODA flows. Canada supports efforts to maintain the current ratio that targets 35 percent of the Bank’s lending to the poorest and smaller countries. Canada would like an open process of review and dialogue on how to maintain this ratio.

The IDB should allocate the necessary operational resources to C and D countries to ensure that they are able to successfully borrow to meet their needs. This will also necessitate calling on Latin American solidarity from the better-off countries for freeing some of the Bank’s operational resources.

We would encourage the Bank to look at innovative approaches to maximize the efficient use of existing concessional resources. The fiscal realities that we are all wrestling with mean that resources for concessional lending will remain at a premium for some time to come. We look forward to the action plan of the Bank to address the level of lending to Group C and D countries.

On a related matter, we would not wish to see the Bank exceeding its 15 percent lending cap for policy-based loans. To ensure the effectiveness of its policy dialogue, the Bank should emphasize the reallocation by countries of resources from lower priority expenditures to basic social services. The governors should address themselves to both of these issues as soon as possible.

Let me conclude with a few general remarks about the future. We are committed to the establishment of a Free Trade Area for the Americas (FTAA) by the year 2005. It also means a continuing and important role for the IDB, which has been instrumental in supporting these trade arrangements and the movement toward greater economic integration in the region.

The Multilateral Investment Fund is a key tool of the Bank’s promotion of economic liberalization and private sector development, while addressing the human resource needs
of those groups affected by economic reforms. Canada is extremely pleased to be joining
the MIF in light of the contributions it can make to the economic and social development
of the hemisphere. We very much appreciate the willingness of the Donors’ Committee to
consider our application for membership during what we recognize was a very short pe-
riod of time.

Canada’s fervent desire is to see improvements in the economic situation of all mem-
bers of our hemispheric community. We want to see, as a priority, a sharp reduction in
poverty which so constrains the future security of us all, poverty which diminishes the
potential and hopes of our children and youth, poverty which has such dire consequences
for the women of our hemisphere, the mothers of our future, poverty which reduces the
human capacity of all it touches. The Bank has the tools it needs to make important im-
provements. We call on the Bank to make the best use of these tools.
Address by Mr. Fernando Candía Castillo, Governor for Bolivia and Minister of Finance

On behalf of the government of President Gonzalo Sánchez de Lozada, I bring cordial greetings to the distinguished authorities of the Argentine Republic and to the people of Argentina, with whom we share deep historical roots and a spirit of solidarity and brotherhood.

Bolivia is in the midst of a series of far-reaching, irreversible reforms of its economic and social structures, comparable only to those essayed with the National Revolution in 1952, which mark a milestone in the history of our nation and of Latin America.

In the last three years, as a new chapter in its ongoing effort to forge a modern economy, our country launched a second generation of structural reforms, which enshrined new forms of participatory democracy and legitimacy of public powers in the Constitution, reorganized the executive branch to reflect the policy-setting responsibilities that are to be the new focus of the State, and embarked resolutely upon a bold reform of the education system, which is absolutely essential if we are to combat poverty at its roots and develop our nation’s productive forces to the full. At the same time, Bolivia took the first steps in a radical political and administrative decentralization process, governed by the Decentralization Act and a law affording civil society organizations a say in decisions affecting the day-to-day life of the populace. Under the Decentralization Act, some central government tax revenues are automatically transferred directly to 311 municipal governments, most of them in rural areas, bringing 42 percent of the population into the national economy. Legal status has been accorded to more than 12,000 campesino and Indian communities, as well as to other organizations that in the past had little if any input into priority-setting or oversight of the public monies allocated to them. As a result of this legislation, the percentage of public investment reaching rural areas soared from 15 percent in 1993 to 45 percent in 1995. This alone is eloquent testimony to the magnitude of the government’s social reform program.

As part of an effort to step up growth and redefine the bases for the development of the economy in the years ahead, 31 State enterprises have been privatized. A creative and successful “capitalization” plan will double the value of the country’s main State-owned enterprises by bringing in fresh equity capital that must be invested only in those companies. The management of these companies is being placed in the hands of the private sector, which will endow them with new technology to boost their capacity and make them more efficient. This will inevitably lead to the creation of more better-paid jobs. At the same time, the State’s interest in these companies will be converted into share capital and distributed to all Bolivian citizens under a pension system that will for the first time provide protection for all households in Bolivia.

These reforms in conjunction with the measures implemented since 1985 have enabled our country to curb hyperinflation and to pursue macroeconomic policies suited to a climate of stability and growth. This second generation of reforms is designed to foster a substantial increase in domestic savings and to attract national and foreign private investment.

The public sector deficit declined to 2.3 percent of gross domestic product in 1995, its lowest level in the last two decades. We will continue to adhere to a policy of strict mon-
etary discipline thanks to an independent Central Bank, whose status is guaranteed under an Executive Decree issued in September 1995.

The sweeping changes in Bolivia to create a just and equitable society through greater economic efficiency require more than ever before international support and cooperation, particularly from the IDB, whose mission is consistent with the objectives of greater well-being and justice that inspire the Bolivian government.

The IDB’s contribution to the development of the poorest countries in the region will obviously depend on the availability of concessional funding and on efforts to boost our absorption capacity and improve the quality and effectiveness of public investment policies and programs.

In the poorest nations in the region, the IDB’s support is essential for sustaining a level of growth that is conducive to reforms that increase their potential for domestic savings and sustainable development. Lending to the smaller countries represents a very small proportion of the Bank’s portfolio, yet its impact on their economies is considerable. In this same vein, we would like to recall President Menem’s remarks at the inaugural session. Once again, he presented his vision of integrated development in the region, and urged that more attention center on the relatively less developed countries. Hence, the President of the Bank’s invitation to the Committee of the Board of Governors to identify viable options for continued support for our countries assumes enormous importance in light of the need to maintain harmony in the Bank’s operations.

For countries like Bolivia that have embarked on broad structural adjustments, the benefits of which will not be felt until the medium term, access to concessional funding is vitally important for pressing on with these reforms.

We are relying on your valuable and timely cooperation, Mr. President, to find a way of ensuring and maintaining the flow of concessional funds that our economies require during this crucial stage of economic and social reform.

Outlook and Proposals

Any process of deep-seated change is bound to be resisted by the interest groups affected. We have never been more convinced than we are today that the course we have charted is the right one. Our strategy will enable us to come to grips with the poverty endemic to most of our population and to eradicate it. With far fewer constraints, we will be able to work to the limit to help build a new, more advanced and more satisfactory international order.

Against this background, the people and the government of Bolivia have not flinched from the reforms that I have outlined here, and in fact in recent months we defined new broad-based projects to supplement and improve on the strategy adopted. We are fully aware that the economic reforms will benefit those areas that are most technologically advanced and with high concentrations of capital, while the traditional sectors which account for the activities in which most of our citizens are engaged in are in danger of falling behind in relative terms. To counteract this effect, we have introduced a sustainable rural development plan to eradicate poverty in the countryside and to raise agricultural productivity and improve the quality of life for people in rural areas. This proposal received the firm and genuine support of agencies and governments that work closely with Bolivia.

This comprehensive plan also fosters private enterprise—which has already benefitted from injections of capital, privatization and the opening up of our economy—with
special emphasis on small business and microenterprise. This sector, which has displayed
an inexhaustible capacity for innovation in difficult, and often frankly adverse, circum-
stances, is a major source of employment and income for thousands of Bolivian families.

The Bolivian government recognizes the importance that the Bank attaches to agricul-
tural technology development programs and to training and incentives for small business
and microenterprise. Accordingly, we are convinced that we shall continue to broaden the
scope for a general understanding that serves as a basis for working together in these
areas. For Bolivia and other countries in the region now effecting reforms that need to be
supplemented with additional measures such as a social security system, the clear support
that has been forthcoming in the past will continue to be needed during this crucial stage
of the process.
I should like to begin by conveying the warmest regards of the people and government of Ecuador to the people and government of our sister nation Argentina. I bring cordial greetings as well to the President of the Bank, our dear friend Enrique Iglesias, whose personal interest and dedication have meant so much to our country in the four years of the present administration.

In the last five years, virtually every nation in Latin America and the Caribbean has embarked on a process to transform its economy. Some of these processes are further along than others, and each naturally has certain distinct characteristics, but the general model tends to vary little: modernization and downsizing of the State, lowering of tariffs to open markets to global trade, privatization of State enterprises, liberalization of financial markets, narrowing of fiscal deficits, and rescheduling of debt and normalization of relations with the international financial community.

In a number of countries, initiatives of this nature have succeeded in strengthening the balance of payments, bringing down inflation, restoring real-wage levels, and attracting fresh money, though most of the new funding was on short term.

To carry through these reforms, the countries had to frame new laws. In this process we drew on support from the International Monetary Fund, the World Bank, and the Inter-American Development Bank, as the pace of structural reforms was assessed.

As they pursue changes of these dimensions, countries find themselves faced with a series of dilemmas. For one, the lengthy lead times of such programs exact a heavy social toll, since their immediate benefits are not felt by the population at large. Likewise, there are imbalances in the production and financial sectors, which experience the effects of these processes before they have time to strengthen their corporate and financial structures.

The longer these new programs take to consummate, the more feverish the political maneuvering as their merits are debated. Curiously enough, it is this old-fashioned politicking itself that is creating impediments and making it more difficult to bring in needed economic adjustments efficiently.

In sum, changes in the thought processes and structures of political parties are not commensurate with what can be the swift pace of economic transformations.

Once we have acknowledged that these changes exact a social cost at the outset, and that there will be some degree of political maneuvering and internally-placed obstacles in each country, we then must ask ourselves whether any other avenue is open to us. The general consensus, I believe, is that there is not.

That being the case, once we have embarked upon sweeping economic adjustment programs, we cannot afford the luxury of their failing. We thus must make certain that other economic and financial elements are taken into account to ensure that the changes begun will be carried through.

Allow me to present some recent figures on Ecuador. Our nation launched a structural and economic adjustment program in September of 1992. Inflation declined steadily in the wake of the ensuing internal adjustments: from 63 percent in 1992, the rate fell to 31 percent in 1993, 25 percent in 1994, and 22.8 percent in 1995. Our international re-
serves soared from $150 million in August 1992 to $1.6 billion in January 1996, shoring up our external position and our balance of payments. Economic growth picked up generally, and substantially in 1994, with GDP growth of 4.3 percent. Owing to exogenous factors, the rate of economic growth fell back in 1995, when GDP rose 2.3 percent.

Our external debt was renegotiated by virtue of the signature of a Brady program agreement in February 1995.

Falling inflation over the past three years has helped to restore real wage values. Taking a base month of August 1992 as 100, the aggregate real wage index stood at 186.4 in February 1996.

The three main pillars of the strategy pursued over this period were fiscal restraint, a stable exchange rate (neither fixed nor frozen), and a structural reform agenda. The strategy encompassed the following:

- Tax reform
- A new Financial Institutions Act
- A new Securities Markets Act
- Modernization of the State Act
- A new Customs Act
- Petroleum Sector Reform Act
- Agriculture Act
- Telecommunications Act.

Ecuador has by no means opened the final chapter of its comprehensive program of change. In particular, much remains to be done in the sphere of modernization of the State and privatization. Nevertheless, important gains clearly have been made: for one, the civil service has been pared by 17 percent, translating into 75,000 fewer public employees. Work is under way to privatize port services and devise a system of highway concessions, and by the end of this year, the telephone company will be in private hands.

However, delays in consummating these plans are taking a heavy social toll and fueling doubts about the effectiveness of adjustment programs.

Our nation has had to contend with four problems as it pursued its macroeconomic stabilization policy.

An inflation-control strategy with an exchange rate anchor made for volatile interest rates in 1994 and 1995, which in turn enervated the production sector and financial system.

The steady appreciation in the exchange rate was checked by relaxing exchange rate policy in late 1995. In fact, Ecuador posted record and far more diversified exports in 1995 (over $4 billion), as nontraditional products quadrupled from an average of $200 million to hold steady at $800 million. The roster of export items increased fivefold, from 300 to 1,500.

Shortfalls in public funds meant that some social needs could not be addressed. Our countries simply will not have all the resources they require for social sector investments as long as the process of change carries with it fiscal constraints.

Stabilization processes afford very little room for maneuver to tackle exogenous crises. Basic social needs must necessarily be attended to, and budgets thus are pushed into the red. In 1995, Ecuador’s consolidated public sector deficit stood at 1.2 percent of GDP.

The multilateral organizations have focused their support on economic adjustment programs and have furnished funds to strengthen balances of payments, financed infrastructure investment and social programs, and extended policy-based (sector) loans.
There is one area in which international agencies like the Inter-American Development Bank should play a more prominent role, particularly in countries like ours, and that is in facilitating access to the international capital market.

We applaud the IDB's flexible response to the Mexican crisis, which helped bring about an effective resolution. Its efforts, both necessary and proper, afforded a measure of stability to the domestic and international financial communities, and showed that dynamic action is indeed possible.

However, it is equally imperative that we devise financing facilities that can avert crises for small nations that do not have access to suitable financing avenues, such as would be needed to carry through the type of economic adjustments that are acknowledged to be the sole enduring solution.

The smaller countries in the region, that is, the IDB's Group C and D member countries, have scant access to the international market. The IDB should step up its involvement on this front. It is generally agreed that borrowing by way of government bond issues offered on international markets is essential to give countries room to maneuver in the management of public finances against the backdrop of economic adjustment programs.

Our small nations are in need of such support. I would propose to the Board and to the IDB management that it examine an IDB supplemental credit guarantee facility, that would ease our countries' way into the international capital market. Such guarantees would lower country-risk costs and with them the effective interest cost of floating bond issues, expedite the flow of financial and investment capital to the region, and above all, would ensure that economic adjustment programs would be financially viable.

The issuance of such guarantees should not be viewed as one more IDB loan, nor as development credit or sector loans. The guarantees would be a new instrument whereby the Bank could back our countries in the international community and expedite the management of flows of public funds. This will require flexibility and resoluteness.

While there may be no magic formula to raise the less advanced economies into the ranks of the developed nations, there can be no turning back from the process of economic and structural adjustment. If these endeavors are to succeed, our countries and the international organizations must work in concert.

Let us press for such an outcome, drawing on the initiative and the strength of our chief source of funding, the Inter-American Development Bank.

I now shall turn to some IDB-related matters.

The Eighth Replenishment of the Bank's capital is, on many fronts, the most important in the organization's history, certainly by virtue of the funds that will be made available to the region, but also because this strengthening of the Bank's capital stands as a reaffirmation of its social mission and of the irrefutable message that economic growth and stronger economies must go hand in hand with social equity.

At an early stage there were some questions about the reorganization of the Bank, but today we can affirm that the new structure of the operational departments and the stronger emphasis on the role of the Country Offices have made for improved dialogue with the member countries. The transition from a project approval culture to a project execution culture is beginning to make itself felt. The Eighth Replenishment targets, as well as its demands on member countries for new services and financing, create special challenges. The IDB is called upon to offer support in new spheres such as modernization and downsizing of the State apparatus, transferring activities to civil society and private enter-
prise; strengthening microenterprise and mid-sized businesses; administration of justice and technical support for the law-making process; project finance for the private sector without sovereign guarantees; advancement of women and child welfare protection; education and sanitation; social security, and the general assault on poverty. These are complex issues, which will need to be approached using specialized techniques and technologies, and with a healthy measure of the concern for society and the person that is the hallmark of our Bank.

The course that the Bank has elected to pursue in order to rise to these challenges has entailed a shift in staff mentality and new professional profiles. Since change is a perpetual process in our nations, new demands will continually arise, and the Bank’s recruitment system will need to address legitimate aspirations to stability and at the same time allow the organization to adapt its human resources so it can operate with the required mix of skills and professional experience.

With the sustainable lending level envisaged under the Eighth Replenishment, the Bank will be able to furnish some $7 billion a year in funding for projects worth over $15 billion. Every effort must be made to maintain investment programs in the smaller countries at the levels mandated by the Replenishment, not least because the larger economies have readier access to the capital markets.

One issue still on the table is concessional funds, which have always been at the heart of the Bank’s mission. There are very few resources available from the Fund for Special Operations or through the Intermediate Financing Facility, which affords a subsidy for operations with Group D countries. The dearth of such funding is felt most keenly in social projects, which Group D1 countries now are having to finance out of the ordinary capital; this drives up their financial costs, allows them shorter grace periods, and compresses repayment terms from 40 to 25 years.

We applaud the establishment of the Private Sector Coordination Committee, which will clarify, for each project, the roles of the Inter-American Investment Corporation, the Multilateral Investment Fund, the Private Sector Department, and the Bank with its multisector lending. Each of these windows is a valuable source of information on investment prospects, and each can attend to different stages in a project and complement the efforts of the others throughout.

The Private Sector Department should deploy greater initiative in the smaller countries, where investment prospects are less immediately evident. In many instances it will be called upon to promote projects and encourage investors to seek a share in them.
It is a special privilege and great pleasure for me to head my country’s delegation at this meeting of the Board of Governors once again. It is opportune that this year we are meeting in Buenos Aires, majestic capital and pride of the people of Latin America.

On behalf of the Nicaraguan delegation and in my own name, I wish to thank the Argentine government and people for their hospitality and at the same time congratulate the IDB for the superb organization of this momentous event.

I am sure that we will come out of this meeting in Buenos Aires with a better understanding of the major issues facing Latin America, with a clearer focus on the opportunities and threats in our region, and with renewed purpose to continue steadily with the task of transforming it.

In the two years since the Eighth Replenishment was approved, the countries have traveled difficult roads, shared concerns, and agreed on common positions in the face of the challenges that, to a greater or lesser extent, affected the countries of Latin America.

I would like to express my gratitude to the IDB, and in particular to President Iglesias, for the timely and strategic role they played to protect the region from the impact of the economic imbalances that affected Mexico and Argentina last year.

Under that influence but aware of our key position and the new role in the hemisphere, the Central American isthmus has been overcoming many difficulties, the blows that its fragile economy and attempts at integration have to confront in interacting with developed international blocs.

At this Thirty-seventh Annual Meeting, I should like to urge the governors and in particular Minister Cavallo, the Chairman of the Board of Governors, that beginning with Buenos Aires, the general lines of the Seventh Replenishment may be followed again, to achieve balanced programming with a 65 percent to 35 percent split between Group A and B and Group C and D countries.

As a country in the Central American region, Nicaragua is concerned about the limitations arising from our countries’ absorption capacity, which has been narrowing during this five-year period and has made it impossible to fulfill the mandate arising from the current replenishment.

It is necessary to recognize that the Central American countries have already shown their capacity and responsibility vis-à-vis fulfilling the readjustment commitments required for their economic transformation, thereby contributing to the political stability and balance of the entire region. But it is troublesome that an examination of the direction that the use of the IDB’s facilities and windows has taken shows a structural weakness that prevents them from falling within the parameters of the distribution of resources because of a lack of technical capacity in their execution or insuperable conditions that urgently need to be analyzed.

In light of the sense of equity that is the Bank’s hallmark, we request that these inadequacies be sufficiently resolved in the context of the institution’s standards of efficiency and willingness to serve, so that they may be quickly corrected.
The Corporation, the private sector window, and an improved MIF could support productive reactivation by encouraging the adjustment and transformation of Central American companies. In this regard, it is necessary to consider the reorganization and strengthening of the Country Offices to promote and facilitate access to these alternative sources of financing.

In the particular case of Nicaragua, the timely support of the IDB beginning in 1990 has been decisive for the six years of democracy that the Nicaraguan people are experiencing for the first time. On behalf of my government, I would like to express our appreciation to the Bank, and in particular to President Iglesias and Vice President Birdsall, for supporting us to this point.

Six years ago, President Chamorro’s administration took office in a country at war with a completely nationalized economy and an enormous external debt, and where private enterprise had no place.

At a time when many were not betting on that government, committed as it was to changing from a socialist and totalitarian system to a free market one, we received timely expressions of solidarity and a vote of confidence from the international institutions, the aid community and friendly countries present here today.

To all these friends I would like to say: we have not disappointed you. A few months from the elections, we can assure you that we will be handing over a new country on the road to sustained development. After 14 years of negative rates, Nicaragua’s economy has achieved positive results for the second year in a row. For the second year, GDP rose at a rate of 4.2 percent and this trend is expected to continue.

Current revenue increased by 23.8 percent and current expenditures dropped, while private savings rose 40 percent, which showed confidence in the national investment process.

Effective control of monetary aggregates resulted in an inflation rate of 11.12 percent.

The productive sectors continue to respond favorably, as a result of consistent adjustment and restructuring programs, encouraging private investment despite persisting structural obstacles.

The financial gap was narrowed as a result of the monthly slippage reflected in a stable real exchange rate, thereby boosting exports, which increased 44.6 percent.

It is very important to mention the success in the negotiations with the Paris Club and the bilateral lenders to reduce the external debt, by 80 percent and 36 percent, respectively, and the unprecedented commercial debt buy-back operation, which reduced such debt by 81 percent, with the support of the IDB, the World Bank, and our friends, the governments of Sweden, the Netherlands and Switzerland.

These negotiations will allow us to move up to a better international credit rating that will help us earn the trust of foreign investors and reactivate production.

Obviously, the very difficult adjustment and structural reforms agreed upon with the multilateral institutions are beginning to bear fruit, since Nicaragua has succeeded in entering the virtuous cycle that starts with economic growth and translates into savings which, by being made available for investment, is reactiving production with a positive impact on exports, then coming around again to giving continuity to a steady growth rate.

This process is limited, however, by the heavy burden of the debt service which we have still to resolve. In this regard, we trust that the IDB will join the World Bank’s initiative of creating a debt alleviation fund for the poorest highly indebted countries in the world, of which Nicaragua is one.
In addition, there are other stumbling blocks to overcome:

- Infrastructure needs essential to reactivating production, which would make it possible to reduce the high unemployment rate.
- The lack of financing for programs to meet social development and environmental conservation needs.
- The support needed to move forward with and expand State reform, which is tied to the issue of governance and institutional frameworks, with quick-disbursing loans.

Fulfilling these priorities is limited by the scarcity of concessional resources at the Bank. Under the Eighth Replenishment, $2 billion was allocated to cover the needs of five countries for four years, an amount that has proved to be insufficient and has left programming for the poorest group of countries in the hemisphere partially uncovered.

Nicaragua, in its capacity as a Group D country, brings to the attention of the Board of Governors the deplorable situation of the Fund for Special Operations, the only source of funds to finance its economic and social development which will guarantee political stability and preserve the still fragile democracy we have achieved.

For that reason, this year at this meeting, we call upon the spirit of solidarity of the regional and nonregional member countries.

President Iglesias has closely followed the progress of the poorest countries in the region. The Bank has made a commitment to help remove the age-old causes of poverty, and Mr. Iglesias knows about the deficit in FSO allocations, which Nicaragua is facing in the 1994–97 period. For this reason, we particularly urge him to put his characteristic seal on the search for solutions that will equitably resolve this painful situation.

Similarly, we ask the Chairman of the Board of Governors, coincidentally the Governor for Argentina—a country that, together with Mexico, has had to overcome difficulties and face tests and has found a response from the Bank to overcome the crisis—to use his leadership and creativity to build a consensus of equity in the region, based on the conviction that balanced growth will guarantee the pace and direction of the democratic advance, the development, and the social progress of Latin America.

Elections will be held in Nicaragua this year. My government is satisfied that it has met the expectations of a noble people and has earned the trust of international institutions and the aid community, which, we are certain, will continue to be a part of the transformation of this nation that six years ago chose freedom and democracy.
Address by Mr. Herbert Lust, Temporary Alternate Governor for Austria and Director, Department for International Finance Institutions

In beginning, I would like to express my delegation’s sincere thanks to the authorities and people of Argentina for extending their traditional Latin American hospitality to us. Since those days when our rulers could say that in their empire the sun never set, Austria and the countries of Latin America and the Caribbean are strongly interrelated in political, economic and cultural terms. We see the visit of President Menem to Austria in 1994 and the forthcoming visit of the Austrian Federal President to Argentina in this context.

I would also like to acknowledge the IDB’s management and staff for laying again the organizational ground for successful annual meetings.

Maybe I am wrong, but I guess it was by intention of don Enrique, the President of the Bank, that the 35th year of operations of the Inter-American Development Bank was a year of hardly believable record figures for the Bank:

- The most recent replenishment of the Bank was ratified, increasing thereby the resources of the Bank by $41 billion to beyond $100 billion.
- A very high net income of more than $500 million was generated from the capital, which should become an additional source of concessional lending.
- There were practically no loans in arrears.

The latter is particularly remarkable, as it demonstrates the backing of the Bank through its borrowing members.

At the same time, the lending of more than $7 billion was the highest in the history of the IDB. The fact that concessional lending was also the highest so far deserves special attention.

I would also like to welcome the new composition of the Board of Directors that better reflects the nonregional contributions.

In an aim to also offer some critical remarks, I believe that the unmet targets for social lending and for the lending to C and D countries, as well as the exceeded limit for sector loans, should receive our attention so as to correct these imbalances in the future.

I do know that the crisis at the end of 1994 and the beginning of 1995 that threatened not only one or two countries, but also the region as a whole, was the reason for an extra effort by the IDB and that it was not a general philosophy to deviate from investment loans as the main field of activities to sector loans. So, because fortunately we have this crisis behind us, we can now expect the Bank to concentrate again on investment loans.

I also understand that the capacity to absorb additional resources is far higher in the bigger countries than in the C and D countries. More work should be done in our view on the preparation of projects in C and D countries. If we can also appeal successfully to A and B countries to focus IDB resources primarily for social projects and to rely increasingly on the markets for income generating projects, this would also help to avoid continuing to miss the 35 percent target in lending to the less-developed countries in the region.

While we fully support the philosophy of the Bank on poverty reduction, indigenous people and the environment, we still consider the figures lent for these purposes in 1995 too low.
Turning now to the administration and organization of the IDB, I would like to acknowledge the successful efforts to keep the total expenditures in 1995 below the approved budget. I also consider it positive that the Junior Professionals Program was again started in the past year; we believe, however, that the figure of five chosen candidates is a little bit low. Perhaps one could increase this figure and also the number of accepted nonregional candidates. In general, I would appeal to management to reflect in its recruitment undertakings the fact that the nonregionals are currently increasing their share in the Bank from around 7 percent to around 16 percent.

With regard to the Inter-American Investment Corporation, we are of course unhappy about its low level of operational activities. We are, however, glad that there are activities at all and that the majority of approvals were for equity investments. As you know, we consider equity activities for the IIC as its main market niche. It is our sincere hope that very soon we will be able to have a successful round of capital increase negotiations for the IIC based on a fair burden sharing between its current shareholders.

In concluding, Mr. Chairman, we continue to consider the IDB as a challenging model for other regional development institutions. The fact that we delivered our instruments of subscription and contribution for participation in IDB-8 on March 7 gives evidence to this judgment.
Address by Mr. Henricus Gajentaan, Temporary Alternate Governor for the Netherlands and Director, Multilateral Development Cooperation and Special Programs Department, Ministry of Foreign Affairs

Allow me, first of all, to join the governors who have preceded me in expressing my gratitude to the people and the Government of Argentina, “the land of the six continents” for their hospitality in hosting this annual meeting here in Buenos Aires.

This year’s meeting takes place at a time when multilateral development banks receive renewed interest as vehicles of change to foster social and economic development. The role of the multilateral development banks is being assessed anew and scrutinized against their contribution to the well-being of ordinary people, of men and women in their search for a better future. In the months ahead the report of the Task Force of the Development Committee on the multilateral development banks will provide an opportunity to reflect on the future direction of their activities. Each of the banks are called upon to capitalize on their specific role in the region they serve; together with the World Bank, they are called upon to strengthen their efforts in cooperation and coordination as part of a system of multilateral development finance.

We all can be proud of this Inter-American Development Bank as it serves a changing Latin America and Caribbean. It is becoming an increasingly effective instrument in supporting environmentally sustainable development, in reducing poverty, and in promoting good governance while listening to the voices and the actual needs of the people. For the development banks to be result-oriented rather than approval-oriented agencies, the enhancement of the quality of their operations needs to be their permanent focus. In this context an across-the-board application of the concept of annual portfolio reviews by Country Offices will be indispensable. Lessons to be learned can then be drawn and best practices exchanged on a much wider and more explicit scale, allowing the regional banks to act proactively. We hope that the IDB and its sister organizations will be strong supporters of the idea of a joint Evaluation Coordination Committee among all multilateral development banks.

The IDB is also well placed to improve the quality of its operations through decentralization. Its strong network of Country Offices allows it to play a key role in the dialogue with the governments of the region. Recent years have shown that the IDB has carved out its own important niche alongside the World Bank. Its plan to decentralize the decision-making process further through the Country Offices and to create an integrated personnel policy are both welcome and promising. We wish to encourage the management of the Bank to implement them vigorously and expeditiously.

The Task Force Report rightly emphasizes that the main challenge of development is to reduce poverty. The IDB recognizes that poverty reduction requires economic growth to be complemented by direct action to remove obstacles that impede people from taking part in the economic process. We look forward to the formulation of the new poverty strategy and its subsequent implementation. In doing so, the IDB should base its policy on a commitment by its borrowers to reduce poverty.

As the report on Bank Action for Social Reform, Social Equity and Poverty Reduction shows, the social condition in the region is, despite progress, still characterized by slow
progress and inequality in education, by wide disparities in the health sector and income distribution, and by problems of rapid mega-urbanization. In short, efforts to reduce poverty in Latin America still face an uphill battle. This is the major challenge of the IDB in the years ahead.

A two-track approach, i.e., pro-poor pattern of growth policies and investment in people complemented by safety nets, is therefore called for. By investing in people we mean providing education, health care, water and sanitation. Employment and productivity growth should be the focal point of the poverty strategy, with specific attention to the informal sector and micro, small and medium-sized enterprises. Pro-poor patterns of growth policies address the impediments for the poor to participate in the economy and to attain their share in economic growth. Cooperation with the World Bank, which produced several nationwide poverty assessments for Latin America, is called for. “Ownership” by the people concerned will play an important role in the implementation of such a poverty policy. Research and poverty assessments should therefore be carried out in consultation with the poor to obtain maximum insight into their specific problems. Similarly, borrowing countries should have a central role in the design of strategies and projects, while drawing on specific know-how from the IDB.

The dramatic increase of private flows to developing countries has changed the environment in which the multilateral banks operate. Here lies a “land of opportunity” for the banks to become more actively engaged with the private sector. There can be no sustainable development without a dynamic and flourishing private sector. Yet, their specific mandate requires multilateral banks to demonstrate convincingly the additionality and the development impact of their private sector operations. MDB resources should not compete with, substitute for, nor displace private capital flows. The creation of the private sector window in the IDB is timely. The 5 percent cap on its operations enables the Bank to build up its private sector portfolio gradually, while gaining experience and learning lessons in this complex field. Through this window the Bank is able to capitalize $2 billion of private capital flows to the region, enabling it to play a proactive role in getting the private sector involved in fields that used to be the domain of the public sector. To create maximum impact and synergy between the Bank’s operations, however, it is vital that private sector operations contribute fully to environmentally sustainable development and are fully integrated into the country assistance strategies. The Bank needs to develop clear criteria for its participation in the private sector in order to strengthen its additionality. We look forward to a full evaluation of the IDB’s Private Sector Unit operations.

The dual objective of poverty reduction and private sector development is certainly served by the promotion and development of microenterprises. The IDB’s efforts in this field are commendable and need vigorous encouragement. It provides opportunities for self-development of poor people and generates a significant number of jobs for the poor. It also develops the private sector from the bottom up. Here I wish to express our appreciation for the IDB’s active participation in the recently established Consultative Group to Assist the Poorest.

Due to the extraordinary circumstances in 1995, the targeted allocation of resources of the IDB and the FSO among different country groups has not been reached. The Netherlands attaches great importance to the 65/35 percent target since it constitutes a benchmark for access to the Bank resources of smaller and poorer countries. This is important to sustain the development focus of the Bank. We are aware that this ratio poses restrictions
for lending to the A and B countries. The growth in FSO commitment authority has not matched that of the OCR. The C and D countries experience limitations in their capacity to implement projects in their programs and to sustain nonconcessional lending. As we see it, the 65/35 ratio is a medium-term target and does not need to be strictly adhered to year by year. Exceptional circumstances have distorted the picture in 1995 and we trust that the Bank's operations will soon be back on the 65/35 track. In addition, the Bank's efforts to help to improve absorptive capacity of C and D countries should show their impact on the lending operations. In this context, the concern about the availability of concessionary resources as expressed by you, Mr. President, is in our view justified. We are ready to assist you in looking for creative ways to enhance concessional flows to the Latin American countries most in need, for instance by using part of the OCR net income, within the framework of a responsible financial policy, or interest subsidies, or by any other means.

Finally, let me conclude by saying a few words about the Inter-American Investment Corporation. The Corporation has successfully emerged from its restructuring process and is operating in an efficient and effective way. As strong supporters of the Corporation and its objectives, we are in particular pleased to note that the renewed emphasis on the Corporation's development mission is increasingly visible in its day-to-day operations. We congratulate the President and the General Manager, Mr. Rahming, for their efforts the past year. You can be assured that we will continue to follow the IIC with keen interest as it expands under its new mandate.
ADDRESSES

THIRD PLENARY SESSION

March 26, 1996
I am very pleased to represent Belgium at the Thirty-seventh Annual Meeting of the Board of Governors of the Bank here in Buenos Aires.

On behalf of the governor of the Bank for my country, I should like first of all to express his interest in our institution and in the development of the countries of Latin America and the Caribbean in general. I also wish to thank the government and people of Argentina for the warm welcome and hospitality they have shown us for the second time in their beautiful capital.

I also wish to commend the President and the staff of the Bank for their work in 1995. Without their efforts and motivation, the Bank would not have been able to achieve such remarkable results.

I should now like to say a few words about development in the region’s economies over the past year. The facts are well-known: economic growth slowed following the recession experienced by Argentina and Mexico. Exports—the most dynamic sector—held up very well in 1995. Investments remained limited, although in some countries more than others. Capital flows have been substantial, but have nonetheless shown a downward trend. Inflation continued to stabilize and privatization increased.

Following the volatility experienced in the financial markets in late 1994 and early 1995, most governments adopted measures to reduce the budget deficit. To that effect, fiscal programs have been developed and the results are beginning to be felt. Nonetheless, there are two main reasons for maintaining and strengthening these fiscal programs. First of all, revenues from privatization have in the past contributed to a reduction in deficits, but, even though there are still many possibilities for privatization, the revenues they generate can only be accounted for once. Second, in some cases, a sound national budget has not prevented an increase in spending by local entities. It will therefore be necessary not only to consolidate measures already undertaken, but also to identify the modalities permitting an increase in revenues and a reduction in expenditures. I am convinced that the Bank is in a position to play an important role in helping to strengthen these fiscal programs.

In most countries of Latin America, the internal savings rate remains inadequate to ensure the financing of investments. The factors contributing to this situation include distortions in taxation, exceptional levels of government borrowing, high inflation and an unstable environment. For some time, these governments could count on new flows of foreign capital. But the financial crisis in late 1994 abruptly demonstrated that this strategy entailed significant risks. Innovative measures will have to be taken. The Bank, as an institution intended also to play an intellectual role, could contribute to research and the application of appropriate solutions.

Permit me now to devote a few minutes to the operational aspects of our Bank.

The amount of loans approved in 1995 was clearly greater than that recorded during the preceding year. In qualitative terms, our institution has surpassed the World Bank in the amount of funds it provides to the region. This means that the Bank has regained its important place in Latin America and that it is capable of offering services to borrowing
countries whose value added is appreciated, which also reflects the support of all the member countries. The Bank has effectively created a niche which makes it unique in the region. Even if the results of the past year were exceptional, they have been only one of the means of attaining the objectives assigned to the Bank: the economic and social development of the region. It seems to me that the Bank has now arrived at the stage where it would be appropriate to concentrate on the qualitative aspect and implementation of projects rather than the quantitative aspect. Indeed, the Bank’s visibility for the beneficiaries and for civil society will be greater if the projects are actually carried out and if the impact on the population’s income is measurable. I would also venture to hope that the Bank will insist more in the future on supervision in order to improve the quality of projects. In this regard, the role of the IDB Country Offices in the borrowing countries will continue to be of vital importance and I am encouraged by management’s proposed plan of action.

The Bank plays a particular role among the other international institutions in the field of social change resulting from economic restructuring and adjustment. It is in a position to reduce the negative effects on the affected population, thanks in particular to the establishment of social funds in the various countries. The Bank must continue along this same path. It could also attach more importance to the operation of social institutions by promoting appropriate participation by the different sectors of civil society: parliaments, the judiciary, entrepreneurs, labor unions, nongovernmental organizations, women’s movements, and indigenous populations. I should also like to appeal to all of the parties concerned to take social norms into account.

The Bank, quite rightly, places more emphasis on the relationship that must exist between social development and support for the private sector, particularly in the areas of construction and through the promotion of microenterprise. Nonetheless, I believe that there are still possibilities to foster the development of small and medium-sized enterprises, which represent an essential part of the Latin American private sector.

Internally, cooperation between management and the Board of Executive Directors has continued to develop in a positive manner. The first results of the reorganization begun in 1994 are encouraging, even though we believe that the Bank must now evaluate the role and efficiency of the new departments.

Another matter I would now like to address concerns the problems of concessional financial resources. At this stage, additional information and in-depth studies are indispensable in order to determine the modalities for the provision of new resources. The solution to the problem of the relative paucity of concessional resources must be found in a combination of various options: the use of internal Bank resources such as net income, taking care to preserve the financial ratios, cofinancing and the use of bilateral resources. Whatever solution is ultimately adopted, it will be best to preserve the interests of the poorest countries.

For the Eighth Replenishment, the Board of Governors has clearly assigned the Bank objectives with respect to social reforms, social equality and poverty alleviation. With respect to education, health care and urban development, great inequalities remain, and public spending has been drastically limited following the economic crisis. The inequality already existing with respect to income distribution has been aggravated by this fact. It is therefore necessary that the Bank strengthen those activities that contribute to improving this biased situation. Overall, since 1994, the Bank has devoted more than 50 percent of its loans to the social sectors mentioned above. This is consistent with its objectives. The
Bank must therefore be congratulated in this regard. On the other hand, 1995 was less favorable in that only 37 percent of the IDB's loans were devoted to the reduction of poverty and the fight against social inequality. For this reason, I urge the Bank to remain vigilant and ensure that its lending activities continue to be directed on a priority basis towards the social sectors.

In this regard, I should like to remind the Bank that any strategy for the reduction of poverty must entail careful monitoring, both at national and regional levels. In so doing, it will be able to measure the impact of the Bank's activities on poverty and to give more reliable indications as to the contribution the Bank makes towards the alleviation of poverty and, as the case may be, the reduction of income inequality.

In joining the Inter-American Development Bank in 1976, Belgium showed its desire to cooperate and to contribute to the economic and social development of the region. This desire was strengthened further when it signed on to the objectives of the Eighth Replenishment as well as the strengthening of the multilateralism of our institution. This desire will soon be accentuated even further since, and I have the pleasure to announce this to you, Mr. President, the Belgian Parliament is now completing the consideration of legislation concerning Belgium's participation in the Eighth Replenishment. The government will very soon submit the instruments of the new capital subscription and the contribution to the Fund for Special Operations.

To conclude, permit me to express the wish that our Bank continue on the successful path it has followed and the mission it undertook 37 years ago on behalf of Latin America and the Caribbean, an enterprise in which my country is pleased to participate.
Address by Mr. Eduardo Aninat, Governor for Chile and Minister of Finance

It is an honor for me to address the Thirty-seventh Annual Meeting of the Board of Governors of the IDB, held this year in Buenos Aires, Argentina. On behalf of the Government of Chile and its official delegation, I wish to extend a warm greeting to the people and authorities of Argentina. We also salute the IDB, its managers and staff who perform such outstanding work for the development of our hemisphere.

This Thirty-seventh Annual Meeting comes at a more favorable moment in the life of our region than the meeting held in early 1995. The enormous effort of macroeconomic adjustment, structural reform and social progress in the region over the past decade has been consolidated, despite the financial and exchange rate disturbances besetting several major economies in Latin America the previous year, trends which were amplified by the highly integrated and potentially volatile international financial markets.

I should like to discuss first of all some aspects of Chile’s social and economic policies and afterwards say a few words about the IDB’s role in the region.

The Chilean Economy

The Chilean economy has been in a growth cycle for more than 12 years, with an average annual growth rate of approximately 7 percent for the period 1986–95.

The growth rate in 1995 was 8.5 percent, with an inflation rate slightly above 8 percent: this was the first time in a long time that Chile’s growth rate has exceeded its annual rate of inflation.

In contrast with earlier decades, this growth is being led by investment and exports. In 1995 we established a new record for investment and saving. Fixed capital investment accounted for 27.2 percent of GDP, financed with domestic savings representing 27.6 percent of GDP. Our policy of reducing vulnerability to external factors is based essentially on the promotion of domestic saving. In terms of fiscal policy, particular emphasis is being placed on maintaining high levels of public saving, which in 1995 increased to 5.5 percent of GDP. In this regard, the governmental sector is today a net contributor to the economy’s saving pool, and is no longer a drain on capital market resources.

This development strategy is based on the opening of borders to all world markets. Our exports are divided about equally among three markets: the Americas, Europe and Asia. In terms of economic integration agreements, Chile has reached an advanced stage in its negotiations with MERCOSUR, and within a few months we hope to begin progress with the European Union and NAFTA. Chile has also been a member of APEC since 1994.

Chilean exports have become considerably diversified, reducing the country’s dependence on copper and increasing its exports of other products, such as fruit, wine, finished wood, products of the sea and various manufactures.

Chile continues to receive large volumes of foreign direct investment. Nearly $4.5 billion was approved for projects in 1995. During the second half of 1995, Chile was reclassified from BBB+ to A− by Standard and Poor’s, Duff and Phelps and I.B.C.A., and from BBB to BBB+ by Moody’s.
A recent and interesting trend, which we are following closely, is a rise in Chilean direct investment in our brother countries of Latin America. These investments result in a transfer of managerial capacity, market knowledge, technology and capital to other countries in the region.

The available figures show that Chile's economic growth is benefitting the less advantaged segments of our population. Unemployment is currently 4.5 percent. There is a flexible labor market and increasing demand for human resources with a variety of skill levels. Real worker income rose by 4.2 percent in 1995, which is about average for the past four to five years. The percentage of the population below the poverty line has fallen significantly as a result of economic growth and carefully targeted social policies. Our government has placed special emphasis on education as the key to social mobility, more equal access to opportunity, and sustained economic growth. We are also undertaking a complex reform of the health sector, and the rate of residential housing construction has increased significantly in recent years.

Our great challenge is to attain levels of economic and social development comparable to those in the OECD countries by the next decade. This will require us to maintain and consolidate the current rates of economic growth, investing in education, infrastructure, technological change, and productive innovation. Further progress with economic integration, while maintaining basic macroeconomic balance and consolidating our gains in the areas of peace and social progress, will be essential if we are to enter the 21st century on a path towards development, modernity and social equality.

The Action of the IDB

The IDB, as the largest of the regional development banks, is a very important tool for accomplishing Latin America's objectives of transformation and development.

We take pride in the Bank's successful Eighth Replenishment of Resources. We also are honored to head the new regional constituency created within the Board, and we take this opportunity to thank our fellow members for their votes and support to this effect in November 1995.

We hope that the administrative and operational restructuring of the Bank will be fruitful; that the processes for identifying, preparing and approving projects will be shortened; that overlapping responsibilities will be minimized; and that the technical capacity of staff will be strengthened. Work in each of these areas remains to be done.

We believe that the IDB can and must play an important role in supporting current efforts towards economic integration of the hemisphere, as agreed to by the Presidents of the Americas at their Summit in Miami in December 1994.

The IDB must give strong support, through specialized technical assistance, to the countries that have entered into integration agreements, strengthening their capacity for negotiating and administering technical and institutional integration agreements.

Along these lines, the IDB can also seek means of minimizing the cost of the internal adjustments associated with economic integration by facilitating retraining of the work force, the reconversion of production facilities, the adoption of more competitive technologies, and more modern managerial methods in the most vulnerable production sectors. Certain areas of traditional agriculture, previously protected manufacturing sectors, textiles and a number of services generally suffer—some more than others—from the
opening of borders and economic integration. The people now working in these sectors must be given other opportunities for the future.

We should like to see the greatest possible coordination and cohesion within the Bank Group: the Bank, the MIF, and the Inter-American Investment Corporation. We wish to see the MIF better clarify its priority areas of operation and precisely define the criteria to determine eligibility for its resources. Its multilateral spirit must be strengthened, and the mechanisms for consulting with all of its members further developed and extended. Administrative efficiency must be strengthened.

We are following with great interest the IDB’s entry into operations with the private sector. This is an initiative our country has supported from the beginning and is consistent with the new development needs of Latin America. We believe the IDB should work towards integrating its various administrative units operating with the private sector in order to increase the efficiency of the Corporation, the MIF and the Private Sector Department. Such integration should provide for a set of rules and processes for formulating and approving projects different from those used for the public sector. We invite the other member countries to reflect on these issues as well.

Finally, let me express my confidence that Latin America is back on the path towards growth and social progress, after a period of uncertainty in early 1995. Countries will soon begin to feel the positive impact of the reforms of the past decade. We are certain that the IDB Group, endowed with more resources and new operating approaches, will play a very important role in this decisive hour to support stability, growth and development—above all, to move resolutely onward in its efforts to promote social harmony and democratic stability.

You may be assured, Mr. President, of our unwavering support in carrying the Bank’s initiatives forward in the interests of economic development and social equality in Latin America.
It is a great pleasure for me to be with you here in the beautiful city of Buenos Aires, which has extended us such a cordial greeting and warm hospitality.

At last year's meeting of the Board of Governors in Jerusalem, I spoke of the commitment of the government led by President Pérez Balladares to reshape our nation's public policies.

At that point, a number of policies were already in place to make for greater efficiency and mobility of productive resources, so as to ease our transition into the global marketplace and improve the lot of the neediest in our society. To that end, laws had been adopted to encourage private investment in the upgrading and expansion of electric power generation, transmission and distribution, the telecommunications sector, ports and water supply.

Since we met last year, Panama has passed a law creating a regulatory agency to govern basic public utilities, which is now being organized. This past January, tenders were called for a cellular telephone band, and the contract was awarded to BellSouth. The $72 million value of this contract was a record in per capita terms. The transparency and efficiency of the tender process came in for universal praise from bidders and observers alike. Before the end of the year, we also will be ready to sell off 49 percent of the stock in INTEL, the public telephone company, and its cellular band. Arrangements for construction of a 100-megawatt power plant, which will mark the first private inroads into this sector, are now in process. Additional initiatives under way are the privatization of casino and racetrack operations, and concessions of publicly-owned land for tourism development on the Pacific coast.

We are also working on arrangements to concession out the operation of the transisthmian railroad and the ports of Balboa and Cristóbal at either end of the Panama Canal. We hope to see this process concluded before the end of the year, to complement first-class container transshipment services, now and in the future, in the Atlantic the ports of Manzanillo and Coco Solo, which are being operated by private concessionaires from Panama and the Republic of China, respectively.

The draft legislation we plan to place before the legislature in 1996 includes bills for the water and sewerage and electric power sectors, which will complement the new laws governing the telecommunications industry and setting up a utilities regulatory agency. We also propose to embark on trade and financial sector reforms.

In the early 1990s, Panama's economy picked up sharply, fueled by a unique series of circumstances following the invasion. Once those effects had passed, the economy reverted to its traditional protectionist-interventionist model, and GDP growth slowed. Our economic program is posited on the understanding that the measures we have been adopting to make our economy more efficient and more competitive will help us achieve higher levels of sustainable growth. This in turn will drive down unemployment and help us make significant progress toward reducing poverty.

Over the last 12 months, our Legislative Assembly, whose Chairman Carlos Alvarado is a member of Panama's delegation to this meeting, passed a number of laws that will be
crucial for the development of our economy. One law, approved in June, institutes a more equitable and efficient tax-incentive system for the production sector, phasing out tax incentives and discretionary subsidies for import-substitution activities. Other legislation approved in August narrows the State’s role in labor relations and makes for a more flexible labor market. We ended the year with the approval of a government procurement law which echoes international practices in this area, the approval of the Multilateral Investment Guarantee accord, and the ratification of the Convention on the Settlement of Investment Disputes. And we started off in 1996 by approving a law that severely penalizes practices intended to suppress competition.

In May of 1995 we announced an agreement in principle with commercial banks to restructure our debt to them. Over 98 percent of Panama’s creditors chose from the offered menu of new instruments; most (about 82 percent) opted for interest-reduction bonds bearing the sole guarantee of the Government of Panama. Here today, in Buenos Aires, we will be announcing with the chairman of the steering committee that we have worked out the final text of legal agreements for a Brady Plan arrangement for signature next month. Under the terms of the agreement, Panama’s commercial debt will be reduced by about 31 percent, and our nation will rejoin the financial community. A restructuring accord was worked out during the last administration, after negotiations with the Paris Club and holders of our external bonds, and recently we arrived at an arrangement with Mexico to settle the so-called “petroleum debt.” We hope to reach an agreement shortly with Venezuela as well, thereby bringing us into compliance with all our obligations.

In sum, we have achieved the targets we described to you at last year’s meeting in Jerusalem. By mid-1996 we expect to arrive at the last of them, which is our adhesion to the World Trade Organization. We likewise plan to redouble our efforts to join larger markets through trade reforms and free trade accords.

One area warranting special mention is the progress made on incorporating land and other assets of the former Canal Zone into the nation’s plans for development.

Other focuses of our efforts in 1996 are the strengthening of financial institutions to build confidence in them; enhancing our economy’s competitiveness in the international arena; putting in place a modern pension system, modeled along the lines of initiatives that have proved most successful elsewhere; and improving domestic transportation.

On the fiscal front, we ended 1995 with a nonfinancial public sector deficit equal to 0.4 percent of GDP. For 1996 we are forecasting a surplus of 0.6 percent.

The support we have received from the Bank in these endeavors has been invaluable, and we wish to attest to it here. We look forward to the Bank’s continuing assistance, so our future initiatives will be as fruitful as those carried through to date.

In closing, we would like to convey our very best wishes to the delegations attending this gathering, and our heartfelt appreciation to President Enrique Iglesias and the Bank’s dedicated staff for their superb work. And to our hosts in Argentina, we offer once again our sincere gratitude for the warm welcome you have extended to your sister nations.
Address by Mr. Luis Raúl Matos Azócar, Governor for Venezuela and Minister of Finance

I am pleased to be here with you to share in the Bank’s Annual Meeting, the region’s most important annual financial event. This meeting has become a forum for our countries to share ideas about trends in the hemisphere as we approach the end of the millennium, ready and willing to overcome old and new problems in a context marked, after many years, by democratic integration.

In my country, however, recent political developments have revealed the existence of serious conflicts, and reestablishing the necessary consensus to overcome them will not be easy.

The most important achievement of President Caldera’s administration has been to maintain political stability and peace after the severe test to which the democratic system was subjected over the past years.

In a recent speech to the National Congress, the President reaffirmed his faith and trust in society’s capacity to surmount these difficulties and clearly expressed his determination to undertake the sweeping reforms that our country requires in order to correct years of collective indiscipline.

Recent Progress in Overcoming the Crisis

Over the last year, the 1994 financial crisis that practically eliminated over half the financial system, and whose effects had major repercussions on the goods and services sectors of the economy, began to be resolved. Recovery is already at hand. The banking system is being strengthened through improved oversight systems, the capitalization of banks in operation, and the search for more permanent solutions. The sale of assets is also under way.

The Venezuelan economy in 1995 shows signs of positive change. The gross domestic product, after years of negative growth, reversed its course and grew by over 2 percent.

Many elements have had a bearing on the above result: enormous advances achieved in modernization of the tax system, which has made possible a substantial increase in nonoil domestic tax revenues; the temporary application of exchange controls, which contributed to curbing the drop in reserve levels; the short-term improvement in the price and volume of traditional and nontraditional exports; and the slow return to financial system stability.

However, the impact of the financial crisis on the nation’s economy, the pressure on fiscal accounts exerted by the solutions adopted, and monetary policy are all pushing prices upward. One of the highest inflation rates in the region has eroded real wages and undermined employment conditions.

Inflation, recognized by the President of the Republic himself as “the most disturbing nightmare for households, particularly those with scarce resources...requires decisions that inevitably cause discomfort, but are essential if the country is to regain confidence in itself.”

The gradual exhaustion of the mechanisms adopted to alleviate the situation and the need to correct this trend led to the design, in late 1995, of an economic program known as
Agenda Venezuela, which provides for the implementation of a coordinated set of policies to tackle essential problems in the fiscal, monetary, exchange, social, labor and employment areas and, at the same time, to stimulate moderate growth in the productive sector in order to send clear signals to the economic agents.

Extensive discussions on this agenda with the International Monetary Fund and other multilateral organizations are in the final stages. We hope that these discussions will be completed in the near future so that the agenda can be quickly implemented, generating an atmosphere of security and confidence in our nation's macroeconomic stewardship that will facilitate investment growth and place us on the road to definitive economic recovery.

Implementation of the Economic Program

Venezuela's current economic program is designed to progressively correct imbalances, but it gives priority to actions aimed at improving the conditions and quality of life of our people. The principles of equity and social justice require a careful review of program content, hence the special importance attached to reducing inflation, expanding production capacity, and obtaining additional multilateral resources to support structural reforms.

Within these parameters, the program will seek in its first year to bring down the fiscal deficit to below 3 percent of GDP through a combination of measures that include carrying further the reform of the fiscal system begun in 1994. Legislation to this effect is under consideration by the legislative chambers. An increase in the tax ratio will help to reduce the volatility in fiscal revenues, while at the same time promoting greater equity by instilling a taxpaying culture in a society with a large component outside the formal financial system.

The 1996 spending program will complement these measures by providing more resources to finance social service systems, giving priority to public investment programs, supporting the administrative decentralization of utilities, reducing transfers to decentralized agencies, and providing for a reduction in the number of civil servants. At the same time, while honoring existing foreign and domestic debt obligations, it will limit future indebtedness, based on the program's overall goals.

Another significant element in deficit reduction involves speeding up the privatization of State-owned enterprises. To date, negotiations have been completed with distinguished representatives of international investment banks to place the remaining shares of the Compañía de Teléfonos on the market and finish the arrangements for the sale of the aluminum, steel and energy companies and that of hotel and tourism centers, among others.

In connection with privatization initiatives, the successful liberalization of our petroleum sector is also noteworthy. In January, the first international competitive bidding processes took place and greatly exceeded expectations. These achievements reaffirm the strategic position of Venezuelan oil.

The problem of social benefits has to be resolved before Venezuelan public accounts can be managed. The change of the benefit system currently being studied not only helps thousands of public employees but will also remove one of the greatest obstacles to real growth in private productive activity.

The agenda calls for gradually dismantling the exchange system established to protect the reserve situation. The procedure adopted protects the capital account temporarily, while liberalizing foreign investment and the repatriation of capital and dividends.
Similarly, the program provides for a monetary policy consistent with the central objective of cutting inflation and, over the medium term, stimulating the national private sector’s savings and investment capacity.

The government has maintained its commitment to the economic liberalization and free trade policies set forth in various international agreements and will continue to do so, while intensifying the spirit of integration underlying those agreements.

With or without the cooperation of the International Monetary Fund, our national economic program is expected to reduce the pace of inflation, stabilize the value of our currency, bring down the unemployment rate, and continue the expansion in domestic production capacity recorded last year.

The Role of the Inter-American Development Bank

In the context of the measures described above, the Bank plays an important role by supporting quick-disbursing operations designed to maintain and increase financing for social programs and to strengthen the financial system, fortifying in particular the weakest links in the chain. We hope to continue with the operations being processed that will finance initiatives in the water and sanitation and housing sectors and in public sector institutional strengthening.

We welcome the progress made under the Eighth Replenishment: partial achievement of the goals established, the new composition of the Board, the headway in reviewing policies and procedures, the strengthening of country programming procedures, and the always-active participation of President Enrique Iglesias in the search for solutions to the difficult and changing problems of our region, all of which constitute significant developments over the past year.

The Bank’s intellectual leadership has been apparent in its new initiatives for financing infrastructure works, with a more active role for private savings; its potential involvement in the insurance and guarantee arrangements for such investments; the analysis and careful monitoring of economic and social trends in our countries; the monitoring of factors that affect the stability of our economies; its always vigorous presence in stimulating the initiatives of small and medium-sized entrepreneurs; and in strengthening of the State and the participation of civil society. These are only some of the ways the institution has contributed to a better understanding of the always complex development process.

Also noteworthy in this context is the recovery of the Inter-American Investment Corporation, which has shown itself an effective conduit for the financing of medium-sized and small enterprises in the region. Similarly, through its new private sector window, the Bank is finding intelligent solutions to the problems of infrastructure financing by acting as a catalyst for private resources in this area. The Multilateral Investment Fund complements the Bank’s activity by making it possible to provide concessional funding for different initiatives that promote greater participation by the private sector in the countries’ development.

I share the concern expressed by President Iglesias on concessional resource limitations in the immediate future. I hope that in the course of the year an equitable solution will be found that is consistent with the true spirit of the IDB, which, because it is more than a bank, must respond to the multiple needs of its member countries with low-cost resources.
I cordially congratulate the Argentine government, and in particular the chairman of our meeting, Domingo Cavallo, for the tremendous effort undertaken to modernize the Argentine economy. In this decade, the nation that was home to San Martín and Sarmiento has become a true economic force, one of the engines of economic growth in the southern cone: open, competitive, and integrated. We appreciate your cordial hospitality in this city, which has shown us such a warm welcome.
It is an honor to attend this meeting once again this year and share some thoughts with you on the present and future challenges facing my country and Latin America as a whole, and on the current work of the Inter-American Development Bank and the Inter-American Investment Corporation. The fact that we are meeting here in this beautiful city of Buenos Aires is equally a delight.

I would like to thank the Government of the Argentine Republic for having given us the opportunity to meet here today, and for the warm reception we have received.

As President Iglesias pointed out in his report to the Committee, the countries of Latin America have faced major challenges since our last meeting in Jerusalem but have realized very significant achievements in response to them. Vitally important in this respect were the Bank’s efforts to provide determined support to its member countries at this difficult time.

The region’s economies passed an extremely difficult test in 1995 as Latin American financial markets underwent serious upheaval. Regional GDP grew just 0.6 percent, as compared to 5 percent the year before. This growth, though modest, was only possible because the crisis was prevented from spreading to the other countries in the region.

In light of these circumstances, questions resurfaced concerning the economic reforms effected by our countries in recent years. As President Menem noted yesterday, pressure was strong to reverse the reforms. Nevertheless, it was precisely because the governments persevered in the implementation of responsible policy and stayed the course of reform that the regional catastrophe initially predicted did not come about.

The fact that the region’s economies were able to deal with the adverse events of late 1994 was no coincidence, but a direct consequence of their success in effecting structural change. Our conviction that the reforms must be carried further is thus borne out.

Let me share with you a few brief thoughts on the economic situation in my own country.

One year ago in Jerusalem, I spoke to you of the severe economic problems being faced by Mexico and the economic program we had put in place to deal with them. We have triumphed over many trials since then, and have made significant strides as well. The crisis has taken a heavy toll on the well-being of our people. In 1995, GDP shrank 6.9 percent, a drop without parallel since 1932. Unemployment rose to record levels, and inflation—which had been brought down to one-digit figures—soared to over 50 percent.

Notwithstanding all this, the imbalances engendered by the crisis at the end of 1994 were corrected. External accounts were turned around, mainly through robust export performance; onerous short-term liabilities were refinanced to bring a substantial improvement in the public debt profile; and a comprehensive strategy was put in place to shore up the banking sector.

The tasks for 1996 are clear. We must entrench the economic recovery, continue to bolster the banking system, and make progress on structural change in our economy to lay solid foundations for sustainable growth in the medium term.

Exports and external sector investments will drive the recovery in the near term. Do-
mestic consumption will rise gradually. Data available on external accounts during the first two months of this year point to better economic growth than called for by our projections. The expansion is being led by continued strong export performance and a budding investment recovery. We are confident that Mexico will achieve growth of at least 3 percent in the current year.

We will encourage banks to increase their capital through contributions from existing or new shareholders, and will make progress on reforms to improve banking regulation and supervision.

The crisis pointed up our economy's undeniable weaknesses but also its strengths. On the one hand, we saw the vulnerability of a strategy excessively dependent on short-term external savings, to the detriment of domestic savings. On the other, the flexibility and efficiency of leading economic sectors, such as exports, bear out the conviction held by President Zedillo's administration that economic reforms must be carried further.

To make the productive apparatus more competitive, far-reaching changes are being made in the legal and regulatory framework in key areas such as railways, ports and airports, telecommunications and secondary petrochemicals.

The current economic strategy recognizes that a sustained expansion of production and employment can only be achieved by boosting domestic savings and making production more efficient. These are the major economic challenges we Mexicans will face in the coming years.

One of the most important initiatives is the reform of the pension system that began at the end of last year. The aim is to stimulate long-term domestic savings and secure benefits for pensioners in line with past contributions.

To complement the pension reforms begun in 1995, a bill was sent to Congress last week which is intended to safeguard good management of workers' savings by pension fund administrators.

I am confident, given the scope of the pension reform, that the country's ability to provide sound financing for long-term projects with high social returns will increase substantially over the coming years.

The other great challenge we face, like many other countries in our region, is to design policies that will effectively narrow existing social gaps. We are working on a new social development policy that will reconcile different ideologies and mesh the efforts of all social groups. Through broad social participation and citizen initiative, we will build a more just and equitable society. In this connection, the commendable work being done by the Bank will be joined with our efforts to achieve social development benefiting the neediest groups.

Although much work is left to be done, the results attained have renewed our strength and given us reason to hope that we will soon regain the path of sustained growth.

We appreciate the IDB's magnificent and timely response to our request for cooperation and financing. The Bank's decisive support was a great help in steering through the economic shoals navigated last year by Mexico and other countries in the region.

The Bank's commitment to Mexico was unequivocal, and I would like to convey my country's gratitude to President Iglesias, Executive Vice President Birdsall, and the entire management and technical team for translating it into reality.

I would like now to turn to the Bank and the Corporation. I believe a better balance in available loan capital is needed to maximize the Bank's lending potential. Although suffi-
cient ordinary capital is available, concessional funds are critically scarce. This makes it
difficult to meet the demand from lower-income countries and could detract from the
effectiveness of the Bank’s action.

We must solve this problem of scarce concessional resources, which truly limits the
Bank’s ability to support the needier countries. What is needed are proposals that will
safeguard multilateralism and ensure equitable cost sharing, in line with the intrinsic voca-
tion of the Bank.

Here I would like to say a word about our Bank’s priorities. The scarcity of concessional
funds begs the question of whether new guidelines are needed to govern the use of the net
income of the Fund for Special Operations in order to make more funds available under
the Intermediate Financing Facility.

Augmenting the availability of concessional funds is an endeavor that unquestionably
has merit. Freeing the Bank of the constraints that limit its potential is another. Setting
limits on lending by country group and type of loan places unnecessary hindrances in the
way of fully realizing the Bank’s potential. We should relax the quotas so that the coun-
tries may make the best possible use of the Bank’s resources. These two points are quite
different and should be considered separately.

I would like now to express my appreciation to the staff of the Inter-American Invest-
ment Corporation for their favorable performance in 1995. The strategy defined in Jerusa-
lem has proven to be a good blueprint for the Corporation’s work. The IIC is responding
satisfactorily to the renewed confidence placed in it by its shareholders. There is still
much to be done, and we would call upon all the Bank’s member countries that are not yet
members of the Corporation to join us in this task.

One of the most important lessons learned from the recent Mexican experience is that
correcting internal imbalances too late can be very costly, given the magnitude and speed
of capital movements.

It also became apparent how vulnerable our economies become when they depend too
heavily on external savings. Clearly, the path to be followed is to focus on strengthening
domestic savings and take steps to promote foreign direct investment in production projects.

The support mechanisms available to international financial organizations in times of
economic difficulty have been put to the test in the past year. Had these organizations not
acted in a swift and timely manner to head off the Mexican crisis, serious systemic reper-
cussions might have ensued.

I have no doubt that the views exchanged in the course of these meetings will enrich
the work done by the Bank and the Corporation in the coming years. We share a dream: to
meet the legitimate demands of our peoples for greater well-being. Let us work together to
realize it.
Address by Mr. José Serra, Governor for Brazil and Minister of State for Planning and Budget

Yesterday, Mr. Chairman, I put forward your name to preside over our work. I did so with pleasure, given the ties that bind our countries and those that join us as Ministers and friends. And I did so confidently, in the assurance that the skills that you have so amply demonstrated in public life will inform your leadership.

It is a pleasure as well to congratulate the Inter-American Development Bank, in the person here of its President, Mr. Enrique Iglesias, for the institution's accomplishments during the first year of the Eighth Replenishment period.

The fact that the Bank is the only organization to have successfully consummated a capital replenishment exercise conceived at a time of widespread scarcity of multilateral funding is positive proof of its solid performance. It bespeaks as well the increasing favor with which our region is regarded within the international community.

In this context, the Bank has a dual role to play. As well as furthering and contributing to the modernization process throughout the region, it is a positive and visible manifestation of the economic potential of Latin America and the Caribbean. A multilateral agency with broad-based participation, the Bank retains an essentially Latin American soul, a feature that is vitally important to us. The Bank's $7.2 billion in loan approvals and disbursements on the order of $4.5 billion attest eloquently to its role in fostering development in our region.

Worthy of special mention is the Bank's commitment, in tandem with its Eighth Replenishment, to expedite fast-disbursing loans as a valuable means of tempering the impact of the adjustment and reform programs now under way.

As we well know, the countries that have embarked upon adjustment programs—indeed, most of the countries in the region—are having to contend with budget constraints that are curtailing their investment plans. In these circumstances, the role of multilateral financing and development agencies is more important than ever.

We must recognize the uniqueness of these circumstances and the need for these agencies to come up with innovative avenues of action—through a more flexible mix of financing for conventional projects, for instance, whereby local counterpart contributions could be lowered. These could be exceptional measures, to remain in effect for specific intervals, in line with the intensity of adjustment efforts.

I would also note the importance of improving the performance of the Bank's portfolio. There are two critical stages in the financing process: the preparation phase, in which experience has shown that simpler projects with fewer externalities tend to be more successful; and the monitoring phase, for which the strengthening of our Country Offices is essential. In this connection, I would like to express our support for the IDB's recent proposals to expand the sphere of action of its offices in the different countries, and our satisfaction with the work being done by the Brazil Country Office. Now that the volume of loan capital available has been increased significantly, we must also enhance the Bank's technical and administrative capabilities, so the project preparation, approval and monitoring process will not be impeded.

As Brazil rethinks the role of the State, its government is closely watching initiatives
in support of the private sector. In this connection, I would mention three major institutional avenues that the Bank has opened up.

First, the Bank has implemented its program of lending to the private sector without sovereign guarantees. The five loans approved in 1995, totaling $146 million, accounted for 2 percent of total Bank commitments that year. Although this is well below the 5 percent ceiling envisaged for the program, we are confident that this portfolio will increase steadily.

Second, I would draw your attention to the efforts by the Inter-American Investment Corporation to strengthen its financial showing, which are already bearing fruit. Broadening the Corporation’s operating structure and capitalization alternatives played a decisive part in placing it on a firm financial footing. It is also important to give small and medium-sized enterprises access to Corporation financing, and increasing its capital will assuredly facilitate this process.

Lastly, I would like to announce that Brazil is now formally a member of the Multilateral Investment Fund, having deposited the first promissory note in February of this year. In so doing we have forged an even stronger partnership with the countries that seek to bolster private investment in Latin America and the Caribbean.

With respect to the concessional resources of the Fund for Special Operations, I would note our concern that we are again facing the problem of insufficient resources so soon after a major replenishment. Loans approved during the first two years have taken up 60 percent of the funding envisaged for the entire four-year period. Before looking at alternatives for supplementing FSO resources for the period, it would be well to undertake an in-depth analysis of portfolio performance.

We believe that the alternative of transferring net income from the ordinary capital to add to the FSO should be viewed with caution. The existence of net income on ordinary capital operations suggests that the financial terms of loans could be adjusted in the borrowers’ favor by narrowing the lending spread or by waiving interest charges. Seeking a direct solution to the issue of concessional resources would seem a more appropriate course. The ordinary capital borrowers—countries that require multilateral development funding—should not alone bear the brunt of measures to make up the shortfall in concessional funds.

This meeting is taking place at an important juncture in our region. Over the past year, external events have necessitated the swift adoption of drastic economic policy measures. Country responses varied according to the degree of maturity of their adjustment, stabilization and reform efforts, most of them launched in the course of the past decade.

The most important development in the Brazilian economy since last year’s annual meeting in Jerusalem has undoubtedly been the consolidation of the stabilization program. The underpinnings of the program date back to mid-1993, when our current President, Fernando Henrique Cardoso, became Minister of Finance.

Cumulative inflation in 1995, measured by the consumer price index, stood at 15 percent, compared with the 5,013 percent posted in the 12-month period preceding the institution of the “Real” Plan.

Along with stabilization, the average rate of economic growth in 1995 remained satisfactory at close to 4.2 percent, while GDP for the region overall (not including Brazil) declined by 1 percent. Over the past three years, our nation’s per capita GDP rose by over 9 percent, while the rate of investment (at constant prices) increased by 23 percent—from
13.5 percent to 16.6 percent of GDP between 1992 and the first half of 1995. At the same time, the efficiency of the economy improved: in industry alone, productivity gains of 25 percent were posted between 1991 and 1995.

Stabilization and growth had extremely positive impacts in the social sphere: between September 1994 and September 1995, the real income of the population in the lowest brackets rose by 30 percent. The increase in income in those groups totaled the equivalent of 7.3 billion reais, stemming mainly from the curbing of inflation.

We are forecasting 1996 growth rates echoing the 1995 figures, and we expect that annual inflation will continue to decline, nearing the single digits.

This year, we will continue to address problems in the financial system, the external sector, fiscal policy and in economic indexing practices. All but the latter will hinge largely on the success of the stabilization process.

The difficulties in the financial system can be attributed to two factors: the curbing of inflation and ensuing elimination of gains from floating, and higher interest rates, which drove up nonperforming portfolios.

The aim of higher interest rates was to check too-rapid growth in the economy in the wake of rising consumer purchasing power, more promising business prospects, and the growing trend toward private sector borrowing as a result of failing nominal interest rates.

A number of banks have therefore found themselves in difficulty, and the Central Bank has had to intervene to find solutions on a case-by-case basis in an effort to prevent the crisis from spreading. Legislative changes introduced to this end have broadened the powers of the monetary authorities to perform precautionary investigations of the status of each bank. At the same time, bank shareholders are now considered jointly responsible for commitments assumed by the banks and for any mismanagement on the part of bank executives.

On the external front, Brazil was able to maintain a reasonable trade balance, forecast for this year, despite the dynamic growth of the economy, lower tariffs, the elimination of import controls, and appreciation of the local currency against the dollar. It should be emphasized that Brazil has readily secured the external credit it has needed. Indeed, in 1995 its reserves rose by some $13 billion to level off at $51.8 billion.

The third macroeconomic problem, the public sector deficit, has to do with the early effects of price stabilization on the three levels of government. Essentially, the problem came about because of the effect of declining inflation on the real value of already committed nominal expenditures, particularly public sector payrolls and social benefits. It is easy to understand why this effect can be looked at as a “once and for all” phenomenon.

A further factor contributing to the deficit was interest payments, as the average real rate for government securities reached 33 percent, for the reasons I outlined earlier.

In 1995, the federal government took important steps to contain the public deficit, cutting budgetary expenditures by close to $13 billion, nearly 10 percent of the total. The current expenditures of federal state enterprises were pared by $4 billion. That sector, which traditionally operates at a loss, closed the year with an operating surplus. This year, the government is taking measures designed to:

• Contain payroll expenses;
• Avert a nominal increase in other budgetary expenditures;
• Bring down domestic interest rates sharply to reduce the cost of servicing domestic public debt; and
• Encourage the state governments to adjust their finances, requiring as a condition for refinancing of their debt that they make a formal commitment to fiscal restraint. The states and local governments accounted for two-thirds of the public deficit in 1995.

Lastly, the government has been taking steps to eliminate economic indexing practices which, after 15 years of hyperinflation, were so widespread as to have become a cultural pattern. Indexing was eliminated from exchange rates, public utility prices, taxes and wage legislation. This did not completely do away with monetary correction, but in a setting of low inflation, it considerably weakened the practice.

The condition of stability with economic efficiency and development calls for medium- and long-range reforms that constitute essential goals for our government’s action in concert with the Congress. The first such reform involves the workings of government. Its aim is to downsize the three levels of government and make them work more effectively (“less fat and more muscle,” as Prebisch would say).

The second will revamp the social security system, to ensure its lasting financial integrity and help boost domestic savings.

The third reform concerns the tax system, and is designed to exempt exports, capital goods and agricultural inputs.

The fourth reform, which is still being discussed and developed, will liberalize labor relations.

And a fifth set of reforms, passed by the Congress last year, will do away with the constitutional monopoly of the State petroleum and telecommunications enterprises and the discriminatory treatment of foreign capital. A government bill on patents and industrial property was recently approved by the Congress. All of these changes will stimulate private investment and revitalize the delivery of public services.

Privatization efforts in Brazil have kept pace with, or surpassed, those of other countries. At a first phase, lasting from 1992 to 1996, 43 enterprises were privatized, largely in the petrochemical and iron and steel industries, providing $14 billion to the Treasury. We have now embarked on the second phase, in which the primary objective is to seek private sector involvement in public service concessions.

On March 5, the first steps toward privatization of the federal railroad were taken. The railroad has been divided into six packages to be put out to tender, most of them this year. Privatization efforts have also begun in the transportation sector, with the transfer to private hands of a concession to operate the most famous bridge in Brazil, linking Rio de Janeiro to Niteroi. Responsibility for administration of the nation’s major highway—Via Dutra, connecting Sao Paulo and Rio de Janeiro—was likewise recently transferred to the private sector.

The privatization program also encompasses enterprises that do not provide public services and were not included in the national program for transfer from State ownership before President Fernando Henrique Cardoso took office. Among enterprises recently added to the program is the Companhia Vale do Rio Doce (CVRD), the price of which will be announced in the third quarter. CVRD is the largest exporter of iron ore in the world, and is also a major producer of gold, cellulose and aluminum, and owns over 1,000 kilometers of railroads. We are in the process of issuing a decree setting forth the specifications for privatization of a federal bank, Banco Meridional. After the amendments to the Constitution, the government is drafting regulations to privatize the telecommunications industry and allow private business to take a stake in the oil and gas industry.
I am pleased, once again, to have had an opportunity to offer the Bank's Board of Governors an account of the state of the Brazilian economy. On balance, the situation is positive: better than yesterday, and promising to be even better tomorrow.

Case studies of economic policy traditionally stress that success depends on an accurate diagnosis, the proper prescriptions, use of the right instruments, and certitude and determination on the government's part. Brazil's confidence in its future is not, however, based solely on this textbook sequence, however accurate it may be. It stems as well from the tremendous political will of the government and the forces that comprise it, from the social support structure that has prevailed, and from the clear ground rules of democracy which afford the country its political stability.
Address by Mr. Kosuke Nakahira, Temporary Alternate Governor for Japan and Special Advisor to the Minister of Finance

It is a great pleasure for me to address the Thirty-seventh Annual Meeting of the Inter-American Development Bank and the Eleventh 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 Argentina and the people of Buenos Aires, for their generous hospitality.

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

The Latin American and Caribbean Economies

I would like to begin by taking a quick glance at the economic situation and issues that the region faced in 1995. It was a year of trials for some of the Latin American and Caribbean economies. The crisis of the Mexican foreign exchange and financial markets in late 1994 and early 1995 instantly sent shock waves through the region, and affected the economic activities, in particular, of Mexico and Argentina. Their strenuous efforts, however, together with the international response, narrowly succeeded in restoring confidence in the market, and in preventing the spread of the financial crisis to the rest of the region. Today, the Latin American and Caribbean economies enjoy brighter prospects for 1996.

In retrospect, two factors were important: determined efforts by the governments concerned to stabilize the economy at all costs and restore confidence on the one hand, and timely international cooperation on the other. Efforts by the international financial institutions including the IDB to stabilize the financial markets have played a significant role in containing the problem.

Lessons for the Latin American and Caribbean Economies

To maintain sustainable growth in the years ahead, we must all learn lessons from the recent incident, lessons for the Latin American and Caribbean economies as well as the IDB and the international financial community.

I would like to start with the lessons for the emerging economies in the region.

First, the importance of the stability of capital inflows. There is no question that foreign capital inflows are essential to strong economic growth in these countries. What should be questioned, however, is the type of foreign capital to be attracted. Stable and long-term inflows, such as direct investment, are desired, and the excessive reliance on those of an unstable and short-term nature should be avoided. A government must pay greater attention from this standpoint to the nation’s debt management. What will be needed in this context is to improve the climate for direct investment from abroad. Necessary measures will range from improvement in legal and tax systems to enhancement of the quality of labor.
Second, the need for sustainable balance of payments and sound economic policies. Changes in the international balance of payments, notably current balance and foreign exchange reserves, must be watched carefully. For a sustainable current account, sound macroeconomic policies are indispensable. Efforts must be made to nurture export-oriented industries and to improve the quality and the capacity of domestic industries.

Third, the importance of domestic savings. They should play the central role in providing needed capital for economic development. For that, improving the environment for domestic savings by nurturing sound financial institutions will be essential. Continued containment of inflation will also add to the improved confidence in national currencies.

Fourth, the need for a sound and strong fiscal position. In this context, establishing fair tax systems, on the one hand, and making the tax authorities more efficient, on the other, will be essential. It will ensure stable tax revenues and give governments greater flexibility to tackle sudden changes in economic circumstances.

Looking back on the difficult experience of last year, I cannot help but hope that it will not discourage the region’s efforts to promote market-oriented economic reforms. The reforms supported by the Bank which followed the debt crisis of the 1980s have indeed increased the risk management capacity of these nations. I would like to stress that for continued, sustainable growth, this momentum must never be reversed.

Lessons for the Bank

Alongside the efforts by the Latin American and Caribbean economies, the Bank is also expected to play a greater catalytic role in promoting private direct investment in the region by making the most of the high credit it has earned in the international financial market. Given the pump-priming role, the Bank’s Private Sector Department, in particular, is expected to play a more active role in bringing private capital to economic infrastructure. Reinforced activities of the Private Sector Department will be welcome in this regard.

In addition, the role of the Multilateral Investment Fund will also be important in promoting private direct investment by improving the region’s investment environment. To be specific, I would like to see the MIF implement corporate needs-oriented training programs and select model cases for privatization, in collaboration with the IIC and the Private Sector Department of the Bank.

Lessons for the International Community

Let us consider briefly the lessons to be learned by the international community. The liquidity crisis of the Mexican type must be addressed promptly and internationally. A fire, when it breaks out, must be extinguished at once by all means necessary. To help contain the recent crisis, Japan took an active part in international efforts by participating in loans through the Bank for International Settlements and by strongly supporting the IMF’s emergency lending. To allow us to be fully prepared for possible future crises, however, the international framework must be reinforced.

It is to this end that Japan strongly supported the establishment of the Emergency Financing Mechanism (EFM) in the IMF and an increase in the amount available under the General Arrangements to Borrow (GAB), both of which were agreed upon at the In-
terim Committee Meeting last fall. Japan would like to see that these be implemented at the earliest possible stage.

Japan’s Policy on Development Financing

Fifty years have passed since the end of World War II, and there are only a few more years before we celebrate the new millennium. For the entire international community, it is time to review the true need of development finance. The role of the multilateral development banks is being reviewed by the Development Committee Task Force. Development finance was one of the major items on the agenda at the Halifax Summit last year. Let me offer our views on this subject.

First, our views on the priorities in development finance policy. In recent years, developing economies as a whole have achieved relatively high economic growth. However, there are important tasks to be addressed. Economic development should be accompanied by greater environmental considerations. More investment should be made in social sectors such as education and health services. At the same time, the growth should not be hampered by poor economic infrastructure such as transportation, power and telecommunications. The urgent need for economic infrastructure investment must be recognized. A balanced approach to both the social sector as well as the infrastructure development will, in our view, be essential to long-term sustainable growth.

Poverty is another area that we must continue to address. Measures designed directly to reduce poverty are of course important. But at the same time, we believe that ensuring growth itself will be indispensable to poverty reduction in the long run. Economic infrastructure development is considered essential also in this regard.

In terms of the flow of development capital, private capital flows to developing economies have expanded in recent years. What is important is to maintain this momentum. But it will require attractive circumstances for private investment, that is to say, improved economic infrastructure. This is where financing from official sources can play a significant role. Official financing will be indispensable to building basic economic infrastructure. Thus, it is hoped that a good combination of financing from both private capital and official resources will be achieved according to the differing economic background of each country.

Finally, let me now touch upon the relationship between the World Bank and the regional development banks. We must not forget that there are always two aspects of issues related to development: one can better be addressed on an international scale; the other is of a more regional nature rooted in the local culture and social characteristics.

An effective as well as efficient relationship between the World Bank and regional development banks, therefore, will be to complement each other, while capitalizing on the relative advantages of their own.

Three decades ago, when I personally took part in an international effort to establish the Asian Development Bank, we learned a lot from the IDB as our exemplary model. Since its establishment, the Asian Development Bank has also made a significant contribution to bolstering the economic progress in Asia, reminding me of the important role a regional development bank should play. The regional development banks have dealt effectively with development tasks which vary by country and region. In this respect, we highly appreciate the fact that the IDB has offered a useful model by attaching great importance
to having close relationships with each country and the region, through frequent dialogue with member countries and through activities of the Country Offices.

Activities by the Bank and the Corporation

In response to the financial developments in Mexico in January and the subsequent instability in the financial markets, 1995 saw a substantial increase in structural adjustment lending to the affected countries. As we all know, the prompt, decisive action by the Bank proved truly effective in containing the crisis in a short span of time.

In order to cope with unexpected economic turbulence, structural adjustment lending is the most useful means the Bank can rely on, and thus needs to be executed promptly and properly so that damage can be minimized.

Another important task for the Bank’s lending is to benefit small member countries. Further efforts should be made for the greater use of cofinancing to category A and B countries, while diversifying cofinancing partners. This will allow greater resources for lending to category C and D countries.

For sustainable growth in the Latin American and Caribbean region, the role of the private sector is essential. In this regard, the IIC should play an increasingly important role. And I join you in hoping that the IIC will take full advantage of its increased financial resources resulting from the 1995 amendment to the IIC agreement.

Opening of the IDB Office in Japan

In recent years, the relationship has been strengthened between the IDB and Japan. In 1995 that relationship took another significant step forward, as September marked the opening of the IDB office in Japan. To commemorate the occasion, seminars and other events were held in Tokyo.

Complementing our relations with the Latin American and Caribbean countries through their embassies in Tokyo, the IDB office in Japan to these existing channels symbolizes the beginning of a new relationship that will carry us into the next century. By disseminating information on the economic activities in the region and holding seminars and other activities, the IDB office in Japan will, I am sure, make a significant contribution to bringing our nations closer, and result in promoting direct investment from Japan.

I trust that the IDB office in Japan will serve as an interlocutor for the mutual exchange of development ideas and know-how between the Latin American and Caribbean region and Asia. Such sharing of wisdom will also help deepen the relationship between these two growth centers of the world.

Support from Japan

I would also like to touch upon Japan’s support of the economies in the Latin American and Caribbean region as well as its contribution to the Bank and the Corporation.

For its part, Japan has continued to make active efforts to support economic development in the region by contributing to the stable flow of official financing to these economies.

Since the beginning of the 1990s, Japan has been one of the largest providers of official development assistance (ODA) to the Latin American and Caribbean economies.
Japan's active support for this region is also seen in the series of untied loans provided through the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund. In 1995 Japan cofinanced operations with the IDB to provide the region with loans amounting to $318 million, and together, the total official lending to this region last year amounted to $1.85 billion.

With regard to the Eighth Replenishment, Japan has subscribed 11 percent of the total increase in the ordinary capital and contributed 40 percent to the Fund for Special Operations increase.

In addition to these subscriptions and contributions to the Bank, our assistance to bolster social and economic progress in the region ranges from the Japan Special Fund and the Japan-IDB Graduate Scholarship Program to the Japanese Consultants Fund.

Beyond such financial contributions, Japan also hopes to make a further intellectual contribution by having more Japanese personnel working at these international institutions. In this regard, we welcome the reinstatement of the Bank's Junior Professional Program that will encourage the young talent of Japan to come forward and join the Bank.

Conclusion

As I mentioned at the beginning, 1995 was a year of trials for the Latin American and Caribbean economies. The capacity to manage risks was tested. However, the determined efforts of all concerned helped to contain the risk. While learning from this experience, I trust that the Latin American and Caribbean countries will continue their efforts for sound economic policy and economic reforms, and ensure sustainable growth into the next century.

Today, this region is undoubtedly one of the growth centers of the world. Its progress is no longer a matter of regional concern alone. It is a matter of great interest to the rest of the world as well. The Bank will continue to play a pivotal role in bolstering progress in this region.

I would like to conclude by promising that Japan will continue to actively support the activities of the Bank and the Corporation so that we can continue to be a good partner for the social as well as economic progress in this region.
Address by Mr. Klaus-Jürgen Hedrich, Governor for Germany and Parliamentary State Secretary, Federal Ministry of Economic Cooperation and Development

Please let me express on behalf of my delegation my heartfelt thanks to the Argentine government for the invitation to come to Buenos Aires. We would like to thank the city of Buenos Aires and its population for the warm hospitality we have received here.

Germany noted with great relief that it has been possible to overcome, through the combination of forces and with the effective support of such organizations as the IDB, the financial crisis in Latin America which had come about in late 1994 through the devaluation of the Mexican peso. The Latin American countries have dealt with the crisis remarkably well, so there has been no turbulence such as that experienced in 1982. On the whole, the positive trend in Latin America and the Caribbean for the last five years continues. However, the Mexican crisis demonstrated once more the risks entailed by a growing current account deficit and excessive dependence on foreign portfolio investments that are callable on short notice. These risks can only be mastered in the long run if there is increased coherence in the economic and fiscal policy instruments that are being used.

The IDB has contributed significantly to the region's economic and social upswing. It has been the major finance institution for the last several years. I would like to take this occasion to express my great admiration for President Iglesias and his dedicated staff for their successful work. All the same, much remains to be done in order to create a better future for a growing number of people. Administrative and legal obstacles often impede creative private and social initiatives; the gap between poverty and wealth is much too wide in most countries, especially in Latin America. The IDB thus continues to be called upon to live up to its particular responsibility to the region, to work closely with its government and nongovernmental partners.

I do not share the view that the lending ratio of 65:35 percent for A/B and C/D country groups, respectively, must be fundamentally reviewed. However, this does not exclude a redefinition. For instance, policy lending might be excluded if it does not lead to disadvantages for smaller, poorer countries in terms of lending volume. The IDB as a development institution has a special responsibility towards this particular group. Enhanced efforts are needed in order to counteract the expected lack of concessionary funds. We all know that a further replenishment of the Fund for Special Operations is out of the question. However, preparations should be made to ensure that there will be no problems regarding credit volume for the poorest D countries in 1997. I am thinking, for example, of a partial utilization of the Bank's net profit, maybe by way of an expanded Intermediate Financing Facility and more cofinancings on the part of members who are still borrowers of the Bank but also potential donors due to their economic strength. In all this, the limits to recipient countries' absorptive capacity must be kept in mind.

Poverty reduction in the region remains the foremost task. The target figures laid down at Guadalajara should be maintained. They need not be reached every year, but should be realized within a foreseeable period. The latest Bank document points out that economic growth alone, which is an important prerequisite, does not suffice. Government measures addressing the roots of the problems are an investment in the future of a country.
The share of the total lending volume spent on sector adjustment lending was very high—more than twice the share envisaged by the governors in the Eighth Replenishment. It is my view, however, that the target figure of 15 percent should not be raised, since the target rate was exceeded mainly because of the special circumstances caused by the Mexican crisis and can be expected to normalize again. I think it is important to continue to have the Bank focus not on balance of payments support but on investment measures in, for instance, infrastructure or social sectors.

Let me add here that Germany is supporting the same goals and priorities not only in the Bank but also in its bilateral cooperation with Latin American partners. The new Latin America Concept adopted by the German government in mid-1995 sets out four focal areas for our cooperation with Latin America, which are closely interrelated:

- Reduction of extreme poverty;
- Improvement of economic potential and competitiveness;
- Establishment of an effective and more open education system;
- New economic opportunities for the poor majority of the population;
- Conservation of natural resources.

I would like to stress one other aspect of German cooperation with Latin America. The German government does not intend to withdraw from Latin America's newly industrializing countries to concentrate exclusively on the poorest countries. On the contrary, we intend to intensify our contacts with newly industrializing countries and increase our focus on Latin America.

If I stress our intention to expand cooperation with newly industrializing countries, that does, however, not contradict another goal we are pursuing, namely, a stronger involvement of the newly industrializing countries in the responsibility for international development. When I visited Asia recently I talked to potential new donors. This initiative had a very promising start there, and I cannot think of any reasons why it should not be successful in Latin America as well, especially as some Latin American countries have already taken steps in this direction. I am thinking, for instance, of the accession of Argentina and Brazil to the African Development Bank and the African Development Fund.

Please allow me a few remarks on the IIC. Having expanded its own borrowing possibilities and having seen the accession of further members and the expansion of the number of companies eligible for credit, the IIC is well on its way to developing a new profile. I am confident that the IIC will thus in the future be able to make a significant contribution to the promotion of economic activities in the region, even though thought should be given to a capital increase. Again, there would be ways for new donors in the region to contribute.

I am pleased to inform you that the Federal Banking Supervisory Office has issued an announcement to the credit institutions authorized under the German Banking Act that, effective February 23, 1996, the IIC was added to the list of Multilateral Development Banks, benefiting from the capital adequacy rate of 20 percent.

To wind up my contribution, I am happy to be able to inform you that the German government is currently preparing Germany's final accession to the Multilateral Investment Fund. The aims of the Fund are exactly in line with our key activities in Latin America, and the Fund has done convincing work. We also believe that we have gained experience in other regions that might be helpful for Latin America.
Please let me conclude by expressing my heartfelt thanks to former Board of Governors Chairman Frenkel for his excellent work. Even though the Middle East peace process in Israel absorbed much energy, he continued to be committed unrelentingly to Latin America, especially when the Bank needed support in dealing with the Mexican crisis.
Address by Mr. Javier Gómez-Navarro, Governor for Spain and Minister for Trade and Tourism

It is a great pleasure for me to address you today on the occasion of our annual meeting, to review the most important events of the past year and to share some of our views as to future courses of action.

The year 1995, of which we are taking stock at this gathering, has been a trial for Ibero-America and the Caribbean and therefore also for our Bank. A number of nations in the region went through a serious economic and financial crisis, which I will not recount here, shaking the faith of economic agents and posing daunting challenges for country authorities.

The toll that this process has taken on the macroeconomic front is very evident in some countries that are now emerging from the ordeal, particularly in terms of growth and investor confidence. I nevertheless believe that these events should essentially be viewed as shocks; if we view the issue from that standpoint, we can draw one main lesson, and it is a comforting one: this situation was not triggered by the failure of economic policies being pursued by the countries. To the contrary, it was precisely these liberalization policies that made possible a suitable and timely response to the shock.

In addition to this certainty that countries need to persevere with sound fiscal and monetary policies, I should like to underscore the efforts of the international institutions that played a role here. Prominent among them is the Inter-American Development Bank, which early on took up the cause of restoring calm to markets and economic agents, bringing to bear in the process the full weight of its prestige and its funding capabilities.

The Bank thus posted its highest lending level ever, surpassing yet again last year the volume of World Bank lending to the region.

The outcome of these events has been a positive one, and we may well be elated. The Bank has gained experience, it has afforded support to the borrowing countries when they needed it, and it has worked effectively with other multilateral organizations, even though these efforts were not a part of our objectives or the associated lending program and brought about certain distortions, to which I shall return in a moment. The Bank’s support will continue to be needed throughout 1996, which some are already describing as a period of fragile economic recovery. The challenges and dangers are still present, and to help the countries attend to new demands, the Bank will have to deploy the instruments and facilities with which we have been endowing it.

Other noteworthy achievements last year were the healthy pace of disbursements and positive net Bank transfers to the less developed borrowing countries, thereby remedying a weak point to which we had drawn attention in earlier years.

The process worked out by the governors at the annual meeting in Guadalajara has finally been consummated, and we are now fully immersed in the Eighth Replenishment dynamic. I would like to touch briefly here on some of the Replenishment objectives, to look at what we have achieved to date.

If there is one keynote, one truly defining feature of the Eighth Replenishment, it is its eminently social thrust and the goal of reducing poverty. The management of the Bank, with its President at the helm, have swiftly and resolutely geared the project pipeline
toward the social sectors, and more specifically toward poverty reduction and poverty alleviation. Major strides also have been made in drawing up strategy papers and in activities targeting specific groups such as indigenous peoples, women and microentrepreneurs. But much remains to be done: on the theoretical front, sector-specific strategies need to be framed; on the practical front, information on successful ventures needs to be compiled and circulated; and on the operations front, more refined evaluation methodologies need to be devised to gauge the impact of these programs.

The Bank is being called upon to perform these tasks both in its traditional spheres of activity and in others which are by no means entirely new but are being approached from a different angle. One example of the latter is urban development, which has become acutely important in the region, with its staggering statistics of urban and suburban polarization. Again, this is not a new field for the Bank, which has, since its earliest days, funded so many sanitation and water supply projects that it came to be called “the city Bank.” Today, however, the needs are different, so the Bank must rethink its approaches as well.

The Bank is uniquely placed to take on initiatives of this nature, which afford genuine elements of sustainable development and poverty alleviation, because it is familiar with conditions and realities in the different countries and is in continual dialogue with stakeholders. We therefore endorse without reservation the institution’s efforts in this sphere.

A few decades ago, it was common for country strategies to pursue growth at all costs, but this has not been the case for some years now. Country authorities and external donors alike have come to understand that the distribution of income and wealth are imperative as objectives. This is so not merely for moral or domestic security reasons; the issue goes to the heart of the efficiency of the economic system itself, as has been demonstrated by a number of recent analyses that signal a clear correlation between emerging countries with high growth rates and those that are according priority to education, health care, and other basic social services with an eminently distributional bent.

Europeans visiting Ibero-America are struck not only by slow economic growth rates but by the general problem of distribution of wealth, which has yet to be resolved in the region.

Another increasingly important area is modernization of the State and the strengthening of civil society. The general strategic framework for this area has now been defined, and steps have been taken to institute concrete programs in the area of legislative and judicial reform in a number of countries. Spain is closely watching these initiatives unfold and is providing technical support and co financing, in the case for instance of a program for the judicial branch in Paraguay, which we hope to see approved shortly. We are also examining other operations for which we believe our experience could prove useful; these are ventures requiring soft funding, which are so novel and innately complex that they have to date not come in for adequate attention from donor countries or institutions.

Another area warranting special emphasis is the modernization and strengthening of tax systems in the less developed member countries. It is very hard to explain to our middle classes why their taxes should be helping to further the development of countries whose own middle class is not contributing its share to resolve their nation’s problems.

By contrast, the new private sector facility is an innovation that has aroused great expectations. The Bank has moved swiftly, approving in a very short space of time a number of operations that I hope will prove successful in fulfilling the promise of this facility. Nevertheless, we would prefer to see the quantitative limits remain in place, at least until a few years of experience have given us the necessary perspective for an assessment.
As I remarked earlier, by virtue of action taken by the Bank to help contend with certain unforeseen crises in this first year of the Eighth Replenishment, there was considerable deviation from the objectives set for the period. It is only natural that some such departures will be necessary in the face of changing needs, but for the time being, these should be viewed as a response to a specific juncture. I do not believe we have reached a point at which we ought to question ratios, since the ones we set for ourselves were meant to encompass a long period of time. Instead, we should monitor potential new demands for fast-disbursing loans in order to return to the established ceilings for the Replenishment period in its entirety. Otherwise, we risk turning away from the essence of this development bank, and making for an anomalous apportionment of lending between the Group A and B countries on the one hand and Group C and D countries on the other. This country-group distribution, in any event, was not an arbitrary apportionment, but rather a means of safeguarding harmony between borrowing member countries and equitable Bank attention to the different groups. Along these same lines, we are awaiting a plan of action to help the less developed countries to promote, present, secure approval of and execute their projects, and thereby help balance out the relative benefits.

One final element in this regard is the social and poverty-targeting objectives quantified in the Replenishment, with which current projects, to judge from the projections, will be in line.

I shall now turn to the question of availability of concessional resources. We have been surprised to see that these funds have been used so heavily and so much more quickly than had been anticipated. This situation, exacerbated by the debt levels of some countries that are limiting their access to ordinary capital, would seem to me to warrant a meeting of the Committee of the Board of Governors to examine the problem as a whole and come up with proposals. It would be well to include in such deliberations the question of the future of the Intermediate Financing Facility, which offers far more potential than has been tapped to date, and which could be extremely fruitful if its current menu of options were more flexible.

The demand for concessional resources is a delicate issue, but a number of formulas can be examined. As-yet unconfirmed supplemental contributions to the Eighth Replenishment, or annual transfers of a portion of the Bank’s net income, would be welcome manifestations of intraregional solidarity. Other equally effective formulas, perhaps more likely to be within the reach of the donor countries, might be an increase in bilateral technical aid funding or cofinancing ventures with the Bank on concessional terms. Spain has pursued efforts along these lines in 1995, with the approval of technical cooperation funding for urban renewal, climate studies, electric power interconnection, and reform of the State.

In 1996, we hope to see the Inter-American Investment Corporation consolidate the internal changes it has instituted and carry through a strong program of operations. We welcome the possible enlargement of the Corporation’s membership base. Requests for admission to an organization are in themselves a clear sign of its vitality; the changes we introduced in the Corporation had precisely this aim in mind.

The showing of the other IDB Group arm, the Multilateral Investment Fund, was somewhat modest in quantitative terms, confirming something I brought up at our last meeting: the need to equip the MIF with instruments that reflect what it offers that the Bank, its administrator, does not. We hope that changes introduced in the budget this year will go some way to alleviate the difficulties in this regard.
This comment is by no means intended to obscure the very real merits of the MIF. It is handling an impressively varied portfolio of innovative projects, and I would expressly commend its manager and staff for their work. It has approved, among other interesting operations, projects for venture capital funds, business cooperation and training, to complement the gains already made in the area of regulatory reform. In sum, the MIF has a wide range of projects in its current portfolio, and we hope to see them materialize at a healthy pace.

Still on the subject of the MIF, I would like to make mention of a surprising recent development. The majority donors have received unexpectedly a request for admission to the MIF from a large donor country with a contribution of barely half the commitment of the Group A regional countries, and have approved it. Such a contribution is in our estimation not commensurate with the level of commitment and presence that could be expected of Canada in this institution. This decision should, I submit, be construed as a first step, to be followed by others, so that a major country like Canada will ultimately take its due place. As matters stand, we have been unable to second this initiative as would have been our wish; we hope that at the next meeting we can welcome with others the admission of this country as a major donor.

In closing, I would like to express my appreciation to the city of Buenos Aires and the organizers of this forum for the very warm welcome extended to us, and for the excellent work that has gone into all of the sessions and events staged here this year. As you know, Barcelona will be hosting the 1997 meeting, so we have been taking careful note of these organizational feats. We look forward to welcoming you to our country next year, and trust that the Barcelona meeting will be as fruitful in every way as this gathering has been for all of us.
First of all, allow me to join previous speakers in extending my sincere thanks to the Government of Argentina and the City of Buenos Aires for their warm and much appreciated hospitality, and for the excellent arrangements provided for this annual meeting.

The financial shocks in the beginning of 1995 were a reminder that Latin American economies are volatile. The crisis challenged the Bank to demonstrate its value to the region in helping to stabilize the situation. The Bank—in cooperation with the World Bank and the IMF—met the challenge in a convincing and prudent way. It must now follow up the crisis management. It must assist the countries of the region in strengthening their institutions and policies to improve their capability to prevent and cope with financial turbulence.

The main priority of the Bank must remain a sustained development approach focusing on poverty reduction. Merely stating this goal does not suffice. The working approach of the Bank must become clearly pro-poor.

The pattern of growth is critical. The pattern of growth must focus on the distribution of growth among income groups. It must give priority to labor-intensive growth that promotes job generation in agriculture, the informal sector and among small-scale enterprises; to land reforms leading to access to land; to micro credits; to rural infrastructure; and, not least, to investment in women.

Women constitute a large and growing part of the poor. But women must not be looked at merely as a vulnerable group. Women are a tremendous and indispensable potential resource for development. Profound and radical changes in the existing socioeconomic structures are required to ensure the release of this potential. Women's access to credit, land, education, health services and political influence is generally too limited. One message from the Copenhagen Social Summit, and from the World Conference on Women in Beijing, was the need for gender specific planning and for implementation of development strategies.

Progress in incorporating gender issues at the programming stage has not been satisfactory. The number of mainstream Bank projects where gender issues have been specifically addressed declined in 1995. The Bank's resources aimed at mainstreaming gender issues must be considerably enhanced. This is true at the central WID unit, in the operational departments, and at the level of the Country Offices. The Bank must be more persistent in its own commitment to address women in development and in working to ensure commitment from the borrowing countries.

An indicator of the Bank's focus on poverty reduction is the 35 percent target for lending to countries in Groups C and D. In working towards achieving this target, all members of the Bank should remember that the generation of multilateral concessional funds is a joint effort. It is not an effort for the few, but an effort for the many, regional as well as nonregional.

Economic growth is a fundamental basis for social progress. But social progress will not be realized simply through the free interaction of market forces. Any proposed policy or investment package must be formulated in light of country-specific analysis of its impact on
poverty reduction. Governments must establish poverty reduction strategies, preferably in
collaboration with the Bank and other donors. The Bank’s level of lending should be directly
influenced by the countries’ ability and commitment to adhere to such strategies.

Poverty reduction must be a more visible objective for Bank programs and lending. Continuous monitoring is needed. Clear targets for poverty reduction that can be moni-
tored must be established. Such benchmarks should be standardized and used by the Bank.

I welcome the Bank’s focus on actions for social reform, social equity and poverty re-
duction. The challenge is great. All efforts must be undertaken to ensure concrete results.

This was also the message from the Social Summit in Copenhagen. New and innova-
tive approaches are necessary. Denmark stands ready to assist the Bank in developing
such approaches.

Governments increasingly focus on acting as catalysts and regulators of development,
rather than on dominating economic transactions and services. The private sector is being
couraged to play an expanding role in development. In this process, businesses and
enterprises must assume social coresponsibility. The Bank’s private sector operations should
aim to facilitate this through a more poverty-oriented approach. We note with satisfaction
the strengthened cooperation and coordination between the private sector window, the IIC
and the MIF to achieve greater development impact.

The improvements in the performance of the IIC have been quite remarkable. Its re-
vised charter and renewed focus on development will help the Corporation expand its
important role to support small and medium-scale enterprises. Denmark has decided to
accede to the Corporation. We look forward to contributing further to the development of
the region through our membership of the IIC.

Under the able leadership of President Iglesias, the IDB has been very successful in
consolidating its position as the leading development institution in the region. Financially
the Bank is strong. With its new structure in place, it is ready to break new boundaries in
pursuing its main challenge: eradication of poverty.

I wish to assure the Bank and President Iglesias of Denmark’s continued support in
this quest.
In thanking the Argentinean Government and the local authorities for their warm hospitality and the excellent organization of this event, I wish to express my pleasure at being in the beautiful city of Buenos Aires, particularly dear to us Italians due to our historical and cultural links. A number of speakers have already stressed the strong economic program adopted by the Argentinean government in order to respond swiftly to the effects of the recent financial crisis. Sound macroeconomic policies and renewed efforts for structural reforms should ensure stable growth and economic and social development.

Some positive results have already been achieved but difficult problems remain to be solved in Argentina as well as in other countries in the region.

A remarkable recovery is under way in most of the region’s countries. However, the Mexican crisis, which put to the test the recent economic reforms in Latin America, highlighted the need for further measures to promote economic stability. Investment and savings rates are still too low and long-term real interest rates too high to generate sustained economic growth and expand employment opportunities. As a consequence, most of the economies in the region still remain highly vulnerable to external shocks and policy errors. Efforts are therefore required to improve the functioning of the market, ensure fiscal consolidation, and strengthen the soundness of the financial system. Hence the first priority for the Bank I would like to mention is the expansion of assistance to member countries striving to reform their economies and especially to modernize the financial sector and promote open, transparent and integrated capital markets.

The second priority is to make sure that the benefits of the global economy are shared by all Latin American countries. I would like to recall that the IDB-8 mandate requires the Bank to adapt and expand its activities in order to promote closer economic ties both at the regional level and with the rest of the world, with particular attention to investments and new technologies.

Integration into the world economy is the main factor that could trigger a long-term growth path in Latin America. The European Common Market and the North American Free Trade Agreement have reinforced the global trend towards open trade and show that greater regional integration not only benefits the economies involved, but can also complement the process of global trade liberalization. As a representative of the European Union Presidency, I can confirm the strong European interest in growing trade and investment flows with Latin America.

The successful conclusion of a customs union in the MERCOSUR countries, the creation of a free trade area in the Andean Group countries, and the agreement between the Central American countries to reduce their common external tariff stand as examples of regional integration within a global framework of free exchange of goods and services to the benefit of all nations. In this respect, we welcome the long-range objective adopted by the first meeting of the trade ministers, held in Denver last year, which is to conclude negotiations on hemispheric integration no later than the year 2005.
The third priority is the development of the private sector. Governments cannot meet the enormous financial needs of Latin America and we recognize the importance of the private sector in promoting growth and efficiency for sustainable development. The IDB has the moral authority, the mandate and the resources to finance private enterprises through direct loans without government guarantee and credit programs. The Bank should also assist member countries in further improving the environment for private investment through consulting services and technical cooperation. This will help reduce the risk, and thereby the cost, of financing private sector projects.

With regard to the Inter-American Investment Corporation, I am pleased to express my sincere satisfaction for the start-up phase of the new strategic action plan approved last year by the Board of Governors and I would like to thank the Corporation's staff for their dedication in pursuing the aims of their mission. I would just venture a word of caution on the possible duplication due to the different instruments used by the Institution as a whole to finance the private sector. On this subject, let me invite the management to do its best in order to improve coordination in this area.

While private sector development is crucial for the efficient creation of new wealth, this might not be sufficient to eliminate poverty. A more structural approach is needed to respond to this fundamental challenge. This is the fourth priority for the Bank's action. Focus on poverty should be an integral part of the Country Papers in order to strengthen the poverty reduction and social equity components of lending programs in each country.

A strong institutional environment is needed for economic reform and poverty reduction strategies to be successful. Only too often the effectiveness of economic strategies and policies is curtailed by the weakness of public institutions or by an adverse political climate. In recognizing this, the Bank should support socioeconomic integration, help strengthen democratic institutions and promote citizen input into the decision-making process.

The Bank is steadily refocusing its policies and we are pleased to acknowledge that its efforts are proceeding in the right direction. I would also like to congratulate management for the rationalization of the internal procedures and for its resolute effort in moving from a control mentality to a focus on achieving development results. Decentralization and greater devolution of authority to the Country Offices will allow the Bank to be more sensitive to the needs, priorities and capabilities of borrowing member countries.

In conclusion, let me reaffirm once again Italy's strong support of the IDB and our high regard for President Iglesias' leadership, thanking him for the decisive role in the development of Latin America and for being a forceful supporter of efforts to increase economic integration in the region.
I would first like to thank the Argentine authorities for the wonderful welcome we have enjoyed in this magnificent city of Buenos Aires. The ties between Argentina and France are very close and cover all areas. I could mention the strong presence of French companies in such sectors as water management, electricity, or communications, but I prefer, after the tango show we saw on Saturday, to recall the French origins of Carlos Gardel.

Allow me to say a few words on the subject of Latin America’s economic situation. Some indicators continue to urge caution: the slowdown of growth from 5 percent to 0.6 percent; the 10 percent increase in the foreign debt; and the drop in international reserves. Adjustment efforts and reforms, therefore, need to continue.

Conversely, one can only be delighted to note that Latin America as a whole firmly withstood the Mexican crisis. The stabilization policies were maintained, external accounts have improved, and, more importantly, international market confidence is returning: the resumption of direct investments during the second half of 1995 is a very encouraging sign in this regard. The record attendance at this meeting of the IDB can also be viewed as an expression of the business world’s interest in Latin America.

With regard to the activities of our institution in 1995, I would like first to express my satisfaction over the implementation of the Eighth General Increase in Resources and in particular the establishment of a third nonregional seat on the Board of Executive Directors. This is an important step in the growth of the presence of nonregional shareholders within the IDB in the spirit of the agreement reached at Guadalajara.

In addition to strengthening the multilateral nature of the IDB, the Eighth Replenishment was also an opportunity to establish the guiding principles for our action. We must continue to implement them to the fullest.

In this regard, I would like to congratulate President Iglesias and the management of the Bank on the measures already taken to strengthen the Bank’s action in the social sector. We well understand the adjustment effort the Bank’s teams have been called upon to make and this new course will take some time to take root. All I can do is encourage the IDB to stay on the road that has been marked.

The emphasis on the struggle against poverty is in fact one of the central elements of the Development Committee’s Task Force, which will be submitting its report soon. I am pleased that one of the other conclusions of this study—the need to decentralize the action of the development banks in the field—was recently the topic of a document prepared by IDB staff.

I would also like to discuss the situation of the concessional resources of the Fund for Special Operations. We will not dwell on the enormity of the needs that persist in some countries in the region. However, in our discussions, we must also take into account the general context of multilateral development aid. This is not the time to make a new appeal for contributions from donors and creditors, as is demonstrated by the difficulties currently encountered in replenishment negotiations. It would be advisable, therefore, to seriously consider the possibility of making transfers from the IDB’s net income resources to the Fund for Special Operations along the same lines as the efforts undertaken by the
World Bank vis-à-vis the IDA. Such a development would be interpreted as a sign of interregional solidarity, which we would all be pleased with.

Since our last meeting, the situation of the Inter-American Investment Corporation has greatly improved thanks to considerable efforts on the part of its management and staff. The Corporation was able to adapt its activities to the financial means at its disposal. It makes an important contribution to the development of the private sector in Latin America.

We can only rejoice at the prospect of new members joining the Corporation. This is an indication of renewed confidence in this institution after the difficult period it went through. In the long term, however, the Corporation will only be able to show what it is capable of doing for Latin America if all its shareholders together can give it the means to carry out its activities.

I cannot conclude without first reaffirming the confidence my country places in President Iglesias and thanking him for his tireless and effective efforts at the head of the IDB on behalf of all of Latin America.
Address by Mr. José Alejandro Arévalo Alburéz, Governor for Guatemala and Minister of Public Finance

I thank the Chairman of the Board of Governors for allowing me to share with the governors a very brief summary of my country’s economic situation, the significant historic stage it is living through, and its prospects for economic and social development on the threshold of the new millennium. The purpose of this summary is to inform you about the investment opportunity represented by Guatemala, which hopes to continue to receive significant, increasing and timely technical cooperation and financial assistance from the Bank and the Corporation, particularly at this crucial time in its contemporary history, to strengthen the peace process.

Favorable Macroeconomic Conditions

Guatemala is one of the countries in Latin America that has managed to control inflation, with a year-to-year rate as of December 31, 1995 of 8.6 percent. The gross domestic product increased by 4.9 percent, part of the growth trend of the past few years. As to the country’s external position, international reserves totaled over $640 million, equivalent to 2.4 months of imports. Exports came to $2.17 billion, with an average growth rate of 19 percent during the last four years. The balance of payments capital account recorded a favorable balance of $512 million, despite the fact that the net flow of official and bank capital operations was negative at $126 million, particularly as a result of the reduction of the foreign debt. It is important to highlight that Guatemala has one of the lowest external debt levels, at less than 15 percent of GDP. The exchange rate has fallen by approximately 8 percent in real terms, while domestic interest rates averaged 14 percent for deposits and 22 percent for loans.

It should be noted that the growth indicators of the goods and services sector were positive for all economic activities. Mine and quarry exploitation increased 11.9 percent; construction, 7.9 percent; electricity, gas and water, 7 percent; commerce, 6.6 percent; transportation, storage and communications, 6.3 percent; public administration, 4.3 percent; private services and housing, 4.1 percent; manufacturing, 3.2 percent; and agriculture, forestry, fisheries and hunting, 2.9 percent.

Together with these economic results in Guatemala, the modernization process that has been under way in the financial system should be highlighted. Structural changes have been implemented to begin a process to improve the sector’s efficiency and strengthen the solvency and oversight of intermediation activities, a process in which the technical and financial cooperation of the Inter-American Development Bank has had particular significance. Along these lines, in the next few days the Congress of the Republic will be taking up and approving a law ending the concentration of currency, which establishes the free purchase, sale, contracting and tenure of foreign assets in Guatemala, thereby granting legal support to the decision of the country’s monetary and financial authorities to fully decontrol the tenure and transfer of capital.
Challenging Social Conditions

Despite the favorable results in terms of economic growth in Guatemala, these in and of themselves are not sufficient to solve the structural problems that have been deeply rooted in the society for a great many years. Even a growth rate of 5 percent is not enough to recover and improve the living standards of Guatemalans; especially since that rate is only 2 percent if one adjusts for the almost 3 percent increase in the population, which demands new employment opportunities. In 1995, it is estimated that total unemployment—including full unemployment of 2.7 percent and underemployment of 44.3 percent—accounted for 47 percent of the economically active population.

It should be noted that the population can be called the population of hope, because it is very young—45 percent is under 15 years of age. On the other hand, it is the source of increasing pressure for social services and job opportunities. Poverty is concentrated primarily in the rural areas, where poor people are on average 54 percent below the poverty line, while in the capital, for example, the average poor person has an income that falls 19 percent short of the poverty line.

The significant increase in poverty in the 1980s was primarily due to the economic recession accompanied by high inflation that led to a major deterioration of per capita income and real wages and an increase in unemployment and underemployment. As a result of this economic crisis with its resulting impact on public finance, underpinned by an extremely low tax burden (7.8 percent in 1995, equivalent to the 1960 figure), the stabilization effort based on a contracting monetary policy generated pressure on real interest rates, which contributed to curbing growth, leading to additional deterioration of the quality of life and equity in social public spending.

The End of the Internal Armed Conflict

At this historic moment when we set out on the path of peace to resolve the differences that have separated us and kept us in fratricidal armed conflict for the last 35 years, the major challenge facing Alvaro Arzú’s government is to fulfill the serious commitment to give rise to comprehensive economic development promptly, creatively and diligently. It would seem that the great challenge is that, once stability is achieved, which we must protect as our most prized treasure, we be able to adopt economic policies that are effective in giving rise to quick, viable and sustainable economic growth capable of generating new and better jobs and allowing our people to attain increased well-being and giving them the opportunity to achieve higher quality of life.

On the road to the peace agreements, we Guatemalans undertake to aim spending and public investment toward the social sectors. This first stage, which will mean that an entire generation will have to make sacrifices to transform Guatemala, will require a domestic savings effort that we hope will be significant and supplemented in a timely way by resources from the international community through technical cooperation and financial assistance.

Central Ideas of the Commitment to Transform Guatemala

The country’s economic and social plan is based on three central ideas that involve a national commitment: (1) to freedom for the purpose of building peace, democracy and
justice; (2) to comprehensive human development; and (3) to productive investment. Thus, against a solid macroeconomic backdrop and government in which the rule of law prevails, accelerated economic growth will be promoted to allow us to achieve comprehensive, viable and sustainable development while preserving and improving the environment, pursuant to the principles of market-based social economies.

The political commitment to freedom for the purpose of building peace, democracy and justice is based on four pillars: democratic coexistence; the rule of law and legal security; unity in cultural diversity; and modernization, decentralization, deconcentration, privatization and simplification of the public sector.

The social commitment to comprehensive human development takes shape through specific efforts in four areas: education and culture for work, coexistence and peace; a healthy population; environmental protection and improvement; and making Guatemala a country of owners, by developing and protecting property rights.

The economic commitment to productive investment is based also on four key elements: establishment of clear, positive, general, simple and stable rules; adoption of policies that promote productive investments so that Guatemalans can improve their lives; development of the national and local infrastructure to promote production, employment and self-sustaining development; and competition, enforcement of consumer rights, globalization and improved competitiveness and national productivity.

I would merely like to develop some key ideas of these commitments so that the international community will be aware of the effort that a small country in Latin America is making to improve the quality of life of its population and will support us in this difficult but ineluctable area.

Economic Commitment to Productive Investment

President Arzú said at his inauguration: “The essential approach in the economic field can be summarized by saying that the country will have to move forward in fulfilling two great tasks that are closely connected: on the one hand, fighting poverty through an economy that produces dignified and gainful employment and on the other, providing a fiscal system capable of supplying necessary and sound resources for the work of government, focused on providing basic services and infrastructure for the population and ensuring its safety.”

To build solid economic foundations for the country’s political and social development, an economic strategy has been designed, the basic objectives of which, for the remaining years left in the century, are to (1) consolidate the stable macroeconomic underpinnings that will make it possible to reduce inflation to international levels, decrease the balance of payments current account deficit to sustainable levels in the medium term, and maintain a level of international reserves equivalent to at least three months of imports; (2) reduce interest rates; (3) maintain a stable real exchange rate; (4) make the economy more productive; and (5) increase the economy’s real growth rate to at least 7 percent per year between 1996 and 1999.

To achieve these objectives, short- and medium-term economic policies are being championed aimed at promoting a substantial increase in investment and public and private savings; increasing the efficiency and productivity of investments; encouraging the production of tradable goods; generating new products for export and opening new markets.
to the Guatemalan economy; eliminating distortions that have a negative impact on production, particularly of tradable goods; fostering competitive and transparent markets; expanding the foreign and domestic trade liberalization process; protecting the consumer; strengthening the process of deregulation and eliminating monopolies; making the labor market flexible and modernizing the wage policy; facilitating the assimilation and adaptation of modern technologies; and resolving on a long-term basis the monetary and fiscal problems affecting the country.

In addition, the policies to support the productive sectors will be strengthened through the rehabilitation, maintenance and development of the support infrastructure for these sectors in terms of transportation, energy, telecommunications and marketing; technology research and transfer, particularly towards small and medium-sized manufacturing and rural enterprises; establishment of clear and stable legal and institutional frameworks; and training of the labor force.

Technical Cooperation and Financial Assistance

The armed conflict that Guatemala has been experiencing has for years primarily fed on the country's economic and social conditions. On the threshold of the new millennium, on both the Western and Maya calendars, we Guatemalans have decided to build peace, which involves full implementation of the long-term national economic and social development plan, whose objectives, principal actions and goals that can be monitored by the population itself, will ensure the transformation of society.

In this regard, Guatemala requires more attention from the international community, primarily in this stage of giving peace and national reconciliation a chance. Internally, we are convinced that the major effort has to be made by the Guatemalans themselves, through greater productive and social investment focused on the most important areas, in terms of business efficiency and effectiveness.

In the first stage, we are laying the foundations of economic growth for comprehensive human development, to release the strengths of the citizens themselves to build a better future. We have full trust in their capacity to face development successfully. In this process, it is crucial to have the cooperation and financial support of the international community, particularly multilateral lending institutions like the Inter-American Development Bank.

It is not merely a matter of loans, which of course are necessary, but also assistance with a long-term view, even when the country goes out on its own in search of capital and investments in the international financial markets. In our work plan, we have considered going to the international financial market through the placement of sovereign government securities, for which we need the assistance of the Inter-American Development Bank, for example, to coguarantee our presence in such an environment.

Development Based on People

In the task of transforming Guatemala, economic and social development will mean people achieving a dignified life and seeking progress through their own means.

To fulfill this national objective, we have given priority to investing in human beings, because this way we will be creating the conditions for generating better and greater op-
opportunities for people to facilitate social mobility. Education and health care have the highest priority, since not only do they help to combat poverty in the short term but also will enable us to have more competitive and better educated workers in the future who can take the jobs generated by the country’s productive apparatus.

This is the challenge facing Guatemala to achieve economic and social development four years from the year 2000. We are on the threshold of a new century and of a new millennium and we Guatemalans are willing to run to reach it under the best possible conditions so as to enter the new millennium as a country with a frank and determined process of transformation.
Address by Mr. Bo Jerlström, Temporary Alternate Governor for Sweden and Assistant Under-Secretary, Department for International Development Cooperation, Ministry for Foreign Affairs

It is great to be back in your vibrant city. Let me then be somewhat more formal but not less sincere in expressing my great appreciation to our host, the Government of Argentina. The excellent facilities provided for the meeting and the genuine friendliness and hospitality of the Argentine people have created a truly inspiring environment for our deliberations.

The IDB's Expanding Role

As recently as the mid-1980s, the Inter-American Development Bank was in a worrisome state. Financial indicators displayed red figures, morale was down and the future of the Bank seemed bleak. I am delighted to see that the picture today is very different, and that the Bank is playing a crucial role in solving the economic and developmental problems of Latin America and the Caribbean.

The achievements of the IDB over the last couple of years are to a large extent the result of the innovative and hard work of President Iglesias, Vice-President Birdsall and their staff.

Equally important, however, has been the responsibility that the regional shareholders have taken in supporting their own regional institution. The unique closeness between the IDB and its borrowing member countries is a great asset and has certainly contributed to the success and frequent comparative advantage of the IDB as development partner in Latin America and the Caribbean.

It is encouraging to see that the IDB is expanding its responsibility and role as a partner in the development process of Latin America and the Caribbean. The Bank's record lending volume achieved in 1995 and its chairmanship and cochairmanship of the Consultative Group processes for Nicaragua, Guatemala and El Salvador are illustrations of this.

Crisis in Multilateralism

Moving for a moment from the regional to the global perspective, we are all aware of the very worrisome state of the multilateral development system at large. Severe budgetary constraints in most donor countries and widespread criticism concerning lack of efficiency have subjected parts of the system to unprecedented threats.

I therefore feel encouraged by the conclusion of the IDA 11 negotiations in Tokyo last week. Hopefully, this represents a renewed effort to build a strong and efficient multilateral development system. Today we need this more than ever, since the fateful problems of the world need increasingly to be handled on a global level.

Sweden's Cooperation with the IDB and the Region

The fact that the IDB has demonstrated its vital role for the continued development of Latin America and the Caribbean is a good reason for Sweden to continue strengthening
her ties with the Bank. We do this in several ways. One is to channel Swedish resources through the IDB in terms of a Swedish Trust Fund and cofinancing. This trust fund has recently been substantially replenished. We also have entered into an increasingly beneficial interaction with the IDB within our bilateral cooperation with the region focusing on support in the fields of democracy, human rights, good governance and poverty alleviation. There is also significant cooperation between Swedish and Latin American NGOs, private companies and trade unions.

We are satisfied that all conditions have now been fulfilled for entry into force of the IDB-8 agreement. I am fully convinced that the more balanced representation of nonregional members in the Bank as regards capital share and board presence which this agreement has brought about will prove beneficial to the Bank. Sweden will do its part to live up to the expanded responsibility that this implies.

Now that the nonregional countries have substantially increased their participation, one may even reflect upon why they are members of this institution at all. The answer would probably differ somewhat. Speaking for Sweden, it is clear that our close contacts with the IDB is only a reflection of the longstanding and broad faceted relations we have with Latin America and the Caribbean.

The cornerstone in Sweden’s relationship with the region has been within the economic realm. This started more than 100 years ago when trade and investments erected bridges between Sweden and Latin America. As early as the 1890s, Ericsson had already installed the first multiple telephone exchange in Chile. A few years later, AGA beacon lamps started to light the way of maritime traffic through the Straits of Magellan and the Panama Canal. For decades now, Latin America has been a most important foreign market for Sweden, both for direct exports and establishment of manufacturing plants for the production of a number of well-known Swedish industrial products such as Scania and Volvo trucks, Electrolux refrigeration equipment, Swedish Steel and other world-famous trademarks. It is even true to say—and this may sound amazing—that São Paulo for some time now is Sweden’s third biggest industrial city, if measured by production output of Swedish subsidiaries.

Founded partly upon this economic base, we have seen broader and more elaborate relations develop. Of special importance are the cultural ties which have been established as a result of the great Nobel Prize winners in literature: Gabriela Mistral, Miguel Angel Asturias, Pablo Neruda, Gabriel García Márquez, Octavio Paz and most recently Derek Walcott from the Caribbean.

Strengthened relations developed during the dark period in the 1970s and early 1980s when a large number of Latin American refugees fled to Sweden to escape dictatorships and human rights violations. Their presence in Sweden has enriched our society with new knowledge, experience and greater multiculturalism, and has also contributed to the increased interest in Latin culture and the Spanish language among the younger generation of Swedes. This week, for example, Susana Rinaldi—the Queen of Tango—will give several fully sold-out performances at the Stockholm Concert Hall.

While the public image of Latin America suffered in Sweden in the 1970s and early 1980s, the picture today is considerably different: it is dominated by democracy and greater respect for human rights; peace processes and disarmament; decentralization and modernization, increased environmental consciousness, regional integration and cooperation,
and economic and social achievement. On such a basis, future Swedish, Latin American and Caribbean relations will continue to develop and flourish.

To illustrate the dynamic evolution of these relations, let me just mention three new channels of cooperation between Latin America and the Caribbean.

First, Sweden’s membership in the European Union in 1995 has given us a new means for cooperation with Latin America and the Caribbean, politically, economically and culturally. For example, we already notice a substantial growth of Swedish-Latin American trade partly due to the reduction of customs duty rates.

Second, I would like to mention that negotiations are currently proceeding between Sweden and the Caribbean Development Bank. It is our sincere hope that this process will lead to increased partnership and cooperation with the Caribbean region.

Third, Sweden has recently acquired a permanent observership in the Organization of American States and expects to use this forum for establishing closer ties with the region at large.

Policy Issues

Allow me finally, to make a few comments on policy matters in relation to the IDB-8 agreement. Following its signature and ratification, the Bank has made important progress on the implementation of the far-reaching agenda of the agreement. Regarding the future work, I would like to concentrate my comments on two important policy areas.

The IDB-8 agreement identifies targeting of low-income beneficiaries as an area of special emphasis. Despite relatively high per capita income levels in most countries in the region, poverty and income distribution remain major problems. About 30 percent of the region’s inhabitants live in poverty. The level of poverty is particularly acute among indigenous groups, where the comparative figure in some countries in the region exceeds 80 percent. If the Bank is to comply with its overriding objective of poverty reduction, targeting of these groups is essential, and we thus welcome the Bank’s increasing focus on this matter.

Research has illustrated that poverty is strongly linked to low levels of education. Therefore, increased human investments are essential to effectively combat poverty. Furthermore, increased levels of human investments are critical for achieving higher and more sustainable growth. We therefore fully support the important work of the IDB to increase the quality and the efficiency of the social delivery systems of Latin American countries as well as developing an operational and detailed poverty reduction strategy.

Equally important for poverty alleviation is the implementation of reforms in taxation systems in order to achieve greater effectiveness and a more equitable distribution of income among different groups in society. In this context, the IDB’s work in the area of modernization of the State and strengthening of civil society is of central importance. Similarly, Swedish bilateral development cooperation within the region is also increasingly focusing on these issues.

The other policy issue that I would like to highlight concerns gender and development. While on the whole the world’s population is becoming healthier and better educated, there is a trend towards the feminization of poverty. Out of the 1.2 billion people in the world who live in extreme poverty, 70 percent are women. The female part of the world’s population only disposes of 10 percent of the total income. Female heads of house-
hold experience higher rates of unemployment, lower numbers of paid hours of work, lower salaries and greater difficulties in entering the labor market than do male heads of household.

The expected adoption by the Swedish Parliament of gender equality as the sixth goal of Swedish international development cooperation will mean a formalized commitment to gender and development. Consequently, we note with satisfaction that the Bank is expanding its emphasis on gender in its operations and organizational structure. We have great expectations of the Bank’s work in this field and were pleased to witness the active participation by the Bank in the Fourth UN Conference on Women in Beijing. In relation to the ongoing follow-up work of Beijing, however, we believe that it is time to acknowledge gender considerations as a truly cross-cutting issue, and consequently assessments of gender impact should be made an integral part of project preparation. A model for this can be found in the Bank’s work in the field of sustainable development, where every project is classified in terms of environmental impact. Bearing this in mind, we believe that the Bank’s goal to introduce gender analysis in at least 50 percent of its projects by the year 2000 is too modest.

Let me end by reaffirming Sweden’s commitment to development in Latin America and the Caribbean and our recognition of the essential role of the Inter-American Development Bank in this process.
ADDRESSES

FOURTH PLENARY SESSION

March 26, 1996
Address by Mr. John C. Rahming, General Manager Ad Interim of the Inter-American Investment Corporation

The Inter-American Investment Corporation completed its sixth full year of operations in 1995. It began to reap the benefits of the successful implementation of a strategic plan that involved reorienting and reorganizing the institution.

The Corporation’s Board of Governors, during its tenth Annual Meeting in Jerusalem in 1995, unanimously approved a strategic business plan for the IIC. The plan arose from a detailed review of the institution’s achievements and shortcomings during the first years of operations. It takes into account the limited resources it has to fulfill its charter mandate. The first step in carrying out the action plan was to increase the Corporation’s borrowing capacity, authorize the admission of non-IDB member countries, and ease the regional ownership requirement for companies receiving IIC funding. Well before the end of the year, the member countries had approved the requisite charter amendments, thus increasing the IIC's funding and enabling it to operate more flexibly.

Simultaneously, the IIC successfully reoriented its new investment approvals to target the priority areas laid out in the strategic plan. These areas are equity investments, cofinancing opportunities, and selected advisory services. Throughout this period of reorientation, the Corporation has actively managed the loan and equity portfolio built up over the last six years, thus securing the revenue stream necessary to ensure its own sustainability. The IIC turned a $5.6 million profit for the year.

Strategic Business Plan

With its borrowing capacity increased from 1:1 to 3:1, the Corporation will be able to leverage its paid-in capital plus reserves—totaling $218.4 million at year-end 1995. This will enable it to provide up to $870 million for investment projects in Latin America and the Caribbean.

The new business plan calls for the Corporation to make more equity investments, participate in venture and development capital funds, channel more resources to the region through cofinancing arrangements, and provide fee-based advisory services to investment funds, small and medium-size companies, the Multilateral Investment Fund (MIF) and the IDB’s Private Sector Department (PRI).

In the first eight months following approval of the plan, the Board of Executive Directors approved a total of $36.6 million in financing for 14 transactions in the manufacturing, agricultural, petrochemical and financial sectors. In keeping with the action plan, 11 of the projects approved involve equity investments totaling $27.5 million. Seven of these operations are capital contributions for establishing investment funds. During the year, the Corporation also approved $36.4 million in cofinancing to be managed by the IIC. It raised a record $74 million from 14 international banks under existing mandates to provide much-needed project funding. The total cost of the projects that will benefit from funds provided directly or mobilized by the Corporation during the year exceeds $350 million. The projects approved in 1995 cover a range of sectors. Sixty percent are capital investment funds, 26 percent in the manufacturing sector, and 14 percent in agribusiness.
Another goal was to increase cooperation within the IDB Group. In 1995 the Corporation carried out 10 assignments for the MIF and evaluated two projects for the PRI. The latter involved financial engineering for a $50 million port project and a $230 million highway construction project, both in Argentina.

Other advisory services included the financial engineering that enabled a Chilean mining company to raise $34 million in debt financing—a record for the Corporation—from four international banks. The IIC also assisted a Bolivian telephone company and an Uruguayan dairy cooperative in their modernization plans.

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 1995 approvals will lead to the creation of more than 4,200 new jobs, generate annual foreign exchange revenues averaging more than $50 million per project, and contribute more than $500 million per year to the regional GDP.

The cumulative developmental impact of IIC operations over the past six years is even more impressive. Once the projects in the Corporation’s operations portfolio are completed, they will lead to the creation of more than 80,000 jobs and the generation of $800 million in annual exports. They will also contribute approximately $3.0 billion to the region’s GDP. It was the Corporation’s involvement that ensured the viability of investments with a total cost of more than $2.2 billion. In other words, each dollar of original capital contributed by member countries is mobilizing more than $11 for investment projects.

In addition, the Corporation is fulfilling its mandate to mobilize resources from international banks for project financing. During its short but impressive history of operations, the IIC has raised $128 million from international financial institutions through its cofinancing program. The Corporation has thus multiplied its member countries’ original capital contribution by attracting resources from financial institutions that trust the Corporation’s technical, financial, economic and managerial evaluations.

Disbursements and Income

Disbursements during 1995 totaled $69 million, raising the number of disbursed projects from 68 to 87. The total disbursed amount increased by 29 percent, from $237 million in 1994 to $306 million in 1995.

Despite the relatively high risk profile of the loans and investments the IIC makes in small and medium-size private companies—including a large percentage of start-up enterprises—the portfolio continues to perform well. Gross loan revenue (primarily interest) increased to 9.3 percent of average loans outstanding, compared to 8.9 percent the year before. Taking into account provisions for potential losses, the return on the loan portfolio was still 6.8 percent.

Income from all sources amounted to $26.5 million in 1995. Total expenses were $20.9 million, producing a net profit of $5.6 million. Revenue from the IIC’s loan portfolio totaled $20 million. Income from marketable securities totaled $3.8 million.
Institutional Milestones

International institutions and agencies that foster economic and social development, as well as international banks and the Inter-American Development Bank, quickly responded to the IIC's new dynamics as defined by the Corporation's shareholders in Jerusalem.

During the year, the Corporation signed agreements to provide advisory services to the MIF and the IDB's Private Sector Department.

Deutsche Bank Luxembourg S.A. granted the Corporation a $75 million five-year revolving credit facility. Access to the market under favorable financial terms for the Corporation will enhance its lending program.

The Basle Committee recommended that the European Union countries include the Corporation among the multilateral development institutions eligible for a lower capital adequacy ratio (20 percent) for loans from financial institutions. This required updating legislation that was enacted before the IIC was created. The Banking Commission of the European Union enacted similar legislation. These measures will greatly reduce the Corporation's borrowing costs.

The Corporation entered into an agreement with the newly-proposed AIG-GE Capital Corporation Latin America Infrastructure Fund, which is expected to manage $1 billion in assets. The fund will make equity investments in infrastructure projects throughout Latin America. By playing an advisory role in the identification and evaluation of projects, the Corporation will both broaden its sphere of action and enhance its presence in the region.

The U.S. Trade Development Agency established an Evergreen Fund on which the Corporation may draw to finance project design and implementation services provided by consultants based in the United States.

During the Bolívar Forum on Latin American Enterprise that took place in Punta del Este, Uruguay in November 1995, the Corporation signed a Cooperation Agreement with Programa Bolívar to foster the development of private sector joint ventures in the region.

Internally, the restructuring of the Corporation was completed, and streamlined procedures for project processing were implemented. In addition, the IIC developed in-house a state-of-the-art automated project supervision system that has enhanced management's ability to monitor the IIC's growing portfolio.

Program for 1996

The Board of Executive Directors approved a $12.1 million administrative budget for 1996. The Corporation now faces the challenge of utilizing its increased lending capacity to finance more projects despite reduced staffing levels and a growing portfolio. In addition, the Corporation will continue to provide advisory services that benefit the business community and the other members of the IDB Group.

The 1996 work program calls for processing 20 to 25 new project finance operations. Also, the Corporation will continue to emphasize cofinancing as a means to leverage its loan and equity investments. New funding channeled to the region by the Corporation in 1996 is expected to total $100 to $125 million. The program also calls for the IIC to ensure the soundness of its operations through the timely and effective supervision of its existing projects.
The Corporation is prepared to provide advisory services for 10 MIF projects and up to six PRI projects in 1996, on a fee-for-service basis. Projects that have a cofinancing component are expected to increase from five in 1995 to eight in 1996. Ten to 12 advisory mandates in corporate finance, financial engineering, capital markets, and partner searches will generate approximately $500,000 to $1.2 million in additional revenue.

To continue the progress made over the last two years, management will focus on five critical goals. The first is to ensure the Corporation's flow of income by maintaining portfolio quality. This is a critical task because more than 40 percent of the outstanding loans have begun repaying principal. By the end of 1996, substantial resources will be allocated to project supervision. The second goal is to identify and develop new projects that are consistent with the new business strategy to replace existing loans that are being repaid. The third goal is to reduce the Corporation's funding costs by borrowing directly from the financial markets through the issuance of debt instruments. As a first step, a proposal will be submitted to the IDB's Board of Directors requesting approval of a $650 million backup loan facility to enhance the IIC's creditworthiness. A fourth goal is to incorporate new shareholder countries from those members of the IDB not yet members of the IIC. Finally, it is proposed to initiate discussions with shareholder countries designed to lead to an early general capital increase.

1989–95 Results

Six full years of operations have brought cumulative approvals to 131 projects for a total of $536 million. Commitments total $412 million, of which $306 million has been disbursed to 87 projects. Fifty-one projects have been fully disbursed. In addition, participating banks have committed $128 million under the Corporation's cofinancing program, of which $83 million has been disbursed. The total cost of projects receiving funding from the Corporation amounts to $2.2 billion. This is an impressive track record for such a young institution with such limited resources.

As of December 31, 1995, 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, the Corporation has disbursed $306 million to 952 enterprises. Of this amount, $279 million was channeled to small and medium-size companies.

Conclusion

The Inter-American Investment Corporation has proved its viability and its ability to fulfill the developmental mission that its member countries entrusted to it six years ago. The strategic plan agreed upon by the shareholders was implemented promptly and effectively. The process of reviewing and fine-tuning the IIC's mandate continues. The Corporation has proved its ability to adapt quickly to the new dynamics of the world's development institutions by updating management techniques and increasing productivity.

The IIC was created to further sustainable, environmentally-sound development in Latin America and the Caribbean. It has now renewed its commitment to respond effectively to the needs of a private sector that will lead the economic development in the region into the twenty-first century.
I want to thank the governors and the Board of Directors for their support during the institution’s consolidation period. Management will ensure that the IIC fulfills the mandate adopted in Jerusalem, to the benefit of the small and medium-size enterprises of Latin America and the Caribbean. I would also like to thank the Corporation’s staff for their professionalism in carrying out the action plan and for their unwavering commitment to the institution’s developmental mission. Latin America and the Caribbean now have a strengthened partner committed to support the private sector’s endeavors to expand economic activity and benefit from its enormous development potential.
ADDRESSES

FIFTH PLENARY SESSION

March 27, 1996
To begin, I should like to convey our thanks to the Chairman of the Board of Governors and the people of Buenos Aires for the warm welcome they have extended to us, and the opportunity to see first-hand here in Argentina a shining example of Latin America’s resurgence.

Once again, I must pay tribute to the Bank’s President, Enrique Iglesias, in recognition of his leadership and the course on which he has set the IDB. As a result, the Bank is now the largest provider of loan capital to the region and is a highly modern organization with great scope for flexible action.

Now that democracy has been restored throughout the region and the process of economic liberalization has been set in progress, Latin America finds itself reassessing its role in the world. The process of regional integration, of which so much has been said at this annual meeting, emerges as an appropriate response to economic globalization, and needs to be supported as the way of the future.

Turning to the Bank’s recent activities, I think three points deserve special mention.

• The IDB’s quick response to last year’s financial crisis was important for stabilizing the Mexican and Argentine economies, and helped avert the possibility of a more widespread and much larger crisis in Latin America.
• Total lending in 1995 was the highest ever, making the IDB the largest source of loan capital in the region for the second consecutive year.
• The fact that direct lending to the private sector, the giving of guarantees, and support for institutional reforms have been topics under consideration has demonstrated the Bank’s ability to meet new challenges.

In this connection, we congratulate the Bank on the private sector operations already approved, we are especially pleased to see that the first document launching the guarantee program was approved at the last meeting of the Board of Executive Directors prior to this annual meeting, and we call for others to join in supporting the new efforts being undertaken to promote judicial reform.

All of these measures help promote the growth of direct private investment in key development areas, and thus relieve the pressure on official development assistance resources—resources which, as everyone is well aware, will be difficult to restore to past levels, let alone increase.

So far as the immediate future is concerned:

• We will uphold the new strategy of fighting poverty.
• We believe that some degree of flexibility will be needed in resolving the questions still outstanding in regard to the allocation of resources. While the Eighth Replenishment targets must be maintained, it is important that the most immediate needs be met.
• We strongly support efforts to strengthen the role of the Bank’s Country Offices in the borrowing member countries.
In Portugal’s foreign policy, European and transatlantic relations are two areas of highest priority. In particular, we regard cooperation between the European Union and MERCOSUR as crucial for exploring and developing possibilities for interregional cooperation. In its bilateral relations, Portugal wishes to develop a closer relationship with the countries of Latin America, one that is more based on program content, more specific, and more ambitious.

We expect this objective to be furthered through the IDB, both in making it widely known and in carrying it through. Although we are one of the smaller shareholders, the increase in the number of seats on the Board of Executive Directors will enable us to follow the work of the Bank more closely. So far as the MIF is concerned, following a slight delay in the timetable for adhering to the Agreement as well as certain procedural difficulties—all of which is now behind us—we are looking forward to taking part in its activities on an ongoing basis. For the past few years there have been no Portuguese nationals amongst the Bank’s professional staff, but we expect this situation to be corrected in the near future. Similarly, we wish to ensure that the Portuguese Trust Fund for Technical Cooperation is used to optimum advantage, by enabling the best of Portuguese consulting firms to work on key projects for the Bank’s borrowing countries.

In short, we look forward to Portugal’s efforts to forge a closer relationship with Latin America and the Caribbean, finding a special place in the IDB. At the same time, we continue to support the Bank, and we reiterate our willingness to assist wherever our efforts may be most useful.
Address by Mr. Mauri Eggert, Governor for Finland and Under-Secretary of State, Ministry for Foreign Affairs

First of all, I would like to thank the City of Buenos Aires and the government of Argentina for the splendid and most generous hospitality they have extended to the Finnish delegation during our stay in Argentina.

The overall economic development in Latin America has been encouraging during the recent years, despite some setbacks in 1995. The main difficulties last year were overcome thanks to the massive and rapid interventions by the IDB together with other international financing institutions. This operation is an excellent example of the MDBs' capacity to defend the stability in the international financing markets.

The IDB's loans to Mexico and Argentina were well targeted. With the help of the IDB's banking sector loan, Argentina was able to carry out a major overhaul of its banking institutions. The developments in Chile were remarkable and it was possible for the country to pay back part of its loans to the IDB. In addition, some other countries in the region were also capable of improving their economies during 1995.

The year 1995 was an important year for Finland, as we joined the European Union. We note with satisfaction that the EU has a special agenda for Latin America, which aims at enhancing political dialogue and cooperation between the Union and the countries of Latin America. Finland will contribute to and take an active part in this interchange. Parallel to this, Finland is also diversifying and intensifying her bilateral relations with Latin America. The Finnish Minister for Foreign Affairs visited some Latin American countries recently and our Minister for Foreign Trade is currently touring the area.

The debt problem is presently being discussed among the international financing institutions and we also urge the IDB to be alert to this issue. The IDB should participate actively in the discussion, which aims at finding innovative solutions especially in the heavily indebted poor countries; four of these countries are in Latin America.

Important conferences under the common denominator of human centered development have been organized during the past few years in Cairo, Copenhagen and Beijing. It is the task of all of us now to make sure that the recommendations of these conferences are turned into action. We commend the IDB for its active participation in these conferences and for the follow-up measures that the Bank is undertaking. In 1996, the Second UN Conference on Human Settlements, as a follow-up to UNCED, has important objectives also for the IDB and the Latin American countries.

The IDB's record net income in 1995 suggests clearly that the Bank is able to carry out its mandate to serve as the major catalyst in mobilizing resources for Latin America. And we are convinced that the Bank will meet the requirements also in future.

We urge the Bank to be determined and to continue its work on the priority areas of the Eighth Replenishment: poverty reduction, modernization of the state, the environment and sustainable development. We note that in 1995 several seminars and workshops were organized and policy documents and guidelines were prepared for this purpose. However, we are still looking forward to the finalization of the poverty policy and the policy on civil society and good governance.
Another important challenge for the IDB in 1996 is the fact that it should raise the level of its lending to the social sectors. In 1995 the volume and number of loans were below the established goals. On the other hand, a new trend was beginning to take shape, according to which projects should be steered more to the direction of social system reform and modernization. In this connection, we would like to underline the importance of social equity, including gender, as a guiding principle in the planning of social sector programs.

The Eighth Replenishment recommended that sufficient attention be paid to environmental concerns. We note with satisfaction that every project is already classified according to its environmental impact and the Country Papers include an environmental profile. It is important that these profiles contain all the information that will be required in the planning and assessment of programs. In addition to the environmental profiles, we recommend that the Bank include a Women in Development chapter in the Country Papers.

During 1995, the IDB made use of its increased opportunities for private sector financing. Five loans were granted to the private sector without government guarantees. The IDB now has three different windows for private sector financing. This calls for a clearer division of labor so as to avoid overlapping.

We received with satisfaction the news about the IDB’s plan to earmark $500 million to the financing of microenterprises in Latin America through the “Micro 2001” program. Finland, together with other donors, takes a keen interest in this subject. Financing microenterprises is indeed an important tool in the empowerment of people and in the promotion of economic stability and development.

Another relevant aspect in the social development of many Latin American countries is the situation of indigenous peoples. It is interlinked with the issues of the environment and participation. We note that the Bank’s new organization has a special unit to address these concerns. In addition to this, we would be interested in seeing the Bank’s policies defined in this area.

A well educated and highly motivated personnel is the Bank’s most important asset. Rapid changes in the environment and the new challenges the Bank is facing call for a comprehensive human resource development plan. We note that there is room for more decisive measures, for example in connection with the rotation of personnel from headquarters to the Country Offices. We believe that these administrative measures could be taken within the framework of the present administrative budget, provided that they are well planned.
Address by Mr. Jean Eric Deryce, Governor for Haiti and Minister of Planning and External Cooperation

I would first like to thank the Argentine government and people, and the mayor and residents of Buenos Aires, for their wonderful hospitality and for the splendid organization of the Thirty-seventh Annual Meeting of the Inter-American Development Bank and the Eleventh Annual Meeting of the Inter-American Investment Corporation. I would also like to offer my congratulations to the Secretariat of the Bank, which as usual has used all the means at its disposal to help make this important event a success.

As you know, the Republic of Haiti has resumed its place among the concert of democratic nations. The year 1995 was exemplary in this regard. Elections took place at all levels and now the Haitian people glory in having democratically elected mayors and communal section councils, a democratically elected parliament and president, and a legitimate government, all working together to improve living conditions. For the first time in their history, the Haitian people can hope to see a president carry out his constitutional mandate without the threat of a coup.

These developments, essential to the establishment of a government where the rule of law prevails, were achieved thanks to the Haitian people’s perseverance and will to change, under the leadership of former President Jean-Bertrand Aristide, whose unbreakable faith in the destiny of the country instigated an international mobilization and solidarity unprecedented in the annals of our history. President René Préval, who succeeded him, has committed himself to consolidating the hard-won democracy and to creating the social, political and economic environment necessary for the Haitian people to truly come into their own.

On behalf of the Haitian people, I would like to sincerely thank all the international partners who assisted the country with their technical, financial, material and moral support. As for the Inter-American Development Bank, it deserves special mention because its actions in Haiti in 1995 succeeded beyond all expectations, as the figures that follow clearly show. Indeed, while from 1961 to 1991 a loan was approved for Haiti once every two or three years on average, the Bank approved five new operations in 1995 totaling the equivalent of $181 million, for example, about half the total amount of loans approved for Haiti since the establishment of the Bank. Moreover, disbursements in 1995 alone represented close to 10 times the average annual disbursements to Haiti since 1961.

Certainly these results, which could be termed excellent based on conditions in Haiti, were made possible thanks to the efforts of the Bank’s management, both at the central level and in the Country Office, and also thanks to the measures implemented by the government to improve its absorption capacity. During this period, the IDB showed itself to be one of the financial institutions working hardest to seek and adopt by mutual agreement with the Haitian authorities the most appropriate alternatives for reinforcing our institutions and making sure the projects are properly executed. I take this opportunity to ask President Iglesias if he would be kind enough to express the congratulations of the Haitian government to the technical experts who work in Haiti.

Above all, however, the most important factor in arriving at these results has been the regained security and political stability as well as the implementation of a true democratic
process. For this reason, the Haitian government and people want to work by mutual agreement to make the democratic process under way irreversible.

In the economic sphere, even if the results achieved were not as eloquent as in the political sphere, it is no less true that on the whole they fall within the parameters that had been defined. Real GDP indicated a growth of 4.5 percent after several years of contraction. The goal of maintaining the international reserves at approximately $45 million was exceeded. Inflation, which was at 40 percent during the 1993–94 fiscal year, dropped to 27 percent in 1995, hence remaining above the 15 percent target. As a whole, then, public finances progressed as expected, with the exception of the budget deficit, which reached 7.1 percent of GDP (before donations), instead of the 4.5 percent figure that had been projected.

The current government hopes to reinforce the structural measures that have been put in place, such as the elimination of subsidies for oil products, the suspension of import restrictions, and the rescission of the requirement to repatriate 40 percent of export earnings. By eliminating price distortions (the main sources of the contradictory signals given to private economic agents) in a climate of recovered political stability, the government hopes to put the dynamics of development back on its feet by mobilizing influential sectors.

Along these lines, the government confirmed the mandate of the Presidential Commission for Growth and Modernization, the main objective of which is to develop an appropriate framework for private investment.

A constant flow of external aid will still be essential to the economic revival. The government, aware of the need to play its part fully, attaches much importance to mobilizing local resources. In fact, the Haitian fiscal imbalance reflects as much the collapse of the capacity to mobilize revenues as the expansion of public spending. A sustained effort is under way to improve the efficiency of the tax administration and to promote increased volumes of private savings.

The government’s fiscal strategy is to increase fiscal revenues to 10 percent of GDP for the next three years. Among the measures already taken to improve the tax authorities’ collection capacity, I could mention last July’s establishment of a large taxpayer unit within the General Tax Administration, which will make sure that the country’s 200 largest taxpayers fulfill their obligations. In fact, two of the main departments in charge of tax collection, the General Customs Administration and the General Tax Directorate, are currently being strengthened and modernized under technical cooperation operations with the IDB and the IMF.

At the same time, the government is working to improve the way it allocates public spending, which is being budgeted to provide the population with the best basic services, particularly in education and health care. Nevertheless, the budget process in Haiti remains overly detailed and rigid. In order to turn the budget into an effective instrument of economic policy, the government has designed a program of public spending management reforms that will improve budget management, expenditure control and accounting mechanisms. In this regard, a new law on the budget will soon be submitted to the Parliament, which will define stricter controls on the current accounts of the ministries and will establish modern procedures to control expenditures. These procedures will eliminate the preliminary audit by the Office of the Auditor General, which delays operations. Moreover, the instruments available to this office to conduct ex post audits have been reinforced. Over the medium term, the government plans to include the capital account and financing plans in an overall budget.
Our monetary strategy aims to keep inflation at a very low level (under 10 percent) and to improve the balance of payments. In 1995, the balance of payments current account deficit (before donations) reached approximately 22 percent of GDP. The reason for this is the rapid increase in imports after the lifting of the trade embargo and the exceptional influx of external resources. These external capital flows made it possible, among other things, to discharge payment arrears and accumulate record net reserves of the consolidated banking system. In any case, the deficit will decrease as initial demand drops and the export picture for agriculture and the assembling industry improves.

Haiti’s foreign debt will reach approximately 45 percent of GDP in 1997–98. The largest part of the debt is owed to multilateral institutions at concessional rates. The service for that debt, which in the current fiscal year will represent some 23 percent of exports, will drop to 7 percent by the end of the decade. With a relatively low debt service, the government estimates that it is capable of meeting its obligations regularly.

In May 1994, the Republic of Haiti received favorable terms from the Paris Club when it renegotiated its debt with the OECD countries. The government hopes very much that its creditors in Latin America, in particular Argentina, Venezuela and Mexico, will once again demonstrate their solidarity with Haiti by granting us similar terms to those offered by the Paris Club. At this time, I would like to thank these countries in advance on behalf of the Haitian government and people.

At this stage, I think it is necessary to recall once again that the main objective of the government’s policy is to reduce poverty by reviving economic growth and providing the poorest in society with the opportunity to earn a regular living. To this end, the government has undertaken to implement a consistent macroeconomic policy for sustainable and lasting growth based on the key role of the private sector, market efficiency, real prices and the exploitation of the Haitian economy’s competitive advantage to increase productivity and employment.

The objective sought is to change the nature of the State substantially in order to achieve lasting development based on social justice and democracy, decentralize the State and deconcentrate the executive branch, establish an independent and impartial judiciary, help strengthen Parliament, local governments and civil society organizations to enable them to play a more constructive role in the formulation and implementation of government policies, reform the government and the civil service to make them more efficient, and reduce the involvement of the State in the commercial production of goods and services.

The government is aware that the high level of poverty in Haiti is the greatest obstacle to implementing this program and the process of State modernization. Yet it is also aware that without a consistent reform program, the genuine improvement of the living conditions of the Haitian people—and therefore poverty reduction—will not occur.

Yet it will not be possible to implement this program or make it successful without the technical and financial assistance of our international partners and, in particular, the IDB Group, which remains the institution best equipped to help us implement our strategy of social equity, State modernization, environmental protection, and assistance to microentrepreneurs and women.

Speaking of the IDB Group, I would like to mention in passing that it seems strange that Haiti is the only founding member of the Inter-American Investment Corporation yet to receive financial assistance from that institution, despite the fact that the Haitian private sector regularly submits requests and that the government has fulfilled all its obligations.
vis-à-vis the Corporation. The government firmly hopes that in 1996 the IIC will count a few Haitian entrepreneurs among its clients.

As to the Multilateral Investment Fund, the youngest member of the IDB Group, the government appreciates the efforts it has made in Haiti so far. It believes, however, that in light of Haiti’s needs, the MIF could be much more active (I would say even aggressive) in its program of assistance to Haiti.

I deliberately left two subjects of capital importance to Haiti for the end. The first involves privatization—and in particular the future of State-owned enterprises—and the second concerns the scarcity of concessional resources at the IDB.

With regard to the first matter, I would like to reaffirm that the government continues to believe that the best way to put State-owned enterprises at the service of the Haitian people is not by keeping them in the State’s portfolio, in view of the deficits they post, their impact on public finances, their inability to provide services to the community, and the costs they impose on society. In fact, President René Préval has solemnly and unequivocally stated his administration’s position—maintaining State-owned enterprises must be economically justified. The government is aware of the difficulties to be overcome, the resistance to be surmounted, and especially the need to avoid creating new monopolies. This is why, in its discussions with its economic and social partners, it has started to define the regulatory antimonopoly framework which must necessarily accompany the State’s divestiture of government enterprises. Missions from the IDB, the World Bank and the IMF are expected in Port-au-Prince next week to begin discussions on this subject.

At the risk of repeating myself, I reaffirm that as far as the State-owned enterprises are concerned, the political will and leadership are present to make them truly serve the interests of the Haitian people.

Regarding the increasing scarcity in the availability of concessional resources, the Haitian government believes that this is a serious threat to the execution of its development actions, both in terms of productive projects and social projects. While recognizing the Bank’s redoubled efforts to find additional resources and to implement innovative cofinancing mechanisms, I would like to urge our most favored partners, both within and outside the region, to continue to contribute to the development efforts of the poorest countries, particularly by increasing their participation in the replenishment of the Fund for Special Operations. In this regard, I could not conclude without thanking in particular and on behalf of the Group D2 countries His Excellency Carlos Menem, President of the Argentine Republic, for the generous appeal he made to the rich countries on behalf of the poor ones.
I would like to begin by expressing my most sincere gratitude to the people and government of Argentina for their efforts in organizing this annual meeting in the city of Buenos Aires.

As we are gathered here, Norway’s Parliament is examining a white paper on Norwegian cooperation with developing countries. The main objective of such cooperation, as stated in the report, is to help improve social, economic and political conditions in developing countries within a context of sustainable development. The following specific goals are envisaged:

- Promote peace, human rights and democracy;
- Contribute to the social and economic development of poorer nations and disadvantaged population groups;
- Ensure sound, prudent management of the global environment and biological diversity;
- Promote equal rights and opportunities for men and women in all spheres of society;
- Prevent or mitigate the impact of conflicts and natural disasters.

Our overall objective and main priorities hold equally for multilateral and for bilateral cooperation. I would like to take a moment here to comment on the Inter-American Development Bank’s efforts in these five priority areas.

I shall begin with the vital area of peace, human rights and democracy. In recent years, efforts aimed at securing peace and preventing conflict have received growing priority in Norway’s foreign policy. Both economically and politically, we have actively supported peace processes and initiatives to resolve conflicts in several countries. Norway has also been involved in the negotiations between the PLO and Israel, and has lent its support for the peace and conciliation processes in Mozambique, Angola, Sri Lanka, South Africa, and, of course, Guatemala. Indeed, it has played an active role in peace negotiations in Guatemala since the Oslo Agreement was signed in 1990 by the government and the guerrilla movement. Last year in Jerusalem, we strongly urged the Bank to become actively involved with the UN peace efforts under way in that country. As we meet again one year later, I am pleased to note the Bank’s work in this area. (Members of my delegation visited Guatemala on their way to the meeting here to find out more about the Bank’s operations in that country. They were both pleased and encouraged by what they saw.) The recently announced cease-fire leads us to expect further improvement in the climate of cooperation and development, including a central role for the Bank.

The Bank is to be commended on its efforts to strengthen civil society and modernize the State. It has made a strong show of its leadership capacity, not merely by acknowledging the close relationship that exists between economics and politics, but by actually doing something based on that acknowledgment. Whether or not efforts to achieve political and democratic stability are successful will hinge upon the existence of a state of law and a strong civil society characterized by participatory decision-making. It is of paramount im-
portance that there be a free, unbiased electoral system, that arrangements be made for broad involvement in government, with the appropriate delegation of authority to the local level, and that there be guarantees that the police and judicial systems will enforce equal treatment under the law. The Bank has clearly shown its desire to play a key role in this area.

Poverty reduction is a key issue in the report now before the Norwegian Parliament. The Task Force on Multilateral Development Banks has just submitted its final report, which will be discussed at the Development Committee slated to meet next month. The report’s central message, in my opinion, is that poverty reduction should be a part of each and every one of the Bank’s operations. Norway fully embraces this position.

The strategy ultimately adopted for poverty reduction needs to identify ways to help the poor “graduate” out of poverty, a process that will be possible only if a propitious environment for economic development is in place. This alone will not be enough, however. All must share in the benefits of growth. Latin America’s often cited very unequal distribution of income is a well-known fact and represents a hurdle in the way of sustainable economic development.

Efforts geared toward alleviating poverty should also include measures to prevent the exploitation of child labor. I am pleased to note that the Bank has addressed this issue in its technical cooperation program. Norway recently signed an agreement with the Bank supporting an initiative aimed at improving the situation of children in Nicaragua. In this regard, I would like to mention that Norway will be hosting an international conference on child labor next year, in cooperation with the International Labour Organisation and UNICEF, among others. The conference is intended to bring stakeholders together to join in positive dialogue on priorities and actions to be undertaken.

From a socioeconomic standpoint, indigenous peoples account for a large segment of society’s underprivileged groups. Under the mandate of the Eighth Replenishment, Bank operations are to give special consideration to indigenous groups. We welcome this initiative and wholeheartedly support a more proactive role for the Bank in this area.

The Bank’s impact on poverty can only be measured in terms of the results of its operations. Gauging project impact is, of course, no easy task, but methods and tools need to be defined in order to verify project results and to make sure that Bank projects truly help to reduce poverty. Targets and indicators for specific objectives must be devised and recorded during the project design and generation phase, with project execution and final results being measured against those same indicators.

With regard to this issue, we would be interested in receiving an annual progress report outlining the Bank’s work in the area of poverty reduction.

The third priority area is natural resource management and environmental protection. Any proposal for the use of Bank funds needs to include documentation that attests to the project’s social, economic and environmental viability. Projects must be economically and financially sustainable in terms of growth, maintenance of capital, and effective use of resources. They must also be ecologically sustainable, meaning that they protect ecosystem integrity and preserve natural resources, including biodiversity. Equally important is a project’s social dimension, that is to say, how it affects social equity, mobility, cohesion, participation, competence, cultural identity and institutional development.

Decisions on projects and programs that are expected to have a significant impact on the environment should not be made until there has been a thorough evaluation of that impact. These evaluations should not be limited to gauging a project’s potential environ-
mental impact: they should also identify what the socioeconomic impact would be of not implementing specific projects. Indeed, there will be cases in which a development project having a limited negative environmental impact will be the best alternative (even from an ecological standpoint), if the other option would allow problems stemming from poverty to continue to exist. In sum, then, environmental impact needs to be viewed from a more comprehensive standpoint.

The fourth priority area outlined in the white paper is equal rights and opportunities for men and women. Norway has been following the Bank’s work on gender-related issues with interest, and has also provided financial support for this area. Bank initiatives need to assign high priority to operations that will impact on both sexes, so as to ensure the broadest possible development impact for the institution’s work. Gender issues need to be analyzed at all stages of the Bank’s projects: design, supervision, implementation and evaluation. Bank staff and management need to be more sensitive to these issues, and more funds need to be assigned so that staff can redouble their efforts in this sphere. In this regard, the External Advisor’s report on women in development was especially interesting, in that it underscored women’s role in the development process. At the same time, and somewhat paradoxically, more and more women are finding themselves among the ranks of the poor. We fully support the recommendation that the Bank’s dialogue with each of its members include a more comprehensive approach to gender issues. We would like to commend President Iglesias on his decision to include the Beijing Platform in the Bank’s dialogue with its member countries.

We were pleased to see the active role played by the Bank at the Fourth World Conference on Women last year in Beijing: we will all be watching closely to see what kind of follow-up is given. The Bank is also to be commended on having established a fund for leadership and representation of women. This is an initiative of major importance, and I have the honor of informing you that Norway will be contributing to this fund.

Norway views the delivery of aid in cases of natural disaster and conflicts as a key part of its international commitment. Support is very broad-based and comes from a vast gamut of sectors, ranging from the Church to labor unions. The rise in the number of catastrophes triggered by human intervention or natural disaster has meant that long-term development assistance funds (both bilateral and multilateral) have been drawn on increasingly to cover emergency humanitarian and rehabilitation needs. Consequently, an increase in the demand for Bank funding for emergency aid can be expected in the future. Against this backdrop, it would be worthwhile to discuss the future role and mandate of the Bank in emergency situations, bearing in mind the clear mandate and role of the United Nations in this area.

Before closing, I would like to share a few thoughts with you on three aspects concerning the makeup of the Bank’s staff, to wit: skills and experience, country of origin, and gender. Further adjustments are still required in the Bank’s mix of skills and experience in order to provide a proper response to the various facets of the institution’s priority areas. As regards the breakdown of the Bank’s staff by country of origin, this area needs to reflect more closely the institution’s multilateral character. And lastly, the Bank needs to step up its efforts to hire more women to professional positions, especially at the higher levels.

I would like to make one last comment, regarding the role of the Bank’s Board of Directors and the shareholders. The Board should focus its attention more on matters
pertaining to general policy, while management should seek to support the directors in their efforts to play a more strategic role. By introducing a rotating monthly calendar, the Board and the shareholders would be better able to provide input for issues related to the Bank's policy. Similarly, documents need to be circulated well in advance of Board consideration, and each document should indicate specifically when it is scheduled for consideration.

In conclusion, I assure you that Norway will continue to provide a high level of assistance through the multilateral system, as the government has clearly indicated in its white paper to the Parliament. The support to be provided to the various organizations will be commensurate with each organization's ability to effectively fulfill its stated purposes and the extent to which its activities reflect Norway's own priorities. Norway and the management and staff of the Bank must and will work together to rise to the challenge of making sure that the Bank maintains and enhances its high level of support.
I should like to thank the Bank and the Argentine government for the superb way in which this meeting has been organized, and for the warm and hospitable welcome we have received in this fair capital city of Buenos Aires.

Events of this kind provide an ideal setting for representatives from different countries and institutions to share their views on the challenges confronting them and on the courses of action proposed.

Costa Rica is seeking sustainable development on various fronts:

- Economically sustainable, in the sense that the economy is able to foster and finance a level of development that it can maintain on its own.
- Socially sustainable, in the sense that all members of society will be brought into play, through an equitable distribution of the rewards and costs of living in society.
- Environmentally sustainable, since an economic miracle that is only temporary is pointless if the natural resource base that underpins it has been depleted in the process.
- Politically sustainable, in the sense that it is built on a broad national consensus on the direction that has been chosen for society and on an institutional setting that not only helps to make this consensus possible but also translates into public and private initiatives.

Costa Rica has already made great strides in many of these areas. In its efforts to attain the development goals that it has set for itself, our country will have to overcome the major challenges of achieving economic stability and becoming economically competitive, with efficient and transparent markets and public institutions.

These are areas in which Costa Rica has been lagging behind for some time, and over the years, we have become used to turning to second-rate, short-term solutions for the answer, as if just getting by would be good enough to maintain the impressive achievements of the past and even surpass them in the years ahead. We have learned the hard way that mediocrity, which in the past could be shrugged off to a lack of information, incompetence, lack of accountability, indiscriminate protectionism, and even favoritism, now poses a formidable hurdle to our development.

We are ready and eager to take up the challenge of excellence, quality and efficiency, not as some abstract notion or a simple mechanism to increase returns for the most successful members of society, but as a vehicle for improving social conditions in our country.

The problem of fiscal imbalance and volatility is endemic to Costa Rica, where a political-based fiscal cycle exists much the same as in other countries. Each new government inherits an enormous deficit from its predecessor and must go to extraordinary lengths to stabilize the economy by the midpoint of its mandate. Then it lets up again so that by the time it leaves office the deficit is far worse than it was initially for the next administration.

When the Figueres administration took office in 1994, the consolidated public deficit exceeded 8 percent of GDP, an enormous burden for the economy that underscored the immediate need to come to terms with the structural causes of the fiscal imbalance. The
government resolutely tackled this problem, and was able to bring the deficit down to 3.5 percent of GDP by 1995.

The way in which the government addressed the problem of the deficit was just as impressive as the actual reduction in the deficit itself. The government decided to tackle structural problems on the revenue and expenditure side at their root. Great care was taken to ensure that the stabilization measures would not adversely affect low-income groups or result in cutbacks in spending on social programs.

On the revenue side, some major legal and administrative reforms were instituted. The Tax Reform Act was probably the most notable achievement in this area since it not only endowed the tax department with a series of instruments for more efficient collection of tax revenues but it also defined tax evasion as a criminal offense for the first time. Tax offenses were subject to severe penalties, including incarceration in the case of serious offenses. A new Customs Administration Act, in conjunction with a far-reaching reform of the customs department, streamlined trade procedures and through the cross referencing of information put an end to the fraudulent practice of under- and over-invoicing of imports and exports.

The Tax Adjustment Act raised the sales tax from 10 percent to 13 percent with an additional 2 percent surcharge for its first 18 months. To offset any adverse effects that this tax could have on the most vulnerable groups in society, certain staples which account for 80 percent of all spending by the poorest 20 percent of the population were exempted from this tax. The act also provides for a 1 percent tax on company assets, which is deductible from their income tax. The purpose of this measure is to ensure that companies pay their taxes, thereby instilling a radical change in our tax culture.

A series of short-term measures and structural reforms were implemented to check uncontrolled government spending. These actions featured restrictions on investment and a public sector austerity policy which has managed to keep salary increases just below the inflation rate. These measures cannot and must not be used as permanent instruments for stabilization. The country will have to reform the procedures for public investment and the legal framework governing employment in the public sector to achieve greater flexibility in the use of financial and human resources and a plan of incentives and compensation that genuinely leads to an efficient allocation of resources and career development in the public sector.

On the question of wage restraints, the number of positions in the public sector was reduced either by voluntary transfers or the restructuring of unwieldy public institutions. Some institutions such as the Banco Anglo Costarricense and Instituto Costarricense de Ferrocarriles, which for different reasons had become insolvent or were running at a huge loss, were closed down altogether.

Pensions charged to the national budget were also a significant component of spending. Accordingly, some important amendments were introduced to the Law for Regularization of Pensions chargeable to the National Budget and the National Teachers Pension Act, which when it was approved was a source of ugly confrontations, including a teachers’ strike between the National Teachers Union and the government.

The rationalization of spending and the increase in revenue have reduced pressures on the financial market, resulting in a more than 10 percent drop in interest rates in recent months. This affords the government considerable savings and serves as an incentive to productive investment.

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The flip side of fiscal imbalance in Costa Rica has not been unemployment but inflation of approximately 20 percent and 23 percent in the last two years. This creates a climate of uncertainty and impacts negatively on other macroeconomic variables, leading to higher interest rates and speeding up the pace of devaluation.

The good news is that these measures are beginning to bear fruit. The rate of economic activity is beginning to edge up and an easing in prices points to the government meeting its 1996 inflation target of 10 percent.

As a result of the steady decline in the rate of inflation, the pace of minidevaluations of the currency has slowed without affecting the real exchange rate. A cycle in which lower levels of inflation are translating into smaller devaluations has allowed the necessary breathing room to curb inflation without the need to rely on artificial measures that sooner or later become unsustainable.

The issue of competitiveness arises in the context of careful integration into the world economy, in which our comparative advantages are based on the rational, judicious and most profitable use of our natural and human resources.

Social policy, and particularly education, has been a cornerstone of our economic policy. The teaching of a second language in the education system and the expansion of the educational information systems program are indicative of this approach. Other highlights of educational policy are the reforms to technical education in the academic and vocational fields and continued support for universities.

Qualified manpower that is flexible enough to adapt quickly to the changing needs of the labor market has been instrumental in achieving low levels of unemployment in Costa Rica under the adjustment process. Open unemployment stabilized at around 5 percent despite the stringent stabilization measures.

The change in the profile of new companies that set up in Costa Rica is of considerable importance. Over 60 new companies producing sophisticated goods were set up in 1994 and 1995. These companies manufacture electrical accessories, water purifiers, dental prostheses, electronic printers, software programs, electronic lights, medical accessories, voltage regulators, equipment for vision examinations, computer cards, integrated circuits, seed classifiers, compact disks, etc. They provide sophisticated jobs with remuneration at two-thirds above the national average for comparable work.

Costa Rica has made laudable efforts to change its reputation as a country noted for squandering its natural resources. A judicious mix of production and conservation gradually replaced the conflict that long marked the environmental debate.

A highlight of this strategy is the initiative to sell carbon dioxide rights under “joint development agreements” that would allow companies emitting carbon dioxide anywhere in the world to purchase rights to absorb these emissions in forestry or natural forest management projects in Costa Rica. This mechanism was approved in 1995 for 11 projects. Other initiatives are the reforestation of 300 cattle ranches and participation by small landholders in sustainable forestry management programs. The point has now been reached where the rate of reforestation exceeds the rate of deforestation. Costa Rica has done pioneer work in the area of biodiversity, which has won it international recognition. The Instituto Nacional de Biodiversidad was awarded the Prince of Asturias Prize in 1995 for its work in this field.

Perhaps ecotourism is the most eloquent example of how the country has resolved the apparent contradiction between development and conservation. The ecotourism industry,
a major source of foreign exchange earnings, engages many small and medium-sized businesses.

The most serious problem facing the productive sector is the increasingly apparent limitations on the country's infrastructure. Chronic fiscal deficits and the short-sighted approach of the past mean that existing infrastructure is unable to meet the country's present needs and its financial and management capacity are below the levels that are required to expand infrastructure at the rate required for the transformation of production and integration into the world economy. These constraints adversely affect roads and highways, ports and airports, energy, telecommunications, and social services.

In order to eliminate these bottlenecks, progress must be made towards nontraditional financing and administration of public investment, such as public works concessions and build, operate and transfer (BOT) or build, lease and transfer (BLT) mechanisms, which introduce new managerial approaches and spread the cost of the government's investment over time. Progress must continue to be made in seeking ingenious coinvestment and capitalization processes, which not only provide sound financial resources to carry out the investments required within the necessary time frames, but also technology and managerial capacity.

The Inter-American Development Bank has always been a great ally of Costa Rica throughout the transformation process, and we hope this will continue in the future. Traditionally, the IDB has provided valuable support in the development of the country's physical infrastructure, and in particular its road system and energy development. More recently, it has supported major projects in the social field—in health, education, and science and technology. And at the current time the Bank is assisting us with the difficult task of modernizing the regulatory and institutional framework with innovative projects in the executive, legislative and judicial branches.

This task has still not been finished, and we hope to continue enjoying the institution's support in these areas in the search for new options for financing and executing the investments required for infrastructure. In that regard, we hope to fully use the new facilities offered by the IDB Group—including the private sector window, the Inter-American Investment Corporation, and the Multilateral Investment Fund—to support the development of an efficient and dynamic private sector. We are also sure that the Bank will continue assisting all of us in meeting the challenges of a global marketplace in our efforts to achieve truly sustainable development. In this regard, we are hopeful that a plan of action can soon be developed that will enable the region's smaller countries to overcome the problems of absorptive capacity that have limited their effective access to the Bank's resources in the proportions stipulated in the Eighth Replenishment.

Under the skillful and enthusiastic leadership of President Iglesias and Vice President Birdsall, we are sure that this will be the case.
On behalf of the Government of the Dominican Republic, I wish to express a cordial and special greeting to the government and people of Argentina, with whom the people of the Dominican Republic have always had close ties of friendship. I should also like to express the appreciation of the delegation of the Dominican Republic to the organizers of this meeting and the citizens of this beautiful city of Buenos Aires for their kind welcome and fine hospitality during the course of these meetings.

I would also like to congratulate the IDB and its President, Mr. Enrique Iglesias, for the new direction he has given to the Bank and the financial solidity the Bank has established as a result of sound management of its funds and a prudent policy of attracting and placing resources.

Given the importance of agriculture for the economy of the region, the IDB has historically paid particular attention to this sector. In that spirit, we welcome the well-conceived initiative of establishing a Regional Agricultural Technology Fund. The fruitful discussions concerning the establishment of this fund have reconfirmed the Bank’s leadership as an agency of progress in the region.

We also wish to express our support for the IDB’s decision to finance private sector operations without requiring government guarantees, thus overcoming legal obstacles that exist in our countries. These actions are compatible with the trend towards reducing the role of governments in business so that they can concentrate on the basic aspects of development. This decision will help to complement the Corporation’s work in the region.

Let me now refer to some of the significant developments in the economy of the Dominican Republic in 1995—four years after the initiation of the adjustment and stabilization process. In particular, even though the minimum wage in the public and private sectors increased by 30 percent in 1995, inflation remained at single-digit rates (9.2 percent) compared with rates as high as 79.9 percent in 1990 and 14.3 percent in 1994. Gross domestic product grew in real terms by 4.8 percent in 1995, compared with 4.3 percent in 1994, which translates into a 2.9 percent increase in per capita income. According to the Economic Commission for Latin America and the Caribbean, these results placed the Dominican Republic among eight countries in the region whose per capita product exceeded that of 1980, in real terms.

Another important achievement in 1995 was the current account surplus in our balance of payments—the first in 30 years—amounting to $172.5 million or 1.4 percent of GDP. Important gains were also made in the Central Bank’s net international reserves, which rose from a negative $31.8 million in 1994 to a positive $87.4 million in 1995, while the exchange rate remained relatively stable throughout the year.

Thanks to the strict fiscal discipline maintained by the President of the Republic, Mr. Joaquin Balaguer, the consolidated public sector fiscal accounts were balanced, after a deficit representing 3 percent of GDP in 1994. This result was achieved primarily from the considerable savings realized by the central government, without reductions in social spending or investment in infrastructure.
These results reconfirm our conviction that the reforms and changes initiated in the country in the 1990s are taking us in the right direction. Our government has the firm intention to continue the policies of macroeconomic stability and economic liberalization, developing the most dynamic sectors and those generating an inflow of foreign exchange, such as tourism, export processing zones, mining and telecommunications.

Continuing with the process of reforms undertaken in 1990, last year the country approved a new Foreign Investment Act, which places foreign investors on a virtually equal footing with domestic investors, replacing old regulations with provisions more in tune with the current flows of international capital. With the IDB’s support, the financial system has continued to modernize, and its consolidation is reflected in a new Monetary and Financial Code which has won a large consensus and is currently pending approval by the National Congress.

At this point, I should like to turn to a number of important actions that appear to be common to the entire region. We have managed to withstand great turmoil and enormous pressures without having to backpedal on reforms. The region’s governments are gradually becoming aware of their role in the economy, and are increasingly concentrating on a series of long-overdue social improvements for our people. The movement in international trade is towards a world without preferences, but also without barriers. In that regard we are making progress in developing one of the most powerful continental trading blocks on the planet, the Free Trade Area of the Americas.

We have made progress in fulfilling the commitments undertaken at the Summit of the Americas. From Denver to Cartagena, the countries of the hemisphere are rising to the challenge of the present and preparing for those of the future. In 1995, the Association of Caribbean States was established, bringing together states and territories with approximately 230 million inhabitants, a combined GDP of $505 billion and trade totaling $180 billion. Other hemispheric integration mechanisms also made important strides forward. The active participation of our countries in the work of the World Trade Organization reflects our interest in improving the international competitiveness of our economies within the global market.

Over the medium term, this process of liberalization may cause a deterioration in the current accounts of some of our more vulnerable economies, which could lead to an escalation in foreign debt and the attendant negative effects experienced during the last decade. These have still not been overcome by some of our countries, particularly those in the C and D Groups, which still face difficulties in attracting financial resources. In that context, the IDB must undertake the pertinent studies and design the policies required, so that the resources programmed reach the countries that need them most urgently.

Given the potentially negative effects of liberalization, we must ask our industrialized partners, both regional and nonregional, to agree with the IDB and other multilateral credit agencies on the creation of specialized windows designed to alleviate these financial burdens and their well-known social costs.

For these reasons, in the interests of liberalization and globalization—and above all to accomplish our objectives of growth and development—it is urgent for us to review the decisions made with the Eighth Replenishment of the IDB’s resources regarding the Fund for Special Operations.

Finally, we wish to stress that despite the world trend towards regulatory standardization, particularly as regards trade in goods, services and technology, there remain major
serious imbalances between countries and regions. Many of the issues that arose in the North-South dialogue are still valid today.

It is therefore a source of concern that some of the developed countries are showing a tendency to abandon their commitment to the developing world, and even to multilateral organizations themselves. We remain nonetheless confident that the spirit of international cooperation that has been the key to the great initiatives of this century will be strengthened as we enter a new era.
On behalf of the Honduran delegation and personally, I would like to thank the Government of Argentina and the Argentine people for the warm hospitality that has been everywhere in evidence in this matchless city of Buenos Aires on the occasion of the Thirty-seventh Meeting of the Board of Governors of the Bank.

As its 1995 financing figures have once again attested, the IDB is the premier source of long-term funding for the countries of Central America.

With its financing, the Bank is assisting the Central American economies with their ongoing stabilization and structural reform programs, and with initiatives to strengthen social sectors and modernize the State. Technical assistance, tailored to each country’s agenda, is an important adjunct of the Bank’s financial support.

The new window providing for direct lending to the private sector has already had an impact in Central America, in the form of two loans, the first of them to a Honduran company. We hope that this facility will complement the work of the Inter-American Investment Corporation and the MIF to give private enterprise the support it needs to perform its proper role in the advancement of our nations.

The situation of the Fund for Special Operations is of some concern to us. Thanks to the vision of President Iglesias and under his leadership, this Fund was augmented by $2 billion under the Eighth Replenishment. The pace at which these resources have been taken up suggests that there will not be sufficient funding available for 1997.

Honduras is one of the member countries that is eligible only for FSO funding, by virtue of its per capita income and its heavy external debt. With the resolute support of the IDB, our nation is endeavoring to improve its debt profile with the Bank, reducing its share of the ordinary capital debt.

With this in mind, we would urge that the work and deliberations of the Committee of the Board of Governors, the Board and particularly its Chairman, Minister Cavallo, accord priority and support to efforts by the management of the Bank to come up with viable solutions that can make available the funding needed for economic and social development programs in the less advanced of the region’s member countries.

In the matter of the 35 percent target for lending to the Group C and D countries, a special effort will be required on the part of the borrowing countries and the Bank’s management to help the countries strengthen their project execution capabilities. We should persevere in these efforts to identify problems on the technical and legal side and any other difficulty that is slowing the pace of loan disbursements. To that end, we hope to see an action plan for the Group C and D countries approved by the Board of Executive Directors without delay.

I shall turn now to some recent developments in Honduras. Six years ago, the country set in motion a sweeping structural reform and economic stabilization process, encompassing liberalization of financial and exchange markets, relaxation of price controls, and other measures. Among the gains posted to date are improvements in the working of the economy, stepped-up economic growth, and a narrowing of the deficit. In 1993, however, we experienced a severe setback as the budget deficit soared to nearly 11 percent of GDP.
The government that took office two years ago inherited responsibility for restoring order to the economy and instilling stability. By 1995 the deficit had been pared to 3.3 percent of GDP, and is expected to be even lower this year, at 2.5 percent. Forecasts for 1996 also call for continuing stability on the fiscal front. Economic growth picked up again in 1995, and an even stronger showing is expected in 1996.

Great strides also were made in the structural reform process in 1995, thanks to an extraordinary effort on the part of the legislature. The laws governing financial institutions were amended to make for a competitive environment and stronger bank oversight, including mandatory prudential standards.

The program for reform of the State also took firm root, underpinned by laws promulgated for that purpose, which will give the nation a more efficient State apparatus and step up government action to make it more efficient and more targeted to the social sectors, notably education and health care. One highlight of this new legislation is its provision for private sector involvement in the delivery of public services and in infrastructure. Planned for 1996, and already underway, are the privatization of the telecommunications industry, power generation and distribution, and airports. We expect these initiatives to have yielded important results by the end of the year.

The private sector is starting to evince an interest in taking a stake in investment projects. As this interest translates progressively into concrete initiatives, we can expect to see more vigorous growth. The entrenchment and continuity of policies to modernize the economy have done much to allay the uncertainties that were evident until now.

On the external debt front, the Government of Honduras has accorded priority to the reduction of its debt service. Its strategy calls for the use of concessional funds for the public sector, a reduction of bilateral debt and, for multilateral debt, mechanisms to allow us to convert debt on market conditions to soft terms. In this we will need the support of the international community.

On this last point, we should make mention of the IDB's loan for public sector reform, which paved the way for such a conversion of $100 million in debt. For our bilateral debt, we received a consolidation of 50 percent of 1995–97 flows from the Paris Club, with the option of a debt-reduction operation in 1997.

Since coming to power, President Reina's administration has already left its mark on policy through its call for a "moral revolution" and its anti-corruption stance. The democratic process can only benefit from these efforts in the medium term. Other significant accomplishments have been the conversion of the police to a civilian force, the introduction of voluntary military service, and the containment of defense spending.

The Bank has also been assisting the Honduran government in its efforts to strengthen civil society. An operation for reform of the judicial branch, which was recently approved, and another concerned with the legislative branch, now in progress, are indicative of this support.

The Honduran government is pleased with the achievements made by the Bank under the Eighth Replenishment, and particularly the reorganization that will adapt the institution to meet the demands of the new reality in the region and the efforts to meet the targets set in the social sphere as concerns the private sector and modernization of the State.

The initiatives and actions taken by the IDB Group will make it possible to take up the challenges facing our countries on the eve of the new millennium.
Address by Mr. Matthias Meyer, Temporary Alternate Governor for Switzerland and Deputy Director, Federal Office for Foreign Economic Affairs

On behalf of Switzerland, I would like to extend my deep gratitude to the Argentine authorities for their excellent and generous arrangements and their warm welcome. I am delighted to have the opportunity during this visit to observe in person the effects of reforms that have greatly changed Argentina's economic landscape for the better. At the same time, the loss of confidence in the wake of the Mexico crisis in early 1995 illustrates the fact that the process of reform remains vulnerable to external shocks in Argentina and elsewhere.

Regional Development Issues

Mexican difficulties of late highlight lessons both for reformers worldwide and for other Latin American and Caribbean countries.

First, the composition of capital inflows—short-term portfolio versus direct investment—is important. Short-term flows are more sensitive to changes in interest rates as well as other macroeconomic and political variables than direct investment. Long-term investment is a prerequisite for sustainable economic growth.

Second, caution is in order with respect to fixed nominal exchange rates. Although a fixed exchange rate can be effective in keeping inflation low, it tends to generate real appreciation and to result in a decline in external competitiveness.

Third, a sound financial system is particularly important in an open economy subject to external shocks. Banks should be able to withstand shocks and adapt quickly to changes in financial conditions, including temporary increases in interest rates and changes in the flow of foreign funds. At the same time, governments should also develop a modern regulatory and supervisory system. This should also contribute to raising the level of domestic savings, which remains one of the most serious economic constraints to economic growth in the region.

While macroeconomic and structural reforms are essential conditions, they are certainly not sufficient for achieving sustainable development. Improving income distribution and reducing poverty cannot be left to the trickle-down effects of economic growth. Government policies—in particular, fiscal programs and the ways in which tax administration is run—are critical in this respect. A redefinition of the role of the state therefore appears necessary. A strong State is a prerequisite for a robust economy. The State should not, however, draw its strength from ownership of assets and the conduct of direct production and trade activities, but from the building of powerful institutions which can promote competitiveness, protect the consumer, and provide the environment that enables economic agents to respond and operate freely. Moreover, the state has a central role in providing social services and contributing to basic infrastructure.

Let me now add a few remarks on the issue of economic and trade integration of Latin America and the Caribbean. A major step in this respect was achieved with MERCOSUR becoming effective on January 1, 1995, and with the very recent association of Chile.
Switzerland looks favorably on such arrangements, as they contribute to a strengthening of economic ties within and among the different regional economic areas. They are important in the context of more global economic integration, which is crucial. My country is therefore ready to actively support these efforts in the framework of WTO, UNCTAD and other appropriate fora. Such arrangements must, however, conform to WTO rules and not become substitutes for an open and multilateral trade system. Switzerland is willing to intensify its relations with groups of nations working toward their economic and trade integration. As the third largest direct investor in Latin America and the Caribbean in recent years, Switzerland will consider favorably any initiative conducive to promoting reciprocal access to markets. My country intends in particular to explore the possibilities of further trade liberalization and the strengthening of private investment and technology partnerships with the group of countries participating in MERCOSUR, as well as with other subregional groupings.

Role of the Bank

In this context, what is the role of the Bank? During 1995, the Bank was again the primary source of multilateral funding in the Latin American and Caribbean region. The Bank has reacted adequately to the financial shifts of early 1995 by boosting its policy-based lending for balance of payments support to those countries most severely affected by the Mexico crisis and its aftermath. It is reasonable to hope that these events will not repeat themselves and the Bank can resort less to policy-based lending, since many governments are applying the lessons learned.

This foreseeable decline of adjustment lending will also allow for a better balance in the Bank’s activities between bigger and smaller countries. The target of 35 percent for credit access of C and D countries is important in the medium term. It is an indicator of the special effort we have asked the Bank to make to increase the quality and quantity of projects in the poorer countries. We know that it is not an easy task to concentrate projects in countries where the institutional constraints are sometimes considerable. But the Bank’s basic mission is to foster development in those countries that do not have access to other means of financing.

The Bank has alerted us also to the need to provide additional concessional resources. We are fully aware that the last FSO replenishment fell short of expectations. Let us not forget that some of the poorer countries in the region are facing a very serious debt challenge. It would be most unfortunate if the Bank were to contribute to a further worsening of the situation precisely at a time when the international community is trying to find an adequate response that will encompass all creditors, including multilateral. We are therefore willing to reflect on ways to increase resources without having to resort to new replenishment negotiations. A first solution can be to use concessional resources more effectively. But this cannot suffice. The use of a larger share of the Bank’s net income could be looked into, given the Bank’s very comfortable prudential ratios, and concessional cofinancing could be encouraged.

This being said, the IDB’s primary role cannot and should not be measured by its lending volume alone, and an exaggerated reliance on quantitative targets could provide a false sense of purpose. The Bank’s ordinary capital window is rather small when compared to the global capital flows reaching Latin America and the Caribbean. It can have a
lasting impact only if loans and equity investments are of top quality and well targeted at critical areas.

The challenge is therefore to identify those areas that are critical for member countries. First and foremost regarding poverty—we all know that global project and lending volume targets are insufficient to measure progress. Considerable efforts are needed to assess the most binding needs of poor women and men, identify beneficiaries, involve them in the design of interventions, and select the most effective forms of employment creation. We are encouraged by the Bank’s insistent efforts and are looking forward to the forthcoming proposals. We can assure staff of our full intellectual support in developing effective methods.

Second, the Bank should be active only where the private sector is not yet present or requires risk sharing or other incentives by public institutions to improve its response. The fact that the private sector is increasingly engaged in activities that have traditionally been of the Bank’s resort suggests that earlier efforts are bearing fruit. The Bank has adjusted well to this new situation and has been imaginative in defining a catalytic role for private sector development. However, the diversity of the Bank’s instruments, ranging from the Private Sector Department, the Multilateral Investment Fund, the Inter-American Investment Corporation, and the microenterprise and financial sector activities is sometimes puzzling. We feel that there is still room for creating stronger synergies and complementarities between those different activities.

Third, we appreciate that the Bank has moved swiftly into the fields of modernization of the State and the strengthening of civil society, and has already developed a number of technical assistance projects in these areas. We look forward to learning more about the efficiency and impact of these activities. We would also like to encourage the Bank to incorporate institutional analysis more explicitly in all Bank projects.

The year 1995 represented an important milestone, as a substantial restructuring of the Bank was completed which created more accountability. Management clearly deserves credit for the results achieved. I am particularly pleased by the progress made toward strengthening the role of Country Offices. We support internal recommendations to increase the staff in the Country Offices and to adapt its composition to the new areas of work such as social sectors, natural resources and modernization of the state. At the same time, increased resources should be invested in the training of existing staff. This is the necessary corollary to a project portfolio which has grown considerably and has become more diverse over the last years. In this context, we very much welcome the intention of the Bank to adjust personnel policies so that staff recognize that a career at the Bank will normally involve assignments both in the field and at headquarters.

This brings me to the internal efficiency of the Bank. We want a Bank that uses its resources efficiently and has the capacity to analyze, to dialogue, to persuade. We give the Bank new tasks constantly; we ask it to prepare projects better, to supervise them more closely, and to further ownership by recipient governments and the people directly affected by the projects. At the same time, we set zero or negative growth targets in the administrative budget. While such targets can be an indicator of efficiency, we should not transform them into an objective. Ownership requires dialogue and the internalization of objectives by the borrowing countries. This requires time and personnel. It is not efficient to cut back on such activities.
The Role of Nonregionals

As a nonregional member, Switzerland is very much interested in deepening its cooperation with Latin America and the Caribbean. We all have different experiences, different sensitivities and sometimes different interests. But we live in one world that is becoming smaller and smaller. Issues have also become more complicated. It is no longer possible to neatly separate concerns such as trade, investment, the environment and social affairs.

In 1995, the Eighth Capital Increase was successfully initiated, the Bank reorganized, and important new policies were set up. These are good reasons to express my deep appreciation to the President, management, and staff of the Inter-American Development Bank for their invaluable efforts towards the renewal of the Bank's practices and their contribution to a better understanding of the problems faced by the region.
Address by Mr. Orlando Bareiro Aguilera, Governor for Paraguay and
Minister of Finance

It is a great honor for me to convey the warmest greetings of the people and Government
of Paraguay to the participants in this Annual Meeting of the Board of Governors of the
Inter-American Development Bank and the Inter-American Investment Corporation. Our
congratulations to the organizers of this event and our heartfelt thanks to the authorities of
our sister nation, the Argentine Republic, for its warm hospitality.

As I indicated during the last annual meeting, my country is committed to continue
implementing the measures that will effect deeper structural transformations, and we rec-
ognize that there is still much left to do. For this reason, I highlighted the need for the
positive results of the macroeconomic policies to have an impact on the more disadvan-
taged social classes. In this way stability would become entrenched within a prudent time
frame and the results of the policies would become the foundations of a form of develop-
ment in which equal opportunity would be increasingly accessible, since this is consid-
ered the best way for everyone in our country to have ownership and accept and assume
the costs of the transformation process.

The task of structural adjustment in which we are engaged includes the country’s
different sectors, among which the currency of an autonomous and independent judicial
branch bears mentioning, as the beginning of the State modernization process, within a
context of wide-ranging support for democratic institutions.

Within the context of reorganization, we continue to decisively implement reforms in
the education sector, in particular at the primary, secondary and technical levels. We are
fully aware that for the republican institutions set forth in our Constitution to operate
efficiently, the starting point should be an immense effort in the area of education, since
the lack of it is at the root of the nation’s great problems. For this reason, we encourage the
delineation of policies that will promote the achievement of this great objective, for the
purpose of transforming the common man into the first agent of his own progress and
well-being.

For the purpose of expediting and offering better guarantees for foreign investment,
we will soon be submitting to the National Congress bills on trademarks, patents and
copyrights, together with a series of bills to demonstrate our commitment to structural
transformation.

Another important reform undertaken involves social security. The goal is to have a
modern and efficient system which, together with its original role, will be able to promote
domestic savings and facilitate the development of capital markets. With regard to State
modernization and contraction, great efforts are being undertaken in favor of privatization
and modernization of the institutional apparatus, although we are aware that we still have
a long way to go.

In conjunction with the reform processes, the Paraguayan economy in 1995 was char-
acterized by a sound macroeconomic performance, despite the fact that in the first half of
the year we were forced to face difficulties in the financial system, which has required the
Central Bank of Paraguay to extend credit lines for the affected institutions and take other
actions aimed at calming the market. Nevertheless, fiscal discipline and the good perform-
ance of the agriculture sector anchored this process. Between 1994 and 1995, the inflation rate dropped from 18 percent to 10.5 percent while economic activity grew at a rate of 3 percent and 4.2 percent, respectively. Although the economic growth rate was positive, we know it needs to rise, in light of the high birth rate. Our government is therefore devoting its best efforts to that end.

The net international monetary reserves represented 13 percent of GDP, while the external debt represented 15 percent and the tax ratio, 11.3 percent. For 1996, the goals are to consolidate the reform process, with the objectives of stability, greater economic growth, support for the social sectors and environmental conservation. I would also like to emphasize that Paraguay is very committed to strengthening MERCOSUR and consolidating FONPLATA.

In light of the changes described, with the Eighth Replenishment we have assumed a series of commitments the essence of which is to take actions to alleviate poverty and promote increased social equity. These tasks cannot be postponed, in view of the wishes of the great majority of the population, which is anxious to contribute with its efforts to the process of change for the well-being of our people. We therefore hope that the implementation of the Eighth Replenishment will help achieve a true socioeconomic takeoff in a world that generates growing challenges and where the role of technology is essential. We hope that the approaches of the Bank’s new policies will give rise to the implementation of strategies to generate more and better goods and services within the reach of the entire population, particularly in the rural areas and among the weakest sectors. We believe that a genuine improvement in the standard of living of our people would thereby be effected.

Latin America continues to face difficult situations that affect the various participants in its collective life. Together with self-effort, my government is very excited about the implementation of the impressive objectives of the new IDB. Consistent socioeconomic strategies will take shape and the well-being of the entire population will be improved. Of course, it should be kept in mind that these strategies are being applied to human beings and therefore they have to be socially and politically feasible. If not, conditions could be drowning the good intentions of the best projects.

We think that the IDB now has enough capital and experience to take on a growing leadership role in promoting the region’s development. This brings us to reaffirm the importance of the distribution of the resources available for lending within the guidelines adopted by the Eighth Replenishment. We believe that this objective is legitimate and can never be given up, and for its implementation in the short term we hope to join our efforts to the creative and experienced human resources of our institution.

Another essential challenge to a good number of borrowing countries is the tragic scarcity of concessional resources in the Fund for Special Operations and the Project Preparation Facility. For this reason we make a clear appeal for the search of a fair, fitting and above all equitable solution to these problems, since this type of resource is one of the basic tools of our institution.

Within the institutional reorganization process and the policy approaches that increasingly emphasize the private sector, we are pleased that the Inter-American Investment Corporation has been strengthened and consolidated. We hope that this transition period will end successfully and as soon as possible, as a basic condition for the institution’s increase in resources. We also highlight the policies and actions that the IDB has been
adopter to make small and medium-sized enterprises agents that promote change and generate jobs.

In this same context, the private sector window is also deserving of our support, so that investors can be given greater opportunities in the face of the wide range of alternatives our countries have to offer.

We congratulate the MIF on its performance as it entered its second year of operation in 1995 and we are convinced that the projects financed with its resources are innovative, reproducible and self-sufficient. Not only do we give it our vote of confidence but we hope to continue working with it closely.

Since its establishment, the IDB has undergone a series of changes both in its internal organization and its operational mechanisms. In this regard, it is worth noting the important interaction between management and the Board of Executive Directors through the committees, which provide a forum for discussion of the basic issues that affect the institution's operation.

I would like to express my congratulations to the IDB in the person of its President and to the hosts for this remarkable event. I hope that a year from now we will find a Latin America with a much stronger economy and a consolidated democracy.
Address by Mr. Jorge Camet Dickmann, Governor for Peru and Minister of Economic Affairs and Finance

It is an honor to address the Board of Governors of the Inter-American Development Bank here in this city of Buenos Aires. Argentina is a country that, for historical reasons, is well loved by Peruvians. At this crucial time of change and modernization throughout Latin America, moreover, it is a country that we look to with admiration and hope.

I would like to pay tribute, through President Iglesias, to all the Bank’s staff who have worked so constructively on fostering development in the region.

Let me share with you, first of all, a few thoughts on the economic circumstances prevailing in Peru, and then I will turn to specific considerations relating to the Bank’s current situation.

Peru’s Economic Program

Peru has achieved success over the past five years in combating inflation, promoting economic growth, and launching a major program to eradicate poverty. The underpinnings of that success are the social peace initiative, the strict application of an economic program based on fiscal and monetary austerity, the establishment of thoroughly free foreign exchange and trading systems, removing the State from resource allocation, and setting the stage for a culture of competence and efficiency.

The Peruvian economic program has inspired a high degree of confidence among economic agents, and has stimulated considerable investment in all sectors of the economy. It is also noteworthy that our program passed the exacting test to which the Mexican crisis put the Latin American economies at the end of 1994. We believe this is attributable to the fact that a fiscally conservative approach was taken in managing the program, without resorting to short-term domestic debt, as well as to the soundness of the free exchange system and the depth of the economic reforms put in place.

We are aware, however, that the current account deficit on the balance of payments cannot grow indefinitely without jeopardizing sustained growth of the Peruvian economy. We must stimulate domestic savings as a fundamental pillar and guarantee of continued growth. External balance is not achieved by means of controls on trade and capital but rather, I repeat, by strengthening domestic savings, both public and private. It is vital therefore that we maintain the fiscal and monetary responsibility inherent in our economic program, as well as entrenching and deepening economic reforms to refine the workings of the market. This will lead to a true modernization of the economy and guarantee sustained high growth over the long term.

Since the successful implementation of the economic reform program following stabilization of the economy, Peru has had three years of vibrant growth, beginning in 1993, averaging 8.5 percent per annum. The government’s main economic objective at present is to entrench a high rate of growth for the medium and long term. First, however, domestic savings must be strengthened to underpin private investment in order to drive that sustained growth. Our projections for the current year call for growth on the order of 3 to 4 percent along with a reduction in the current account deficit.
Bringing inflation down from 10.2 percent to 9 percent by the end of this year is a formidable task that will call for highly responsible management.

The course of the Peruvian economy has changed radically in the past five years thanks to the program of reforms. Chief among them are market and capital account liberalization, complete openness to domestic and foreign investment, the State’s withdrawal from business activity, and the elimination of distortions and rigidities that stand in the way of private initiative.

To date, the reforms have generated high levels of investment, making our economy significantly more competitive and contributing to our integration with a globalized world economy. This has enabled us to raise living standards substantially for the Peruvian people.

One essential component of this stage of carrying out reforms further will be the modernization of the State. Its aim is to seek to improve efficiency and productivity in the delivery of services by the public administration and reduce the excessive costs this entails for the country. A modern, lean and efficient State will help increase domestic savings as a fundamental basis for investment and job creation.

The successful privatization program carried out to date has led to increased social spending using resources previously used to cover the large deficit of public enterprises. Privatization has also resulted in a more competent, more efficient economy, which will generate permanent jobs.

Trade reform will be carried out further to bring greater competitiveness to the Peruvian economy. To reactivate the agricultural sector, it is vital that we create an atmosphere that will attract private investment and promote greater job creation. To this end, a stable legal framework has been put in place to stimulate the creation of a land market and thus promote private investment. The government has undertaken a rural property titling and registration program, and intends to promote the creation of a water market.

This program of reforms, coupled with continued fiscal and monetary discipline, will enable us to achieve sustained growth in a context of long-term external equilibrium.

The Inter-American Development Bank

I would like to take advantage of this unique opportunity to convey publicly my appreciation to the Bank, which stood alongside Peru as we initiated this important process in 1990. Like countries throughout Latin America, we see the IDB as one of our most valuable partners in the great task of modernizing our economy and achieving the economic and social well-being to which we all aspire.

In connection with the Bank’s programs, I would like to mention two facilities approved under the Eighth General Increase in Resources in relation to support for the private sector: direct lending to the private sector, and the dollar window.

With respect to the first, creating a new type of direct private sector financing for infrastructure and public utility projects has been one of the major achievements of the Eighth Replenishment. During the first year of operations, this facility has shown itself to be potentially an invaluable instrument for promoting investment in the delivery of public services, an area of activity being transferred to the private sector through the modernization of our economies. We must work with the Bank to invigorate the management of this instrument.

The creation of the dollar window for global multisector and microenterprise credit is an important accomplishment and has contributed to diminishing loan-related risk through
currency pooling. This facilitates the task of financing the domestic private sector on terms appropriate to the environment.

These two instruments, together with the Bank’s current emphasis on the social sectors, augur well for an increasingly fruitful association between Latin America and the Inter-American Development Bank.

Latin America is finally regaining the path of growth, and we are confident that the Bank’s continued support will strengthen the region’s hand in its vocation to become one of the areas with the highest growth and greatest social progress in the world.
ADDRESSES

SIXTH PLENARY SESSION

March 27, 1996

Closing Session
I am delighted to be addressing you at this Closing Session of the Thirty-seventh Annual Meeting of the Board of Governors of the Bank and the Eleventh Annual Meeting of the Board of Governors of the Corporation. I should like first of all to thank our hosts, the government and people of the Argentine Republic, for the warm welcome we have received. In particular, I should like to convey our appreciation to President Carlos Saúl Menem for his presence and for his eloquent words at the Inaugural Session of this meeting, as well as to Mr. Domingo Cavallo, Chairman of the Board of Governors and Minister of Economic Affairs, and to all the Argentine authorities for the magnificent support we have received at this gathering. Thanks are also due to the participants, who have joined us in numbers that exceeded our most optimistic expectations and have no parallel in the history of the Bank.

The unprecedented number of people in attendance at this year’s meeting is in itself a vote of confidence in the region and a wager on its future. Likewise, it sends out a message of confidence in the Argentine Republic, and of faith in our institution.

Again this year, a series of activities directly related and complementary to the Bank’s operations have taken place in conjunction with the Annual Meeting. The seminars that we customarily hold are increasingly proving to be worthwhile. The four seminars organized this year provided an opportunity for an invaluable exchange of experiences and views on three subjects which are crucial to the region’s economic and social development: education, integration and fiscal institutions. We began with the education seminar, to signal the social vocation of our Bank, and drew from it vital points on how to improve educational systems in the region.

Integration was given pride of place as the focus of two seminars. One dealt with relevant experiences in various parts of the world and the repositioning of INTAL as the key IDB Group institution on the question of integration. The second had to do with physical integration within MERCOSUR, whose already vigorous development within the region may now be given an additional thrust by the admission of countries such as Chile and Bolivia. This forum provided an opportunity for examining a whole series of investments that will become necessary as regional integration develops further.

A third seminar focused on fiscal issues, which continue to be a pillar of macroeconomic management in our countries. From the experiences brought forth at the meeting we gathered important lessons and learned of new challenges.

In addition to the seminars, a whole range of events took place in parallel to the meeting in areas beyond the Bank’s sphere of activities. We consider it an honor that this was the venue for a meeting of the Group of Thirty, a prestigious global opinion group that deals with vital international economic issues. Also worthy of note were the conference organized by ADEBA with the International Finance Institute to discuss banking in times of globalization and instability; and the meetings organized by Merrill Lynch at which the ministers had an opportunity to explain the situation prevailing in their respective coun-
tries to a large group of agents and representatives of international investors with an interest in the region. Some governments held special meetings to outline their economic policy directions. Another highlight was the launching of an infrastructure finance fund of $1 billion that will have close links to the Bank. This fund will support shareholder participation in Latin American infrastructure programs.

During the course of the meeting the Bank signed loan contracts and technical cooperation agreements worth more than $700 million. A regional agricultural research fund was set up with the backing of a group of governments that will no doubt continue to grow. The aim is to obtain $200 million to promote agricultural research as an issue vital to Latin America. Food production is as important in terms of domestic development as it is in the area of exports.

At the sessions of the Annual Meeting itself, general and specific messages were addressed to the Bank. The thrust of the general message was conveyed, very appropriately, by Mr. Menem, Mr. Cavallo and the outgoing Chairman of the Board of Governors, Mr. Frenkel. Mr. Menem and Mr. Cavallo reaffirmed their political commitment to the reforms under way as well as confidence in the future, faith in integration, concern over the social problems associated with change, and solidarity with other Latin American countries, as well as their determination to continue to pursue the adjustments needed to improve Argentina’s economic performance in every respect. Mr. Frenkel, with the benefit of his authority and his experience with adjustment and reform, shared his views on this issue.

We then heard many important messages from the governors. I shall not go into details at this time, but the governors, as always, will be receiving a report outlining all the views expressed. We consider a careful reading of that report to be essential for us at the Bank.

Let me now outline the highlights of the meeting. First of all, the governments evinced a degree of harmony on economic matters, with only subtle differences, that we had not seen in Latin America in several decades.

I believe it is very important that we recognize the lessons distilled from national experiences—both good and bad—which have been put forward by you based on your commitment to economic change and modernization.

A second important message has to do with tasks still outstanding, which were underscored by several governors. Latin America has yet to recover the 5 or 6 percent annual growth it needs to reduce unemployment and remedy social ills. Also noted was the need to focus on so-called second generation of reforms—especially in support of modernizing local, state and provincial governments—and to continue to contribute to reforming and refining basic institutions such as legal systems and legislative bodies.

It was observed that there was a need for reforms to promote an increase in savings and deepen social security reform. Mr. Menem raised the issue of savings banks and the need for more in-depth reform in banking and financial systems. One of the major tasks at hand is to adapt the approach of banks that operated for years under inflationary conditions and are now working within a framework of stability. Although difficult, time-consuming, and at times traumatic, this is one of the most important tasks on our agenda.

Another vital message from the governors has to do with their concern with microeconomic issues. Although it is essential to deal with the macroeconomic fundamentals if social and economic progress is to be made, we must also address microeconomic realities in our countries. Microenterprise and small and medium-sized businesses warrant special attention and specific actions to release the synergy that lies within this vast
body of business units. We recognize that there are significant business skills in this sector that can be tapped through microenterprise and small business training.

A fourth point has to do with social issues. We were reminded of the recommendations of last year's Copenhagen Summit and of the need for action in the areas of education, employment, poverty and the role of women. Other points raised were support for peace, human rights, indigenous communities, children, and direct work with the organizations of civil society. Taken together, this mandate represents a fundamental trust to which we are deeply committed and will continue to pay the utmost attention.

The private sector dominates the fifth message brought forth. The governors wish to move towards new kinds of associations with the private sector, and the Bank sees this as a major challenge. As markets are deregulated and new responsibilities are transferred into private hands, the Bank is learning how to work better with the private sector. Progress has been made, but undoubtedly much remains to be done. We cannot only support improvements in the local environment, but also must contribute new financial products, as revealed by our recent experiences.

Taken together, these experiences and messages conveyed by our governors are substantive, and point up the important role played by these gatherings. For the sake of brevity, I have not explored them in any depth but have merely mentioned the highlights.

The Bank has occupied a central place in our reflections at this Annual Meeting of the Board of Governors. One of the topics of discussion dealt with the Bank's policies and objectives, and the instruments available to us. At the annual meeting held in Guadalajara in 1994, the governors entrusted the Bank with very wide-ranging mandates, some of which will guide our actions through the transition to the 21st century. The Bank has a formidable set of objectives to meet, among them social development. The Bank is the only institution of its kind with a mandate to devote 50 percent of its lending by value and 40 percent by volume exclusively to the social sector. We were able to fulfill this goal in part last year, but we need to continue making progress. We have a series of special instruments in place for dealing with the private sector as well.

I should like to mention our commitment to integration, as part of the Bank's fundamental vocation. Felipe Herrera, in the 1960s, called the IDB the "Bank of Integration." I believe this should continue to be the case, especially now that we are witnessing such a vigorous thrust towards regional integration and major new avenues of action in this connection. In operating in this area, the Bank makes use of its resources at headquarters as well as at INTAL.

Our concern and dedication in this respect have to do with all the regional integration systems as well as continental integration arrangements, as evidenced by our participation in the working meetings in connection with the aims of the Miami Summit. Our support also encompasses Latin American relations with the European Union and Japan. In fact, we recently opened an office in Tokyo, which has become the focal point for our presence in the East.

As to the situation inside the Bank, messages were sent to management, to the President of the Bank, and to the Chairman of the Board of Governors. The dynamics of the changes we have undergone have raised several issues. One of them calls for taking a close look at our goals in terms of the distribution of resources between Groups C and D and Groups A and B, a central issue raised in the Eighth Replenishment. The scarce resources available in the Fund for Special Operations is a vital question, and one on which many of the governors
expressed particular concern. Although it is true that we are anticipating the problem, as some of the governors have pointed out, it is not our intention to precipitate the issue. We simply believe that discussions should begin so as to avoid a situation where we would find ourselves suddenly bereft of resources at the last minute. That would affect our ability to use concessional funds to support the countries most in need of them.

The point was made that discussion ought to begin this year on the currencies in which the Bank operates. This is a delicate issue on which we are consulting the governors, and one that will certainly warrant special attention and definition in the course of the year. Mention was also made of reinforcing the Country Offices, and the Executive Vice President made a presentation to the Board of Governors in this connection.

The question of coordinating Bank action with that of other institutions arose as well. We are working closely with the World Bank, with the two institutions making their own contributions and keeping their own separate identities, but dovetailing their actions for the benefit of the borrowing member countries.

Portfolio management is a crucial issue that was raised by many of the governors. We have said that we need to move from a culture of approvals to one that focuses on efficient execution, and our efforts are being channeled in this direction. Mention was made of the role of board-management relations, which have taken on a unique and constructive tenor that we welcome and that will continue to characterize our workings in the future.

What conclusions can we draw from this meeting? We are heartened by your recognition of the Bank's work, which is the best reward we could ever receive for their efforts. The IDB is the largest multilateral regional development financing institution in the world today, as measured by its wherewithal in terms of both the volume of resources and the scope of its activities. The Bank is an institution with $100 billion of ordinary capital and $10 billion of concessional funds available in the Fund for Special Operations. Each year we are able to mobilize between $100 and $150 million in nonreimbursable technical cooperation funding. We have been endowed with the Multilateral Investment Fund, currently worth $1.3 billion and supporting essentially operations with the private sector. Also, the Bank has demonstrated in recent years that it can leverage cofinancing in the form of conventional and nonconcessional funds, thanks to the support provided by several nonborrowing member countries.

Certainly we deserve recognition for the truly considerable resources we can tap to support the region's economic and social development. Let us bear in mind, however, that our ability to serve hinges not only on those resources but also on the way they are combined. It should be our understanding that we have not five separate sources of funds, but one single source: the IDB Group. That is why I would underscore the need to have strategies in place that evoke an overall and unique vision of our relations with each country as we draw upon these different sources of funds.

The IDB is well placed to offer a solid contribution of funding to the region. But our most valuable asset lies not in the volume of resources but in the quality of our partnership with the countries. How to define quality for an institution such as our own? First and foremost is our relationship with the governments. The Bank has upheld its tradition of backing the countries in their national strategies, making programming the starting point for quality in our contribution. It is in that up-close, direct dialogue, grounded in country studies and our own knowledge, that we forge the program for all the sources of funds of the IDB Group.
Quality lies in the nature of our projects, which must evolve and adapt to new circumstances. The structure of our projects must be constantly renewed as circumstances change. That is a crucial factor in determining the quality of the Bank’s presence in a country, and our institution’s greatest asset. It is precisely our Country Offices that carry on a relationship of cooperating directly and working together with leaders, executing agencies, the private sector, and other elements of civil society in each country. Quality is also determined by the ongoing dialogue with governments, which goes beyond merely maintaining working relations with the Bank. We want to enhance that dialogue because we believe we have something positive to contribute, based on our experiences with other governments. And I believe it is this set of special conditions that make the Bank so unique. That you consider yourselves active participants in the Bank, as opposed to merely clients—that you feel a sense of ownership—is a fact of the utmost importance that gives our institution its deep roots in the region and enhances its effectiveness as the leading agency for international cooperation in Latin America and the Caribbean.

Flexibility is another important feature. Last year we put this quality to the test when we were called upon to back certain countries in dealing with unforeseen situations. Our response, guided by a spirit of service, was both timely and innovative. Innovation is vital to our Bank, and informs our new initiatives to help agents of civil society on new fronts, strengthening the Bank’s presence in the region’s countries.

Allow me to mention one last feature that has characterized our Bank from the very outset, a feature that we must strive to preserve. I refer to solidarity. I speak not only of the kind of solidarity that has to do with the percentage distribution of our lending and technical cooperation portfolio, which is important in itself. The principle of solidarity also calls for sharing the fruits of successful experiences in reforms carried out in more advanced countries with other countries where reforms are still incipient. The Bank can help by fostering this kind of intraregional cooperation.

Mr. Chairman, I should like to thank you and your colleagues once again for the dedication, support and inspiration you have shown this meeting and the Bank. We are very grateful for the excellent services we have received at our meetings here.

Mr. Minister, the IDB needs your support. Many governments will be counting on the contribution you can make to the Bank as Chairman of its Board of Governors. We will endeavor to ease your task, and expect to be working very closely with you, especially in connection with the Committee of the Board of Governors. We hope to show you something that we have always maintained, which is that the Bank has a Latin American soul, and I believe you will feel comfortable with us. We are enormously grateful for your invaluable help.

Mr. Chairman, it has been a very great pleasure to return to the lovely city of Buenos Aires. A dear friend of mine reminded me of that unforgettable poem by Borges, the giant of Argentine letters, about the mythic beginnings of Buenos Aires. There is one verse in the poem that I have always found very striking, especially the part that reads: “Was it over this river of mud and dreams whence came the ships that founded my native land?” The poem ends with an impression that has assuredly been shared by all of us who have been fortunate enough to spend the last few days here: “I can hardly believe that Buenos Aires ever began: to me it is as eternal as water or air.” That is a feeling I am sure we have all experienced here in this great city.
As we come to the end of this year's annual meeting, we leave behind us many hours of intense analysis and discussion of the policies and practices of the Bank and the Inter-American Investment Corporation. It is gratifying indeed to see how energetically the IDB Group is working to further the efforts of the peoples of the region and to strengthen its economies. The shared concerns and pursuits that bind the Bank's member countries afford it a singular position in the international lending community. The balance of power between borrowing and nonborrowing members stands as an exemplary model in the international cooperation arena of an organization characterized by the unanimous support and cordial interaction of its shareholders. This is a triumph of consensus and cooperation, marked by the intelligent pursuit of common goals to achieve the ideals of democracy, justice, equal opportunity, participatory progress and integration of the region's economies with one another and with the world beyond their borders.

The crisis that unfolded in 1995 caught us somewhat by surprise, but we have weathered it. The events served to demonstrate that the paths chosen by our nations, obeying the bidding of their peoples, were the right ones. We heard no stern admonitions to change course—not in the throes of the crisis, and not in its aftermath. There was no thought of a return to closed economies or stringently controlled markets or a slackening of efforts to build efficient states. Democracy is well entrenched in our region, and democracy affords at once a broad, strong base for economic policy in changing circumstances and an assurance of continuity of cohesive efforts on the economic front.

The Bank has come in for much praise these past days for its timely efforts to stave off the effects of last year's crisis. There have been other moments of crisis in Latin America over the past decades, virtually every one of which prompted a rethinking of structures and systems in place at the time, and ultimately persuaded leaders of the need to move to a new model. But this crisis was different: it persuaded leaders of the importance of staying, not swaying, our course. The instruments that were deployed will need to be carefully examined and refined, but in essence the policies will remain the same.

The region, and countries one by one, have drawn lessons from this experience. We have learned that it is vital to strengthen the oversight of financial institutions, to have our economies in sound fiscal order, and to reinvigorate our dialogue and relations with multilateral financing agencies.

The IDB governors share the view that we must continue to work toward policies that will boost savings and investments in human capital, improve the workings of labor and capital markets, and overhaul intricate, skewed tax systems, including social security financing mechanisms. We should redouble efforts to see public funds put to the best and most efficient use possible, particularly public monies being expended in the social sectors.

Social policy is a region-wide concern. We shall continue to strive for macroeconomic stability—which is in the end our most efficacious social policy—and to develop new and more refined policies to help conquer poverty.
The experience acquired by the IDB as it has set about improving the lot of small business and microenterprise, reducing poverty, and boosting the production capabilities of those living in the region is a capital upon which the borrowing member countries can draw.

In these past days we have also noted a measure of unanimity as to the significant part that private enterprise plays in an economy and the IDB's fostering of private sector development. This bespeaks no doubt the changing culture in the region and an understanding, clearer now than ever, of the distinct roles that fall to the public and private spheres. In the years ahead the Bank should step up its private sector activity.

The IDB has moved forward on policies to make for good governance and the strengthening of democratic institutions. It has been working as well in the areas of administration of justice and parliaments. Many believe that even more needs to be done on this front.

One issue of general concern is the scarcity of concessional funding. I am confident that the spirit of cooperation and partnership in this shared enterprise that is the Bank, which has served so often to achieve common objectives, will take us toward a solution to this problem as well. For my part, I pledge to make every effort to see substantial progress made on this issue as quickly as is practicable.

It is likewise incumbent upon us, as governors, to give the Bank flexible and workable criteria for the allocation of its loanable resources.

The Inter-American Investment Corporation has come in for praise at our sessions here in Buenos Aires. It has been gratifying to hear the governors' positive views on the turnaround in the Corporation's results. Now, we must find ways of augmenting the resources at its disposal and continue to support its reforms and initiatives.

Our annual gathering this year has been marked by a number of particular highlights. The MIF gained new members, and there have been expressions of renewed interest in improving its operations. An agreement was signed to launch a Regional Agricultural Technology Fund. A record number of participants have assembled here to share their views. A number of issues of overriding concern to the region were explored in seminars in the days leading up to the formal meeting and in numerous side gatherings. Buenos Aires, Jerusalem, Guadalajara, Hamburg and the many venues that preceded them are successive steps in the IDB's ascending path. As we move toward the next step in Barcelona in 1997, we send cordial greetings to that city, to Catalonia, and to Spain.

We will need to hold continuing discussions in the year ahead to move forward on the central questions taken up here. I would invite you to reflect on and rethink these IDB issues. I am confident that by the time we open our deliberations in Barcelona we will have made substantial progress on the questions of concessional resources, the Corporation's capital, and policy design. In the interim, we offer President Enrique Iglesias, the Board, Vice President Nancy Birdsall, and the staff of the IDB our support and encourage them to remain steadfast in their commitment to our countries. The region needs a bank that is strong in resources and strong in intellectual vigor.

In these past days, Argentina has been the stage, shared with the governors and the many others who have gathered for this event, for gratifying encounters and reports of progress achieved, confirmations of solidarity and a shared pursuit of progress, a renewed commitment to democracy, justice and social and economic advancement, and solid manifestations of common understandings among the peoples that make up the IDB family. We wish you a safe and pleasant journey home, and sincerely hope that you will return some day to Argentina, where a warm welcome awaits you.
REPORT OF THE COMMITTEE OF THE IDB BOARD OF GOVERNORS ON ITS ACTIVITIES SINCE THE THIRTY-SIXTH ANNUAL MEETING
The Committee of the Board of Governors held its Sixty-ninth Meeting in Jerusalem, Israel, on April 2, 1995.

A. At the meeting, the Bank’s General Counsel presented a report on the status of voting on the proposed resolutions to approve the Eighth General Increase in Resources. The report highlighted the significant progress that had been made in this area, as well as the need to receive the necessary subscriptions and contributions as soon as possible in order for the increase to become effective. Bearing in mind the interconnected nature of the various proposals contained in document AB-1704, he urged the member countries to make a special effort to cast their votes on the resolutions concerning the amendments to the Agreement Establishing the Bank and other basic documents.

B. The General Counsel gave a brief summary of the status of the Seventh General Increase in the Resources of the Bank, signaling that the payments of subscriptions and contributions had basically been completed.

C. The President of the Bank then outlined some of the highlights of the preceding year, indicating that, in many ways, 1994 had been a historic year for the Bank. First he underscored the approval of the Eighth General Increase, which was a momentous decision in terms of both the volume of funding and the mandate to be fulfilled. The mandate called for broader responsibility to be assumed, evidencing the trust placed in the Bank as part of this Replenishment exercise—the largest in the institution’s history and one of the largest ever for an international bank of this type.

D. Second, he referred to the implementation of the Bank’s restructuring, the objective of which was to enhance the institution’s overall efficiency and its dealings with the governments, building on a keen sense of employee accountability and an updated organizational structure. As a result of the restructuring, the Bank’s Country Offices would have a special role to play by bringing the institution’s actions in each country under the same structure. This enhanced focus and targeting of the efforts would make it easier to lend support to the governments.

E. He also emphasized that a reorganization was not an easy process and the results would not be immediately evident. Despite time-consuming talks on the Bank’s restructuring, the 1994 lending program totaled $5.2 billion, only slightly below the 1993 level, therefore mirroring the average lending levels under the Seventh Replenishment. With progress on projects in the pipeline for approval in the first six months of 1995 fully on schedule, this would be the most active first half of the year in the Bank’s history.

F. The President indicated that the reorganization had also had an impact on the Bank’s exceedingly austere budget, which included staff reductions that were being implemented and would require a major adjustment effort on Management’s part. A far-reaching adjustment was involved that echoed the
comprehensive adjustment policies that were being implemented in the countries. He hoped that this initial application of austerity would be followed by a Board study on its implications for the Bank’s ability to act.

G. He reported that new formats had been established for Board-Management relations by way of new committees that had been working ardently and had afforded greater Board participation in policy and programming tasks. The restructured Bank, the new budget structure, and the closer work with the Board would become the three important pillars that would allow the institution to better respond to the mandate of modernization that it had received.

H. He pointed out the interesting fact that, during the preceding year, loans for environmental projects and poverty reduction accounted for 60 percent of approvals, well over the 40 percent goal. Although this did not mean that it would be possible to maintain this pace over the coming years, it did show that the Bank had indeed been responsive to the 40 percent mandate set as part of the Eighth General Increase in Resources.

I. He noted that the topic of women in development figured prominently in the Replenishment and was an ongoing concern for the Governors. Of the projects approved in 1994, 34 percent included policies of specific interest to women, in contrast with only 6 percent in 1993. He announced that, based on the results of the Guadalajara seminar on women, a panel of external advisors had been set up to assist in the design of the Bank’s policy in this area.

J. The President also mentioned that the Bank’s nonreimbursable technical cooperation funding had totaled $110 million in 1994 and thus outstripped the 1993 level. He emphasized that this program had been funded with the Bank’s own resources, of which about one-third of the total came from bilateral funds. He took the opportunity to thank the contributors to the bilateral funds, namely Japan and 16 other countries.

K. He also underscored the importance of cofinancing with other institutions, which approached $900 million—in addition to the World Bank, another logical cofinancing agency. Here, again, Japan had been the main source of funding and, on behalf of the Governors, he expressed special thanks to the Government of Japan for its very valuable contribution. While other sources had been tapped, it was crucial to have a greater volume of this type of funding over the coming years, since funding for the less developed countries was so scarce.

L. The President mentioned that operations involving small projects and microenterprises also bore special importance. In this area, he expressed his satisfaction with the progress of the Multilateral Investment Fund, noting that during the past year, 32 projects totaling $71 million had been approved, working in close cooperation with the countries and the Country Offices. The MIF, with its three windows, had repeatedly shown itself to be a useful, innovative tool that was able to keep pace with the Bank’s operations. Work had also continued in the area of environmental protection and grassroots involvement, another issue of special interest to the MIF.

M. With regard to the private sector, he noted that the Bank had set up a Private Sector Department and that there was considerable interest in its activity. At that moment, several dozen projects were under consideration; one—an energy project...
for Central America—was expected to be approved the following month. This line of activity opened up avenues that would be very promising for the Bank in the coming years. Together with the revitalization of the Corporation, private sector development held special potential for the Bank’s future role in Latin America.

N. The President added that the private sector was being viewed with increasing interest, as a harbinger of change in the structure of external financing for many member countries. In some of the larger countries in the region, the recent financial crisis had triggered considerable demand for sector loans; this had not been expected at the time the Eighth Replenishment was approved. In order to cope with the volatility of external funding sources, a development that had had an impact on banking structure and had triggered an immediate and far-reaching restructuring of both the public and private banking systems, these countries had approached the World Bank and the IDB in search of readily available funds. In addition, the demand associated with programs to alleviate extreme poverty—a phenomenon that had been exacerbated by the adjustment programs adopted in response to the financial crisis—also required broader support.

O. The convergence of all these factors had generated greater demand for Bank resources in the form of fast-disbursing sector loans. He noted that this new development was being closely followed and that the Board would be kept informed. It would be necessary to see what impact this would have on the resolution adopted by the Governors concerning the 15 percent cap on resources for sector lending. He had no proposal to submit and thought that the resource levels as approved allowed a certain amount of headroom. This was an area that was being followed with interest and developments would be monitored, together with the Board, to see if a proposal was in order in the future.

P. The President of the Bank ended his remarks by saying that in general terms he felt that the past year had been an important one in the life of the Bank. The outlook was good and he trusted that any new economic situations that might arise in the member countries would be addressed with dispatch. He indicated how impressed he had been by the governments’ ability to take action in the face of the crisis and added that situations like these would likely occur again, bearing in mind that they were a byproduct of globalization. Once again, the new Latin America had reaffirmed its keen ability to take action, in its truly admirable response to the recent developments. He concluded by noting that the latest adjustments would surely have some adverse social repercussions, but the policies adopted bespoke the sense of commitment, the high degree of professionalism, and the political will of the governments to move forward with reform in the region.
The Committee of the Board of Governors of the Corporation on its Activities since the Tenth Annual Meeting

The Committee of the Board of Governors, established by Resolution CII/AG-3/92, held its Eleventh Meeting in Jerusalem, Israel, on April 3, 1995.

1. The Chairman of the Committee submitted to the Committee for consideration document CII/CA-37-1, setting forth a new version of the proposed action plan for the Corporation, which covered the period from 1995 to 1997 and provided for the mobilization of additional financial resources. The document also included a proposed resolution to amend the Agreement Establishing the Corporation, which was to be submitted to the Board of Governors for consideration if the Committee of the Board of Governors concurred with the proposal. The Board of Executive Directors had taken cognizance of this proposal at its March 7, 1995, meeting, and, without expressing a view on the substance of the matter, had authorized transmittal of the document to the Committee of the Board of Governors.

2. The Chairman of the Committee recalled that the proposal reflected the outcome of the negotiations that had been held at the last meeting of the Committee in Washington in February 1995. He pointed up the important progress that had been made in this connection and proposed that a working group be established to discuss the matters still pending.

3. The Chairman of the Committee then called recess in order to allow the working group to begin its activities. The Committee was to reconvene for a plenary session later that day.

4. When the meeting reconvened, the Chairman of the Committee, in his capacity as Chairman of the working group, presented a report on the outcome of the working group meeting, which had focused on reviewing document CII/CA-37-1. The financial target set forth in the document was the generation of returns sufficient to preserve the real value of shareholders' equity, making equity investments selected on the basis of shorter payback time than at present, lending to companies that have good prospects for cofinancing, and favoring activities which used few of the Corporation's own financial resources, such as cofinancing and advisory services. The latter would consist of corporate finance and privatization operations, as well as advisory services to the Multilateral Investment Fund and the Inter-American Development Bank. In Group A and B countries, the emphasis would be on lending to companies which offered solid prospects for successful cofinancing. It was foreseen that 50 percent to 60 percent of the Corporation's own resources would be channeled to equity investments and 40 percent to 50 percent to loans.

5. The Chairman of the working group then referred to the following agreements that would imply amendments to the Agreement Establishing the Corporation: (a) increasing the debt-to-equity leverage ratio from 1:1 to 3:1, which would require modification of Article III, Section 7(a); (b) easing regional ownership requirements for beneficiary companies, so that the Corporation could invest in
enterprises whose voting power was majority-owned by nonregional shareholders, to which end Article III, Section 1(b) would have to be amended; and (c) allowing non-Bank member countries to invest in the Corporation, which was approved in the working group, without the requirement that such countries be members of the International Monetary Fund. Article II, Sections 1(b) and 1(c), would have to be amended accordingly.

6. The Chairman of the working group reported that since a consensus could not be reached on the question of establishing subsidiaries, it had been decided to postpone consideration of that matter to a more opportune time, and Management was to prepare a new document incorporating the issues mentioned.

7. It was agreed that the document to be prepared by the Secretariat summarizing the agreements reached would be forwarded to the Governors for consideration by the procedure of taking a vote without calling a meeting.
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