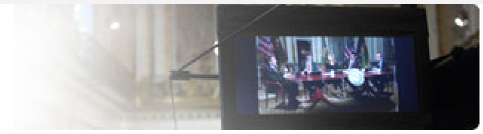
U.S. DEPARTMENT OF THE TREASURY

Press Center



Assistant Secretary Marisa Lago Address to the Plenary Session of the Inter-American Development Bank Annual Meeting – As Prepared For Delivery Cancun, Mexico

3/22/2010

TG - 599

Buenas tardes. En nombre del Presidente Obama y el Secretario Geithner, quisiera agradecer al Presidente Calderón y su Administración, y al pueblo de Cancun por su hospitalidad en este sitio tan bello.   Nos encontramos en un momento clave e historico como región, como banco, y como gente de las Americas.

From Crisis to Recovery

When we met last year, we were in the midst of the worst financial crisis of the post-World War II period.   The impact of this crisis was felt around the world, and this region was no exception.   In aggregate, the region's economies contracted 2.3% in 2009.   President Obama and Secretary Geithner responded swiftly with a series of measures designed to restore economic growth and financial stability in the United States.   They also worked with the G20 and international institutions – including the Inter-American Development Bank (IDB) – to do the same for the global financial system.

We now come together a year later with renewed optimism for the prospects of Latin America and the Caribbean.   The region is forecast to grow by 4% or more this year.   This rapid recovery demonstrates the remarkable resilience of the region and the robust policies put in place by many of the people here today.   Yet we cannot forget that along with this success there have also been tragic setbacks, with both Haiti and Chile experiencing catastrophic earthquakes.

Vigorous international response

As the crisis unfolded last year, countries were challenged to find both domestic and global solutions.   In addition to the many measures that we took to stabilize our own financial system and reinvigorate the global economy, the United States provided staunch and robust support to the IFIs so that they could address the needs of emerging and developing countries.

The United States strongly supported efforts to mobilize additional resources for the IMF and to revamp its lending facilities.   At the G-20 Leaders Summit in London last April, President Obama worked with other world leaders on an agreement to expand participation and increase the size of the IMF's New Arrangements to Borrow (NAB) by up to $500 billion; the United States led with a commitment of up to $100 billion. Together with other Leaders, we also endorsed an overhaul of the IMF's lending framework to provide lending products that better meet individual country needs.   In particular, Mexico's and Colombia's decisions to tap the IMF's new Flexible Credit Line last April were a turning point for confidence in the region.

The role of the multilateral development banks has been equally vital.   Last year, we and others called on this institution to ramp up its short-term response to the crisis.   I praise and thank the Bank for answering the call: it responded to the paralysis in international capital markets by stepping up rapidly and robustly with much-needed resources – recognizing immediately the need to support trade finance, and re-casting its emergency facility to assist countries facing liquidity constraints.   These are just two examples.   In a notable display of solidarity and leadership in the region, Canada also provided $4 billion in callable capital.   These measures allowed IDB lending to increase by 42% from $11 billion in 2008 to nearly $16 billion in 2009, thereby extending invaluable support to our region during a time of exceptional need.

Rebound in Capital Flows

Without diminishing the important role of the multilateral development banks in providing liquidity, we must also highlight the region's strengths upon entering the crisis.

Emerging markets experienced massive withdrawals of capital during the height of the global turmoil.   Capital flows to Latin America and the Caribbean fell more than 40% in 2008, driven by an outflow of equity investment and a sudden stop in external commercial bank flows.   And analysts expected continued outflows in 2009.   However, the recovery of private capital flows was significantly more robust than initially predicted, and net private capital flows actually *increased* 4% last year, mainly due to a large inflow of portfolio equity investment.

The rapid return of capital is a testament to the strength of fiscal, monetary and exchange rate policies, and sound debt management in much of our region. It shows that – in contrast with previous crises – Latin America and the Caribbean entered this one with greatly strengthened policy frameworks that were recognized and roundly endorsed by the markets.

As a result, the outlook for 2010 is favorable: the IIF recently projected that net private capital flows will increase by 30% this year and the cost of external borrowing for Latin American corporates has fallen by 600 basis points since the peak of 914 basis points in October 2008.

Challenges Ahead

Although we are optimistic about prospects for our region this year, it is crucial that we act to strengthen the recovery and spread its gains to more of our citizens. Despite the significant progress that has been made, difficult challenges cloud the longer-term outlook. It is in these areas that the Bank must focus its efforts going forward. I will briefly touch on several of these challenges.

First, the region continues to be plagued by severe poverty and inequality despite nearly a decade of solid economic growth. Growth is a necessary – but insufficient – condition to reduce poverty and provide opportunities for people to improve their lives. We believe the IDB is an institution that can – and must – do more to help its member countries grow and ensure that more people share the benefits of this growth.

Second, as I mentioned earlier, good economic policies in much of Latin America and the Caribbean permitted countries to grow and reduced vulnerability to external shocks. Yet some of the poorest countries have been left out of this progress, as evidenced by lagging growth in income per capita. At the bottom is Haiti, with per capita income of $520 in 2007 compared with an average of $5,801 for the region. The IDB must play a critical role in efforts to close the gap between those who benefit from growth and those who do not.

Third, many small businesses continue to lack access to credit to survive and thrive. Small businesses are the engines of growth and job creation in any economy; thus, it is in the best interest for both recovery and development that financing is available to small and medium sized companies to start or expand operations. We look to the IDB to intensify efforts to expand financial access to a broader range of businesses.

Fourth, we applaud the initiative taken by the Bank in tackling the challenges associated with climate change. The introduction of the Sustainable Energy and Climate Change Initiative was an important step forward in helping countries to harness the potential of renewable energy, increase energy efficiency, and devise strategies for investment in green technologies.

Fifth, the Bank can play a major role in helping us boost our competitiveness as a region. Transport and logistics costs are roughly 16% to 26% of GDP in Latin America, compared to an average of 9% in OECD countries. These excessive costs weigh heavily on the region's exports. As the region's primary development institution, and given its expertise in infrastructure, the IDB is best placed to help us solve physical and institutional integration challenges.

Finally, Latin America and the Caribbean lag in education performance and productivity. We recognize the IDB's comparative advantage vis-à-vis other multilateral development banks in pre-primary education, school to work programs, and teacher training. We ask the Bank to refine its strategy to help this region strengthen its human capital and productivity.

IDB General Capital Increase (GCI)

In the context of GCI negotiations this past year, the IDB has adopted some key reforms and committed to other reforms, all of which are consistent with the reform agenda that Secretary Geithner articulated last year in Medellin. These reforms respond to the regional challenges that I have just outlined. Let me briefly summarize them.

First, the IDB has strengthened its financial management through the adoption of new a new investment framework and new capital adequacy model. Importantly, Governors have just agreed to the adoption of a new income allocation model that will enable the IDB to maintain strong, sustainable financial support for its poorest members.

Second, the IDB has established clear priorities for use of its new capital that will substantially expand its private sector operations, and that will create new sector strategies to promote renewable energy, climate change, regional integration and education.

Next, the IDB has committed to improvements in the quality of its loan portfolio through use of new tools designed to strengthen the focus on development effectiveness. Quality matters as much as quantity of lending.

Finally, the IDB is taking steps to enhance its transparency and accountability, such as adopting a new, stronger and more independent inspection mechanism. In addition, Governors have affirmed their support for environmental safeguards and a disclosure policy that meets highest standards.

As a symbol of the strength of shareholder commitment to these reforms, and the confidence that we have in their sound implementation, we and the other IDB Governors have committed ourselves to reviewing implementation progress during the period in which we will provide the Bank's new capital. This should be interpreted by all as a sign of the IDB Governors' powerful commitment to development effectiveness.

Haiti Debt Relief and Long-Term Reconstruction

In addition to these reform priorities, we are proud that the Bank has acted aggressively to support the recovery and reconstruction of Haiti. This is not meant to overlook the tragic loss of life and devastation suffered by the people of Chile following the earthquake that struck that country. We stand ready to help in any way that the government of Chile asks. However, we are all very aware of the economic toll that the earthquake inflicted on Haiti, already the poorest country in the region. The people of Haiti need extraordinary levels of financial and technical assistance to help them build a post-earthquake Haiti that is stronger, more resilient and more prosperous than pre-earthquake Haiti, and focuses on institution building, job creation and recovery of the productive sector to foster economic growth. Preliminary figures from the post-disaster needs assessment led by the World Bank, IDB, United Nations and European Commission place these needs at roughly $11 billion.

Just weeks after the devastating earthquake, Secretary Geithner voiced support for international debt relief for Haiti. We are pleased that the IDB has adopted an innovative proposal that would relieve Haiti of its debt burden and provide an immediate source of upfront capital for Haiti. These aims will be achieved without reducing resources available for other low-income countries. In addition, the Bank has guaranteed long-term support for Haiti's reconstruction and development, by agreeing that the Bank will provide at least $200 million annually in transfers of Ordinary Capital income to a grant facility for Haiti through 2020.

Conclusion

We thank the Governors for embracing the robust reform agenda, which aligns with the principles articulated by Secretary Geithner a year ago. We commend the commitment of everyone here to ensuring that the Bank is well-capitalized and able to respond vigorously to the evolving needs of our region. And we especially thank the Board of Governors' leadership team of Colombia and Canada. I want to personally thank the outgoing Chairman of the Board of Governors, Minister Zuluaga, for his enormously skillful and tireless efforts to bring us together. We agree in principle on a GCI of 70% of the Bank's existing capital, or $70 billion dollars. This amount is the largest capital increase in the history of the Bank. It will support lending of roughly $12 billion a year – double the pre-crisis volume – and solidify the Bank's central role in the continuing development of our region.

We are pleased to work with the IDB to advance these important goals. Thank you very much.

###