

# U.S. DEPARTMENT OF THE TREASURY

## Statement by the Temporary Alternate Governor for the United States of America Alexia Latortue, 2022 Annual Meetings of the Boards of Governors of the Inter-American Development Bank and Inter-American Investment Corporation

March 29, 2022

On behalf of the Treasury Department, I would like to thank Finance Minister Restrepo and his team for their leadership and effective work in preparing for the decisions to be taken by Governors at this meeting. We congratulate Finance Minister Clarke for his election as Chair for these Annual Meetings and additional work that may take the time of Governors in the year to come. We are hopeful that the Governors of the IDB Group will be able to come together in person at our next meeting in Panama. I would also like to thank the staff of the IDB Group for their continued support of the aspirations of the people of Latin America and the Caribbean for a better future. We recognize and applaud the efforts of all staff, at a time when more was demanded of them at work, while they were also dealing with the consequences of the pandemic at home.

The Biden-Harris Administration has made strong partnerships with Latin America and the Caribbean a United States foreign policy priority and eagerly looks forward to partnering with the region through Build Back Better World (B3W), the U.S. contribution to the global quality infrastructure initiative announced by President Biden and G7 Leaders at their June 2021 summit. B3W will focus on mobilizing private capital to fund values-driven, high-standard, and transparent infrastructure in low- and middle-income countries in four focal areas: climate, health and health security, digital technology, and gender equity and equality.

President Biden will welcome our hemispheric leaders to Los Angeles the week of June 6 for the Ninth Summit of the Americas so that together we might meet our region's challenges and together build a sustainable, resilient, and equitable future for our nations and our



citizens.

We stand ready to work with you to support strong, sustainable, and inclusive economic growth undergirded by commitments to democracy, equality, transparency, anti-corruption, and the rule of law.

## **REGIONAL ECONOMIC AND POLITICAL DEVELOPMENTS**

Many countries in the region have rebounded strongly from the human and economic devastation of the pandemic. According to early estimates, growth reached 6.8% in 2021. Many countries have surpassed pre-pandemic levels of production. For the region that experienced the sharpest contraction during the pandemic, this is no small feat.

But the challenges for the region remain daunting. Per capita income will likely not return to pre-pandemic levels until 2023, inflation is above 8% and climbing, and the number of people living in poverty grew by 25 million. Gross government debt is 5 percentage points higher than prior to the pandemic. Many in the region were tightening macroeconomic policies to contain inflation and return to sustainable fiscal positions. These policies may prove politically challenging for many, especially given the pent-up demand for better economic outcomes, stronger governance, and more effective delivery of public goods that predated the pandemic.

Added to this very complicated outlook is Russia's unprovoked war on Ukraine. Some borrowing member countries of the IDB Group will experience a positive terms of trade shock, but many are now faced by external pressure resulting from higher food and fuel prices. There will certainly be inflationary pressure. Once again, Caribbean nations will be disproportionately affected by a global economic shock given their reliance on foreign trade.

The resulting economic strain may lead people to search for opportunity elsewhere. The Biden-Harris Administration has begun implementing its Root Causes Strategy to help sta



irregular migration from El Salvador, Guatemala, and Honduras. We look forward to working with the IDB Group and our partners in the region to promote an integrated regional response framework. We strongly encourage the IDB to engage with countries that are hosting migrant populations, and whose own citizens are facing emigration pressure, to enact policies that permit the private sector to generate employment and incomes.

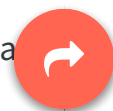
## **THE IDB GROUP AS A LEADER IN CLIMATE CHANGE**

The IDB Group plays a key role in assisting member countries to adapt to the impacts of climate change in the region – assistance that is particularly essential for countries that are highly vulnerable, such as the small island developing states. Climate resilience and adaptation investments are critical for sustainable long-term growth, yet the level of investments remains insufficient because of lower growth multipliers. Too many in the region see economic output negatively impacted by increasingly frequent and severe natural disasters. Limiting the economic fallout of these events through resilient project investment based on the best-available data is an imperative.

We also see a tremendous opportunity for the IDB Group to lead in protecting global carbon sinks. We look forward to engaging with the IDB Group and countries in the region to devise optimal ways to combat the climate crisis, while nurturing sustainable livelihoods for those in and around the Amazon. The Amazon is critically important for its rich biodiversity, capacity to store carbon dioxide, and important role in sustaining the hemisphere's rainwater cycle.

The IDB Group also has a key role to play in helping Latin American and Caribbean economies transition away from carbon-intensive fossil fuels. The Bank can invest in more diversified energy systems, and bolster electricity transmission systems to support more renewables. The IDB Group can also assist regional partners in catalyzing private investment and help to diversify the economies of those reliant on fossil fuel-intensive extractive industries.

We are now seeing firsthand the long-term vulnerability that comes from relying too heavily



on external sources of energy commodities – both from a price volatility and security of supply standpoint. This highlights the long-term advantages that renewables can offer, the need to catalyze the electrification of more sectors, and to catalyze the deployment of new low-carbon technologies in the market.

The IDB Group can do more to support the region’s efforts towards transport electrification and green bond market development, particularly by helping to deploy newer technologies like green hydrogen and battery storage.

## **INTER-AMERICAN DEVELOPMENT BANK GROUP**

When we convened last year, Governors asked the IDB Group to analyze the many development challenges facing the region, including the COVID-19 pandemic, climate change, natural disasters, and the structural challenges that preceded the pandemic. The depth of the crisis facing the region was clear, and we applaud the very strong efforts from the IDB Invest to support their clients and to provide critical financing to the private sector during the economic collapse. For the IDB, we supported the temporary increase in the ceiling on budget lending. It is a testament to the strength of the IDB’s balance sheet that the IDB could play a very significant role to assist countries that faced unexpectedly large deficits during the pandemic. The IDB’s robust response affirms the prudent decisions that Governors have made throughout the years to strengthen the institution’s financial management framework. We are pleased to see that the IDB continues to have the ability to deliver substantial financial support to the region.

We believe that the analytic work has delivered on the tasks mandated by Governors in the Barranquilla Resolution. We find the analytical work’s emphasis on the role of the private sector and the need to address climate change for the region’s future development appropriate.

In 2015, the rationale for merging out the IDB’s support for the private sector to a newly strengthened IDB Invest was the recognition that the private sector will be the engine of Latin America’s future growth, and vital to catalyzing the necessary resources for investment in



high-quality infrastructure. The experience of the pandemic, and the difficult environment that now faces the region, confirms that vision. Investments in climate, health, digital technology, social protection, and gender equity and equality will connect people with opportunities and contribute to both economic growth and greater social inclusion.

However, these investments will only flourish if the region embraces an ambitious program of systemic and structural reforms, and if the public sector works in partnership with private enterprise to address the impediments to private sector led growth throughout the region.

The analytic work outlined an ambitious new value proposition for the IDB Group to enhance its development effectiveness in support of a private-sector led recovery that dovetails with the Biden-Harris Administration's B3W initiative. We see great potential in exploring a new vision and business model for a reinforced IDB Invest that aims to increase impact, mobilize more private capital to the region, and support growth-enhancing investments.

We believe that a renewed investment in IDB Invest, accompanied by operational and institutional reforms across the IDB Group, including greater ambition on climate, will create a more effective and impactful IDB Group to assist the region in overcoming its challenges and seizing the opportunities that the 21st century presents. The United States is prepared to support a Resolution that charts a clear path of policy reforms that could lead to considering new resources for IDB Invest. We look forward to the work of our Executive Directors and working with the managements of the IDB Invest and the IDB to shape the new value proposition for the IDB Group.

