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Presents

**A New Era at the Inter-American Development Bank:
Six Recommendations for the New President**

PANEL DISCUSSION

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Lawrence MacDonald: We will begin. **[Spanish]** That's the extent of my Spanish for this morning. We're really delighted to have all of you here. It is indeed a pleasure to have such a distinguished audience that is interested in our report on "A New Era at the Inter-American Development Bank – Six Recommendations for the New President" and we're especially delighted that IDB President Moreno is able to join us this morning. I'm Lawrence McDonald, Director of Communication and Policy at the Center for Global Development. I want to also welcome members of the IDB Board, who I understand are with us today, and to thank you for making the trip across town to join us. Whether or not you agree with or adopt the recommendations in this report, I think your interest in new ideas and openness to them speaks volumes about the dynamism of the IDB.

Some of you may be joining us for our first – for the first time here at the Center for Global Development. You may know that we have a special focus. While many of the development institutions and research organizations in Washington look at the policies in developing countries, we focus on the policies of the rich and of the multi-lateral financial institutions. We think that the rich and the multi-laterals can do a better job at the crucial tasks of development and it's in that context that the Center of Global Development worked with the Shadow Financial Regulatory Committee for Latin America in preparing this report. Each year, Washington think tanks prepare dozens of reports about Latin America. I think the turnout that we have today shows that this one is special and one of the reasons it's special is that it was prepared by a group that was made up almost entirely of people from the region and, as you will see when you look at the list of the working group in the report, they are indeed some of the most preeminent economists and policymakers in the region. As you know, a number of them are former ministers of finance or heads of the Central Bank. A number of them served as governors of the IDB itself so they know what they're talking about in this report. It's now my, um – I also want to say that one of them is here with us today, Roberto Zahler. So pleased that you can join us and that you made the trip from Santiago and congratulations on the election of your new president. I hope you'll tell us a little bit about that as well if we have time towards the end.

It's now my pleasure to introduce Liliana Rojas-Suarez. She is a Senior Fellow at the Center for Global Development and also Chair of the Latin America Shadow Financial Regulatory Committee or CLAFF as it is known by its Spanish acronym. She also led the preparation of this report. Like many of the working group members, Liliana has extensive experience in both the private sector and in public organizations involved in financial policy. Her previous positions included managing director and chief economist for Latin America at Deutsche Bank. Before that, she was a principal advisor in the Office of the Chief Economist at the IDB. For ten years, ending in 1994, she was at the IMF. She is published widely in the areas of macro-economic policy, international economics and financial markets. I'm really looking forward to her presentation. Please welcome Liliana.

Liliana Rojas-Suarez: Thank you, Lawrence. It's a real pleasure to see so many familiar faces, of course, and as Lawrence said, I want to emphasize two aspects of this report. One, and it is very important, that it has been prepared completely independent by a group of people that live in the region. With the exception of a couple of us, most of them have experience and have been clients of the IDB in different forms, being either governors or president of central banks,

but with that experience of collaboration is that this report has been prepared. And the other very important feature is that we do not pretend that this report should be taking us, okay, this is the solution and this is what the IDB should do. Instead, we believe that we are putting for your consideration a number of proposals that we believe should be discussed within the institution. With this in mind, let me start.

In assessing what's been happening in Latin America, we think that there has been a major transformation over the last decade, characterized basically by two facts. One of them is that international private flows to the region are so large right now that they are overwhelming relative to the size of the funds available for multi-lateral organizations including the Intra-American Development Bank and second, that within the region, over the last years especially, there is a need from policymakers to have ownership on their own policies. In a way, they want to distinguish their policies from the ones coming from Washington. It's my policy, my country, my responsibility, not Washington's. But recognizing that, we all know, also, that solving the Latin American problems goes beyond individual solutions. They are regional situations, regional problems, that need to be tackled. And the IDB mission which is and has been, promoting growth in an inclusive way goes hand in hand with the objectives of the policymakers in the region. To us in the group and the motivation for preparing this report is that having the IDB a new president provides an opportunity, a fresh opportunity, to reassess the institutional role and will shape the ability and delivery of its products and services. We believe that the IDB is right now facing key challenges, given what I just said about what's happening in the region. First, the IDB's relevance with middle-income countries is at risk. It is at risk because in good times middle-income countries in Latin America prefer going to the international capital market and that's fine but that's a risk for the bank. And in bad times, there are not sufficient resources at the IDB. So you start having a situation with relevance is at risk. Second, you, I'm sure, have heard so many discussion about global disequilibria and the possibility and potential of a reversal of flow and bad adverse climate coming to the region or the region facing it. We don't know when. But if that were to materialize, there are not enough resources and instruments right now for the IDB to handle a situation like that. The intention of this report is basically – is based on prevention and we are in good times so let's plan to always be ready. Third, the last concern is that there is growing ideological division within Latin America, as you know, especially in the Andean countries and this is – these ideological divisions are actually also being reflected now in some economic deficiencies in some of the countries. And finally, and we very candidly tell these, we know that there are a number of political pressures and world **** within the IDB that prevent its best performance.

Now, those are the risks that we wouldn't be here if we wouldn't believe that the IDB has key important strengths that we think will allow actually to face this risk successfully. The first and most important is that there is no other place in the world, there is no other institution that is a Latin American institution. Latin America owns the IDB and you are going to see within the recommendations that I will present to you how this seen can vividly in several of them. Second, the IDB is an adequate forum for corporation, I believe again the only one, between Latin America and its creditor countries. That's where you put creditors and borrowers of this particular region together. Third, contrary to the World Bank and the financial organizations, the IDB has no constraints for increased operation with the private sector. It can do whatever it pleases. It doesn't, but could. Also, the IDB has been increasingly conducting and supporting

regional integration and competitive programs and it has a credibility in the region of doing so. And perhaps going along with the first recommendation being the most important, not recommendation but background and strength, is that the IDB has strong skill and knowledgeable staff and that has been improving over the years. In presenting our recommendations, we have two things. Okay? The first one and this is perhaps the central one, is that we believe that more flexibility should go across the design of policies, of instruments, processes and decision-making. We believe that different countries have different needs at different times and that the bank should have a variety of instruments at its disposal. Not to create the instruments of problems come but to have a variety of instruments that could be used by different countries at the time they need them. And with that mentality is that we are going to advance recommendations. And the second is, of course, that we believe that they should be – the IDB continue and build upon its support to market reforms oriented programs for inclusive growth. In other analyses that the Latin America Shadow Committee has undertaken, we believe that people want – it's not really that there is a backlash against the game or nothing like that, but the people want play the game. There is a new game and people want access into the game and that the private sector, as I mentioned before, should be that engine for growth. So these are the two basic things that are going to be the topics of our report and our recommendations. So we have six recommendations. Rather than going through the six list, I'm just going to jump into issue one. Okay?

The first one, consistent with what I just said, is to continue support for policy and institutional reform. What is the issue here? The issue is that growth in Latin America is constrained by loss of competitiveness relative to both industrial countries and other emerging markets, especially the Asian economy. We know there is severe constraint in the region and at the same time, competitiveness is undermined because there's not sufficient or adequate infrastructure. We have problems in the provision of education. Government is the main issue and, of course, inefficient labor market of which few reforms have been made. I have just recognized that the IDB has been very supportive to its strength and competitiveness in the region. But we believe that much more is needed. Therefore, our recommendations are as follows:

First, PBLs have been – oh, sorry, I said PBLs assuming that I have the IDB. There are many people that are not from the IDB and it's called policy-based loans and they are incredibly useful in actually supporting the quality of reforms and policies that the regions need. However, we do not understand why quantitative restrictions on any particular kind of instruments. As times change and countries are different, why I'm going to assume that a certain amount of resources should be needed for a particular instrument. It might be fine at one time but it might not be at another time and I don't want to have to run to the board asking for permission to change something rather than giving the flexibility. So our recommendation is to remove quantitative restrictions on the use of these very flexible instruments. We also recommend creating what we call a hassle-free loan, meaning a loan that is available there for countries that pre-qualify for this loan in terms of satisfying a number of international standards. The reason for this hassle-free loan is because you will jump through the old process; you already know that the country is ready and prepared to undertake the marginal or new reform process that the country's already undertaking. That's why we recommend that these kinds of loans be advanced to countries that are well along in the reform process. Okay? You know the countries are doing it right. Why having so much hassle instead of just setting out the pre-conditions and if the pre-conditions are

there, go ahead. Continue the reform. And with this same kind of reasoning in mind, provide countercyclical emergency loans with IDB's own conditionality. We know that this is already being done but again we would like to add to this line of credit some pre-qualifications. Like when you go to bank and you're pre-certified, pre-qualified, for a loan, for a line of credit, well, we believe there is no reason why the bank could not go into that direction.

Second issue and, of course, recommendation. First the issue, then the recommendation. I said at the very beginning that the group believed that the private sector should be the engine for growth. However, we also know that there are so many factors that hinder the funding of private projects in the region. Of course, there are the typical market failures; excessive intervention of the government in what we all know is inherently private sector activities. We know the particular importance of progress with corporate governance and regulatory and legal practices and we also know that the IDB is making efforts in supporting the private sector. But we believe it's insufficient. To give you a date, a number, only 4 percent of loans in the IDB's balance sheets go to the private sector. We don't see why. Okay? Therefore, we recommend, again, there is caps; there are constraints on the total amount of assets of the IDB that are supposed to go to the private sector. We don't see why. We also know that the current cap of 10 percent is not binding right now. But what if it is? What if in the future it is? And that's the strength of the recommendation. Why have a binding constraint now that you can remove it because it's not binding rather than waiting at the time where you need to go and actually try to make all kinds of arrangements to eliminate a constraint. Again, with the finger of flexibility, we see no reason to have these constraints. We also believe that the president should commission an independent report of the cost of doing business with the private sector. It is very interesting that the IDB has this study of doing business in the different countries. Right? What are the problems in the countries of doing business? All right. Why don't we just turn the thing around and ask the clients of the IDB what are the problems of doing business with the private sector window of the IDB? It should be independent; an independent report, but it would be valuable as an instrument for the bank to have. Again, one should also assess what are the inefficiencies, if there's any, of having three windows of lending to the private sector? Because we believe that the private sector for the initiative to actually be strengthened, we believe that the development and diffusion of technology as public goods should be encouraged, and that the IDB should consider establishing country-based institutions for that purpose – for the purpose of diffusing technology. We actually in the report have some suggestions and maybe some rewards and prices to actually encourage this.

Recommendation number three. This has to do with the exchange rate and other external risks coming from the international environment and the question is what the IDB can do about it. Well, the issue is, of course, we are all very aware of the problems that countries face, that government balance sheets face, in not being able to issue currency, their local currency, in the international capital market and, of course, this is aggravated by the limited development of long-term finance in market, the absence of markets and also by the fact that a missing market to hedge currency rates. Okay. I've been here before so I know what to do. So the – sorry. Okay. So we believe that the region could benefit if the IDB not only focuses on managing the assets of its portfolio but also its liabilities. Any institution, private or public, does it. If you manage – you know, they sometimes they believe that you only manage your assets and the liabilities, you just keep it, you know, as quiet as possible and nothing is really happening to the liabilities. This

is actually not true. By doing something on your assets, you're affecting the quality of your liabilities. So what we are really recommending is to take an active position as opposed to a passive one. And so with that spirit of the issue, the recommendation is basically when appropriate, and this is very important, when appropriate, have the IDB issue triple A bonds in local currency and I say when appropriate because not all countries – you cannot issue local currencies in – for all countries, number one and number two, there's no **** role for the IDB to maintain this risk, this exchange rate risk in its own balance sheet. There's a number of ways and we actually develop that in the – in the recommendations, in the proposal, on which the IDB could actually get rid of that risk but help the countries develop these markets, these missing markets, within the country. But Latin America is not only subject to risk coming from the exchange rate risk, it's also subject to what's happening in U.S. economy growth. It's also subject to changes in the price of commodities and this last one is especially drastic. Well, there is a number of proposals in the table to develop instruments that allows the creation of bonds indexed to these variables and what we are advising is that the IDB take all the recommendations, seriously put them in the table and assess which ones should be supporting. Another recommendation that needs to be explored is the provision of public sector guarantees denominated in local currencies. Again, we are not saying that the IDB should do all of these. What we are saying is that all these recommendations have been discussed and been proposed by many people in academia, within the bank, within the organization, in the countries and that this should be a comprehensive evaluation of what works well for what countries in the region.

The fourth recommendation is focused on regional integration. We know that regional integration and when I mean we, I don't mean the committee, I mean we all, we know that regional integration, especially energy, transportation, is poor and we also know that it undermines the regional competitiveness. We also know that the IDB is doing a lot on that. But we think that the only way to actually get to the heart of this problem is for the president to obtain a clear mandate for a regional – a comprehensive regional integration program that meets not only the intention but the allocation of resources. You cannot do something big without sufficient financing and what can you do once you have the mandate? Well, these are strong proposals for your consideration. A new loan, new facility, okay? We are here to designing these things for your consideration. Okay? You might think some work, some don't. These new loans and guarantees, you don't have to only a loan, is for multi-country investment by borrower. Okay? And it could be used to help – ensure political risk in investing in multi-country projects. You know, sometimes investors that want to invest in a number of countries at the same time are scared by the fact that you don't know what's going to happen in elections in one of the countries where they're investing. That's political risk. Okay. So that is a regional investment and needs much more support from the IDB. Another example, for example, is multi-country infrastructure. You need – two countries need a road, right? But because they – for many reasons, okay? Let's don't explain why. They need the road but there is another country in the middle of those two countries. Well, we need somebody, and that somebody we believe is the IDB, to have instruments to allow for that integration. We also think that there could be another instrument and this is the regional fund, a fund that is being created little by little and that we believe that partly should be created with – through the provision of grants. Basically, these funds should – could be funded with contributions, both from IDB net income resources as well as for resources from non-borrowers and the funds could finance projects – regional projects – such as the regional prevention of disease and plagues, for example. Okay?

Again, how do you do it? How much grant? How much loans? That's not what – the spirit. The spirit is to have the funds for these kinds of regional integration objectives.

Fifth recommendation deals with the role of the IDB as the regional knowledge bank. Okay. We – at the very beginning, I said that one of the major strengths of the IDB is the skill of its human base. Okay? And we actually, when we – when the committee and the working group was preparing this report, we actually were very happy about the recent appointments at the senior level and the reason being that we think that they are based on merit. Remember that we said at the very beginning that one of the risks that the IDB faces is political pressures and what we have seen as an independent observer is that we didn't bring, you know, a lot of people coming from different governments taking position, we saw merit promotions and we actually liked that very much. Having said that, we believe that not only they – IDB should benefit from that but that the country should benefit more for closer interaction between the IDB specialists and the people in the country. We think that there should be not – not – we actually discussed whether we should advise the IDB to move to a Latin American country. We are not brave enough to suggest that so it's not in the report but it was discussed as an alternative. But at least we can recommend that we think the IDB needs to strengthen the country offices significantly. And we also think that there are some internal structure within the bank that do not allow to maximize the potential benefits that interaction between a specialist in a particular area can have. The specialists are spread throughout different departments with not sufficient interaction to create a critical mass that one needs to create knowledge, that knowledge that then can be diffused and expanded into the country. With that in mind, our recommendations are first, create a specialized institute at the regional level for the generation and spread of technological knowledge. We also have another recommendation on technological knowledge in the past. We believe that this is a very, very important issue. In areas where countries need continued assistance, like health, education, auditing, the list is yours, this is just suggestions. And these institutes should be able to work directly with all levels of government, national, subnational, the fact or the spirit of the recommendation is the interaction, the closer interaction, of the transmission of knowledge. The IDB and the knowledge bank working with the region. Second one, we believe that the IDB should charge for technical assistance. Why? Two reason. First, because as of today, let me back up a little bit because this is important – I at the very beginning said that middle-income countries do not find very attractive coming to the IDB. IDB loans are expensive. One of the reasons why IDB loans are expensive – it could be many reasons, but I'm focusing on one. One of the reasons is because you do not charge for one product, the IDB needs to put in the spread of its loans the expenses that it incurs in providing technical assistance. So to allow to differentiate products, we would advise the charging for technical assistance and, most importantly, because when somebody offers me a free good, I say yes to everything. The countries come and say well, I want technical assistance on A, B, C, yes, yes, yes, yes. Well, we need some indication, some market discipline working into the system to try to see what really the countries need. Now after that, we could – remember that we also were creating a fund that we are working with grants so it's not that we saying do not provide any assistance for free. What we are saying is that put some – if you have resources that are ****, they need to be differentiated and provided according to certain criteria. And finally, we believe that the role of the chief economist should be in hands; it should be part of the development of IDB as for inclusive growth in the region. Consistent with our recommendation that Latin America and the ideal of Latin American – the ideal of the IDB go hand in hand together, well, the role of the

chief economist should be there, right there, in working with the administration in the design of what is the best policy advice for the region, especially, and this is connected with my last recommendation that I will give you in a second regarding the international financial architecture to which I move right now.

This is – thank you for being patient but this is the last recommendation and it relates to international financial architecture. Okay. What is the issue here? Well, we – everybody here – has heard, has read and has written many articles about external volatility, the fact that Latin America is always a place – I have this joke that it doesn't matter where in the world an international financial crisis starts, it always ends in Latin America. It is a joke but it's not really. We always manage to get there. Okay. But we also know that that volatility reduces the effectiveness of the reform. We know that and the capacity to finance the social programs that the IDB has comparative advantage on. We know that. Well, if that's the case, if we're aware of that, and the international financial architecture, meaning the rules and regulations under which countries borrow, lend, interact with other countries, are so important for determining what happens to the region, where is the IDB? The answer is in the international financial architecture, nowhere. Our most important recommendation is that we believe that the IDB, more importantly, the IDB president, needs to obtain a mandate so that the IDB be the voice of the region for the design of the international financial architecture. If Latin America, as we all agree, has particular characteristics and the international architecture is affecting not so much Latin America, we believe that representation should be done through the Intra-American Development Bank. Particular, we think that the IDB, through the president, the management, that's for you to decide of course, should be a member of the International Monetary and Financial Committee, better known as IMFC, should be a member of the World Bank Development Committee, should be a participant in decision-making forums that deals with international financial architecture in the BIS, in the BASEL committee, in the G-8, in the G-20, and that's the voice to represent the region. Also, it should have an active participation in promoting and discussing instruments to aim at reducing contagion of financial problems in the region. And finally, the discussion of the explicit rules for external debt restructuring have been kind of banishing, moved out of the scene. We believe that the final word has been said of that and that this discussion is going to come but we think strongly that the IDB president should be put back in the agenda of that discussion so that next time that there is a problem between creditors and debtors, we – the IDB could have made a strong contribution in having clear rules on how to deal with that problem.

Thank you for bearing with me for so long.

Lawrence MacDonald: Liliana, thank you for that very succinct summary. I think you did a remarkable job of summarizing it in such a short amount of time. I would encourage you also to take a look at this report. Unlike some of the reports that come from multi-lateral institutions and I include myself in guilt here because I used to work at the World Bank, this one is only 17 pages so you could actually read the whole thing. Um, it's not as thick as some of the others. Um, it's now my honor and pleasure to introduce and welcome the new president of the IDB, Luis Alberto Moreno. He's been in office 2 ½ months. He was previously Columbia's ambassador to the United States and he has extensive experience in both the public and private sector, including recently serving as the representative of the Andean region in West Sphere

Capitol, a private equity firm. He was a senior advisor to Columbia's leading banking and financial group. He served as Columbia's minister of economic development and as president of the Columbian government's industrial finance corporation. He has also received important decorations, including the highest decoration given by the Columbian government and he has written extensively. He is really an international public intellectual, having written extensively on economics and politics for Columbian and international and U.S. publications. Please welcome President Moreno.

Luis Alberto Moreno: Well, thank you very much and it's great to see this great turnout here and to see that not all of them are from the IDB which is a good thing; which means that there's a lot of interest in what we're doing and I'm very happy to have many key members of our board and also of the management team of the bank. And let me begin by thanking Nancy and the center and Liliana for a great presentation and also for all the team that participated in this report.

I'll begin by a conclusion and the conclusion is that I think a lot of what's been said in this report is very much aligned with what we're trying to do at the bank and in direction that we're trying to move and I think a lot of the recommendations basically look at how to better use financial instruments that can help the bank and help the region. And of course this puts a tremendous challenge on the one hand, on the kind of instruments that we develop and on the other hand, I believe that we increasingly have a lot of flexibility that comes basically from the Okinawa annual meeting where our new lending framework was approved.

I think another issue that was mentioned in this report is how the region is changing. And, you know, there's always a lot of talk of the politics that we're moving to the left but at the end of the day, regardless of that, I think there's – there's two grasps in the hemisphere of the value of the economic reforms and of the need to sustain those economic reforms and I don't think there's – you know, you can look at the – at the headlines but I think that headlines show that regardless of that, most governments in Latin America today are moving in the right direction when one looks at the kind of economic policy agenda. And I think that's also in line with the fact that for the last three years, Latin America has been growing unlike really any other time in its history and I think it is also a time when many leaders in Latin America are looking for what's the best way to move ahead. And I think this is a constant reflection and one that's being expressed and will be expressed throughout the year in the elections to come.

I also know that there are no easy answers and no magic formulas for – for the dilemmas and the challenges that we face and – and I fully agree with, as I was saying at the beginning, with many of the recommendations that you have here. I think the bank did a great study that the research department did on the politics of policies that basically shows precisely something that you see in the city and that makes anybody serving for any government very frustrated which is how the policy process works in the United States and how open it is and how difficult it is. And I think our research department with this politics or policies very much begins to show this and I think we have to have that in light to look at how we move in our region.

I also concur with a lot of the analysis and – and the statements that Liliana and the study makes regarding the strengths of the bank. I often talk of the need for change in the bank and when we

talk about change, you mean changing everything but on the contrary, it's changing those things which should make you better. And in terms of this, there is no doubt that the bank has a great possibility and a great capability of rallying people. It has a great – to put it in pure banking terms – a great franchise and a franchise that calls on – on public opinion leaders in every country that one visits in the region. I often – anywhere I go in Latin America, and I have not traveled as much as I should have because I've been trying to do a total immersion and try to learn a little bit about the bank and learn about the ***** which is the language spoken at the bank that needs translation. So I'm often lost in translation but despite that, there is no doubt that there is a lot of strengths that the bank has and – and that it can leverage which is really, I guess, the point that – that was being made here and, of course, this means we need to be more flexible, more creative and certainly more results-oriented with both our instruments and the systems and procedures that we use.

And, of course, I think another area is that where we have to see beyond our traditional clients. And I guess most of the focus here is on the private sector but I like to think of it more in terms of the sovereign and the non-sovereign because I think in the non-sovereign area, which is not just the private sector, there is a lot of growth in subnational government, in state – be it at the national or the regional level enterprises, which are actually very good. In fact, I think a lot of the developments that the IMF did to begin to put some of their best practices on these institutions so that they could be subject to ***** have begun to move in Latin American and as a result so many financial instruments for those very entities that only need to be developed but I think should be the resource of our focus.

Let me then spend a little bit of time on the six recommendations. In terms of the support for – for the policy on institutional reform. Here, without a doubt, is perhaps one of the key agendas any development institution should have and, of course, the IDB and this is critical. First question, when one looks that almost all the stars have been aligned for Latin America. In the last three years, very good growth – not very good growth, I think, but definitely positive economic growth, low interest rates and high commodity prices, the obvious question is why aren't we growing more. And I think this is a question in all policymakers around Latin America. I just came back from Chile yesterday and I was, you know, very intrigued of how the whole debate in Chile centered around two things. Here is a country that is often pointed as the example in Latin America, a country that has grown and has done very innovative things but also is a country where a lot of the discussion was why – what do we do about this inequality and how do we make sure that this growth trickles down in a more effective way. And therefore one of the centers of that discussion was a country that like Chile was basically put forward the best – what is considered by many policymakers, the best Social Security reform, was talking about how to go into the next generation of that Social Security reform and I think that's very telling of a lot of what's going on in our – in our hemisphere. The other area, of course, has to do with promoting competitiveness, both at the macro and the micro level and, of course, the enabling environments and here when one talks about the – the private sector, the one thing that you often go by talking to private sector groups is the issue of – of the legal frameworks and especially the – the possibility of having strong legal frameworks to attract foreign investment and here is an area where I think certainly the bank has a lot to – to contribute. In terms of what I was saying the regional differences that exist, that is something the bank needs to be more adaptive and to understand those better and to, of course, have increasingly more country focus. I think the new

lending framework, as I was saying initially, has precisely that. It provides for greater flexibility in the different instruments and procedures in aligning the bank's processes with the programs and – and systems of individual countries. This is an area, of course, of the country systems which is a very critical one and – and moving more from a project to a program focus. So these are some of the – the better changes in the new lending framework that was approved.

In terms of expanding and modernizing private sector operations, without a doubt, increasingly with the fiscal and **** that exists in many of the countries, the real activity for any multi-lateral institution, I think towards the future will be what it can do in these areas and that means a totally different view on – on risk, on pricing and also it means being able to say no and that creates a different culture and it needs a different culture and therefore the whole human resources part of the bank becomes critical. You touched on this in a veiled way, in a very IDB way, but I think this is central to the – to the future of the bank. We also need to expand in these activities and we have been doing some of this. Recently, for instance, we approved the possibility of raising the caps on financing for private sector projects from \$75 million to \$200 million. That's a very good first step. We hope that come the annual meeting, which will be in Brazil this year in the first week of April, we can come together with a number of programs that begin to address this – that require our governors to – to give us a go-ahead. But definitely we're working on a unified strategy and you're right that I often – I remember when I was first looking at the private sector activities of the bank, I was reminded of a former president of Columbia who would always say something that I thought was very wise. He said, "You know, I know animals of 100 legs but not of two heads." Well, we have three heads so that's a problem. And this means that we need to put this within the boundaries of the bank in an effective way and I think this is precisely where you touch upon. I think we all at the bank recognize that we need to work better on an integrated form.

The fact of how to – the third point, which I think is – is of all the recommendations I see here, very creative and I think very profound and that is how to help deal with exchange rate risk and other risks by managing IDB liabilities. This is – you know, I remember when I was in the board of, I guess, what's today probably the major bank in Columbia, the president of the bank always used to tell me, "To understand the bank, you always start by looking at the liability side." And I think this is precisely what Liliana was – was saying here. We have done some and actually pretty substantial financings in local exchange. Most of them have been on the hedging side as opposed to pure local exchange – or local currency. We did one in Columbia, not because I'm from Columbia, but something that the corporation was working on which was very good and it was already subscribed and what it shows is here you have a lot of liquidity, local currency in all of our countries, not all of them but most of our countries, have a lot of liquidity in local currency, and is how to leverage that with the bank's triple A rating which is what Liliana was saying here, I think we have to do a lot more and I think in many of your recommendations, and I won't go through them, I think are very good, are very thoughtful. I wish I could get to what you're saying and you're suggesting but, as you know, these have a lot of constraints and – and we need to move on this. We need to learn to walk before we can run on issues like this but I think this is the direction where the hemisphere is going as we see these trading dealing moving, as we see more intra-regional trade growing, is precisely hedging those risks and along those lines where we need to move.

In terms of integration, I couldn't agree with you more. I think the integration, more than the trade agreements, has to do with the infrastructure and this is where, you know, we estimate that the bank – that Latin America and the region in general needs about \$80 billion of investment a year. There is no way that governments can do that and so then the course then becomes how to do it at the nexus of private/public partnerships and here the devil is in the detail. It is how we feel that – that the true value of the bank and this is something the larger countries and all our major shareholders concur, it is really the IDB, the institution, that is privileged to be in precisely that intra-regional infrastructure. This means managing a lot of regulatory issues. This means the – the funds which we are looking to do a major infrastructure fund, which has precisely that – that grand possibility, that should not be limited just to – to the bank and its shareholders but even to private banks where it's basically an origination for many of the private projects that will eventually be done and where we can basically have different layers of financing where we will put the more difficult layer of financing, which is the long-term possibility, which is really our competitive edge. Like it is, by the way, for most development institutions. You mentioned the fact that increasing we're, you know, out of play and in terms losing our – our competitive edge. I think this is not only true for the IDB. It is, I think, the major question for development institutions and where our real value is. And I think our value is in what is commonly talked about in, I guess in village language, is the – the ****, meaning what you do -- \$1.00 that you put it, can it provide \$10.00 of investment, of development; this is really where our focus should be and this is a true challenge.

The issue of the knowledge bank. Here, I agree entirely with you and let me say at the outset that when we did – we have been doing this whole realignment which I'll talk in a moment, but I believe that change in an institution like the IDB cannot be done simply by the president. Change has to be embraced. Change has to be led by everybody in an institution. For this, you need to empower people and as you empower people and you begin to go deep and understand what the thinking of people at the IDB is all – I think the single most important thing that came from a poll that we did that was answered by half of the personnel of the bank demonstrated that people really want change and they understand this change. So the question is how to lead this change. And in this regard, one of the other areas was how there is a true appetite to get better knowledge and how people wanted to update that knowledge. And this takes me to your point that we should look at ways to – to charge or to get the contributions for our technical corporation. I would say here first our technical corporation needs to be in demand. It needs to be at the cutting edge of knowledge and in this regard, not that I look at other institutions, our competitors, because I think our competition is really about how to uplift people all together more than competing one institution against the other, but this of course has to be aligned with other institutions as well. Otherwise, I think we would be quickly put out of business. I just leave it at that.

In terms of – of your six recommendations, how to be part of the new financial architecture, I think this is a very insightful recommendation. This is something we will have a meeting, actually, with all the development bank heads in the middle of February, and it's a great opportunity to precisely raise this point and, of course, for Latin America it's critical but I think this point is also valid for other regions and I think we should find a way to work with both the IMF and the World Bank precisely to – to bring this on. So thank you very much. These are great recommendations.

Let me in closing talk a little bit about the realignment. We really have set for ourselves the objective of presenting a strategy of better aligning both the bank with the new market conditions and the regional conditions that we need to have towards the Board of Governors in **** early April. As I said before, we've had this internal process taking place and we look to do in this realignment a number of things which are obvious. First of all, to have more flexibility, creativity and speed. Less emphasis on prepackaged solutions. I remember somebody in reading many of these questionnaires said, you know, the problem with the bank is that we just give people, you know, kind of like the old Model T Ford. You know, you want a car, it's black and it's only this model. I mean that – we have to break away from that. We need to also, as we move in this realignment, not only to look at it from the top to the bottom but from the bottom up. And this is a critical area. Of course, more focus on the – on the non-sovereign, as I was saying before, more in local currency and some national entities, the implementation of risk management systems. This is a critical piece of doing any private sector activity. It is the basis upon which any bank, any financial institution, looks to manage its portfolio and, of course, abating the capabilities of our human resources. These are some of the areas where we're looking in this realignment process. As you know, all realignments are difficult. They go through ups and downs but this is the challenge that we have before us and I guess I will stop here. I know we have a panel. I just want to, in closing, thank you for – for not only this great turnout but for your interest in the bank. I think we all at the bank – we need to from time to time, have somebody from the outside look at us. It is kind of like going to the shrink and it's always a good thing to have. So thank you very much.

-Change of tape-

Lawrence MacDonald: At the time of the IDB was 14 years at the World Bank where among other responsibilities she headed the research department. She is the author or coauthor or editor of a dozen books and monographs and has written more than 75 articles and books in . . . in scholarly journals including in Spanish as well as in English. Um . . . it is also my pleasure to introduce Roberto Zahler, the present . . . um . . . the former president of the Central Bank of Chile. Roberto is . . . uh . . . also currently president of the consultancy firm Zolar and Company and chairman of Siemens Chile South America. He is a member of the Latin America Shadow Financial Regulatory Committee . . . uh . . . that did all of the heavy lifting for this report and of the Emerging Market Economies Eminent Persons Group and a board member of Banco Sanatoria Chile and chairman of . . . of the advisory board of Deutsche Bank. I could go on and on . . . um . . . but Roberto, welcome. Thank you very much.

Lawrence Mac Donald: I guess my first job is to ask whether either of the working group members who have not spoken, Nancy or Roberto if either of you have anything to add before we open it to . . . um . . . questions and comments from the audience.

Roberto Zahler: I have to say ladies first, coming from Chile, and having a new lady president.

Nancy Birdsall: No, I think we should go straight to discussion . . . um . . . I'd just like to take the opportunity to thank the president for the comments he made; to mention that Lawrence

you missed at the end. He made a very important point about the critical role of the IDB could be playing in the discussions of the International Financial Architecture and I heard I think his . . . ah . . . the beginnings of a suggestion that he would work on that with the presidents of the other regional development banks which is a . . . a great idea that I think we should welcome in this group. So, with that, let us . . . let us go to questions. There are many issues that Liliana couldn't cover fully, so I'm sure people have questions that will be interesting.

Lawrence MacDonald: I'm not clear whether Roberto has a comment or not.

Roberto Zahler: I guess I would like just to add a couple of comments to Liliana's presentation.

Roberto Zahler: Uh . . . I have follow up quite closely IDB involvement in many countries in Latin America, especially in Chile, and I would like to say the following. I think that in general terms reforms in the macro area are relatively well known although we make of course, still make mistakes sometimes. But I think there we have relatively little to add and I believe probably this is also not the . . . the . . . the most specific institution regarding that area so where we really find the need for . . . for improvement is at that the micro institutional, even regional or sub-regional area. And the problem there would have to be . . . my impression is that we really have relatively little knowledge and relatively little experience at least in the region. And there I think IDB could really fulfill a very, very important job although it's extremely difficult. Now, regarding the private sector and this is something we suggest a lot, there is one thing where I believe that sometimes most of the advice, complicate itself and cannot be applied . . . it has to do with a lack of dialog between different participants in the private sector. And this is something I think . . . I think is extremely important. The fact that when one talks about private sector, one usually thinks in the entrepreneurial sector. And there we have to think of civil society, ONGs, or in these labor organizations in the parliament in the sense that if really we don't involve in a democratic society these sort of institutions, it's extremely difficult for the advice to really get implemented. At least that's the experience I've seen in some countries, even in Chile. And there we have had in the recent years, I would say, a very interesting and I would say a very novelty approach of private sector dialog between these different components of the private sector and where I really think that is a major challenge of how to deal with that dialog. I'm . . . and the final point I would like to mention in addition to what Liliana said is that although that we put in the report we don't stress it enough, I think that in most of our countries the private sector has really become much more competitive as to say 10 or 15 years ago. But still at the government level, we have a lot of things to do and when I talk about government I am not talking only about the executive but also parliament and about the judiciary. There I think again when we talk about institutions the fact that increasing institutions' good work in a more transparent, a speedier, efficient way, clearly overall competitiveness will increase significantly in the region. Thank you very much.

Lawrence MacDonald: Thank you very much. Um . . . we'll now open it to comments and questions from the floor. If you would please identify yourself before you speak and if your question is intended for somebody in particular we do have two microphones here and we are recording this so if you would like to speak, if you can please just raise your hand and head to

one of the mikes. We have a lot of expertise in this room. I knew somebody would break the ice here.

Lawrence MacDonald: And I'm sure by the time we get to the end we will have a long line and I'm going to have to tell people, no we've run out of time and you'll wish you'd spoken up or spoken first.

Paul Sotaro: Hi . . .

Lawrence MacDonald: Yes, please . . .

Paul Sotaro: Paul Sotaro and I'm a journalist. I don't have a comment. Only questions and one question for the commission and one question for the President Moreno. The question for the commission, I noticed that you suggest starting a report on doing business. How would it be different from the one that IFC does which is excellent. I use it all the time and whether you will expand to other areas, would you . . . because . . . you know . . . as a journalist in Washington, I have always tried to avoid commissions and reports because there are many of them so I wanted to understand why we need a new one if the IFC already has one. And for the president . . . ah . . . President Moreno, in the speech President Bush made in Brasilia in the trip there, he mentioned one thing that I reported at the time that was then that I didn't see any reference to it, which is, I think it's new for it . . . it would be new for the IDB which is debt forgiveness along the lines that happened with the World Bank, the IMF. I wanted to ask you if this is an active idea of forgiving which could be an excellent idea of forgiving that to the IDB or part of the debt to the IDB of the poorest countries in our region and how would you go about that. Thank you.

Nancy Birdsall: Should we answer?

Lawrence MacDonald: Yeah . . . why don't you go ahead and answer.

Liliana Rojas-Suarez: Okay the report that we are advising the president to commission is particularly for the IDB benefit. It is basically an independent survey that tries to identify the cost of doing business with the private sector window of the IDB so that . . . and . . . we . . . we would like the report to be independently commissioned so that actually it has a fresh look about the clients and the relationship with the bank. It is not doing business in general but is with the private sector windows of the IDB.

Nancy Birdsall: It would be good if the IFC did a study of the cost of doing business with the IFC. That would be the analog.

Luis Alberto Moreno: It's a reverse report with regard to . . . to . . . um Carlos' question about the . . . he refers to . . . we have a similar window to the IDB which is called the . . . the FOSO, the fund of special operations at the bank that basically it refers to . . . to a handful of countries basically in Central America, Nicaragua and Honduras, Haiti and . . . uh . . . of course Bolivia and Guiana. This is an issue of course for the shareholders if they . . . it's this discussion that is started in Gleneagles which is what . . . uh . . . Carlos was asking and of course includes many countries and what I could say on this is the following: this is a discussion that is being

taken upon by the shareholders of the bank. Uh . . . we have looked at different kinds of proposals and we are in a very active dialog about this very issue and we hope to come with a solution hopefully before the end of the first half of this year.

Nancy Birdsall: Could I add a comment on that?

Lawrence MacDonald: Please.

Nancy Birdsall: I . . . I think this issue of debt forgiveness is a very good example of . . . um . . . the need for the IDB as an institution to be more fully engaged in the larger discussions that have tended to take place at the development committee in the IMFC because the current administration in the IDB suffers from the problem of a bad history on the approach to debt forgiveness which is fundamentally . . . and I think I have got this right that there was a decision in the boards of the World Bank and the IMF that said we will forgive the debt of some of the world's poorest countries including five . . . no three . . . I think in the Latin American region and in the case of some of those countries, in particular, Bolivia, that decision was made without discussion in any formal sense. There was some informal discussion, but without real discussion inside the board of the IDB so the decision to forgive the debt, including the debt that the IDB held, was made without voice and participation and that created a lot of resentment inside the board of the IDB in the 1990s so this is maybe well known to some of you and not so well known to others, I think it . . . it created an obstacle to the shareholders of the IDB, particularly the big middle income borrowers who would bear in principle some of the cost indirectly of forgiving the debt of Bolivia and Nicaragua. So the president now faces a challenge that is slightly different than it might have been if the IDB had been a bigger presence. Even in that discussion at the level of international financial architecture, mainly the problem of the accumulated debt of some of the world's poorest countries.

Lawrence MacDonald: Thank you very much . . .

Luis Alberto Moreno: Let me just add to that. I have to add just something real quick. I guess . . . you know . . . it is a very important . . . I guess . . . piece of history that Nancy refers to but in this case, we are doing it in a very inclusive way . . . eh . . . in a way that is highly debated amongst the . . . the board of the bank . . . um . . . and . . . and I think it is a very good exercise . . . eh . . . and I think we will come up with something very good so . . .

Lawrence MacDonald: Thanks very much . . . uh . . . there was a gentleman at the back that put his hand up but there is a gentleman at the mike now so would you speak first sir and then that gentleman at the back that I recognized and then there is a gentleman up front. We will take those three questions and then I will look for more hands after that . . . please . . .

Ted Truman: I am sorry to have . . . uh . . . jumped ahead and I apologize for that. I just saw no one standing her so I thought I would ask you a question . . .

Lawrence MacDonald:: That is perfectly all right.

Ted Truman: I am Ted Truman from the Institute for International Economics here and . . . and I have and I know much less about the IDB than many people in this room and I would say not zero but less and I would like to ask maybe I don't know whether President Moreno wants to answer this question or someone from the panel. The a broader existential question . . . right . . . uh . . . and the question is where in the 21st century do we really need regional development banks and in some sense this report is about . . . sort of . . . expanding what you do because what the bank did in the past is less . . . less . . . I don't want to say not at all but less necessary . . . I mean . . . one might say should the bank ask the question . . . should the bank have a . . . a plan for . . . uh . . . how it would go out of business . . . ah . . . and . . . how . . . the **** success of going out of business and one answer might be and which is . . . is hinted at and Liliana said in her presentation would be to transform the bank into . . . well . . . into a . . . a regional institution in a . . . in a sense beyond what it is today. I mean, it is unique in a sense that it has . . . the majority shareholders are in the region and . . . you know . . . and whether you want to think about it in a region monetary fund type of . . . is one option so something that was regional in its activities . . . right . . . in a sense it had nothing to do with non-borrowing . . . the non-borrowing countries. I mean that would be one vision but it seems to me I would be interested if . . . if the panel thought about sort of that sort of how we either . . . you know . . . either transform the bank down the road, not tomorrow but 5 years, 15 years, 25 years whether you would just phase it out or you would . . . or you would do something else. Thank you.

Lawrence MacDonald: Thanks very much. The gentleman in the back.

Malise Dick: Um . . . my name is Malise Dick, University of Maryland. Two quick questions. One, do you think . . . does the panel think that the associations between the bank and the local universities are strong enough I have been trying to get a research . . . a joint research program with World Bank going and quite frankly, it is very difficult indeed because the bank thinks that all the research necessary is being done in the bank. That is one thing. More specifically, do you think that in Latin America the idea of the incubator . . . uh . . . in other words, giving support to small scale enterprises in one form or another, is sufficiently well developed. It is . . . we have a program at the University of Maryland which is very good and has been very successful and I know Argentina pretty well, namely because my wife is Argentine and the impression I get is that in Argentina, this is practically unknown. Thank you.

Lawrence MacDonald: This will be the last question from this round.

Andrew Pell: I have a question about this . . . uh . . . this is very interesting . . .

Nancy Birdsall: Andrew . . . could you . . .

Andrew Pell: Who I am . . .

Lawrence MacDonald: Yes . . .

Andrew Pell: I am Andrew Pell and recently joined the IDB in the research department. Um . . . about this interesting proposal that the IDB should have more representation in international committee, Nancy spoke about one committee, but I think the other two that are most relevant

would be G20 and perhaps even the BASEL committee for banking supervision. Now there is a precedent here . . . uh . . . and I have some experience with both having been Argentina's deputy for several years and . . . uh . . . in the G20 and some duties with the BASEL committee . . . um . . . there is a precedent in that the European Central Bank is a member of the G20 and I think it is also a member of the BASEL committee for banking supervision with the argument being that the ECB represents the small European countries which do not have their own seat in those committees but so there is a precedent for that point of view but on the other hand, of course, the IDB is only one of several regional development banks and the others would have to presumably have a similar argument that they would wish to join. Now in terms. . . I think . . . and both are relevant for the reasons that have been discussed. The G20 has discussed many issues very, very relevant to Latin America and, of course, Argentina, Mexico, and Brazil are members but those are the only three and so the smaller countries are not represented and in the BASEL committee, no Latin American country is directly represented, Mexico, Argentina and Brazil are all secondary . . . second class citizens in that they are members of the BIS but they are not members of the BASEL Committee for Banking Supervision and there are many issues being discussed today in the BASEL Committee which are very relevant for Latin America given the presence of foreign banks in Latin America so I can see all of those arguments but I think to . . . to make a very strong case, it would basically need a very strong consensus from the countries of the region, in particular, given those two committees from the Central Bank. So, in other words, my question is to Roberto, perhaps as an ex-governor of the Central Bank and Liliana and others if they wish to comment, is it feasible to think that the . . .uh . . . governors of the Central Banks of the region, especially Mexico, Argentina, Brazil but . . . but others as well . . . uh . . . including Chile, would . . . would find the IDB . . .uh . . . the appropriate rep . . . their appropriate representative in those committees. That would be my question because it would really need a strong consensus.

Lawrence MacDonald: We have three sets of interesting questions. One is how do you go about shutting down the IDB and when. The other is about ties with local universities and the role of incubators in the region and the third rather detailed suggestions about how to proceed with the international financial architecture. Um . . . I am looking for indications from my panel as to who wants to tackle which first.

Nancy Birdsall: I will take Ted's. He is mine.

Lawrence MacDonald: Okay so we'll take the first one first. How and when . . .

Nancy Birdsall: But I leave it to the president . . .

Lawrence MacDonald: To shut down the IDB . . .

Nancy Birdsall: . . . I think he should also say something about it . . . um . . . since this is also about what the commission had to say . . . um . . . let me say, Ted, that I think this is a very big question as you suggested and it is an issue also for the World Bank . . . uh . . . should the World Bank continue, in particular, to be lending. The big question that Ken Rogoff and others have asked is why is the World Bank lending to China when China is lending billions to the U.S. and so one might ask some of the same questions about Latin America. Jessica Einhorn, who is

a member of our board and the dean of SAIS, just down the road has a very interesting article in the most recent Foreign Affairs Magazine suggesting that the IBRD window, the hard window that the World Bank should . . . they should plan to close it in 25 years . . . uh . . . it does . . . she does not suggest that the World Bank should then be doing nothing in middle income countries but she has a set of ideas that are not dissimilar on using the liability side of the World Bank on doing perhaps something closer to regional and global public good activities. So this, I think, is a very big question for all the multi-lateral banks. Um . . . in the face of today's . . . maybe it won't be the same in a few years. It won't be the same next year but at least at the moment, that question is very much in the air. My . . . my own view, and I think the view of my colleagues on this commission, was that it is important to recognize that these are membership forum. They are like clubs and there is no reason to have quantitative rules on who should be able to borrow when through what instrument . . . um . . . under what circumstances. It is the members who should decide so if China wants to borrow from the World Bank, fine. If Korea wants to go back to the World Bank at the time of a crisis, as in 1997/1998, fine and that is the way clubs work. That is the particular approach that is particularly . . . it is especially sensible in the case of the IDB because the borrowers do hold 50 percent of the shares so there is a greater sense of the Latin American and Caribbean borrowers owning the institution . . .uh . . . and they will, we hope, over time, make decisions about the direction the institution will take with the non-borrowers and this is one of the strengths of the IDB is that there is that effective dialogue, frankly, between the U.S., the single largest . . . in a strategic sense, non-borrower and . . . uh . . . Latin America. So that is a very, maybe too long of an answer about the sort of underlying philosophy about the role of what the bank should be and I think it is important at this point on regional issues and that is one of the reasons why we highlighted or put among the six recommendations, a greater emphasis on regional integration and the financing and provision of regional public goods.

Liliana Rojas-Suarez: I . . . I just wanted to add something very brief. Um . . . the main theme of flexibility is our answer today. Countries are different and times change. You can close instruments but that doesn't mean that the regions are not going to be having evolving needs and flexibility from our perspective means the bank that is adaptive and a bank that is flexible enough to be relevant, the bank might not have sufficient relevance now and therefore our prescription or recommendation for change to the evolving needs. I will stop there to give to the president . . .

Luis Alberto Moreno: Um . . . I think what is interesting . . . two things . . . picking up on something Nancy said. I think the way the people in Latin America look at the bank is the way one would look at the major . . . you know . . . money center bank from New York doing business in Washington as opposed to your local bank. They look at the IDB as their local bank and that has a huge potential because of the ownership structure as Nancy just mentioned. But, let me give you an example which I think, to me, is very telling and that is Chile. Chile really does not need . . . uh . . . financing from any multilateral institution but yet it uses the IDB and it uses the IDB on a number of really cutting edge type of . . . of . . . um . . . eh . . . lending products that the bank has developed together with Chile to provide a cover of institutionality, a long-term vision on projects and I think as . . . as you see examples such as this one, it gives you the reason why that institutionality, that long-term vision which at the end of the day is really what development banks do. Uh . . . because we have that very unique possibility . . . I mean . . . I . . .

I don't know any banks that give loans for . . . you know . . . 40 years and with all of this kind of concession assigned to them, aside from development banks and that is really where our lending needs to be and if we don't lend, we cannot provide financial assistance, it would be a long time before we have the kind of knowledge that we can basically . . . um . . . be able to charge for and sustain and be able to pay for the lights at the end of the day so that . . . that balance is a very important one and yes, I think there will continue to be a role. I think as the pressure on interest rates continues to go down and countries can top markets much quicker, much better, we . . . and this is not only for the IDB, all development institutions will continue to be under a lot of pressure and I think that is a good thing because it will force us to be more innovative and it will force us . . . eh . . . to look at different options and . . . and to constantly question our role.

Lawrence MacDonald: Um . . . so there were two other sets of questions. One was about the ties between the IDP and local universities by which I think you meant universities in the Washington area and also about the role of the incubators and then this . . . uh . . . question about participation in the international financial architecture. Who is . . . who wants to take one of those? Roberto, you have not spoken . . . yes . . .

Roberto Zahler: Yeah . . . regarding the issue of . . . uh . . . universities . . . local universities, I think that one of the areas where we lack a good relationship in Latin America is between universities and research being done at universities . . . applied research and the private sector and enterprises. Really, I think there is a big, big problem there in terms of requiring a high level of . . . of research being done but extremely little connection between that and the private sector investment and the use that firms could make of this sort of . . . uh . . . and here again, I think is one of the . . . uh . . . areas where the IDB could help the private sector in general involvement. Regarding the issue of . . . uh . . . the international financial infrastructure, I think Andrew made a very good point which is the fact that some of our Central Banks in Latin America are independent of governments, they have some representation, not very high representation at the BIS and clearly I think that what motivates our six recommendation is the fact that we feel that the region is clearly under represented in the discussion of the international financial architecture but . . . eh . . . clearly, I think this requires a dialogue between governments and say, governors of the IDB on the one hand, Central Bank governors on the other. To see the specifics of institutionality you . . . you engage yourself. But I think the point that we would like to stress is the fact that we feel that the region as . . . as Liliana mentioned, usually ends up having problems related to the signing and implementation of financial architectural picture should have something to say regarding institutionality.

Lawrence MacDonald: I mean . . . unless there is . . . um . . .

Luis Alberto Moreno: Just very quickly on . . . on a thought which relates to this question of incubators. Jeffrey Sachs was recently at the bank and gave a talk and said something as he compared Latin America to Asia that really caught my attention, he said, you know, when you look at the debate in Latin America you are typically looking at constantly the whole question of an equality and he said the second or the third or the fourth generation of reforms and when you go to Asia, the discussion is about growth and about technology and . . . and I think that whole technology debate is kind of lost in our countries. Some countries have done great things but it is precisely what Roberto was mentioning. We . . . we have the kind of universities where

research is being done on one hand, kind of an isolated world, and the private sector in another isolated world and there is the need to bridge these two and . . . and . . . um . . . and I think we are thinking of . . . of great ideas of how to . . . to really . . . one rates the profile of this and . . . and that begins by understanding what is the private sector doing, why are companies able to innovate, why the percentage of . . . of innovation is a percentage of GDP or the GNP or the percentage of . . . is so low. I mean the country . . . the highest is . . . are . . . you know . . . 1.2/1.3 percent. Uh . . . you go to Asia and we know what is going on there. So this is a major question as we think of Latin America towards the future and the next decade. We know clearly that we have great possibilities in the energy field and I think this will be . . . it continues to be a very big thing in the years to come. We know there is great things in the area of agriculture and agro industry Brazil being the best example of this increasingly becoming the country that . . . that really is in the forefront of . . . of what it can do in terms of agriculture but technology and how to use technology to . . . to precisely do better in all of these fields is something that is kind of lost in the debate and I think there the IDB has a major role to do. There is some experiences, you know, from Chile which has been replicated in many countries. That is a great thing and a great experience to watch of how they go from . . . from incubator and then they begin to . . . to use . . . uh . . . venture capital to move companies up and it begins at the level of an idea and it is the start of things like whole salmon production or the furniture manufacturing in Chile. These kinds of things, I think, are well worth replicating and they have been able to work . . . eh . . . with a lot of universities and not only in Chile but . . . but throughout and actually a lot with the bank through a great . . . eh . . . eh . . . institution that we have inside the bank which is the MIF . . . uh . . . which is . . . you know . . . it is constantly supporting these kinds of ideas.

Lawrence MacDonald: Um . . .

Nancy Birdsall: I want to just say a quick word on the question from the gentleman from Maryland. I think that it goes a little bit more directly to I think his concern which is that there is not enough use of skills, including in research, in the region by . . . uh . . . the multi-lateral banks and in this respect, the IDB is very different from the World Bank and has been for more than a decade and I think that partly reflects the fact that there is more ownership and there is such tremendous social science expertise in the region and the problems are the structural ones that the president and Roberto have referred to about links within the region. There are at least two different recommendations in the report that bear on this. One is the idea of regional institutes which . . . where the IDB would be investing more directly, particularly for the smaller countries and the kinds of issues that . . . that you mentioned. The other, I think, is to ensure that that is still in the context of the words we use in . . . as a commission in this report, always, which are the two words - inclusive growth - because some of the micro problems that are the real institutional issues that Roberto referred to have to do with how to be pragmatic about addressing the inequality problem. What can . . . what can we say today . . . what could the bank say today to Eva Morales in . . . in . . . and somehow reconciling . . . uh . . . the need he has to . . . to sustain a business friendly approach, a technology competitiveness approach, and at the same time, to address the challenges that he defined for his citizens . . . um . . . in the campaign. That is a real challenge where I think we don't have the answers and where regional institutions and even incubators on linking these challenges would be a great move tapping more talent in the region.

Lawrence MacDonald: Um . . . we started a bit late . . . um . . . I see that there are more questions. I thought what I might do . . . President Moreno has graciously agreed to stay for just a few more minutes . . . is if you have a question, please come to the microphone now, ask it briefly. We won't promise to answer them all but we will have them on the record. You will have a chance to . . . um . . . uh . . . make your point or ask your question and then we will ask President Moreno for any closing remarks . . . um . . . but please do make it brief. Thank you.

Next Speaker: Okay . . . thank you . . . um . . . I am Mariana Panuncio from World Wildlife Fund basically, my question is tied to the over arching issue put forth by this report and this has to do with the relevance of the IDB in light of increasing private capital flows . . . um . . . while conservation and environmental assets and services is recognized by many as a key ingredient to long-term development . . . um . . . some claim that if the IDB promotes the adoption of strong environmental and social standards that this will make it less competitive against private capital flows that don't have any strings attached. So, my question is, in light of the reports recommendations to . . . uh . . . promote support . . . um . . . uh . . . long-term public and institution policy and institutional reform, I wanted to ask the panel what role do you see for the IDB in relation to the promotion of strong environmental . . . uh . . . practices and policies.

Lawrence MacDonald: Thank you very much . . . next please . . .

Ian Gary: My name is Ian Gary and I am with Oxfam America . . . uh . . . yesterday I attended another report launch done by the Council of the Americas on . . . uh . . . energy partnerships in Latin America and at that event there was keen interest for greater involvement of the IDB in developing . . . uh . . . energy resources, oil, and gas in the western hemisphere and related to our discussion on the private sector, I wanted to know the panel's thoughts on the appropriate role for the IDB in the energy sector.

Lawrence MacDonald: So question on the . . . both two good questions, one on environmental standards and another on energy . . . um . . . I don't know if we have time to tackle those. One option that we have is I should mention the report will be online at www.cgdev.org this afternoon. We also have a group blog, Views from the Center, and so one possibility is to have the conversation continued there but if there are quick answers to these and then I think we will go to your closing remarks, if you like.

Liliana Rojas-Suarez: Yes . . . just a quick answer for the environmental question. Uh . . . please notice that in the suggestion of creating a hassle free loan . . . um . . . on the . . . on doing the hassle free loan and credit line, we included as a recommendation that countries could pre-qualify if they . . . um . . . satisfied certain international standards and we included environmental standards as one of the possible pre-qualifications that the country could have so from our perspective that is a very important issue and we are suggesting an instrument that could actually take care of that.

Luis Alberto Moreno: Well, let me just in closing thank . . . uh . . . thank the center for . . . for a wonderful discussion today. I think . . . eh . . . all . . . certainly all the staff and members of the board of the IDB who were here with us today value . . . uh . . . the exercise that you have done, take it very seriously . . . um . . . I think we are very much in line with your

recommendations with many of the things that we are looking at our ourselves. We constantly are questioning what we do and how we can do it better and as we all know . . . eh . . . it takes 1 percent inspiration and 99 percent transformation so being that the case, we go to the later, so thank you very much.

Lawrence MacDonald: I just want to thank you for joining us today. President Moreno, I think the openness to new ideas indicates that you have an incredibly healthy and dynamic institution. Thank you for joining us today.