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"A Decade of Opportunity for
Latin America and the Caribbean"

Address

As Prepared for Delivery

by

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The World Bank Group

to the

Board of Governors

The Inter-American Development Bank

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Mr. Chairman, Governors, Ladies and Gentlemen:

Thank you, Enrique Iglesias, for giving me this opportunity to address the Annual Meeting of your Board of Governors. Since the Inter-American Development Bank began its operations in 1961, our two institutions have enjoyed a long-standing and cooperative relationship, a relationship which has become even closer in recent years.

It is a pleasure also to be revisiting Canada, a country which has had a long and substantial involvement in Latin America and the Caribbean. Canadian interests in the region are broad, ranging from trade to investment and development assistance. For Canadian investors, the countries of Latin American and the Caribbean are the third largest market for investment capital after the United States and Europe. What better incentive could there be for Canada's continuing support for the restoration of growth and the promotion of development in the region?

Mr. Chairman:

There are those who see only problems and crises in Latin America. I see, instead, a region with a history of civic, cultural and economic achievement.

I see a region blessed with abundant natural resources, and populated by peoples of energy, imagination and courage.

I see a region where, since World War II, remarkable economic and social changes have taken place; where average income has more than doubled, and where average life expectancy has risen by one-quarter.

I see a region where, even in a time of severe economic stress and painful but necessary reform, the transition to democracy has been successful.

It is because of this record of achievement that I believe the 1990s can be a Decade of Opportunity for your region. But the opportunity must be seized. Governments must commit to making their countries lands of opportunity for their peoples -- places of hope and promise in which their people -- and, indeed, the whole world -- will confidently invest their skills, their energies, and their resources.

The common experience of the past decade has taught us some important lessons.

The first lesson is that adjustment is not a quick fix, and the debt crisis cannot be resolved overnight. It must be done; failure to change failed policies leaves the poor without hope. But I need hardly remind this gathering that the process of stabilization and structural reform has been, and will continue to be, painful for many.

As a Nobel Prize winner for Medicine, Dr. Alexis Carrel, put it many years ago:

"Man cannot remake himself without suffering,
for he is both the marble and the sculptor."

This applies to nations and economies also.

The second lesson is that economic conditions have turned around in those countries undertaking deep-seated structural adjustment programs on a sustained basis. For example, Mexico's non-oil exports have tripled since 1982, and the stage is set there for a resumption of sustained growth. Chile's economy is now growing at 8 percent, inflation is lower, and there is a rapid recovery of private investment.

The third lesson learned from common experience is perhaps the most important of all -- the key to restoring economic and social progress in the region depends critically on there being credible and effective governments whose policies and actions can command the support of the people.

As John F. Kennedy said three decades ago:

"The basis of effective government is public confidence."

The countries of the region carry the main burden of responsibility for their own future. But when governments have the courage and farsightedness to make deep-seated, sustained and credible changes, the international community must be ready to respond.

Where governments have created an enabling environment, the international community must encourage and facilitate the free flow of capital. It must ensure that the markets of the industrialized countries are kept open, and that adequate rates of non-inflationary growth are secured and sustained in the industrial economies.

Eastern Europe

There is today a question which your region is asking with understandable persistence. In this period of extraordinary political upheaval in the countries of Eastern Europe, the international community is confronted with an impressive new range of opportunities, demands and costs. Will these be met at the expense of the assistance to developing countries in other regions of the world?

I can answer that question, at least for the World Bank. Clearly, there is an expanding role for the World Bank in its existing Eastern European member countries and in other countries in that region which may become new members.

I pledge to you today that the increased activities of the World Bank Group in Eastern Europe will not penalize our programs either in your region or in the rest of the developing world. We have a global responsibility which we will not abdicate.

Having said this, though, I must add that the opening up of Eastern Europe is a powerful lure to private foreign investors. If the countries of Latin America and the Caribbean are to attract a fair share of this investment in an increasingly competitive world, every effort must be made to create an attractive business environment in your countries.

Given the fiscal pressures in most donor countries, we cannot be very optimistic about the prospects for large increases in official development assistance. Private funds are more likely to provide additionality for investment capital. It would be unfortunate, therefore, for Latin Americans to assume that adequate development investment to achieve growth can be found without better internal resource mobilization and major private sector involvement.

Agenda for the Nineties

I mentioned earlier that we have entered a decade of opportunity. If the opportunity is seized, there can be solid progress in the economic and social transformation of this region. The development goal for the 1990s, then, must be growth through the creative use of available internal and external resources.

In that quest, there are no substitutes for good macroeconomic policies and strong adjustment programs of a kind that will unleash the productivity of the people and attract the needed flows of development finance.

The nature of such policies and programs has been discussed in many fora over the past few years, and I will not repeat them here. Suffice it to say that governments of the region must create an overall economic environment which will encourage the full expression of their peoples' energy and creativity. An enabling environment must be created so that the people are empowered to improve the quality of their own lives.

If this is to be accomplished in Latin America and the Caribbean, there is a need to reconstruct and maintain the region's physical infrastructure and to strengthen its human resource base.

Regional Infrastructure

Economic growth cannot be secured and sustained with a poorly managed and deteriorating material infrastructure base. Not only did the building of new infrastructure in the region suffer cuts during the 1980s, but also the existing infrastructure was allowed to deteriorate.

The last decade saw, on average, a real decline in output and sharp declines in net investment. Although not all countries were affected equally, the ratio of fixed investment to GDP in the region dropped from nearly 23 percent in 1980-81 to about 16 percent in 1984, and has remained depressed ever since.

A recent Bank study for the transport sector noted that in seven out of ten countries sampled in the region, budgets for transport and communications were slashed more drastically and rapidly than for other sectors.

More important, in transport it is estimated that resources devoted to road maintenance are less than 20 percent of what is needed for proper reconstruction, rehabilitation and maintenance of existing roads. We estimate that about US\$10 billion worth of the value of the road infrastructure has been lost in the region due to inadequate maintenance. This loss could have been averted with preventive maintenance costing less than US\$3 billion.

The cost of rehabilitating existing infrastructure and providing adequate maintenance is far lower than new infrastructure investments.

Our tentative estimates of the region's investment requirements for power, roads, and water sewerage for the 1990s add up overall to US\$25 to 30 billion per year, or about 3 percent of the regional product. The necessary investments in other sectors, such as ports, airports and telecommunications, add to these staggering amounts.

A shortage of financial resources, of course, is only part of the explanation for this drastic deterioration of infrastructure. Institutional and managerial failures, including inefficient pricing, inadequate investment and planning policies and practices, lack of know-how and training have also been contributing factors.

Human Resources

While the accumulation of material capital is an important part of economic growth and development, it becomes a wasting asset when human resource development is neglected. The condition of peoples' lives has a crucial influence on prosperity and growth. The healthier and better educated the people are, the higher their productivity and the more prosperous their condition.

Short-sighted public policies in an era of financial constraint resulted in a reduction in the health and education share of public spending in many countries of your region.

Preliminary social data indicates a slow-down in the decline of mortality rates and the incidence of disease, and some deterioration of specific health, nutrition and education indicators.

Throughout the region, the gradual accumulation and diffusion of knowledge about health, education and nutrition have led to behavioral improvements which, fortunately, have partially offset the effects of the economic crisis. However, available evidence suggests a deterioration in the quality of services.

- The net enrollment rate in primary schools in countries such as Bolivia, Costa Rica and El Salvador, has been falling.
- In Uruguay, deaths from malnutrition deficiencies and intestinal infections have risen continuously between 1982 and 1986.
- Improvements in infant mortality rates have slowed in practically all countries. In some -- Argentina, for instance -- the infant mortality rate has actually increased.
- Tropical diseases are also on the rise. Malaria cases have reached one million per year, the level of 1975, and there have been major outbreaks of Denge fever in Brazil, Venezuela, Colombia and in Central America.

By the year 2000, it is estimated that this region's population will be 525 million, an increase of more than 80 million over present levels, straining already scarce resources for providing adequate shelter, food, education and health care. About three-quarters of the people will be urban dwellers, almost half of them living in 15 cities of 4 million or more inhabitants, where social pathology, slums and environmental pollution will proliferate, if effective action is not taken now.

Investment in education and health to strengthen your human capital is crucial. Human capital is the key to successful development, and efficient investments in the social services, targeted on those who need them most but can afford them least, will be one of the ultimate tests of good governance.

Juan Alberdi, the 19th century Argentine political philosopher and statesman strongly advocated public education in his country with the words:

"If the people are to rule, then the people must be educated."

Restoring infrastructure and strengthening the human resource base are key elements to a functioning society. Governments will need to develop strong, competent autonomous institutions; reallocate subsidies appropriately and target social programs effectively to increase productivity, competitiveness and per capita income.

The ultimate cost is higher the longer it takes to correct the alarming situation I have described.

To generate the needed domestic resources, countries will need to set in place sound macroeconomic policies, and recast the role of the state. The central government apparatus and state-owned enterprises must be streamlined so that they become efficient purveyors of services rather than a drain on scarce public resources which could be better used for social purposes. The public sector's pricing and investment policies must make good sense, and greater private sector participation in the development process must be encouraged.

How Can the International Community Help?

Difficult political choices will have to be made. We realize, of course, that you cannot meet the challenge alone. The World Bank, like the Inter-American Development Bank, is committed to continue as a partner with you in these endeavors.

The World Bank has participated in the development of this region for more than four decades. Our affiliates, the International Finance Corporation and the International Development Association, have been active in the region for three decades. And now, our newest affiliate, the Multilateral Investment Guarantee Agency looks forward to being of service to host countries and foreign investors in the area.

The Bank Group's investments have financed a wide range of projects and programs in infrastructure, rural development, industry and human services. In the last few years a substantial proportion of World Bank loans has been in support of programs of economic and institutional reform.

While much of the emphasis of Bank lending has historically been on specific projects, even the best of projects will not succeed if the overall environment of economic policy and institutions breeds inefficiency and misallocation of resources. For this reason, during the last five years, 35 percent of our lending in Latin America has been for structural and sectoral adjustment, supporting changes in general economic and sectoral policies so as to create an effective environment for investment and development.

Development is a long haul. It takes time to fashion the fabric of a society to instill in the people true confidence in their governments and institutions. Without that confidence, the development process cannot go forward.

In countries which make determined efforts at reform, the World Bank will provide economic analysis, advice and finance to support their adjustment efforts. We will focus increasingly on investments in human resources, environment, infrastructure and agriculture as improved economic structures take hold, and as the rhythm of growth is resumed.

We will continue to work with governments and the international financial community to address the stubbornly persistent debt problems of this region. The present strategy, incorporating official support, including that of the World Bank, for debt and debt-service reduction, is not a panacea. But the risks and costs of inaction are higher.

The Mexico agreement demonstrated that, with sound economic policies and a carefully constructed market strategy, a real measure of debt reduction can be achieved. To those who claim the Mexican debt reduction was modest in quantitative terms, I urge them to look at the impact it had on confidence, on investment, on interest rates and on flight capital. We believe the Brady plan is a most encouraging new development option in highly-indebted countries. We must persevere and be prepared to approach debt reduction flexibly in each country.

Mr. Chairman:

Those countries which are determined to help themselves will always find the World Bank to be willing partners. As part of our commitment to you, we will further strengthen our cooperation with other multilateral and bilateral institutions working in the region, particularly with the Inter-American Development Bank.

We have a mighty task before us which will continue to engage the wisdom, ingenuity, energy and determination of governments, the international community, and, above all, the people.

As Jose Marti said:

"There is no easy road by which to reach the stars."

In this Decade of Opportunity, we know the road we must take, and the destination we must reach.

Thank you.