



I . I . R . S . A

INICIATIVA PARA LA INTEGRACION DE LA INFRAESTRUCTURA REGIONAL SURAMERICANA



TENTH MEETING OF THE EXECUTIVE STEERING COMMITTEE

December 4th and 5th, 2008
Cartagena de Indias, Republic of Colombia

ANNEX 3

Speech by Mrs. Alicia Ritchie General Manager of the Department of Andean Countries of the Inter-American Development Bank (IDB)

It is a pleasure for me to participate in this Tenth Meeting of the Executive Steering Committee (CDE, in Spanish) of the Initiative for the Integration of the Regional South American Infrastructure – IIRSA (in Spanish).

Firstly, I bring the greetings of the President of the Inter-American Development Bank, Luis Alberto Moreno, who has not been able to be with us on this occasion but asked me to tell you about his unconditional support to the Initiative and send you his best wishes for a very successful meeting.

I would also like to start by thanking, on behalf of the Bank, and on my own behalf, the government of Colombia, especially Mrs. Carolina Rentería, Director of the National Planning Department, for her wonderful welcome in that marvelous city of Cartagena de Indias. In particular, I want to congratulate her team for their great dedication as well as for their intense work carried out during the *pro-tempore* Presidency of the CDE and also for the organization of the events of this week, which are important for the IIRSA Initiative.

Today, I would like to share with you some reflections on the current crisis and why I believe that, more than ever, the integration process that is progressing in South America is critical to strengthen the countries of the region.

We are all accompanying with great interest and caution what is being happening in the globalized world as of the collapse of the Lehman Brothers bank. The instability of the world financial markets has started polluting the "real economies" of the countries and has fast reached emerging countries as well as developing ones, which are the most affected by the effects of the crisis in many areas that operate as transmission lines, thus extending the impact of the crisis.

In the first place, there is the shrinking of exports, due to the significant fall of the commodities prices or due to the reduction in demand from developed countries. In the second place, there was an important change in the behavior of foreign investment, with the massive outflow of capitals of emerging and developing countries; thus, with an immediate impact on local financial markets, on the rising of interest rates in global capital markets for these countries and on the depreciation of the currencies, with negative effects on indebted governments and companies, which have indexed loans tagged with the American dollar.

Other effects of the crisis are having a greater impact on the poorest countries. For example, the reduction of money that workers send from developed countries to their own countries; the reduction of international aid

devoted to development that these countries receive; and the difficulty to reach the “Millennium Development Goals” due to the downturn related to economic growth.

The word **crisis** in Japanese is composed of the words: “danger” and “opportunity”. I think that, during these eight years of the IIRSA Initiative, the South American countries have showed that can work jointly and agree on actions devoted to the development of the region. So, the crisis that brings danger for the region is the same one that brings opportunities for the South American countries to strengthen their economies by deepening integration.

In this sense, the IDB will be (as it always was) near our countries in relation to the renewal of the commitment to the integration and the socio-economic development in our region.

In the first place, there is much space to extend intra-regional commerce. During the last decades, there were important improvements related to the creation of the Andean Community of Nations (Comunidad Andina de Naciones, in Spanish) and the MERCOSUR. Despite these improvements, commerce among the South American countries does not reach 10% of the total commerce of the countries in the region towards the rest of the world. This data significantly contrasts with other regions in the world, such as Eastern Asia and Europe, where the intra-regional commerce accounts for the 23% and 42% of the international commerce, respectively, of these regions. Dinamization of commerce among the South American countries will contribute to sustain the economic activity, without depending on international lines of credit, since the mechanisms developed in the region are used (such as the Reciprocal Credit Agreement or Convenio de Créditos Recíprocos –CCR, in Spanish).

One of the drawbacks for the intra-regional commerce is the lack of a good integration infrastructure. A study carried out recently by the IDB, in collaboration with Harvard University, has proven the important impact that transportation costs represent for commerce. This study has showed that transportation costs are significantly higher than tariffs. Thus, in the case of intra-regional exports, transportation costs account for more than twice the tariffs (4.3% - 1.9%), which shows the importance of working to reduce these costs. According to the same study, if we can reduce transportation costs by 10% in South America, this would stimulate a rise (more than 35%) in the volumes related to the intra-regional commerce.

It is also true that a better operation of the logistic, energy and communication systems may act as a determining factor for the geographic deconcentration of companies, for a better distribution of the economic development in the South American territory, especially in the isolated areas, and for the strengthening of the productive chains located in the areas of influence of the IIRSA groups of projects.

I believe that the IIRSA has gathered experience and methodological tools that will allow the twelve South American countries to make even more progress in the physical integration process of the sub-continent.

If we take a current photograph of the IIRSA and compare it to the one taken more than 8 years ago, the way we have traveled is remarkable. What it can be seen is a Portfolio of 514 infrastructure projects, which have been identified and agreed on consensus among the countries. Most of these projects are being executed, or their preparation stage shows remarkable progress or are completed.

The IDB, as well as the CAF (Andean Community of Nations) and FONPLATA, are contributing for the financing of these projects that belong to the IIRSA Portfolio. Nonetheless, the fiscal *bonanza* of the last years has allowed the governments to recover their main role in relation to the contribution of budgetary resources for investment. I also believe that the financial instrument of the banks that is adding the most value to the Initiative are the funds for the preparation of projects. The IDB alone is supporting the preparation of 16 projects with Technical Cooperation resources, which are not reimbursable and are provided by the Integration Fund. In this sense, the good news today is that the Board of the Bank will examine, in a few days, the request for the repayment of resources made to the Fund for US\$ 20 millions, which will allow to increase the number of projects that will be able to receive support from this financial entity.



The implementation of the IIRSA projects will greatly contribute to reduce transportation costs, to improve efficiency of the ports in the Atlantic and the Pacific oceans, to optimize border crossings and to open spaces for the development of the hinterland in the sub-continent.

In this respect, another contribution made by the Initiative is the development of a second generation of planning methodologies, which are already being applied through the technical teams that belong to each of our countries, with the support of the institutions of the CCT. An example is the application of the methodology related to Productive Integration and Logistics in the Group of Projects 3 of the Capricorn Hub (Asunción-Paranaguá), where the Brazilian and Paraguayan technical teams are working jointly to identify sectors and productive chains that may achieve greater integration. Once this work is completed, there will be complementary actions, identified by both governments, devoted to boost economic and social development in the area of influence of the group.

This cooperation line among our countries has extended to other areas that have been boosted this year, such as the Successful Cases Workshop, promoted with great passion by Carolina and her staff. This workshop, which was really successful, showed us that in our countries there is a significant number of initiatives, which are important not only at a regional level but also at an international one. These initiatives may be extended to the rest of South America, thus repeating the successful cooperation path represented by the project "Exports through Postal Services" that already shows important progress in Peru, Uruguay, Ecuador, and shortly in Colombia.

Another line of work that is being developed by the IIRSA is the search of solutions for the reduction of the high cost related to the use of the international roaming service in South America, which makes the use of a mobile phone prohibitive when traveling to neighboring countries. This also affects, especially, the inhabitants of our borders. It is a complex project that involves many actors and that we are firmly supporting; so I strongly believe that through this joint effort of the IIRSA Initiative, some not very far away day, we will see how mobile communications, which are already an important tool for the economic and social development, will bring all the people in our South American continent closer, beyond borders.

Eight years ago, the IDB was invited, together with the CAF and FONPLATA, to support the start of this fantastic Initiative. We have worked together for years in order to build a more integrated region. These years are bearing fruit, at the right time. I have no doubt that the Bank will go on responding to the invitation made by our South American partners in order to continue supporting the IIRSA in a new stage of the integration process, beyond 2010. In this respect, I think that in the work agenda for next year it will be necessary to include a space for the strategic reflection that precedes the renewal of commitment by the countries in relation to physical integration, which is a fundamental part in the construction of an integrated South American continent.

Lastly, I would like to support the Argentine delegation that will take on the *pro-tempore* Presidency of the IIRSA in 2009. We do not doubt that, with the help of the rest of the countries that form the Initiative and the agencies that make up the CCT, they will benefit from this opportunity to show their excellent skills. Mrs. Graciela Oporto, please tell Minister Julio De Vido that he can count on the unconditional support from the Bank in the development of his task.