

Proceedings

Thirteenth Meeting of the Board of Governors



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INTER-AMERICAN DEVELOPMENT BANK

PROCEEDINGS

Thirteenth Meeting of the Board of Governors

Quito, May 1972

PREFACE

The Thirteenth Meeting of the Board of Governors of the Inter-American Development Bank was held in Quito, Ecuador, May 8–12, 1972. All sessions were held in the Legislative Palace.

Brigadier General Guillermo Rodríguez Lara, President of the Republic of Ecuador, attended the inaugural session and formally opened the Meeting. Mr. Néstor Vega Moreno, Governor for Ecuador and Minister of Finance, was elected Chairman of the Board of Governors at the same session.

This publication contains the addresses delivered at the Meeting and the resolutions adopted by the Board of Governors during the Meeting and in the interval between the Twelfth and the Thirteenth Meetings. It also includes the reports of the Committee of the Board of Governors established under Resolution AG-5/70 and the working groups set up during the Meeting, as well as a roster of the delegates of the member countries and the observers from international agencies who attended the Meeting.

Jorge Hazera
Secretary

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AGENDA

1. Election of the Chairman of the Board of Governors.
2. Twelfth Annual Report of the Bank, 1971:
 - a. Financial Report, Ordinary Capital Resources.
 - b. Financial Report, Fund for Special Operations.
3. Election of Executive Directors.
4. Regulations for Election of the President of the Bank.
5. Measures to Assure an Increased Flow of Resources to the Bank from Countries Which Are Not Now Members.
6. Fund for Special Operations. New Policy Guidelines and Preferential Treatment for Economically Less Developed Countries and Countries of Insufficient Market.
7. Amendment of Resolution AG-12/70 to Establish United States Dollar Equivalencies and Maintenance of Value of Increased Resources of the Fund for Special Operations.
8. Place and Date of the Fourteenth Meeting of the Board of Governors.

SCHEDULE OF SESSIONS

Sunday, May 7, 1972

- 4 p.m. Seventh Meeting of the Committee of the Board of Governors Appointed Pursuant to Resolution AG-5/70.

Monday, May 8, 1972

- 9 a.m. Preliminary Session (Heads of Delegations).
- 5 p.m. Inaugural Session (First Plenary Session).
 - 1. Address by Mr. Francisco Morales Bermúdez, Governor for Peru.
 - 2. Approval of the Agenda of the Meeting.
 - 3. Election of the Chairman of the Board of Governors.
 - 4. Address by Mr. Néstor Vega Moreno, Chairman of the Board of Governors and Governor for Ecuador.
 - 5. Address by Mr. Rodrigo Llorente, Governor for Colombia, on behalf of the Visiting Delegations.
 - 6. Address by Brigadier General Guillermo Rodríguez Lara, President of Ecuador.

Tuesday, May 9, 1972

- 10 a.m. Second Plenary Session
 - 1. Twelfth Annual Report of the Bank, 1971:
 - a. Financial Report, Ordinary Capital Resources.
 - b. Financial Report, Fund for Special Operations.
 - 2. Address by Mr. Antonio Ortiz Mena, President of the Bank.

3. Address by Mr. Francisco Morales Bermúdez, Governor for Peru.
4. Address by Mr. John M. Hennessy, Temporary Alternate Governor for the United States.
5. Address by Mr. Carlos Emmanuelli Llamozas, Alternate Governor for Venezuela.
6. Address by Mr. Guillermo Aizpú, Governor for Panama.

Wednesday, May 10, 1972

10 a.m. Third Plenary Session

1. Report of the Committee of the Board of Governors Appointed Pursuant to Resolution AG-5/70.
2. Address by Mr. Paul Martin, Governor for Canada.
3. Address by Mr. César Barrientos, Governor for Paraguay.
4. Address by Mr. Ernane Galvêas, Alternate Governor for Brazil.
5. Address by Mr. Américo Zorrilla Rojas, Governor for Chile.
6. Address by Mr. Guillermo Hidalgo Qüehl, Alternate Governor for El Salvador, on Behalf of the Central American Countries.
7. Address by Mr. Felisberto V. Carámbula, Temporary Alternate Governor for Uruguay.
8. Address by Mr. Diógenes H. Fernández, Governor for the Dominican Republic.

Thursday, May 11, 1972

10 a.m. Fourth Plenary Session

1. Presentation of the Inventory of Latin American Physical Integration Projects.

2. Election of Executive Directors.
3. Address by Mr. P. M. Greaves, Governor for Barbados.
4. Address by Mr. Hugo B. Margáin, Governor for Mexico.
5. Address by Mr. Jorge Wehbe, Alternate Governor for Argentina.
6. Address by Mr. Gustavo Jarrín Ampudia, Alternate Governor for Ecuador.
7. Address by Mr. George M. Chambers, Governor for Trinidad and Tobago.
8. Address by Mr. G. Arthur Brown, Alternate Governor for Jamaica.
9. Address by Mr. Edwin Rodríguez Aguirre, Governor for Bolivia.
10. Fund for Special Operations. New Policy Guidelines and Preferential Treatment for Economically Less Developed Countries and Countries of Insufficient Market.
11. Regulations for the Election of the President of the Bank.
12. Amendments of Resolution AG-12/70 to Establish United States Dollar Equivalencies and Maintenance of Value of Additional Contributions to the Fund for Special Operations.

Friday, May 12, 1972

10 a.m. Closing Session (Fifth Plenary Session).

1. Place and Date of the Fourteenth Meeting of the Board of Governors.
2. Address by Mr. Antonio Ortiz Mena, President of the Bank.
3. Address by Mr. Augusto Contreras Godoy, Alternate Governor for Guatemala, on Behalf of the Visiting Delegations.
4. Address by Mr. Néstor Vega Moreno, Chairman of the Board of Governors and Governor for Ecuador.

ADDRESSES

FIRST PLENARY SESSION

MAY 8, 1972

OPENING SESSION

**Address by Brig. Gen. Francisco Morales Bermúdez,
Chairman of the Board of Governors, Governor for Peru
and Minister of Economy and Finance**

Exactly one year ago, when the Twelfth Meeting of the Board of Governors was held in Lima, I had the honor to act as Chairman of the Meeting, in my capacity as Governor of the Inter-American Development Bank for Peru. The inexorable passage of time brings us together here in the beautiful and hospitable city of Quito for our Thirteenth Meeting, and this gives me the very welcome opportunity to pass on the same responsibility to the Governor for Ecuador, Mr. Néstor Vega Moreno, whose professional record and distinguished career offer an advanced guarantee of success.

As we said on that occasion, our meetings, like shareholders' meetings, afford us the opportunity of making statements and comments, and of exchanging views on the progress of the work of the Inter-American Development Bank during the year. With this constructive and realistic approach, it is gratifying to note the positive achievements of the past few months; as it is also fitting to state frankly all those matters which are cause for concern, when not of discouraging frustration, to the member countries.

In the first place, we should congratulate ourselves on the success of the Committee of the Board of Governors chaired by our distinguished colleague, Hugo B. Margáin, Governor for Mexico, with the valuable assistance of six other fellow Governors. I am sure I voice the feeling of this Meeting, when I call for a warm round of well-merited applause for their work.

The incorporation of Canada into the Inter-American Development Bank—a long cherished wish of the inter-American system—entailed a number of complicated and laborious negotiations. All technical obstacles were overcome promptly and diligently, thanks largely to the untiring efforts of the Committee of Governors, and it is the great privilege of this meeting to be remembered as the first formal financial meeting of Latin America with Canada. It would seem that our Bank has thereby finally acquired the fully continental scope its name suggests. In expressing collectively our cordial welcome to Canada, we wish to express our deep gratification and assured hope that its joining the Bank will prove a positive contribution to the struggle for development.

On the subject of bringing new members into the Bank, we have followed with attention the Committee's efforts to bring in other countries outside the region. Knowing the complications involved, we trust that before long we may be able to extend an equally cordial welcome

to other countries of Europe and Asia, on the understanding that their presence will not imply political interference but, rather, that they will show the absolute respect for national sovereignty which is now inherent in any financial assistance.

The whole world knows that the countries of Latin America, irrespective of the economic potential of each, have acquired a deep national awareness and have given proof of sufficient civic maturity to proudly reject the type of international pressure which, in the guise of financial assistance, conceals intentions of interfering in the internal affairs of our countries. Latin America needs foreign investments as a means of stepping up the socio-economic development of the region as a whole. But it consistently and unhesitatingly rejects so-called aid, whatever its source, which attempts to dictate to it or to question its decisions. We presume that this is not the spirit prevailing among those who are discussing membership in the Inter-American Development Bank, and we have no doubt that formulas will be found before long to permit them to join.

Operating policy

The annual report of the Bank for 1971 again contains an account of the institutional problems it has faced during the past few years. It is nothing new to observe that the process of profound change that the Americas are undergoing is necessarily reflected in the problems of financial institutions and, consequently, it would appear that the time has come for agreement among the Governors concerning the main aspects of operating policy that the Bank should soon revise. These are the following: I believe the Bank cannot avoid financing sectors that have so far been excluded from its loan portfolio. The struggle for development implies a confrontation, in each member state, over a wide range of sectors, where it would be futile to improvise an order of priorities based on a distinction between economic and social projects. What is important, what is positive, is that the states should know that in the field of long-term financing they have the support of the Bank in all matters in which supplier's credits or business credits do not cover a minimum of acceptable conditions.

The system of sector program loans already announced as a test by other financial institutions would be an important pragmatic approach. This does not mean development loans for relending, where the borrowing institution decides with regard to subloans, within certain policy requirements. What is meant, for certain specific sectors within a national development plan, is the granting of lines of credit up to a given maximum amount for the purpose of ascertaining the feasibility of the respective projects. The gradual adoption of this practice, which might cover two-year periods, for instance, would not imply any specific ad-

vanced commitment for the Bank but, instead, would have the great advantage of being an attempt at programming, at a regional level and at a sector level.

After 12 years of institutional activity, it is now time that the Bank adopt uniform and flexible criteria for project appraisal. It is not acceptable that an irritating academic perfectionism should give rise to slow-moving, contradictory, unnecessary and bureaucratic procedures. There are loan applications that have been two and even three years in negotiation, going back and forth for fuller balance-sheet details, cost-benefit studies, internal rates of return, parameters of regional use and other specialized terminology more fitting for a statistical research institute than a regional development bank. It is no longer possible to argue that the aim is to arrive at a sound feasibility technique; behind it all is the hidden intention of refusing or delaying loans, with a background of political qualification, depending on the requesting country and the nature of the resources to be used.

Preinvestment loans, originally designed to finance studies to create projects, are disbursed with notorious slowness. One reason for that slowness lies in the very nature of the prospective beneficiary institutions and in the lack of a rational promotion by the Bank which would more than make up for academic perfectionism in the evaluation of the projects. Until this is faced realistically, especially in the case of the less developed countries and those with inadequate markets, every year the Bank will repeat the excuse that it does not have a large number of projects on hand notwithstanding the preinvestment loans made.

With regard to disbursements, although there are a few outstanding cases of countries that have improved their percentages, it can be observed that not only has the use of loans failed to become simpler but instead it has become more difficult and complex. The Resolutions of the Board of Executive Directors contain an ever-increasing number of conditions prior to the first disbursement, in inverse proportion to the speed of implementation of the projects. To the analyses of the loan documents are added abundant Conclusions and Special Recommendations. The clauses of the contracts, for their part, reflecting that increasing hardness, keep the same twisted language of the early inexperienced years of the Bank and end up by creating a tangled web of unnecessarily strict provisions that discourages the executing agencies and makes it necessary to create a whole administrative team solely for disbursement procedures. This also creates an unfavorable attitude toward the institution among the people.

More than once the delay in disbursements has been justified with the argument that there should be a plan to ensure the proper technical execution of the projects. Nevertheless, in all member countries there are medium-term and even long-term suppliers' credits already in existence that have been disbursed promptly without thereby endan-

gering the quality of any project. We believe the Bank should make an all-out effort of self-criticism to identify the bottlenecks in disbursements.

If the Bank knows that the implementation of certain projects entails a necessary first stage in which the loan resources are to be used in accordance with a time-schedule acceptable to the Bank, there is no justification for penalizing that stage—the grace period during which no amortization is required—with a commitment fee on amounts not disbursed. This request is made year after year by the Governments without any response to date. This is an additional expense that increases the total cost of projects.

The announced administrative reorganization of the Bank, within the new composition of the Board of Executive Directors, is designed to speed up the pace of utilization of the Bank's resources, and at the same time facilitate the adoption of a widely varied range of additional activities: urban development, tourism and fisheries are beginning to receive attention from the Bank's Management and will no doubt soon be among its major spheres of activity.

The entry into new fields, with the imagination and vigor that should characterize the Bank's activities, and the increase in transactions in traditional sectors, oblige the Bank to adopt a flexible and realistic operating policy that will take into account the situation of the relatively less developed countries and those with insufficient markets. Uncoordinated and disorganized financing, where the rules of regional programming are disregarded, will not truly serve the cause of Latin American development. In the last analysis, the stagnation of the relatively lesser developed countries or development at a slower pace than is required, will have repercussions throughout the Americas as a whole and make it more difficult to fulfill the Bank's objectives. It will always be the inescapable responsibility of the Board of Executive Directors of the Inter-American Development Bank to see that no one thinks in terms of privileged regions and neglected regions, in accordance with the recommendation that has been repeatedly made by the Board of Governors since 1968. It is gratifying to note the revision undertaken by the Board of Executive Directors of the regulations governing the Fund for Special Operations, with a view to applying different interest rates, amortization terms and grace periods to groups of countries of similar circumstances. Obviously, save in exceptional transitory cases, the terms of financing weigh more heavily on the composition of the foreign debt of developing countries than the fact of repayment in dollars. If there is any one factor that has been detrimental to our balances of payments, it has been the exceedingly short amortization periods, when the effects of the projects have not had time to show.

Another positive aspect of the announced administrative reorganization of the Bank lies in the practical advantages to be derived, insofar

as the image of the institution is concerned, from a greater decentralization of the Bank's offices in our countries. Far from resembling diplomatic missions, and avoiding routine and bureaucratic procedures, the Representatives' offices should be similar, on a small scale, to the Bank's own offices, gathering information on the real socio-economic conditions of the country, sponsoring and promoting the adequate use of preinvestment resources, supervising in general the technical assistance the country requires, expediting the processing of loan documents and authorizing disbursements under the contracts, within certain limits. In a word, without exaggerating the delegation of powers beyond an advisable point, the offices of the Representatives of the Bank should be placed at a level compatible with the dynamic pace of our times. The implementation in 1972 of pilot plans in certain Representatives' offices should provide a good idea of what can be done in the future.

During the period since last Meeting there has been a succession of international meetings that have had undeniable repercussions in the developing countries. The meeting of the "77" in Lima, as well as that of the Special Committee for Latin American Coordination (CECLA) in Bogota and the Third Meeting of the United Nations Conference on Trade and Development (UNCTAD) now closing in Santiago, Chile, have all had the same purpose: to demand a greater participation in the adoption of financial and economic decisions that simultaneously affect life in various regions of the world. The developing countries no longer accept seeing themselves reduced to the role of mere exporters of raw materials in exchange for imports without local inputs, nor are they ready to suffer the effects of monetary readjustments negotiated and agreed upon without their participation, or to bear with the practice of uncontrolled foreign exploitation of their natural resources or heavy capital investments without the transfer of suitable know-how or the rational use of local labor.

As a result of the CIAP country reviews and the specialized conferences organized by the United Nations, a new realization has emerged within the inter-American system, which although it has been repeated on several occasions, has so far met with little or no response from the industrialized countries. We are referring here to the need for greater and more active participation by the international financial community in the financing of socio-economic development projects.

In this connection, when drawing up an objective balance sheet for the Bank, we must, to our regret, draw attention to the poor impression our majority shareholder has given the member countries through the delays and postponements in increasing its capital. While the countries of Latin America have duly provided their capital contributions in accordance with the terms and conditions solemnly agreed to by the Governors, we have this time witnessed the distressing scene of one member who has not only been unable to perform to date what had

been expected of it for 1971, but has also gone so far as to legislate conditions for the use of these resources that are at variance with the fundamentally multilateral character of the Inter-American Development Bank. Without wishing to raise controversial matters in this forum, which would only lead to sterile recriminations, I would like to express the hope that the total increase in the freely disposable resources in the Fund for Special Operations, as agreed to at the 1970 Meeting, with the concurrence of the Governor for the United States, will be committed within the new time limits fixed by the Executive Directors. If this should not be the case, it would mean a bleak future for inter-American relations and would amount to nonperformance of verbal promises regarding cooperation in the Hemisphere. We must also say the same about the total absence of information, up to the start of this Meeting, regarding the maintenance of the value of the dollar, as provided in the Agreement Establishing the Bank for devaluations, as occurred a few months back, despite the fact that a similar reciprocity has not applied in the past for devaluations of the currencies of the other member countries.

Other matters for which the President of the Bank deserves special congratulation include the continuation of the policy of issuing bonds, which amounted to \$181 million in 1971, participation by banks in loans already authorized, and the precommitment of ordinary resources, through which it is planned to use a total of more than \$75 million in 1972 and 1973. These all represent banking practices which can function within the ordinary capital as temporary expedients for overcoming the restrictions due to the failure to implement the planned increase in the liquid resources of the Fund for Special Operations.

On June 1, 1971, the Bank signed an Agreement with the Government of the United Kingdom of Great Britain and Northern Ireland providing for the establishment of the United Kingdom Development Fund for Latin America, to which four million pounds sterling was subsequently allocated. Under the terms of this Agreement, the resources of the Fund are to be lent out at 3 per cent annual interest, with maturities of 25 years and 4-year grace periods. The loans are to be used to pay for goods and services originating in the United Kingdom, member countries of the Bank and significant contributors to the Bank (initially Norway and Sweden). Goods financed under these loans will be shipped in accordance with normal commercial competitive practices and will not be directed to ships of any particular flag. The Bank will have sole responsibility for selecting, processing and approving loan projects, subject to initial consultations with the Government of the United Kingdom, and it will also use the same policies and procedures as with its ordinary capital resources.

The listing of the main features of this Fund is sufficient to show the importance of this decision of the United Kingdom Government. Apart

from the initial amount of resources provided, representing indeed a significant sum, the liberality of the operating conditions merits attention, as does, above all, the confidence shown in the IDB in entrusting it with the management of the Fund. Latin America fully appreciates the setting up of this Fund in 1971, as a useful precedent for other extraregional countries, and conveys the cordial thanks of the member countries to the Government of the United Kingdom.

In 1971 the total operations of the Bank, in terms of both loans and disbursements, were practically the same as in the preceding year. In the light of the scanty data available, it would not seem easy to achieve a sizable overall increase in operations during the coming three-year period 1972-74. In this connection, promotion of nontraditional exports has still not met with the support that is expected of the Bank; similarly, nothing concrete has emerged regarding the market for Latin American bank acceptances. The same can be said for the lack of specific support for the process of regional integration, as long as there is no news of large new loans to the Central American Bank for Economic Integration, the Caribbean Development Bank and the Andean Development Corporation.

To return to the subject of promoting nontraditional exports, we have taken due note of the important address delivered by the President of the Bank to the Meeting of UNCTAD III in Santiago on April 21. On that occasion Mr. Antonio Ortiz Mena proposed a specific course of action for the member countries in order to formulate an appropriate policy for export promotion, the spreading and strengthening of multinational industrial enterprises and to allow the participation of the international financial agencies in the financing of export projects. Mr. Ortiz Mena's remarks, although compressed on account of the forum at which they were presented, are sufficiently clear to open a window in the sterile debate in which we have been engaged for some time, despite the objections of a statutory nature that have been raised. A study should be conducted into how to implement this extremely important suggestion as rapidly as possible, even though this might require expanding the objectives of the Bank as stated in the Establishing Agreement. In my capacity as Chairman of the Board of Governors I have taken up the idea and have suggested that the Special Committee of the Board of Governors be charged with studying this matter.

The experience of past years suggests that maximum advantage be taken of the practical opportunities afforded by this annual gathering of all the Governors of the Inter-American Development Bank. I feel it would also be warranted to give consideration to reducing, as far as possible, the duration of future Meetings, so as to exploit all the possibilities for discussion during the necessarily limited time available to the Governors.

Overcoming voids and frustrations, the Inter-American Development Bank continues to be the important financial agency that the countries of Latin America glimpsed at the time of its foundation. The Bank is a respectable and a respected institution, and it behooves each of us to defend and support it.

Under the direction of an illustrious President, Mr. Antonio Ortiz Mena—whose vigilant and unflagging efforts we greatly admire—with the counsel of a now expanded Board of Executive Directors, and with the assistance of a corps of professional and administrative staff bringing together the finest intellects and organizing talents in the whole of the Americas, the Inter-American Development Bank has a vital mission to perform—the mission which our peoples demand of it. In passing on today a chairmanship which it was an honor for my country to exercise and in placing it in fraternal hands, I have an opportunity to thank the Government and people of Ecuador for their friendly hospitality and also to repeat, with all my heart, my best wishes for the cause of regional development, a cause which the Inter-American Bank, our Bank, has so nobly embodied during the past twelve years.

**Address by Mr. Néstor Vega Moreno,
Chairman of the Board of Governors,
and Governor for Ecuador and Minister of Finance**

The Government and people of Ecuador extend to you, Gentlemen, a most cordial welcoming greeting and express their special satisfaction at receiving you in this hospitable city of San Francisco de Quito, which you have selected as the site of the Thirteenth Meeting of the Board of Governors of the IDB, as a homage to Ecuador which is this month celebrating the one hundred and fiftieth anniversary of the Battle of Pichincha, which consolidated our national independence in 1822.

Your presence—Governors, official delegates, observers and special guests—ensures that this highly important meeting will be a magnificent forum for deep deliberations that will enable us to ascertain the causes of our problems and adopt well-advised resolutions that will help toward the effective achievement of economic development and social progress for our peoples. It is my sincere hope that the results of this Meeting will mark a decisive stage along the way toward practical achievements.

I have been accorded the honor of being named Chairman of this Meeting, an honor which represents a distinction for Ecuador and for its Revolutionary Government. On behalf of that Government, and on my own behalf, I express my deepest gratitude.

I receive this honor with pride and satisfaction because the Inter-American Development Bank is the concrete expression of the hopes and efforts of this America of ours, with the participation of all the countries forming it, searching for ways and means to finance its development.

The decision taken ten years ago to set up the IDB and provide for its permanent capitalization is all the more important if one bears in mind that a lack of domestic resources to finance growth is the common denominator of all developing countries. The low level of per capita income and the poor distribution of national income makes it impossible for the majority of the population to cover even their minimum needs satisfactorily, let alone to put anything aside to face possible future illness, accident or unemployment; neither can they pay for a home nor provide investment resources for industrial and service enterprises. Taking into account the backwardness of the Latin American countries, domestic savings are still inadequate for economic development and recourse to sources of external financing derived from countries with excess capital is necessary.

External cooperation has followed the following sequence: grants,

bilateral loans, loans from international organizations. Firstly there were grants which, by their very nature, do not represent a substantial capital contribution. Bilateral loans from friendly governments are also insufficient to meet the multiple investment requirements for economic development and social welfare. In addition, bilateral loans have a double defect: the fact of being tied to a particular market in such a way that it would appear that they are financing exports of the lending country rather than the development of the recipient country, and the danger inherent in their susceptibility to political influences which may channel development aid in the wrong direction. The establishment of the international lending agencies such as the World Bank, the International Finance Corporation, etc., provided a new system for accumulation of resources by the industrialized countries to channel, through loans and technical assistance, to developing countries. However, in Latin America the assistance furnished by this multilateral financing acquired significance only after the Inter-American Development Bank was established in 1959.

In fact, if we examine the volume of loans received by the Latin American countries during the decade of the sixties—the first in the Bank's existence—we find in any country selected a combination of external loans in which the IDB accounts for the greatest share.

The importance of multilateralism is apparent today in all fields, whether of a philosophic-political or an economic-financial type. There can be no doubt that, in the latter field, multilateralism is a great advance over bilateral loans. Resources are obtained from various sources—not just from the member countries of the international finance agency—in proportion to their size and degree of development, but also from nonmember countries which have realized that the most effective way of helping the developing countries is by making their aid available to them through the international organizations. The Inter-American Development Bank is an eloquent example of this. Beginning operations with only \$1 billion in 1960—\$850 million in ordinary capital and \$150 million in the Fund for Special Operations—it has today increased its resources tenfold, not counting the trust funds which increase the resources available to the Bank day to day, because it is considered the most efficient organization and that which has made the greatest contribution to Latin America's economic development; similarly, a large number of countries have opened their markets to IDB bonds, which are sold immediately.

The resources provided are, however, insufficient for the great needs of the developing countries, which require vast sums. This calls for application of a creative and imaginative approach in order to open up new fields of action, both for obtaining funds and allocating them realistically, so that they are directed preferentially toward the most needy groups, and to increasing production.

May the development work which the Bank undertakes in this field for our nations be increasingly able to offer their citizens a social, political and economic framework in which liberty is not sacrificed to justice nor justice to liberty, and in which men can live a life of peace and progress.

Mr. Chairman: I congratulate you most warmly for the decisive advances made by the Inter-American Development Bank during the year of your chairmanship, as exemplified by the entry of Canada as a new member, the search for measures to ensure an increased flow of resources to the Bank from nonmember countries—developments which both resulted from the negotiations conducted by the special Committee of the Board of Governors of the IDB—and the Board of Executive Directors' study of ways and means of according an even more preferential treatment to the smaller countries. You may be justly proud in the knowledge that the hope you expressed last year in your country's capital city has materialized: that in relinquishing the chairmanship of the 1972 meeting you have indeed had the satisfaction of witnessing a year of significant achievement.

Mr. President of the Inter-American Development Bank: While the IDB has grown and benefited our peoples in the past, I am convinced that, under your wise guidance, this growth will speed up much more in the future and that, overcoming the shortcomings of its first years, the Bank will become the best ally of Latin American development.

As Chairman of the Meeting it is a pleasure for me to express the warmest of welcomes to Canada, which has recently joined the IDB. Even before it became a member, Canada placed at the disposal of the Latin American countries, through the Bank, large volumes of resources on favorable terms for our countries, Ecuador being one of the countries which benefited therefrom. The entry of Canada signifies a considerable increase in the Bank's present capital and resources, but above all, it shows its cooperation and understanding, and its willingness to share the lot of the American continent.

May justice and the progress of our peoples inspire your decisions so that, without in any way detracting from the attention due to all, you may adopt resolutions that will especially favor the less developed countries and the depressed regions.

Before concluding, I should like to express my heartfelt wish that your stay in the capital of Ecuador will be enjoyable, so that you may always retain a pleasant memory of the city of Quito with its hills and bright skies and friendly people.

**Address by Mr. Rodrigo Llorente,
Governor for Colombia and Minister of Finance,
on Behalf of the Visiting Delegations**

When I arrived in this hospitable city of Quito, whose vigorous growth in recent years augurs well for Ecuador's immediate development prospects, I could not help remembering that "in Ecuador one can hear the measured heartbeat of the Continent."

The honor bestowed on Colombia in selecting its Governor in the IDB to speak on behalf of the delegations represented here enables me, Mr. Chairman, to say that those words convey precisely what we may expect of this Meeting.

Authoritative voices are at this very moment proclaiming in a world-wide forum the undeniable truth that nothing can be achieved by simply expressing technically feasible formulas without at the same time enlisting the feelings of those who control the wealth and the power. And they say that, just as it is inequitable to ask for equal sacrifices from each and every citizen within a given country, in the international field it is reasonable to expect a larger contribution from those who have been endowed by nature and by their own efforts with greater economic prosperity.

We should keep this thought in mind during the discussions at this Meeting; however, it should not weaken an even more important conviction: namely, that our hopes for development reside in our own efforts, determination and resolve.

We have clear proof of this in the vigorous and successful work of our Inter-American Development Bank. The figures for loans granted and the value of projects show the high proportion of national effort that has been mobilized; at least 90 per cent of the total value of capital investment in Latin America is of domestic origin, illustrating the remarkable effort that our peoples are making. But the work that has been accomplished must not be viewed solely in terms of statistics. It is the joint fervor of the Continent, now geographically complete with the timely admission of Canada at this Meeting, that we find the key to what the Inter-American Bank has achieved. The timing and location of this inter-American forum inspires me to recount an important historical episode—which may be unknown to many of you here—in the relations between our countries, in which the illustrious President of the Republic of Ecuador, Vicente Rocafuerte, played a central role, during the final stage of our struggle for independence.

In 1824, Mr. Rocafuerte was engaged in London in obtaining loans for the Government of Mexico; at the same time Colombia obtained, also in London, a sizable loan intended to finance the final phase of the

liberation campaign. Unfortunately, the English banking house with which most of Colombia's funds had been deposited went bankrupt; this placed the Government in a difficult position in meeting its obligations, which were falling due. Mr. Rocafuerte responded to Colombia's plea in an exemplary spirit of inter-American solidarity and made a small part of the resources which he had obtained for Mexico available to the Colombian authorities, enabling them to overcome the serious financial difficulties which had put Colombia's incipient credit to a severe test.

Years later, President Rocafuerte, with the intuition of a statesman, recalled how he had anticipated the need for our nations to have a common institution—such as the IDB—to organize their credit operations. I quote: "At the time I conceived the singular project of forming a new monetary federation among all the new republics of Latin America, an act of joint association, whereby each would undertake to guarantee the loans raised by all the others in London; whereby all would work in concert in the economic ordering of their finances and in adopting a liberal system of trade, so as to be able to pay at the exact time the dividends and designated amortization of their loans; and on the basis of creating this immense credit on such solid foundations, to attract to the Americas the thousand million pesos circulating in England and in Holland at two and a half per cent a year." The illustrious Ecuadoran went on to say: "In that happy age I considered all of Spanish America as the country of my birth." This describes the generous and visionary greatness of spirit of the men who so valiantly and nobly helped to set up and consolidate our countries.

At previous meetings we have been given an historical account of the difficulties the IDB has had to weather to become the splendid reality that today brings us together. The President of the Bank, for example, whose valuable presence has graced every one of our Meetings from the inaugural meeting in El Salvador to the present, pointed out at the Eleventh Meeting—still speaking in his capacity as Governor for Mexico—that an historical analysis of external financing in Latin America showed that only after the IDB was established did a trend no longer subject to marked fluctuations set in.

He himself has had the task, in his first full year as President, of maintaining and raising this rate of growth despite exceptional circumstances caused by decisions, events and occurrences for which Latin America was in no way responsible, but for the consequences of which it has to pay a heavy price. Although he has been but a short time in office, we can already see, in the work of Antonio Ortiz Mena in the IDB, the tenacity of our Institution and our peoples, which had already been felt by our illustrious founder, Felipe Herrera, to whom we wish to express our admiration and best wishes from this Latin American land that he served so well.

It could not have been otherwise, for that clear Latin American

intelligence which is now directing the destinies of our Institution had for many years been subjecting the function and prospects of the IDB to critical review. His interest, for example, in seeing the IDB embark on a policy of program or, at the very least, sectoral financing, coincides with the criterion applicable to the development plans now being implemented by many of our countries. His vision in pointing out that export promotion should be included in the basic functions of the IDB takes precise account of the fact that the limited volume of our foreign trade is one of the main impediments to our development, and also stresses the need to seek in the longer term a reduction in our dependence on foreign financing, which should be regarded as an advance on future national savings.

There are those who feel that, for program loans to be legally feasible the Establishing Agreement will have to be amended. The Bank is undertaking studies to determine whether this is in fact the case. However, it should be noted that change is the essence of development, and that if we do not adapt to new circumstances and fail to make use of new instruments as these become available, we shall find ourselves in outdated situations, at variance with what has since its birth been the spirit of the IDB. Although the ambition behind our hopes makes us feel dissatisfied with what we have achieved in bringing about change in our countries, it is nonetheless true that in fields such as development planning Latin America has made significant advances which will enable us to proceed from specific projects to global loans.

As regards export promotion, it must be noted that if the flow of external resources to our countries is to increase during the present decade, and even if these funds are provided on more liberal terms than at present, the burden of debt service and profit remittances will increase daily and we will therefore have to increase significantly the volume of our exports. The President of the World Bank has pointed out to UNCTAD the disparity between the rate of increase in debt service in the countries of the Third World, namely 14 per cent per annum, and in their income from exports, growing at barely half that rate. The idea that the IDB should serve as a channel for financing or guaranteeing exports not only of capital goods, but also of manufactures, thus has a basis in equity, which justifies favorable terms of international competition that would encourage sales of Latin American manufactured goods in new markets.

If we bear in mind that the United States is in a favorable balance of payments position *vis-a-vis* most of our countries, and that most of our international reserves are deposited in that country, it would seem reasonable to hope for a system of nonreciprocal trade preferences giving us access to a market which would have to be gained on the basis of the quality of our merchandise, once we had obtained better terms of competition through more equitable tariff treatment. This

would partly offset the hardening of lending terms and conditions brought about by the rising cost of money and the growing restrictions which some developed nations have imposed on foreign aid programs. Of course, I don't mean to say that we are unhappy to note that the world is moving toward greater use of multilateral aid. But in this respect we must also note that the decline during 1971 in lending from the Fund for Special Operations signals the urgent need to strengthen that Fund and have the United States Congress give final approval to the increase agreed upon in 1970. We are aware of the financial, economic and political problems that such decisions entail nowadays, but we also know that all our member countries, and the United States in particular, have always provided support for our Institution because they regard it not only as a symbol of hemispheric unity, but above all as a symbol of justice.

It is necessary to seek new methods of coping with unknown situations or with problems that grow more acute. I refer to the priority which the Bank should accord to urban development in order to enhance the accomplishments of the first few years that were decisive in helping to create, organize and set in action a number of housing development agencies. With this new policy the Bank gives an additional demonstration of its ability to take care of new problems and to adapt its activities to this new task. Thus there is an awareness that, within the developing world, Latin America shall become, before the end of this century, a continent of great cities and even of the megalopolis.

In viewing the Latin American panorama at this time, it is disconcerting to find that, after ten years of the Alliance for Progress, social tensions have not only failed to disappear, but in some countries are more intense than ever. Despite the progress achieved in some countries, the gap has widened between the masses of the Latin American poor—who make up more than 80 per cent of the population—and the middle and upper class groups, with consequent national frustration. Unemployment, either open or concealed, has increased in real as well as in relative terms. The great problem of urban conglomerations has grown more acute. Economic and social development—and political development as well—will be determined by the success of Latin America's efforts in coping with this new facet of its historical development. It was possible, up to not very long ago, to leave the many tasks of urban development to the city dwellers themselves, and urban development did not enjoy a high priority in national development plans. But now the needs are so urgent that whatever appropriate measures are taken to meet them will unleash a fund of energy that will act as a spur to development as a whole.

I remarked earlier that since the last Meeting of the Board of Governors the Bank had passed through a trying period as a result of the

international monetary crisis. We have met with problems in obtaining additional funds in the capital markets, and there has been a decline in the purchasing power of that portion of loans which is used for imports from outside the region. I should like to ask the Bank to examine the increased project costs brought about by the devaluation of the dollar and to consider the necessity of adopting measures to restore the financial capacity of the original loans that dropped in real value in consequence of that development.

I also wish to second the recommendations of the Prebisch Report to the effect that the Bank should play the leading role in efforts to modify the system employed in allotting the International Monetary Fund's Special Drawing Rights, in order to achieve a more equitable distribution of these new resources of the international community. It is necessary for the industrialized nations to understand that, by granting more purchasing power to those whose needs are greater, such resources will return to their own economies, which are the ones capable of producing the needed capital goods.

In offering my warmest welcome to Canada, I should like to add that I am especially pleased with the efforts now in progress to create closer ties between the Bank and industrialized nations that are not members of the Organization of American States. In keeping with the whole idea of international economic solidarity, such nations could considerably increase the contributions they have made so far to Latin America's development.

In an endeavor to solve other problems that beset the process of achieving the integration of Latin America, five Andean nations, operating within the framework of the Latin American Free Trade Association (LAFTA), concluded the Agreement of Cartagena which was devised to create a larger market, facilitate the absorption of advanced technology, and create more attractive opportunities for the major investments needed by the industrialization process to provide for replacement of imports and meet growing demand in the area. We view the efforts and aims of the Andean Group as a means of bringing into progressively closer unity in the future the economies of those Latin American nations that are now at different stages of development. This is the right occasion to restate support for the conviction that in an institution such as ours, whose mission it is to finance regional development, there is no place for secondary considerations of a political nature such as would lower the aims of those who conceived it; sully the generous spirit of solidarity of those who contribute to it, and hamper or make pointless the work in which its personnel are engaged with wholehearted devotion.

We expect the Bank to redouble its efforts and to accord high priority to national programs designed to close the gap between the various social and economic groups. To accomplish this will require a

high order of discipline from all our peoples. That is the only responsible rejoinder to upstart political movements, put together at the last minute, which lacking any solutions are reduced to offering demagoguery as a means of distributing poverty.

Furthermore, in keeping with this new concept of development, we can no longer afford economic rifts between countries, and for the same reason our inter-American financial organization must encourage lending programs that will provide a greater measure of assistance to the relatively less developed countries or those of insufficient market. And such efforts should be made through mechanisms of financial solidarity and new integration processes, so that each day we may enhance the well-being of our peoples, move our nations ahead and assure a better future for our continent.

Before closing, I wish to express on my country's behalf our deep gratitude to the President of the Bank, the Board of Executive Directors, and the staff for the dedication they have shown in studying and providing solutions for our applications within the framework of our general development program.

On an alternate basis, Colombia has been represented on the Bank's Board of Executive Directors by persons of importance from the Republic of Venezuela. Now that Colombia is represented in a new country grouping, I wish to express publicly on my country's behalf my gratitude to those who have been our sincere and effective spokesmen, and to add that it has been an honor for Colombians to work with Venezuela, Chile and Trinidad and Tobago, with whom we share so many historic bonds of friendship and gratitude.

In undertaking now to represent the Republic of Peru, in equally honorable and alternating fashion, I do not hesitate to state that all those directors and alternates, now in office or to be appointed in the future, must represent not only their official electors but all the Americas as well. Our region has great need of their skills and of their lasting and unfaltering concern for our peoples.

In this beautiful land, where in an unforgettable meeting the two currents in our liberation epic came together on an inter-American scale, and at a time when the Ecuadoran people and all the Americas are celebrating the sesquicentennial of the battle of Pichincha, which assured us our freedom, what could be more opportune than to recall the words of the illustrious President of Ecuador, Gabriel García Moreno, when he spoke of the need for unity among our peoples. He said:

"Nature intended us to be a great people, in the richest and most beautiful part of the globe; but instead of thinking of one another as free and separate families within a single nation, we have persisted in considering ourselves as foreigners and, at times, as enemies; although our economic interests balance one another admirably, since each

region produces what the others lack, we have through the agency of customs barriers and tariffs practically prohibited the beneficial interchange of our products and thereby stifled the development of our industry. However, the day came when all the creations of an egotistical policy appeared for what they are, useless and damaging; danger brought back together those who had never ceased to form a single people."

Address by Brig. Gen. Guillermo Rodríguez Lara, President of Ecuador

I extend a most cordial welcome to the eminent representatives of the Inter-American Development Bank. You are about to begin your important deliberations in the geographic center of Latin America, in a small but proud and noble country. One hundred and fifty years ago the heroic struggle that gave political independence to our countries culminated in this historic city. Pichincha was the consolidation of the joint efforts of many of our peoples, impelled by the ideal of liberty. In the battle of May 24, 1822, Venezuelans, Colombians, Peruvians, Bolivians, Chileans and Argentines fought alongside the people of Ecuador, all united in their desire for freedom. There is, thus, the background of a common past and of efforts similar to those being made today by Latin America in other fields and with other arms. For a long time past, and with increasing vigor and improved strategy, we have been engaged in winning the battle for economic independence. In this respect, our countries have become aware of their destinies and claim the right to economic and social development that is both just and fair.

For, indeed, we cannot today speak of freedom in the midst of poverty, nor of justice when almost two-thirds of the human race goes hungry and without education. By freedom and equality we necessarily mean economic growth and social progress to assure decent standards of living for all peoples. That is why the Nationalist Revolutionary Government over which I have the honor of presiding, is fully aware of its historical commitment and of its duty to the people of Ecuador within the context of the Latin American world. On its honor it has promised economic and social development, which can be attained only through planning and persevering work. We want to change anachronistic structures and carry out a task with a profound social content. We feel identified with the hopes of the developing nations and at one with peoples who are struggling against any sort of oppression or colonialism. We respect capital and investment, whether national or foreign, but we will oblige them all to fulfill their social mission. We will protect the worker and defend his legitimate aspirations to attain greater social justice, for we believe that development can be accomplished only by the coordinated action of those two forces.

For this reason, the Plan of Action of the Nationalist Revolutionary Government is directed toward the permanent aims of protecting our territorial integrity, defending our natural resources, achieving the

political, economic and social integration of the country, promoting education and introducing far-reaching reforms in the social structure. To attain these objectives it is essential to bring about a change in the systems in force in order to transform them into instruments of a social nature, affording equal opportunities to all Ecuadorans. In the international sphere, we shall enter into Latin American integration with loyalty and a sense of responsibility. The goal of integration will be attained only with the participation of all countries—small, medium and large. If Latin America is struggling to reduce the enormous gap that separates it from the developed countries, it is only natural that it should first endeavor to consolidate its regional unity. The time has come for all these ideals to be translated into reality.

This meeting is being held right at a time when Ecuador, under the aegis of a Nationalist Revolutionary Government, is embarking on a new stage in its economic life. From the soil over which the gallant armies of Gonzalo Pizarro and Francisco de Orellana traveled in search of El Dorado, in the forests of the basin of the great river discovered with the help of the inhabitants of Quito, rich deposits of black gold have sprung, thanks to the contribution of modern technology.

Through the rational exploitation of these resources we shall consolidate the efforts of centuries to open up to dynamic national development, to the flow of world trade, to the development of industry, to the achievement of science and technology, that immense Amazonian region regarding which we share with other sister countries the historic responsibility of placing it at the service of mankind.

Your presence here, distinguished representatives of our sister countries of America, and the resolutions you adopt at this significant Meeting, will constitute the best homage that can be paid to those who gave their lives one hundred and fifty years ago for the political independence of these peoples.

This important inter-American meeting must be a forum of constructive frankness that will face the problems, claims and aspirations of our peoples clearly and precisely.

It is a meeting of shareholders of a very special nature, in which the conventional profitability of contributions is of little concern vis-à-vis a calm and objective analysis of the conditions and prospects of inter-American and world financial cooperation.

In the present-day world, the division of countries into poor and rich has become more marked as a result of many factors, particularly the prolonged existence of an unjust structure of economic and political power which, instead of fostering a rapprochement and understanding, has generated dangerous tensions and deepened the differences in the sharing of the benefits of trade, development, employment, and scientific and technological progress. International peace and security are

endangered, not so much by ideological differences or fragile balances of nuclear and military power, as by the growing impoverishment of the masses in the face of the affluence of a few who refuse to admit that their wealth has a direct bearing on the poverty of others and that we are living at a time when change is imperative, when the establishment of equitable conditions for the enjoyment of natural resources and the distribution of wealth is being sought.

This resistance to change on the part of the powerful can be observed in many fields, in varying degrees and forms. One of the most notorious is that concerning the sea, regarding which many developed countries persist in maintaining anachronistic concepts of apparent freedoms, which have been enjoyed only by those with the means and the resources to exercise them, near and far from their shores, disregarding the interests of developing countries which are now defending more vigorously than ever, their legitimate right to use maritime resources within an area that can no longer be measured by the reach of sixteenth century cannon, but by the imperative needs of twentieth century justice. The conservation and protection of these resources has become a pressing matter, because it involves the survival of our peoples. Fortunately, the evolution of maritime law cannot be held back, and the 200-mile principle proclaimed by Ecuador, Chile, and Peru twenty years ago has gained acceptance in the regional sphere and constitutes the basis for establishing the rules of the new international law of the sea.

In contrast to the historical progress of law, in recent times there has been a revival of the tendency to resort to reprisals and pressures to obstruct the use of natural resources by developing countries.

The Meeting of the Board of Governors of the main inter-American financial institution should reject the use of economic cooperation as an instrument of pressure or as a threat and prevent the very foundations of such cooperation from being undermined.

Furthermore, it must be stressed that the interdependence of nations in the present-day world, irrespective of ideological differences, imperatively calls for closer cooperation between them. This has been evidenced by the recent developments in the relations between the United States of America and the People's Republic of China and the Soviet Union, and the understanding reached regarding the conquest of space. The realities of modern life have led the international community to establish goals, purposes, and obligations for cooperation which, while not wholly satisfactory for the Latin American countries, have marked the beginning of a promising stage that might perhaps prevent the disaster caused by hunger, unemployment, disease and frustration. In this arduous task, the role to be played by the IDB and by this Meeting, which is its highest organ, is extremely significant. Development financing is closely linked with international trade, a field of activity in which

nonindustrialized countries, particularly the Latin American nations, are continuing to lose ground. The weakening of financial cooperation and the tightening of its conditions, together with the relative decline in Latin America's share in world trade, pose serious problems with undeniable economic, social and political implications, since these factors greatly restrict the development efforts of our peoples, increase unemployment, and allow unjust domestic structures to persist.

We have reached a point where orthodox economic remedies have ceased to be applicable. What is now needed are negotiations of a pragmatic nature which, while not disregarding the technical aspect, will not be limited to palliatives such as the preferential tariffs obtained only in part and after prolonged efforts, but which will get right down to the roots of the problems of underdevelopment and tackle them on the basis of national objectives and the priorities of social justice. In this manner, international trade will become the motive power that will give dynamism to the economies involved and ensure fairness in international relations.

These same arguments bring us to another very important subject on which Ecuador has maintained a well-defined position: international monetary reform. In this regard there is no room for decisions adopted by clubs of rich countries without the participation of the poor countries and ignoring their interests. To exclude some for the benefit of others simply amounts to confirming present structures and rendering it even more difficult for developing nations to improve their positions. We shall not be satisfied with less than full participation and equal terms in the negotiations leading to monetary reform, not only to defend our interests but to make a sound and responsible contribution to the establishment of an international system of payments that will encourage trade and effectively contribute to development.

In our vigorous struggle for the rule of justice we cannot ignore the differences in development existing between the countries of the Third World or the need to establish, in an essentially dynamic fashion, preferential treatment for the relatively less developed countries. Ecuador reaffirms this principle with dignity, without inhibitions, and in an incontrovertibly constructive spirit. There is evidence to show that while negotiations and dialogue on this subject have not been easy in the Latin American sphere, recognition of the rights of less developed countries has been a basic element, not only of moral but of practical support, to the aspirations of the region in the world sphere, and one of the foundations of the cooperation programs in which we are engaged. In the IDB, the special treatment accorded to such countries has been imperceptible, and we feel that the time has come to define more concrete policies in their favor.

In accordance with the spirit of its Establishing Agreement and the Resolutions passed by this Meeting, the resources of the Fund for Spe-

cial Operations should be used preferentially in those countries which, on account of their degree of development, balance-of-payments position or the nature of their projects, require special treatment from the Bank.

This Meeting has called, on repeated occasions, for priority application of these resources to the relatively less developed countries. Experience shows, however, that there still remains much to be done before a policy such as is called for by our countries becomes a reality. As regards technical assistance, for example, it is still the practice to grant loans instead of providing nonrepayable resources. The use of these resources in project financing must be liberalized to enable our countries to utilize the most suitable sources of supply which, without any lowering of quality, will make it possible to import capital goods and equipment more suited to our development needs.

I would take the liberty of suggesting that delegates pass a resolution along these lines, bearing in mind the already heavy foreign debt burden on our balances of payments and the fact that such loans are not repaid in our local currencies, but in the foreign exchange loaned.

As regards preinvestment studies, we consider that the IDB's cooperation with the less developed countries should be expanded with non-repayable funds and also, at the same time, be tied in more closely with the United-Nations Development Programme, especially regarding the employment of natural resources and industrial development, with a view to achieving better utilization of human resources.

Another problem which the facts of the situation oblige us to tackle as a matter of urgency is the need for the IDB to take a decision, on the basis of studies already carried out, concerning the financing of exports of consumer durable goods and other manufactured goods produced by the less developed countries. This measure is all the more necessary, as without it these countries would be discriminated against and placed in a disadvantageous position *vis-à-vis* the more industrialized ones. This could cancel out the preferences granted under the regional and subregional integration agreements and by the industrialized countries.

The serious debt and balance-of-payments problems, coupled with the demands of economic and social development and the problems of unemployment, make it necessary that loans be granted for longer terms and with longer grace periods, together with lower interest rates than at present, especially for the financing of programs which by their nature require this type of treatment.

Regarding technical assistance, we should like the IDB to program this type of aid better. As with financing terms, the conditions for technical assistance have become stiffer. Technical assistance is both the essential antecedent and the essential complement to the Bank's lending operations, and should be more and better adapted to the

needs of countries and less, much less, to suit its financial results. Technical assistance must be on a larger scale, with a greater capacity for analysis, than it has had to date; and we believe that more imagination and sensitivity is required to recognize that it is the member countries that need to determine and formulate programs to answer to their particular needs.

The Ecuadoran Government will resolutely support all efforts to strengthen the IDB in all respects, in order that it may continue, in an increasingly appropriate way, its important cooperation in the development of our nations.

In this connection, I should like to refer to a point which ought to receive greater consideration, since it reaches into the essence of the aims and purposes of the IDB. I mean the consolidation and putting into effect in the Bank of the principles of the legal equality of states, of nonintervention, and of respect for the sovereignty of member states. These principles must be reflected in the operating decision-making machinery of the Bank. While for practical reasons deriving from the characteristics of the IDB and the unequal financial capacities of the member countries, a system of weighted voting depending on the contributions of each has been adopted, no individual country should be able to impose its will, and even less its veto, on the decisions of the executive organs of the Bank for political or any other reasons which are unrelated to the operating criteria and rules, or to introduce discriminatory practices which could prejudice the principles referred to or detract from the high purposes of the Inter-American Development Bank.

We cannot fail to mention our concern about environmental problems which prove to be all the more serious and pressing the more we look into them. International cooperation must assist the Third World countries with additional resources to combat and eliminate the environmental problems of underdevelopment, such as poor living conditions, health, nutrition, environmental pollution and deterioration of the ecology, which keep millions of persons in a situation incompatible with human dignity. Resources for this purpose are urgently needed for the developing countries and must be furnished in soft form and on preferential terms so that they will be able to undertake massive programs to deal with these problems. We must, however, emphatically stress our rejection of any measure which seeks to impose restrictions on financial cooperation, industrial development or international trade on the developing countries, upon the pretext of environmental policies based on arbitrary criteria. We fully understand that preservation of the environment is vital for all humanity and must be effected at the national, continental and world levels. National planning and the determination of national environmental goals and policies are fundamental. International cooperation has the highly important role of

assisting toward the achievement of such goals and policies through technical and financial assistance and practical efforts to tackle the common danger in a true spirit of solidarity.

Along the same lines, we consider it essential that the Bank quicken the pace with which it has acted over the twelve years of its existence, both in the tapping of new resources and the study of means to that end, and in giving greater attention to social and urban development, where the needs are increasingly pressing and the benefits are immediately apparent. This is the case, as I have already noted, with housing, health and basic urban development works.

I must also stress the need for the IDB, together with the other international finance agencies, to streamline its lengthy and complicated procedures. We are living in a highly dynamic world, amid tensions that at times are violent and explosive, and the international institutions must realize the urgency with which Governments have to act to satisfy these demands.

Another field which merits our full support, and to which the IDB should continue to assign very high priority, is the determined contribution to integration efforts, both regional and subregional and bilateral, by means of nonrepayable technical assistance for studies and soft credits which will enable the realization of projects, including the maximum support that can be given to the Andean Development Corporation and other subregional financial entities. Integration is the common aim of our peoples for achieving the aims of justice and prosperity we are pursuing.

At the national level, we are considering the advisability of setting up a single negotiating unit which will permit better management of the country's external credit, closer coordination of it with the priorities imposed by the national development programs, the accumulation of experience and data concerning external sources of credit and technical assistance and their conditions, and the training of personnel that will make these relations more effective. At the same time, we are also considering establishing machinery that will centralize counterpart resources for the different projects undertaken with external financing, in order to make more efficient use of local resources. In its present form, the local contribution of borrower countries, project by project, does not make very efficient use of the local counterpart resources, entailing unnecessary duplication of effort on the part of the borrower country in mobilizing resources and aggravating the fiscal problem, which is already such a delicate one in view of the requirements of economic and social development.

Finally, I should like to refer to my Government's intention of using the IDB once again, in its capacity as financial agent, to promote a consultative group which will enable us to obtain the financial and technical assistance resources necessary to get under way, with the

least possible delay, the national conversion and development programs which Ecuador is now undertaking.

In these twelve years of relations with the IDB, Ecuador has had reason to appreciate its presence in the financing of the development of our countries, since it has provided continuity in the financing and has endeavored to overcome the deep-seated limitations existing in the field of international financial cooperation.

In declaring the Thirteenth Meeting of the Board of Governors of the Inter-American Development Bank open, it is my fervent wish that the tasks which will occupy your attention during these days will culminate in the greatest success and that the results of your deliberations will contribute to the greater well-being of our peoples and will strengthen yet further the cooperation between the nations of the American Community.

ADDRESSES

SECOND PLENARY SESSION

MAY 9, 1972

**Address by Mr. Antonio Ortiz Mena,
President of the Inter-American Development Bank**

Let me begin by extending my greetings to the great people of Ecuador and their distinguished Government, and by expressing the Bank's gratitude for their generous hospitality.

For my colleagues at the Inter-American Bank and for myself, it is a special pleasure to be here and to feel at home in this country of three strikingly different regions—the coast, the sierra and the eastern jungle—which at one and the same time hold out the promise of fruitful interaction and illustrate the magnitude of the obstacles that must first be overcome. We also feel at home because Ecuador offers a condensed—I would almost say microcosmic—view of our American continent, with its enormous differences and the great perils lying in wait on the road to unity in diversity, to which the future beckons us with ever more pressing urgency. For this reason it is also significant that this meeting is being held in Quito, at the foot of historic Pichincha, the scene of one of the key victories in the struggle for independence, to which soldiers came from the outermost reaches of Latin America to fight for the common cause. A timely reminder that today—as yesterday and as always—our region can achieve its destiny only through the solidarity and joint action of our peoples.

At the beginning of my address I also wish to extend a most hearty welcome to the representatives of the Government of Canada, the Honorable Paul Martin and the other distinguished members of his delegation. In December 1964 it fell to Senator Martin to sign the agreement establishing the Canadian Fund in the Bank, and since then we have maintained a very close and very cordial relationship. The Honorable Paul Martin now returns to our midst as the Governor for his country.

I recall with great pleasure the letter I received from the Canadian Secretary of State for External Affairs, Mr. Mitchell Sharp, in July 1971, informing me of his Government's wish to pursue discussions on the admission of Canada to membership in our Bank. Since then, all the necessary steps have been taken to amend the Agreement Establishing the Bank to provide for Canada's admission. Just last week, in a simple but historic ceremony, the Board of Governors admitted Canada as a member country, with full rights and responsibilities. This act constituted recognition of the fact that that great country is not only a geographical neighbor but also an inseparable part of the American system. I have no doubt that this addition to the family of the Inter-American Bank will usher in a new stage of institutional capability

and open up wider horizons for the economic and social development of our peoples. I thus feel that the admission of Canada will open the gates to new forms of association with nonborrowing countries, which will make it possible to channel through our institution growing volumes of funds for the development of Latin America.

I also consider it appropriate to point out here that the idea of having industrialized countries join the Bank as members was first put forward by Latin America at the 1967 meeting of the Board of Governors in Washington.

The Bank's Activities in 1971

Before reviewing the activities of the Bank, I would like to mention the appointment of Mr. Henry J. Costanzo as Executive Vice President of the Bank. I am certain that his presence in the senior management of the Bank will be highly beneficial to the organization. At the same time I wish to take this opportunity to express our appreciation to Mr. T. Graydon Upton for the valuable services which he rendered to the Bank in the same position over many years.

The Annual Report of the Bank distributed to the Governors contains a complete detailed account of the results of the Bank's activities during Fiscal Year 1971. In this address I shall review the most outstanding aspects of our work and express my views about certain characteristics of regional development and their implications for the future work of the Bank.

Summary of Bank activities

During the past year the Bank has set new records in the volume of loans granted and sums disbursed, in technical assistance furnished and in the amount of resources mobilized in nonmember countries.

A total of 59 loans for an aggregate of \$652 million were granted. Sixty-one per cent of this volume, 37 loans aggregating \$400 million, was financed on concessionary terms with the resources of the Fund for Special Operations. On a cumulative basis through 1971, 37 per cent of the Bank's total lending has come from the ordinary capital and 63 per cent from concessionary resources.

The total value of the Bank's loan portfolio as of the close of last year amounted to almost \$4.75 billion. This represented about one-third of the value of the total project investment, which was estimated at \$13.6 billion. Consequently, the contribution by the member countries is estimated at approximately the equivalent of \$8.85 billion.

Bank disbursements in 1971 amounted to \$462 million, \$34 million above the highest previous figure, which was recorded in 1970. As of December 31, 1971, cumulative disbursements came to a little more

than \$2.6 billion, or 55 per cent of all loans authorized to that date.

Particular mention should be made of the fact that last year loans were extended to all member countries, with the exception of Uruguay, and with that country the Bank signed during the year the contract for financing a bridge which will unite it with Argentina. This situation is rare in the life of the Bank.

Sectoral distribution of loans

One of the outstanding features of our lending activity during the past fiscal year has been the vigorous momentum provided for physical infrastructure works, with the dual purpose of improving integration between countries and in isolated areas within individual nations.

During the past year, the Bank extended loans to Brazil to build sections of trunk highways connecting Rio Grande do Sul with Uruguay and Argentina; to Peru to help construct a highway in the Department of Cajamarca which will expedite development of a potentially rich farming zone adjacent to Ecuador; to Venezuela for construction of a highway that will contribute to the development of eastern Venezuela and make it possible to set up urban zones east of Caracas that can absorb its excess population; and to El Salvador, Guatemala, Honduras, Nicaragua and Panama for the execution of various highway construction and maintenance programs. Also in 1971, two loan contracts for nearly \$13 million were signed for construction of a bridge across the Uruguay River between Fray Bentos, Uruguay, and Puerto Unzué, Argentina.

Financial assistance was provided for construction of a pipeline linking gas fields in southern Patagonia with the main pipeline supplying Metropolitan Buenos Aires and for a similar line in Bolivia which has linked the fields at Colpa and Río Grande in Santa Cruz to Yacuiba on the Argentine border.

In the electric power sector, the Bank provided support to three neighboring countries—Colombia, Ecuador and Venezuela—for expanding and integrating their power production. It also made two loans to Paraguay to finance the second stage in the expansion of the Acaray hydroelectric plant, a facility that will make it possible for that country to increase its power output for domestic consumption as well as export electricity to satisfy the needs of neighboring regions in Argentina and Brazil.

In addition, the Bank financed feasibility studies for the interconnection of telecommunications systems between individual Latin American countries and with the rest of the world. This marked the culmination of a task the Bank, as executing agency, initiated in 1969, jointly with the United Nations Development Programme and with the participation of the International Telecommunication Union. Fifteen projects, repre-

senting an investment of \$86 million, were found technically and economically feasible.

During the year, the Governments of Ecuador and Peru presented a joint application for technical assistance to study development projects in the Pindo-Puyango-Tumbes basin relating to prospects for farming approximately 40,000 hectares in the southern part of El Oro Province in Ecuador, and 20,000 hectares in the northern sector of the Department of Tumbes in Peru. At the same time, an initial study of a hydroelectric project in that basin with a generating capacity of 100,000 kilowatts is in progress.

At the beginning of 1971, the Bolivian and Peruvian Governments submitted a joint application for Bank assistance in building a highway along the La Paz-Desaguadero-Ilo route. While this project has already been studied, its technical and economic evaluation must be revised in accordance with a new approach aimed at setting up a pole of development in southern Peru that will include industrialization of the natural resources of Bolivia.

Consideration of the project known as the Darien Gap is also in an advanced stage. Construction of this road would link Central America and Mexico with South America.

In another area, the Venezuelan Government at the end of 1971, requested the Bank's aid in studying the navigability of the Orinoco-Casiquiare-Negro River route and prospects for development of the area. The Bank has already sent a mission to investigate this project, which offers very promising prospects, since it involves not just the promotion of exports from the Caroní region to Colombia, Ecuador, Peru and the Brazilian Amazon, but also longer range plans. Consultations are being held on the extent to which it would be feasible to interconnect this route with that of the Meta River in Colombia, and, in a more distant future, the Amazon hydrographic system in Brazil.

Finally, the importance of a study conducted by the IDB jointly with the member countries should be emphasized. The purpose of this study was to prepare an inventory, which was completed in 1971 and includes approximately 600 physical infrastructure projects at the multinational level; that is, projects involving two or more member countries. The inventory provides a very useful instrument that will enable the countries to coordinate the identification, preparation and execution of integration projects.

Work in other sectors

The Bank's financial assistance has, since the start of its operations, gone preferentially to the *agricultural* sector. However, new priorities began to emerge in 1971 as a consequence of the course of development in Latin America. Accordingly, authorized loans for agricultural

purposes in 1971 showed a decline, while credits to *industry* rose slightly and the *tourism* sector became a significant factor in our credit activity. In connection with the last sector, the Bank is participating for the first time in a project, located on Cancún Island, Mexico, involving tourism development of a hitherto economically undeveloped region. Another new concern of the Bank in the past year was the promotion of *fishery development*, although this is still in the project preparation stage.

In 1971, loans approved in the field of *education* were substantially higher than in any earlier year, benefiting mainly study centers in Argentina, Chile, Costa Rica, the Dominican Republic, Ecuador, Honduras and Panama.

Another field which received attention from the Bank in the past year was *urban development*. Here the Bank has increasingly applied a policy of financing not just isolated housing projects but comprehensive urban development programs that entail the provision of new housing as well as the improvement of substandard units, municipal renewal and the provision of such services as transportation, sanitation works, markets, health services, and recreation and training facilities. An encouraging example is the planned project for remodeling and improvement of the Eastern District of Bogotá.

More than \$15 million was provided to the *preinvestment* sector, or 2.3 per cent of all credit extended by the Bank in 1971. This item should be further expanded in order to step up project preparation, particularly in the less developed countries.

During the past fiscal year, the Bank authorized more than \$23 million for the *financing of intraregional exports* of capital goods, making a grand total of \$77 million authorized for this purpose, which financed exports with an invoice value of \$101 million. In fulfillment of a resolution adopted at the last meeting of the Board of Governors, the Board of Executive Directors took a number of steps to improve the export financing program. Other measures designed to help add resources for this purpose, which can be used more flexibly and dynamically, are under consideration.

The Bank places special emphasis on close and extensive cooperation by its experts to ensure the proper execution of the projects it helps to finance. In 1971, 58 projects utilizing Bank resources of \$289 million and representing a total investment of slightly under \$900 million were completed. This brought the number of Bank-financed projects carried to completion to 343, with an aggregate value of \$1.5 billion.

Technical assistance

The Bank's technical assistance activities in 1971 included allotments of

funds in many loans to finance services ensuring prompt and satisfactory execution of the projects. Other technical assistance operations were designed to help the countries present well conceived development projects, and train technical personnel, and to support regional institutions responsible for promoting economic integration plans. In financing the preparation of projects, the Bank has particularly stressed support to less developed countries.

In 1971, the Bank devoted \$30 million to technical assistance activities, or nearly 50 per cent more than the previous high recorded in 1970. Of this amount, \$24 million was authorized in the form of loans and \$6 million on a non-reimbursable basis.

In furnishing technical assistance services, the IDB cooperated actively with other international agencies, particularly with the United Nations Development Programme, which has appointed the Bank as its Executing Agency for the study of significant projects in Latin America. The Bank also intensified its cooperation with the Organization of American States in a program to help the countries of the region in tax matters. In this effort the International Monetary Fund and other interested agencies cooperated.

The less developed countries

In compliance with a resolution adopted at the Lima Meeting of the Board of Governors, a study analyzing the treatment accorded by the Bank to less developed countries and those with insufficient markets during 1961-70 was forwarded to the Governors. This document indicates that the Bank has extended strongly preferential treatment to the smallest countries and, to a lesser extent, to its medium-sized members. Over the past fiscal year, it continued to show special concern for the less developed countries. This continuing concern is illustrated by two loans to Haiti, one to benefit small- and medium-scale farmers and the other to assist industrial enterprises in that country, both backed by technical non-reimbursable assistance to the Institute executing the program. At the Lima Meeting we pointed out the need to intensify support to Haiti. Over the past two years Haiti received more assistance than it had received since the beginning of the Bank's operations. Further evidence of our effort to ease the cost of financial aid, primarily in these countries, is the loan authorized at the beginning of this year to the Dominican Republic, on a term of 50 years without interest, in the amount of 7.7 million Canadian dollars, to be used mainly for a program of rural electrification that covers 160 localities with a total population of approximately 140,000.

Since mid-1969, the Bank has sent technical missions to Ecuador with a view to having it include a larger number of economic development projects in its programs. The results have been positive, since this

step contributed to Ecuador's success in procuring in only two years (1970 and 1971) an amount nearly equal to the \$77 million in loans authorized to that country during the first nine years of the Bank's operations.

In view of this favorable experience, the Bank sent a similar mission to the Dominican Republic in June 1971. Following a study of the situation, and in consultation with the respective authorities, a program was prepared that could reach a substantial amount.

It is our firm intention to extend this type of aid to the other relatively lesser developed member countries of the Bank.

Mobilization of resources

The Bank has been able to expand its credit activities steadily thanks to the support of the member countries who have made additional contributions to the ordinary capital and concessionary funds of the Bank.

At its Eleventh Annual Meeting in April 1970 in Punta del Este, the Board of Governors approved two increases in the resources of the Bank: one of \$2 billion in the ordinary capital resources and another of \$1.5 billion in the Fund for Special Operations. It also approved the schedule for fulfillment of these commitments which stipulated that the first stage of this increase should be completed by June 30, 1971. On December 31, 1970, the countries formally approved these recommendations of the Board of Governors, which were designed to supply the Bank with the capital needed to achieve a credit activity level of about \$900 million in 1973.

The fulfillment of the commitment to increase resources was delayed, and it was not until December 30, 1971, that the increase in the ordinary capital was implemented.

The increase in the Fund for Special Operations is still pending. For this reason, on December 30, 1971, the Board of Executive Directors submitted to the Board of Governors a proposed resolution subsequently approved by the Governors, extending the date for implementation of this increase to June 30, 1972. The dates for payment of the respective quotas were also postponed. This poses a very delicate situation in terms of the orderly development of the Bank's operations, a subject to which I shall refer later.

In 1971 the Bank concentrated its efforts on mobilizing resources outside the United States. In this way, it obtained a total of about \$200 million through the sale of bonds, trust funds and other arrangements. Considering the restrictions and difficulties besetting the capital market over the past year, this is a most satisfactory figure. In addition, United States banks purchased participations amounting to \$8 million in Bank loans. I should like to make special mention of Japan, where the IDB obtained resources totaling about \$57 million.

This sizeable mobilization of resources provides strong confirmation of the Bank's credit worthiness in the European, Canadian and Japanese capital markets, as well as in the central banks of the Latin American member countries. Borrowings by the Bank during 1971 raised the cumulative net value of these operations to \$1,018 million. Of this amount, \$458 million represents obligations contracted in the United States market, \$481 million in nonmember countries and \$79 million in Latin America.

A basic decision taken by the Bank last year was the adoption of a precommitment policy under which, following the example of other international finance institutions, the Bank will gradually reduce the amount of cumulative liquid resources from 100 to 50 per cent of the value of commitments contracted, or to the level required to cover disbursements in the next two years.

Financial results

Pursuant to its Charter, the Bank maintains separate accounts for its ordinary capital resources, the Fund for Special Operations and the resources it administers for various countries. To provide a simpler over-all picture of its activities, the Annual Report presents consolidated figures for loans and other activities, as well as for receipts and expenditures. Here, I will point out only that the Bank's gross receipts in 1971 from its major sources of funds totaled \$148 million, compared with \$135 million in 1970. Net receipts aggregated \$45 million in 1971, against \$52 million in the preceding year. This, of course, resulted from the increase in service on the Bank's consolidated debt and from the fact that in 1971 the income from short-term investments provided a much lower yield than in 1970 as the capital and monetary markets tended to return to normal. The Bank's general reserves, and the cumulative surplus receipts of the Social Progress Trust Fund, together amounted to \$183 million as of December 31, 1971, compared with \$140 million on the same date a year earlier.

In this connection, I should like to mention the effort we are making to improve the efficiency of Bank operations. Despite the significant increase foreseen in the level of lending in 1972, the administrative budget of the Bank, which has been expanding at an annual rate of about 15 per cent, shows an increase of only 1.5 per cent for the current year in relation to 1971. This is the lowest budget increase in the history of the Bank and, considered in real terms, actually amounts to a reduction of the administrative cost of the Bank and a parallel increase in productivity.

I would remind you that at the Lima Meeting I informed the Governors of the need to introduce some changes in the organization of the Bank so as to make it more efficient and flexible in its operations

and to adapt the institution to the new requirements of the region's development at the present time. Accordingly, a firm of consultants was engaged to study this project. The firm's report was submitted in August 1971 to the Board of Executive Directors for consideration. Since then the matter has been the subject of systematic examination by the Board.

Regional Development Trends and Prospects

I should like at this point to outline briefly the most important trends that have emerged in the economic and social development of Latin America over the past year and, at the same time, try to identify those problems requiring special attention by the Bank.

Generally speaking, significant progress has been made in the economic development of the region in recent years. In 1971, for the fourth consecutive year, an annual growth rate of more than 6 per cent was recorded, indicating that, under proper conditions, the region can develop more rapidly than it has in the past. While these figures have been heavily influenced by the spectacular growth of Brazil—more than 9 per cent over the last four years—it nevertheless covers twelve countries—including Ecuador—which account for two-thirds of the total population of Latin America.

The growth recorded over the past few years has been sustained by a significant effort of capital formation and savings. The share of the gross domestic product allocated to investment amounted to 19 per cent in 1970. This has meant that more than 90 per cent of regional development has been financed with domestic resources, again exceeding the goal projected in the Alliance for Progress Program. It should also be noted that these results were achieved within a general framework of a comparative improvement in fiscal finances and the balance of payments positions.

Although the results of the traditional indexes for gauging development are encouraging, I believe that Latin America still faces problems and obstacles that should concern us deeply. There is a serious unemployment problem; we have an extensive rural sector that still receives very low incomes; exports are insufficient to maintain rapid development; there is an unsatisfied demand for education, housing, food and health care. We must realize that although the pace of regional development has quickened significantly, it is not yet fast enough to correct, within a reasonable period, the imbalances affecting our economic structure. We share the opinion of those who advocate more rapid and diversified development, but we also feel that this process should be redirected toward two basic objectives: increased employment and a broader distribution of development benefits.

The high level of unemployment and underemployment prevailing in

the region is common knowledge, and no figures need be cited to show the seriousness of this problem. On the other hand, we are aware of the complexities involved in achieving a goal of full employment. It is not a matter of simply attacking the problem with a massive increase in investments to create more jobs, since financial resources are limited. Instead, certain activities must be selected in preference to others, and technology with a higher labor-intensive factor applied. It is easy to make the mistake of indiscriminate use of imported technologies which, in many cases, are helping to aggravate the situation, insofar as they are highly capital intensive and tend to require less labor.

Yet we must be aware of the fact that the countries are responsible for adopting the policies and measures needed to correct this trend. The Bank, for its part, must provide technical and financial support to the member countries to facilitate and accelerate the attainment of these goals. It is generally acknowledged that development benefits are not distributed equitably. In this situation, though we lack sufficient information to quantify precisely, a visual inspection of any of our cities and rural areas reveals the magnitude of the problem. There persists in our countries a dual development model that contrasts a minority sector with a modern economy and comparatively comfortable income levels with the backwardness and poverty affecting the masses of the Latin American people. This dichotomy is also apparent in the differences in the levels of well-being among the countries of the region. It is difficult to solve this problem satisfactorily without a sizable increase in over-all production, but it is equally essential to employ policies and implement programs aimed at greater social balance.

Of decisive importance to Latin America's development prospects in the next few years is the behavior of exports. Since 1950 Latin American participation in world trade has declined from 11 to 4.8 per cent. This situation is a serious source of concern and should prompt us to adopt far-reaching solutions that can reverse this trend and, in time, regain the ground we have lost. The decline of Latin America's share in world trade has resulted largely from the shrinking of external markets in such important products as coffee, cacao, sugar, cotton, wheat and meat. The region's share of world exports of agricultural commodities dropped from 20 per cent in 1950 to less than 14 per cent in 1969. This deterioration is, in turn, a reflection of the backwardness of our agricultural sector, a situation to which I would also like to call the attention of the Governors.

Given the trends of world trade, most of our efforts should be directed toward exporting manufactured goods. Although we realize that competition in external markets may be difficult, considering the conditions under which Latin American industry has developed, trends in recent years show that it is not an impossible task if the necessary investment resources are allotted and suitable incentive policies estab-

lished. In this respect, I should like to point out that some Latin American countries have been making special efforts to expand and diversify their non-traditional exports. The results of this effort are reflected in the fact that exports of manufactures from the region are expanding by approximately 15 per cent a year. Especially now when the generalized system of preferences for developing countries is beginning to take shape, Latin America should be prepared to take advantage of the new opportunities offered by the international market. However, we must recognize that the general situation in the region is unfavorable to manufactured exports. Growth of our industry has been supported by an import substitution policy, which has led to the establishment of comparatively small-scale enterprises with a cost structure that does not allow them to compete abroad.

Future Tasks for the Bank

My summary of the Bank's activities might perhaps lead to a feeling of complacency. It is certainly true that the Bank has strengthened its position as a solid technical agency, increasingly aware of the requirements of regional development while at the same time maintaining its capacity for renewal and adaptation in search of approaches and operating measures that will enable it to improve and expedite its activities. In addition, our institution has achieved a degree of prestige in financial circles, which has made it possible to raise a sizable volume of resources in the international capital market and to secure support and collaboration not only from its member countries but also from a large number of others which include the great majority of the developed nations in the world.

Nevertheless, it would be unrealistic not to mention my concern for certain aspects which, in my opinion, require special attention if the Bank, over the next decade, is to continue increasing its contribution to the objectives of regional progress and cooperation. I should like to discuss this matter next.

Multilateral nature of the Bank

First, I should like to stress the responsibility which each member country has to safeguard and strengthen the multinational nature of the Bank as a regional development agency. This collective commitment entails the need to avoid bringing to the consideration of the Bank problems stemming from conflicts that arise at the bilateral level, regardless of how reasonable, in the opinion of each country, the circumstances in each case might be. In this connection, it is essential to preserve fully the basic principle that the decision of international financing organizations should be absolutely unaffected by political considera-

tions. These remarks are especially significant at this time when there is a strong trend toward channeling bilateral resources to multilateral agencies. This is a praiseworthy approach that would greatly benefit all, provided that the principles which are the very *raison d'être* of the multilateral agencies, and a basic requirement for their effective and orderly operation, are respected.

We must also have a complete identity of views concerning the proper functions of our institution as a regional development agency. In this connection, we feel that, within the Latin American context, the Bank is not merely an alternative source of external credit to which the member countries resort to finance isolated projects which sometimes have only marginal value within the scale of national priorities. The Bank's purposes are much more significant and require our institution to have a full knowledge of the development policies and priorities of each of the member countries so that it can not only program a more efficient allocation of its own resources, but also extend effective assistance to the countries in mobilizing funds from other external financing sources.

Increase in Bank resources

Another matter that should receive increasing attention from the governing bodies of our institution and from its Management is the mobilization of additional resources. As I have mentioned, during this decade Latin America must redouble its investment efforts in order to sustain the development rate that can significantly improve the living standards of its increasing population. Most of these efforts should derive from a significant increase in domestic savings, but in view of persisting limitations in the region, it is obvious that the net flow of external financing for development should also expand appreciably.

In my opinion, emphasis should be placed on the proposals which the developing world has just restated at the Third Meeting of the United Nations Conference on Trade and Development (UNCTAD) in Chile. It is a source of grave concern to know that foreign financing is less than one-half of the goal set. The fact is that several countries, including the most highly developed nations in the world, have retreated from compliance with this goal. Unless this trend is reversed, it will be very difficult for the developing countries to mobilize the investment resources demanded by their growth. I am confident that there will be an awakening to the serious consequences that this situation would entail, not only on a level of international cooperation and solidarity, but also in world economic and political affairs, and that this reaction will make it possible to attain the financial assistance goals proposed in various international forums.

We all know the domestic problems, restrictions and demands still

confronting the most developed countries, but these should not curtail or prevent efforts which, though vital to the developing nations, are nevertheless comparatively minor sacrifices in terms of the income levels and economic growth rates achieved by the industrialized countries. Note should also be taken of the proposals made at the UNCTAD meeting concerning the advisability of adopting measures to utilize the creation of new international monetary reserves as a means of transferring resources to the developing world. As you well know, this point has been suggested on several occasions and various courses of related action have been suggested. In my opinion, it is time, within a real spirit of international cooperation, to give serious consideration to the implementation of these ideas. I believe that the Bank would be an effective instrument within the regional framework for channeling resources derived from this type of arrangement.

There appears to be increasing support for channeling bilateral external financing through international financing agencies. This is a sound trend that can be highly beneficial if these resources are allocated in such a way that the international agencies can utilize them as effectively as possible. This implies the fulfillment of various conditions, of which I should like to mention at this point only three that I consider to be of special importance: first, the availability of resources for a period long enough to permit more efficient programming of Bank operations with each of the member countries; second, to have resources that can be used on flexible terms as regards interest rates, amortization terms, grace periods and the financing of local costs; and, third, to have available resources not subject to conditions that interfere with their allocation exclusively on a basis of technical and economic criteria.

These observations are especially important in the present stage of the Bank's activities. We must acknowledge that the increases in resources approved at the Eleventh Annual Meeting of the Board of Governors in Punta del Este in April 1970 were highly satisfactory in terms of both the amount of the increases—which made it possible to program operations properly—and the inclusion of a very significant share of soft funds. As I have observed, a number of factors have prevented prompt implementation of the agreements adopted, which has interfered with the maintenance of an orderly program of operations by the Bank. This situation has not yet been resolved with regard to the payment of the contributions to the Fund for Special Operations, which should be made by June 30, 1972, for to date the necessary legislative measures have not yet been adopted. I call the attention of the Governors to the seriousness of this situation. I am certain that every effort will be made to ensure that our institution will have available the funds it needs.

The increases in resources approved at Punta del Este led us to pro-

gram increasing levels of loans which we have not been able to attain for lack of opportune authorization of funds. As I have already noted, the lack of timely authorization of the resources prevented us from *reaching the programmed target in 1971. Maintaining these programs* and their necessary expansion in coming years will require further increases of the Bank's capital. It may seem rather early to be referring to future needs while the present increase has not yet been implemented. However, the delays which I have mentioned point up the advisability of considering the future requirements of our institution right now.

The Bank must, moreover, redouble its efforts to act as a catalyst in the mobilization of resources from other quarters. This task will have to be tackled at two levels: by means of the search for general association and cooperation arrangements with nonmember countries, and through raising additional financing in conjunction with specific loan operations by the Bank. Regarding the first of these, I have already underscored the significance of Canada's becoming a member of the Bank and I have also referred to the progress made in the negotiations under way with various countries, in accordance with the resolutions adopted by the Board of Governors of the Bank. With the guidelines you will provide the Executive Directors and Management of the Bank at this Meeting, we may be assured that agreements will be reached in the very near future that will make it possible to give shape to the promising possibilities considered.

The Bank must also intensify its search for operating methods which will enable it to step up the raising of funds from other sources, in conjunction with its own financing. This will generally relate to large-scale programs or projects whose financing is beyond the capacity of one single external credit institution. The Bank, through a minority contribution which nevertheless always requires careful technical and economic assessment of the project, and its active advice to the member country utilizing the experience and contacts it has been able to acquire in the international capital markets, will be able to multiply the impact of its operations, thus helping to boost very considerably the flow of external resources to the region. We must accordingly be ready to associate ourselves with other sources of finance or be prepared to carry out work of a promotional nature, acting as agent for the negotiation of arrangements that will render possible the financing of these major investments.

Our region already needs these new forms of joint financing in which the Bank acts as a catalyst for mobilizing funds from other sources. For the Latin American countries are reaching levels of development which are increasingly requiring the implementation of highly complex projects which call for quite considerable investments. In this connection I must point out that the Bank is already participating in the financing of a group of projects for expanding Brazil's steel industry which repre-

sents a total investment of more than \$1.2 billion; in addition, we are considering a large-scale project for the expansion of Mexico's steel industry and we shall support the effort that Argentina is making in programming its iron and steel industry.

While this type of project is generally put forward by the larger countries of the region, Bank assistance for the less developed countries can be even more necessary for these countries to carry out large projects, mainly for integration and export purposes.

Future increases in the Bank's resources should take into consideration the availability of concessionary funds to enable the Bank to continue tailoring its credits to the region's development needs. This becomes all the more relevant if one bears in mind that, in accordance with the approved policies, loans from the Fund for Special Operations will cease to be payable in local currency. As I have pointed out, in the majority of member countries the balance-of-payments situation constitutes one of the more serious limiting factors to their development, while in various countries debt service represents a serious and dangerous drain on the foreign exchange available to them. Moreover, the Bank has to have resources which will enable it to operate in sectors such as education, health and urban development where the productive effect and impact of its lending on economic growth is of a longer term. In this connection I should like to mention that we have raised funds on very favorable terms, as in the case of the Canadian funds which we have used to make an interest-free loan, on 50-year terms and with a grace period of 10 years, for rural electrification in the Dominican Republic.

Assistance to less developed countries

Another imperative task for the Bank in coming years is the need to expand its financial and technical support to the less developed countries of the region. In its capacity as a regional institution, and as is laid down in the Establishing Agreement, one of the basic criteria which guides the Bank's policies is the search for means that will facilitate the harmonious development of the region.

This is a subject which has repeatedly warranted the consideration of the Board of Governors and has given rise to various resolutions, among which that of the last meeting in Lima should be stressed. I have already referred to the report that has been submitted to the Governors. I will therefore restrict myself here to pointing out the measures we are adopting to intensify the Bank's assistance to the less developed countries.

Firstly, I must note that in the new policy guidelines for the Fund for Special Operations recently approved by the Board of Executive Directors of the Bank, a set of criteria designed to strengthen the Bank's

support for these countries has been defined. It should be emphasized that this document includes, among other things, the resolution to grant preferential treatment to the less developed countries as regards use of the Bank's soft resources, reducing interest rates, extending grace and repayment periods and scaling down the local counterpart financing required.

It must be acknowledged, on the other hand, that the establishment of these criteria would have little practical effect if the loan-absorption capacity of the smallest countries were not expanded. I therefore believe that it is essential that the Bank should, at the same time, carry out much more intensive technical assistance programs in these countries, particularly as regards project preparation and execution and development programs, but also covering the wider aspects of strengthening institutions and training qualified technical personnel. Assistance to the less developed countries through preinvestment loans should also be stepped up. A great help in this direction will be the fund of \$15 million which the United States Government has agreed to set up to assist with the preparation of investment projects. The Executive Directors of the Bank have recently approved the general rules that will govern the use of these resources and they also incorporate the decision to employ them preferentially in the less developed countries of the region. Accordingly, the first operation in a stage of advanced study is for the provision of technical advice to Jamaica in the water supply sector.

It is particularly in this effort to assist the less developed countries that the need to strengthen the Bank's offices in the field assumes greater importance, since they must be able to provide more effective direct assistance to these countries in the identification and preparation of projects, in the execution of Bank-financed works, in the prompt and timely disbursement of loans and, in general, in various other aspects of technical advice.

Industrial development and promotion of exports

In considering the need to adapt the Bank to the development requirements of our countries at this time, special emphasis must be placed on two closely interrelated fundamental fields of economic concern: the industrialization progress and the expansion and diversification of exports. The international finance agencies—and in this field our Bank is no exception—were organized in accordance with traditional patterns in which the borrowers are generally public bodies and the projects relate to economic and social infrastructure works. It is understandable, therefore, that the international finance agencies find it difficult to participate actively in the execution of industrial development and export promotion programs, since these are activities having completely different characteristics.

Industrial development

The Management of the Bank has been aware for some time of the need to increase the Bank's participation in the industrial development of the region. At the Lima Meeting a study which included a detailed examination of this problem and recommendations for solving it was submitted to the Governors. In accordance with the resolution adopted on that occasion, the member countries have assumed responsibility for determining how the matter should be dealt with. It is a complex subject and one which requires a mature and thoughtful approach, which may perhaps explain why more progress was not made over the past year. It is now my duty to request the Board of Governors to continue giving preferential attention to this important matter.

What can we do while we lack a satisfactory solution to this problem? We are studying various alternatives in order to find a positive answer to this question. In the first place, we must give increasing attention to the promotion of industrial projects, mainly to intensify the trade in manufactured goods between our countries and to stimulate exports to countries outside the region. This function would consist chiefly in identifying opportunities for industrial investment in our countries and, in line with the characteristics of the projects and local conditions, to seek the most suitable sources of external finance and contributions of capital and technology. In carrying out this work we would act in coordination with other technical and financial assistance agencies, including the subregional bodies such as the Andean Development Corporation, the Central American Bank for Economic Integration and the Caribbean Development Bank, together with local public and private credit institutions.

Similarly, the Bank should also establish new forms of cooperation that will assist our countries in their efforts to strengthen industrial enterprises. It is a well-known fact that modern industry has to be based on enterprises having a high technical and financial capacity and comparable production and sales administration capability. These requirements assume greater importance in the case of industries competing in foreign markets. In our countries, industrial enterprises have mostly been established for import substitution purposes in small and highly protected markets. As is obvious, these conditions are not favorable for organizing strong enterprises able to go out and conquer foreign markets. Our countries will therefore have to make a big effort to strengthen enterprises as an essential prerequisite for promoting a more dynamic and efficient industrial development that will be able to bring about the diversification of our exports. The Bank must be prepared to give firm support to projects submitted by the countries for the purpose of establishing larger-size enterprises or promoting investments based on the merging of existing enterprises which, because they have similar or

complementary activities, can operate more efficiently as one single organization.

Export promotion

The Bank has also done pioneer work in the field of exports. For instance, it set up a financing program for interregional capital goods exports which has operated for over eight years. This program has financed exports totaling somewhat more than \$100 million, a relatively modest figure. However, this program is highly significant because it has shown, firstly, that Latin America already has industries able to produce, under competitive conditions, advanced and complex manufactured goods; and secondly, that our countries already have engineering and technical consultant firms that can take part successfully in international competitive bidding for major projects, which up till not so long ago almost used to be the exclusive preserve of the big international firms. I have already reported on the measures adopted to increase the Bank's assistance for export financing, so I will content myself with adding here that we shall continue studying measures that are compatible with the Bank's Charter and which will enable us to intensify our participation in this important field of activity.

I think that the Bank's activity in the export field has been promising but is not sufficient. I have quoted figures which eloquently express the serious difficulties affecting Latin America because of the gradual weakening of its position in world trade, a situation which considerably restricts the continent's possibilities for development. It explains why our countries are presently giving top priority to projects designed to expand and diversify exports. Consequently, and apart from the Export Financing Program, the Bank must establish new forms of cooperation which will enable it to multiply the support that it gives to the countries in this particularly special type of activity. I will now proceed to discuss some ideas we are studying in the Bank on this subject.

The traditional exports of basic commodities still form a very high proportion of the region's total exports. As I have already observed, highly important items in the region's agricultural production are being pushed out of external markets, largely on account of competition from other developing regions. However, the traditional policies or practices of external public lending have generally resulted in the international financial agencies' abstaining from participation in projects for the production of natural resources for export. This is justified by the argument that international public lending should not compete with other sources of credit, so that these agencies apply their resources for projects for which no other financing is available. In the case of production of natural resources for export, up to the present the main source of external financing has been the major international firms.

It is commonly known that this form of external financing is meeting with growing political resistance, which leads me to think that the time has come to seek other solutions that will prevent conflicts which only entail serious harm for all concerned. I believe that the participation of international finance agencies in this type of project could be a highly valuable contribution toward finding positive solutions to this serious problem. I believe also that the most practical approach is financing specific projects, so that we avoid theoretical discussions and seek to find forms of cooperation that will be feasible both for the international agencies and for other public and private sources of external credit. We in the Bank will accordingly keep alert so as not to lose opportunities for arriving, in collaboration with other international agencies, at concrete forms of cooperation which would open up new paths to external financing.

Another field for cooperation with the member countries is found in the execution of projects which permit a higher degree of processing of commodities which up to now have been exported as raw materials. In this case the Bank could furnish valuable assistance to member countries in the identification of projects for the processing of natural resources without interfering with their sale in external markets. In addition, the presence of the Bank would make it easier for industrialized countries, mainly countries which are raw materials importers to participate in the establishment of these processing industries; in this way agreements could be reached which will provide for a more balanced division of labor, by which our countries would export semi-finished products that would be finished in the industrialized country for reexportation to other markets.

Similar agreements could be explored for the production in our countries of parts or components with a high labor content for export to industrialized countries where the finished product would be assembled. Agreements of this type have been tried successfully in the Far East and in countries of the region.

I have had to take rather longer than I would have liked in order to bring before you matters that I consider to be of great importance. We are passing through difficult moments and the Bank must be prepared to face up to the challenge presented by them with the collaboration of the most dynamic sectors of our countries and with the continued support at all times of our peoples.

**Address by Brig. Gen. Francisco Morales Bermúdez,
Governor for Peru and Minister of Economy and Finance**

Yesterday, at the opening session of this Meeting, I had the opportunity, as retiring Chairman of the Board of Governors, of expressing the collective thanks of my colleagues to the Committee of the Board of Governors, under its chairman, Mr. Hugo B. Margáin, for the vigorous and efficient work completed on the tasks assigned to it by the Twelfth Meeting of the Board of Governors in Lima. Today, on behalf of Peru, I repeat these thanks, while at the same time expressing the view that this procedure of working through a special committee has proved itself in practice to be a useful precedent for speeding work on similar assignments over the short run.

Also as Governor for Peru, I wish to make special reference to Canada's entry to membership in the Inter-American Development Bank. Canada's contribution brings a message of change at a time of necessary structural renewal of our Institution. As I said at the Eleventh Meeting at Punta del Este, Peru was one of the first countries to urge and approve the admission of Canada to the Board of Executive Directors of the Bank, a project which has now come to fruition in Quito.

As regards the new composition of the Board of Executive Directors, which appears on the agenda for this Thirteenth Meeting of the Board of Governors, I am pleased to announce today the Agreement that we have concluded with our sister Republic of Colombia to alternate on the Board of Executive Directors effective July 1972. The opportunity that this provides for Peru to have a full Executive Director on the Board at regular intervals represents the realization of a long-cherished ambition. Peru recognizes the understanding shown by Colombia, another positive factor in the links binding together the Andean Group.

It is only just that I express the gratitude of Peru to the Argentine Republic for having represented us on the Board of Executive Directors since the founding of the Bank. Throughout this period, Peru has received unconditional and effective support at all times from its sister republic, which leaves us in its debt. It has been a pleasure for me to inform the Argentine authorities—and I repeat it here publicly—that only the especially favorable circumstances of a new Agreement explain the termination of such a pleasurable bond. We are certain that the same level of cordiality will prevail in our relations, both inside and outside the Bank, for the same historic reasons of lasting brotherhood.

Peru today

For the Revolutionary Government of the Armed Forces, 1971 was the year that marked the beginning of the consolidation of the structural changes and social reforms that inspired it to assume political responsibility in October 1968. Far from being a mere modernization, the Peruvian Revolution lays claim to having introduced, in the brief span of less than four years, profound changes in the legal and administrative structure of the country.

If we had to sum up in general terms the main feature of this Revolution, we could say that in Peru the State, at long last, assumed directive powers that it had never enjoyed in the many long years of the Republic, thus ending a lengthy chapter in which a succession of inter-related private interests, domestic and foreign, prevailed over the higher interests of the community and thwarted the achievement of our national goals.

Against these deep-rooted vested interests, an unyielding structure is now being raised, a task that is beyond question: the recovery of our national petroleum resources, which were being unduly exploited by a foreign company; the agrarian reform; the restructuring of the national banking system, amounting to a credit reform; the strengthening of the *Banco de la Nación*; the reform of government finances based on a biennial budget; the Mining Law; the Fisheries Law; the Industries Law; independence in international relations; unconditional support for the Andean Group as a necessary step toward regional integration; the creation of public enterprise as a vital agency for development; establishment of the Development Finance Corporation; revision of the tax system as a means of overcoming the poor distribution of income; reorganization of the civil service; the new education law. These are only a few of the most striking aspects of the structural changes taking place in Peru.

Despite the political passions raging inside and outside the country, Peru today presents a strikingly different appearance from the pre-1968 situation; and its rapid political development places it clearly and definitively among the countries that are masters of their own destiny.

Within the limits of brevity and conciseness proper to this event, allow me to state that in 1971 our gross domestic product rose by 6 per cent over 1970. This increase was achieved despite adverse factors in the mining and fisheries sectors, which have now been successfully overcome so that a continued increase on the order of 7 per cent can be forecast for 1972. Gross fixed capital formation rose by 11 per cent. The budgetary deficit for 1971 was reduced to a manageable percentage within the financial instruments available to the Government.

The real gross product rose by 5 per cent a year over the period 1968–71, while during the same period per capita income increased by 1.9 per cent a year. This contrasts with the negative growth recorded during the preceding three-year period. The cost of living rose by a tolerable 6.8 per cent in 1971.

External debt presently represents 14.1 per cent of the gross domestic product, in terms of current dollars, as compared with 15.1 per cent in 1968. During the past three-year period, exports passed the one-billion-dollar-a-year mark for the first time ever. In 1971 the trade balance showed a surplus of \$125 million, despite a temporary drop in exports and an upward movement in imports, chiefly capital goods. The services account, which has traditionally been negative, shows an improving trend, which nevertheless requires a careful and rational use of foreign exchange not intended for the production process. The greater liquidity of the economy has resulted in a 90 per cent increase in total internal financing during the three-year period 1968–71. Foreign exchange reserves held by the Central Bank stood at almost \$390 million in April 1972.

In witness of the indisputable increase in public and private investment, I can report that unemployment, which was running at almost 30 per cent in 1969, has already been cut to 26.7 per cent, while this year we hope to reduce it to 25.1 per cent. These figures are certainly still high and show the effort that the Government must still make to promote and encourage the creation of new jobs.

Peru and the IDB

All this government effort, daring in its motivation, far-reaching in its consequences, lasting and self-sustaining in its procedures, deserved encouragement from the financial community. We have said time and again that the key to economic change in our country lies in increasing domestic savings, but that this must be supplemented by external aid. The Inter-American Committee on the Alliance for Progress (CIAP) expressly recognized this in the meeting of the Subcommittee on Peru in April 1971, when it stated:

“The present Peruvian Government is carrying out reforms aimed at promoting development and is applying consistent policies in the fields of growth and economic stability that merit consideration.” In this regard, the Subcommittee pointed out that, for various reasons, this foreign cooperation had in recent years, “considered as a whole, been extremely low and inadequate to properly supplement the internal development effort being made by Peru.”

Unfortunately, as far as 1971 was concerned, this supplementary external assistance had still not achieved the level that it could and ought to reach.

In 1971, just before the Lima Meeting, Peru received a loan of \$11.8 million from the Bank for an access road to a land settlement area, and another loan in December 1971 of \$12 million for the *Banco de Fomento Agropecuario*, the contract for which has not yet been signed. The total amount involved was thus \$23.8 million. A loan application submitted in 1968 for the *Banco Minero* has still not been sent to the Board of Executive Directors for approval. The same also applies to an application for the National Institute of Health, reformulated in February 1971, and an application for a foot-and-mouth disease control program, likewise reformulated in February 1971. I mention only three cases, which could well have been decided on favorably in 1971, to illustrate clearly that bureaucratic delays and obvious pressures are at work.

In technical assistance, the National Planning Institute received \$200,000 in nonreimbursable assistance for a program to train project specialists. In addition, the IDB Training Division conducted two important seminars in Lima, for which my country was most grateful: one was for the *Contraloría General de la República*, designed to enable that organization to audit the financial statements relating to Bank loans; the other was an international seminar on tourism.

The ceremony marking the start of preliminary work on the Majes Project in Arequipa in October 1971 was honored by the presence of the President of the Bank. On that occasion a Memorandum of Agreement was signed to facilitate financing of the overall feasibility studies which the international credit agencies will require in due course.

During the past three years we have heard insistently—and it would be foolish to repeat this here if it were not that there are hints of foreign coercion—that Peru would not qualify for loans until, following the changes that have occurred in the country, it accepted the claims of the displaced company, in this particular case the International Petroleum Company. In a move reminiscent of the biblical offering of a mess of pottage, a promising prospect of massive foreign aid is being held before us in the hypothetical case that we abandon our rights and adopt an attitude of passive submission.

So that no one may say that he has been misled, and so that there may be no doubts as to our position, may I, without any trace of vain glory and with the assurance that stems from a just cause, which is the cause of a sovereign people, declare here and now, before this Meeting of the Board of Governors, that Peru will not negotiate on the principles of its Revolution, that Peru will not sign any agreement of any kind at variance with what it has officially proclaimed, and that, whatever threats or blandishments might be offered, nothing will cause it to waver from its sovereign position of absolute independence.

The Consultative Group convened by the World Bank, on which

the Inter-American Development Bank was represented, met early this year in Paris. On this occasion, Peru presented its National Development Plan for the period 1971-75 to its external creditors; this Plan presents details of the projects which the country considers to be of high priority. As a result of this meeting, it became clear that Peru will invest its own resources in the execution of those projects for which it has been unable to obtain proper financing. It also became clear from the meeting that Peru should receive, over the period 1972-74, contributions from abroad of \$780 million in loans from the countries and international credit agencies gathered there.

Peru will service its foreign debt obligations punctually, as it has up to now, provided always that the terms of investment are in their turn also observed, as agreed within the World Bank Consultative Group.

So far, in the course of bilateral negotiations after the Paris meeting, Peru has received positive support from France, Italy and Germany and we hope that concrete negotiations will begin soon with other countries, and that pressure and influence will cease to be exerted within the international credit agencies of which Peru is a member, which actions are inconsistent with the ethics of international cooperation.

Public opinion in my country, and those in the Americas who are aware of the need for structural changes as a prerequisite for social and economic development, hope that, in contrast to the attitude that has prevailed so far, the Bank's operations in Peru in 1972 will show a larger and ever increasing contribution, and that it will not again be said that some of the foreign embassies with links to the financial agencies headquartered in Washington have instructions to adopt a negative attitude toward the process of change taking place in Peru in all matters that are unfavorable to certain private interest groups.

Toward a new structure for the Inter-American Development Bank

In keeping with a financial proposal made by the Bank itself upon examining economic development trends in Latin America, there is one aspect of the IDB's annual report which leads one to make one final remark: the comparison of the Bank's action, on the one hand, with the vast unresolved problems of the region, on the other.

For those of us who are responsible for the management of public finance in our countries, the annual report depicts an institution that was born during the sixties, conceived along lines substantially similar to development banking institutions of that period, for the chief purpose of providing for the financing of physical infrastructure projects, and provided with a management organization that in fact gave the decision-making power to the majority shareholder. With the passage of time, the problems of Latin America have changed for a number of

reasons. And for other reasons, the majority shareholder no longer seems willing to maintain the same proportion of capital contribution that warranted the initial decision-making power.

Political differences aside, the fact is that in Latin America it is a common concern of the member countries to regain control over their natural resources and to build up primary industry to a level that will enable them to compete in the export markets. This wish is faced by many practical obstacles, and these are precisely the causes of controversial attitudes toward foreign investors, which in the end become hardened differences between countries. How much of hemispheric unity might have been preserved if during the decade of the sixties there had prevailed the just recognition of the sovereign right of peoples to decide as to the exploitation of their natural resources for the national benefit? How far might we have advanced in the struggle against underdevelopment if we had provided for a regional program of vigorous industrialization? What difference would there be in the 1971 economic indicators shown in the annual report of the Inter-American Development Bank?

The practical solution for us is to undertake, coolly but decisively, to give the Bank the legal instruments it needs to meet the three contemporary demands of development, even though this presupposes making appropriate statutory changes in the Establishing Agreement. Because Latin America now needs a Bank that is capable of acting with efficiency as financial agency for the exploitation of its basic resources, with a view to facilitating the mobilization of the considerable resources required to carry out that enterprise. Latin America now needs a Bank with the necessary instruments at its disposal to provide vigorous support for regional exports, especially exports of non-traditional goods. Latin America needs, in other words, an Inter-American Bank with a structure that is different from that of 12 years ago.

The transcendancy of these reflections moves me to think of the need for the emergence from this Meeting of a workable mechanism to bring forth a new institutional scheme for the decade of the seventies, already upon us. I refer to a scheme whereby the non-borrowing nations and the borrowing nations, the developed nations and the developing nations, will pool their financial resources in a union similar to the European Economic Community for a common purpose: that the causes of underdevelopment shall disappear from Latin America. Without meaning to say that the Inter-American Development Bank is a cure for all ills or that it can cope with the plethora of misery, it is reasonable to expect more realistic action that may be less formal, but more in keeping with the times.

It will always be a painful duty to call your attention to negative aspects of the Bank—aspects that have to do with the use of influence

and pressure by the major interests. But when, for lack of an honest criterion among those who are required to be absolutely objective in governing affairs there is risk of heedlessly endangering relations between countries and the Bank's immediate future, there is no other course but to stand up and speak out. Therefore, with the forthrightness called for by the present circumstances of history, and in order to call things by their proper name, I must tell my colleagues that, to the degree that the Bank fails to approve loan applications for which feasibility studies are complete; to the degree that the impression persists that new applications are denied access to all of the Bank's resources; to the degree that there prevails the image of a government representative who questions within the Bank the sovereign decisions of a member country, the other Governors will be accepting a precedent of somber consequences for the system. We will be overlooking the principle of multilaterality that justified the Bank's creation and denying in practice the impregnable solidarity which has held the Americas together for well over a century.

On this solemn occasion, on the eve of the 150th Anniversary of the Battle of Pichincha, let us invoke the spirit of the liberators of America, so that in times to come there will prevail within our Bank the genuine hierarchy of values for which our people are calling out from one end of the continent to the other; so that the words spoken by the Governors shall be consistent with the decisions of the Governments; so that the honesty of decisions shall be reflected in the honesty of acts; and so that leaders may always find the straight path to truth and respect for the sovereign rights of member countries. For when all is said and done, the immediate development of Latin America depends to a great extent upon what our own Inter-American Development Bank does or fails to do.

In reaffirming the gratitude of Peru for the warm hospitality of the people and Government of Ecuador in this charming city of Quito, I should like to restate our unshakable determination to join together in the struggle to achieve a Latin America that is united, vigorous, developed and respected, wherein we can all join hands in the transcendental task of liberating our national majorities from backwardness and poverty.

**Address by Mr. John M. Hennessy,
Temporary Alternate Governor for the United States,
and Assistant Secretary of the Treasury
for International Affairs**

I should like to express the appreciation of the United States delegation to the Government of Ecuador for the opportunity of participating in the Thirteenth Annual Meeting of the Inter-American Development Bank in this beautiful city of the Andes. My delegation wishes to thank you, our gracious hosts, for your warm hospitality. We congratulate you on the excellent arrangements you have made for our meeting.

Governor Connally has asked me to express his sincere regret at not being able to attend this meeting.

We join with our fellow members in welcoming Canadian membership in the Bank. This addition not only strengthens the Bank, but it brings our hemisphere closer together.

We join also in congratulating Lic. Antonio Ortiz Mena on the completion of his first year as President. With energy, vision and dedication he has demonstrated his capacity for innovative leadership.

When last we gathered, one year ago, we spoke of evolution in the world's economic and political relations. Today there is a more general realization that the world has changed. Our discussions last year and before have been given point and urgency by the visible actions and swift changes of the past year. By these changes we have, I believe, begun to face up more forthrightly to the economic realities of our times.

Fundamental and long-lasting changes have occurred in the international economy. On August 15 the international monetary system as we have known it for 25 years came to an end. August 15 marked the end of the post-war era—an era characterized by the economic dominance of one nation—the United States.

By 1971, the positions of the major industrial nations of the world had changed enormously. Just how much these had changed since the Second World War was appreciated by few—even in my country. In areas where the United States was long the leading nation—for example, steel and automobile production, world trade and holdings of international reserves—other nations or groupings of nations, such as the European Community, have now taken the lead.

Yet many governments—this included in some degree my own Government—continued to operate under earlier post-war assumptions. Those assumptions are no longer valid. We must begin to face the

new realities in our economic relationships. What are these new realities?

The first reality is that economic concerns will henceforth stand much nearer the center of the foreign relations of the United States, as they long have for most nations. These concerns have achieved a status of parallel importance with political, ideological and security concerns which have been dominant in the past. Indeed, there is a new realization that economic strength must underlie our other interests.

The second reality is that the international trading and monetary systems inherited from the early post-war period need fundamental restructuring. Economic statesmen once more will be called upon to shape the form of trade and payment arrangements for the next generation.

A third reality is the existence everywhere of strong forces of protectionism, isolationism and nationalism. In the negotiations that will be necessary for international reform, the United States is committed to outward-looking, open trading and monetary systems. But to achieve this objective those systems must be demonstrably equitable—systems in which our national interests are secured as are those of other nations. Here there is clear identity of United States objectives with those of Latin America.

A fourth and closely related reality is that the ability of the United States to continue to bear its foreign economic and defense responsibilities depends on our ability to achieve strength in our economic position, domestic and international. Our commitment to economic development today is no less strong than in the period when the United States was the architect and chief contributor of economic assistance, providing over \$150 billion in loans and grants since the Second World War. But our financial position will necessarily determine the extent and nature of that commitment in the future.

In a time of rapid change—of necessary adjustment, and of more equality in the basic economic strength of industrialized nations—I believe you will recognize the United States must speak out frankly, as we are speaking here today. We also recognize that solutions must be achieved through a joint effort. We have no illusion that—individually—we alone can shape or direct the international economic system for trade; development or monetary affairs.

Here I would like to eliminate any doubt regarding the U.S. position: the United States strongly supports the developing countries' claim for representation in monetary and trade reform negotiations. Further, we believe Latin America has an important role in helping shape a world order that permits capital flows and trade to flourish with the least impediment—conditions which are necessary for continued development.

As we look at Latin America and the developing countries, as a

whole, we see new economic realities there too. Latin America has made great strides forward, although concern remains that the pace is not fast enough and that the benefits of growth are not fairly enough distributed. We share this concern, but are optimistic. The work of the countries themselves, together with the Bank and similar institutions is bearing fruit and promises much more.

One of the most striking realities in Latin America is that the earlier myth that countries could not permanently break free of their low levels of income—that they were not masters of their own economic destiny—should have been decisively exploded by the facts. However, the rhetoric does not seem to have caught up to those facts, which are that a number of countries, both large and small—representing a majority of Latin America—have experienced vigorous and sustained growth for the better part of a decade—and all indications are for a continuation of this remarkable record. The major problem facing the hemisphere is to work to provide more assistance of all types—technical and financial, coupled with better policies in order to assure balanced growth.

We find—reasonably enough—that the countries themselves have been responsible for this progress, and a major contributing factor has been the effectiveness of sound general economic policies. We have seen:

- That savings can be mobilized and channeled into productive investments, even in the face of price increases.
- That, with flexible and realistic exchange rate policies balanced growth can be attained even with inflationary pressures.
- That export earning can be increased through sales to both industrialized and developing countries, and
- That it is possible to reduce inflation, and to do so in a way that supports, rather than takes away from, other objectives.

This makes us optimistic about the future and leads us to the conclusion that more attention than ever must be given to general economic policy areas by each country and by the Bank. In this process each nation will, of course, have to build upon its own traditions, capabilities and upon its own leadership.

In this context, external assistance can play only a complementary role. But it is a key role. I would like to call to the attention of those who question whether the United States is doing its part, that the United States still provides over 40 per cent of the economic assistance given by the industrialized nations in spite of the great shifts in relative economic strength I have mentioned. The United States is willing to continue to do its part in this regard but expects equal efforts of self-help.

Another Latin American reality is that widely different viewpoints

exist on the utility and role of private investment—domestic and foreign. Many countries have successfully integrated foreign investment into their national development plans with great economic benefit, and without compromising either national dignity or sovereignty. Obviously, not all are prepared to take this approach.

It is our strong conviction that private investment is essential to the rapid development of the hemisphere. It is also our strong conviction that we must squarely face the issue of expropriation of private enterprise, because it is so important and sensitive a matter. President Nixon and our Congress have stated the United States position clearly. While each nation has the right to expropriate property for a public purpose, in every case there should be prompt, adequate and effective compensation, in accordance with international law. In this connection, recent legislation requires that the United States withhold its support from loans in multilateral development banks unless and until it is determined that the country is taking reasonable steps to provide adequate compensation. This position is not a political action—as some would have us believe—but rather is based only on considerations of international law—and sound economic considerations. Failure to compensate adequately can only affect the flow of needed capital, and affect the creditworthiness of a country. In fact, the wisdom of any expropriation can be questioned even when adequate compensation is paid. The resources diverted to compensate investments that are already producing employment and taxes often could be used more productively to finance new investment in the domestic economy, particularly in areas of high social priority to which foreign capital does not always flow.

There is one other issue that must be noted: It is the international illicit drug traffic that affects our people and particularly our youth. This is an issue of deep concern to the United States and to all nations, as evidenced in various United Nations resolutions. The United States has taken steps to combat the drug problem vigorously and on a broad front, both domestically and internationally, counting on the cooperation of many nations. As one element in our efforts, new legislation now requires United States representatives to vote against loans in international institutions to countries which are not cooperating in resolving this problem. We expect that no one will be neutral on this issue of great importance to us all.

In this period of change, of greater equality in economic strength, the multilateral development banks have an important role to play. The United States, and other nations as well, are relying increasingly upon these institutions as channels for development assistance. This means the Inter-American Bank will have to continue to assume greater and greater leadership in the hemisphere. I would like to repeat our pledge of full support for the Bank as it does so. Its management is to be congratulated for an outstanding performance last year. We confidently

expect the Bank to maintain the high levels of performance and lending it has achieved.

Contrary to the understanding of some here, our Congress has provided full authority to carry out the requirements of the Charter to maintain the value of the Bank's present holdings of dollars—an obligation which arose only two days ago when the dollar was formally devalued and which will result in the provision of over \$275 million of new resources to the Bank.

My Government is very pleased to see that the Bank undertook last year a major study with the purpose of modernizing its organization to meet future demands. That study points the way to a stronger and more efficient organization; one which will have enhanced capabilities for independent project appraisal, encourage and develop better investment opportunities, provide closer supervision to ensure successful project implementation, and serve its members more efficiently. We look forward to early action that is essential in this area. As another aspect of the effort to improve operating effectiveness, several new studies were completed in the audit and evaluation areas, and we look forward to an increasing number of these useful analyses in each year.

We commend the Bank for recognizing the need for a strong and sustained drive to help the relatively less developed countries of our hemisphere. This has to be vigorously pursued. This is, of course, a part of the overall question of the geographic distribution of the Fund for Special Operations. The economies of some members are rapidly reaching the point at which they can make the transition from reliance on the Fund for Special Operations in drawing on the Bank's ordinary capital resources—as foreseen in the Punta del Este resolution on replenishment in 1970. It should be expected that they could in time be able to join the community of development lenders.

In this regard, we do not think it is too early for some of our more advanced members to provide assistance to the lesser-developed countries in the hemisphere. Some members are doing this already. As the economies of these more developed nations continue to expand and prosper, the evolution of intra-American development assistance should not only be encouraged, it should be expected.

A third direction we wish to encourage the Bank to pursue is to work in a coordinated fashion with the Inter-American Committee on the Alliance for Progress, the World Bank and the International Monetary Fund toward helping countries to improve their macro-economic policies. We believe the evidence is clear that sound fiscal, monetary and exchange rate policies, coupled with external capital flows—public and private—can achieve the social and economic progress in all the nations of the hemisphere, as it has already in several.

More—much more—needs to be done to achieve Latin American goals of social and economic development. More jobs, better living

conditions and fairer income distribution are needed. To describe these needs is to define the challenges confronting the Inter-American Bank.

The realities about which I have spoken today demand new responses and innovative policies. They call for the best that is in us, but the end is worth it—a world of economic progress and peaceful development.

**Address by Mr. Carlos Emmanuelli Llamozas,
Alternate Governor for Venezuela
and Director-General of the Ministry of Finance**

I have come to the Thirteenth Meeting of the Board of Governors of the Inter-American Development Bank filled with the kind of optimism that this land can inspire—this land that on August 10, 1809 brought forth the first organized movement toward emancipation, so that it is only fitting that the city of Quito should bear the proverbial title of “the Light of America”. That marked the beginning of the era of great changes in our Americas, and we hope that what has gone before will inspire us at this meeting to put forward fresh ideas and develop effective means of producing tangible results that will add strength to and transform our region. The gathering together at Pichincha of our decisive efforts into a meaningful outcome, in consequence becomes an event of considerable moment, and it is fitting to say it now that we are on the eve of the 150th Anniversary of that memorable date for all America. At the last meeting a number of very meaningful proposals were made to guide the Bank’s operations during the 1970s. In his well-documented presentation, President Antonio Ortiz Mena—convinced as he is that the *status quo* is unacceptable in the face of so many changes of great consequence—reaffirmed his belief that the task before the Bank is to institute procedures for regular review of its operating policy and instruments because he knows that the region is faced with the challenge of achieving development on its own. My duty as Governor requires that I endorse these views which are of such importance to us, and to make my modest offering so that such ideas may be translated into real accomplishments.

I feel it is appropriate to pause a moment to think in broad terms about the role which the Bank must perform in the light of the shifting circumstances in Latin America at the present time and to compare them with those in the developing world as a whole, taking into account the human and material resources at its disposal and the obstacles it faces. Reflections of this nature take on an inescapable significance at a time when discussions are underway, and decisions of major importance may perhaps be drawing near, with regard to new approaches to the ordering of commercial exchanges, financial assistance for development, and a recasting and improvement of the world monetary system.

The present economic situation calls for us to embark as soon as possible on a productive exchange of ideas—seminar style—involving the active participation of the Governors of the Bank, the Executive Directors and the senior administrative staff. I submit this suggestion

to the Governors for their consideration, with full confidence that in this way it will be possible to establish a comprehensive and coherent platform leading to the definition of lines of action that will guide our policy over the next few years, while maintaining the necessary liaison with the discussions and decisions currently taking shape in other reaches of the world economy. In short, it is our duty to place the Inter-American Development Bank in the proper perspective as determined by the new economic, administrative, social and political realities of our countries and as derived from conditions obtaining in other spheres.

I am convinced that a seminar such as the one I have proposed will represent a useful and practical means of bringing about the active and continuing involvement of the Governors in the Bank's planning and decision-making processes. A valuable exchange of this type could well include the idea put forward by the Governor for my country at the Lima Meeting, when he referred to the desirability of preparing a financial program for the future action of the Inter-American Development Bank, emphasizing both the policies and steps designed to procure funds and those relating to the granting of credits, including the priorities for lending policy.

The participation of the Governors in the preparation of over-all approaches is particularly necessary in formulating policies in fields of action with a high multinational content. The various projects for physical integration require substantial efforts from the countries and from the Bank. If these efforts are to be deployed rationally, they must be organized and coordinated, in which task the work of the Bank can hold out great promise. A notable challenge in this field is presented by the project for interconnecting the river basins of South America. This would be an interesting experiment, as the transformation of these hinterlands would open up great prospects for the Southern Continent. This proposal has struck a responsive chord in the IDB, and we are convinced that its support will be constant and resolute. It would also be worthwhile to test the feasibility of lending operations, within a clearly defined program, in favor of basic industries so as to speed up the growth of our nations. In this way they would be able to overcome the limitations of restricted domestic markets at the same time as they are shouldering the burden of independent development. Similarly, and by way of illustration, I would refer to the decision that a substantial number of countries are expecting in the matter of more favorable treatment from the Inter-American Development Bank so as to enable them to make better use of their human, natural and capital resources; specifically, at the present time, with the coming into operation of the Caribbean Development Bank, we will have a valuable institutional mechanism for the proper channeling of resources and technical assistance to a group of member countries of the Bank, such as Trinidad and Tobago, Barbados, Jamaica and other countries in the Caribbean area.

At times when it is necessary to stimulate international cooperation, the quest for new and efficient formulas that will help to vitalize the financial activity of the Organization in the regional sphere becomes highly topical. The application and implementation of these formulas must, of necessity, transcend the limits of the simple lending process and pass into wider fields of action, especially those connected either directly or indirectly with the establishment and strengthening of our capital markets.

On various occasions it has been fully recognized that this matter is among the basic responsibilities of our Institution. To be sure, the action of transferring outside resources direct to member countries is only a partial effort toward overcoming the problem of development financing; this effort can be said to have an invigorating effect only to the extent that domestic sources also increase their capacity to raise ever increasing shares of the capital required for investment. A number of studies sponsored by the Bank have contributed to clarifying the particular features of our capital markets, and we are aware that a number of steps forward have been made in this field. Technical assistance in this sphere, which has taken various forms, is another extremely important type of action, but it will require future efforts of greater scope, including a proper measure of diversification, to meet the changing needs of capital market promotion. However, as the means of effectively increasing the savings and investment rate are practically unexplored, I take the liberty of suggesting to the Governors that they ask the Board of Executive Directors and the staff to prepare a study, within a reasonably short period, on a definite program of action for the IDB designed to promote and strengthen our countries' capital markets.

While I do not wish on this occasion to start to examine the various items that would constitute an action program of the type I have just mentioned, nor to define its scope and internal organization, I do feel that it would be useful to mention one of the possible action items, namely, the policy on investing the IDB's cash reserves.

Article VII, Section 1, paragraph (iii) of the Establishing Agreement states that "with the approval of a two-thirds majority of the total voting power of the member countries, (the Bank shall have the power to) invest funds not needed in its operations in such obligations as it may determine." Having regard to this express power, we can see a need for the organization to define its policy on investing its available reserves, taking into account, on the one hand, the necessary conditions as to liquidity, security and return on its investments, in the light of its prior commitments and of the financial program it has drawn up for itself; and, on the other hand, the special need to stimulate the financial system of the region, particularly as regards the capital markets of the Latin American countries. In defining this policy on investing present reserve balances and future balances that will accrue on account of

possible capital increases, account should be taken of the capacity of Latin America to issue securities suited to the needs of the IDB's portfolio and of the stimuli that the organization should apply in the short- and medium-term to raise that capacity. The possibilities in this respect are in principle highly encouraging. The General Balance Sheet for "Ordinary Capital Resources of the IDB" at the end of 1971 showed an appreciable volume of liquid resources, allowing room for highly beneficial action in behalf of the financial system of Latin America. The accounts for "Cash in Bank", investments in "United States Government Obligations" and "Term Deposits" together amount to more than \$750 million. The "Cash in Banks" and "Investments" accounts in the General Balance Sheet for the Fund for Special Operations totaled some \$230 million at the close of 1971. The liquid resources of the two funds together thus exceeded \$980 million at year end. If in this order of ideas a policy for the investment of cash reserves, based on the acquisition of Latin American securities, were to be adopted, this would promote conditions enabling internally generated savings to finance a sizable proportion of the investment projects that would receive financing within the framework of approving loans for specific or global development projects.

This would reiterate the idea put forward by my country at the Lima Meeting, when the Governor for Venezuela stated:

The financial infrastructure of most of the Latin American countries has proved to be inadequate for the efficient channeling of domestic savings toward investments for development. Awareness of this situation has led many countries of the region to redouble their efforts to develop their own capital markets, in consolidating which it will be necessary to take into account regional needs.

From these considerations it is easy to deduce the vital importance for the future direction of the organization of the mechanism already set up in the form of the Committee of the Board of Governors. This Committee has proved to be extremely useful and it has examined matters of great importance, such as the admission of new members. I wish to express the satisfaction of my country at the way in which the negotiations leading to the admission of new members have been conducted and our confidence that these discussions will soon lead to positive results to the satisfaction of all concerned. As an outcome of these negotiations we now have Canada in our midst as a full member. This represents the coming to fruition of an idea long cherished by all of us and, on behalf of my country, I am pleased to extend an extremely hearty welcome to Canada.

Another matter on which the work of the Committee of Governors will have a decided bearing is the extent to which the Bank's policies

will be applied under conditions reflecting its multilateral nature. At the Lima Meeting there were clear expressions of concern based on the realization that effective application of the principle of multilaterality is absolutely essential in the relations between the Bank and its members. At that time, President Ortiz Mena stated emphatically that the Bank's loan decisions are based on two paramount considerations: the quality of the project and respect for the sovereign right of each member country to determine its own development model priorities. A reaffirmation such as this merits our firm and consistent support, and we are confident that this principle will be upheld in the spirit that gave it life, that no extraneous considerations or interferences will frustrate or distort it. At the meeting in Guatemala, the Governor for Venezuela, referring to this important matter, proposed a concerted and firm expression of the dangers inherent in the loss of multilaterality.

I do not intend to hide the meaning for our peoples of conditioned external assistance and the present imbalance of powers, with its many subtle machinations. Because we must never falter in upholding objectivity in the examination of our problems, I must say that it is necessary for us to redouble our own efforts. We must not ask others to do for us what we can do for ourselves. It is fitting to cite here the words spoken by Mr. Ortiz Mena at the recent meeting of CIAT:

The aims that will guide fiscal policy in our countries will depend in great measure upon the imagination of their statesmen and advisors in shaping the tax systems, public utility rates, and price structure of merchandise provided by the state, so that it will be possible to achieve a balanced system for harnessing resources by means of the different procedures which the government may constitutionally employ to acquire funds for its use, endeavoring at the same time to produce the best possible impact in terms of the balance of payments, domestic savings formation, productive employment and income distribution.

Other fundamental matters, such as the regulations for the election of the President and for the periodic election of Executive Directors, will be discussed at this meeting. The rules for the election of the President will fill a gap in the regulatory structure of the Bank. As the term of office of the present Board of Executive Directors—a group which has distinguished itself for its dynamism and dedication—draws to a close, we shall elect, under new provisions, another Board of Directors. This will include Canada and will permit new groupings of countries. Since the commencement of the Bank's activities, Venezuela has joined first with Colombia and Chile and later with Trinidad and Tobago. We should like to express to these sister countries our appreciation for the honor they bestowed on us in allowing us to represent

them, and we trust we have done so with loyalty and devotion. We also wish to record our gratitude to those distinguished Colombians—Ignacio Copete, Hernando Agudelo Villa, Diego Calle Restrepo, Enrique Peñalosa and Aníbal Fernández de Soto—who so ably and effectively represented us in the Board of Directors, thereby helping to make the abiding friendship of Colombia and Venezuela even deeper and more rewarding.

A new Vice President was recently appointed to succeed Mr. T. Graydon Upton, who served our organization with true devotion for several presidential terms. His successor in the post is Mr. Henry J. Costanzo, a friend to us all and a former Executive Director with a commendable record of service to the organization. For this reason, and for the dynamism he brings to his work, we are confident that he will perform his duties brilliantly and provide able support in achieving the aims of the Bank.

The many kindnesses and the cordial welcome we have received, a spontaneous manifestation of the traditional ties that link us to this land, have made this meeting as pleasant as it is important.

**Address by Mr. José Guillermo Aizpú,
Governor for Panama and Minister of Finance**

The present meeting of the Board of Governors of the Inter-American Development Bank is held in the ever generous and hospitable city of Quito with the auspicious presence of Canada as a member of our Bank. Here on the Equator, the delegation of Panama wishes to add its voice in welcoming its sister country Canada, and we are sure that Canada's participation, which took effect only a few days ago, will be of benefit to all.

At meetings like this, some heads of delegations not infrequently undertake to stress the deficiencies of the organization involved. I believe that our countries, which are genuinely concerned about improving the quality of life of their peoples, have every right to criticize the organization of which they are a part. However, I feel it is only fair to point also to the positive results of the Bank's operations.

In speaking to you now I do not intend to report on the number of loan operations authorized by the IDB for the benefit of our nations. This has already been done in more authoritative fashion by the President himself, Mr. Antonio Ortiz Mena. As Governor of the IDB for Panama, I feel that I can make a more valuable contribution by pointing to the creative imagination and flexible approach in adapting to changes that has enabled him to enhance the Bank's financial capabilities and, at the same time, gain political strength. Proof of this contention is that Canada's accession to membership means that the Bank's action for the benefit of the hemisphere will now extend from the South Pole to the North Pole. Further evidence in support of my statement are the amendments to the Agreement Establishing the Bank providing for admission to the IDB of nonregional countries and for the election of executive directors.

Implementation of these measures, together with the Bank's efforts to obtain new resources are, in my opinion, among the most important activities in the IDB's program for the immediate future. Why do I think so? Because although much has been achieved since our Bank was born, the needs of our peoples are so great that I can foresee only more projects and more loans. If we make an objective appraisal of the IDB's activities in Panama, surely we must admit that its action has accrued to our benefit. Eighteen loans in the aggregate amount of \$66 million—in the first 12 years of the Bank's life—for agriculture, roads, industry, housing, education, livestock production, public water systems, sewage and preinvestment surveys—have left an indelible mark on my country and on the spirit of my people in terms of expectations

fulfilled. There are, of course, important projects awaiting decision—and it could not be otherwise. Such projects comprise the closing of the Darien Gap, higher education, water systems in rural areas, industrial development, and new roads. We are confident that we will soon obtain a favorable response to our proposals. This will enlarge the scope of the IDB's participation in the inexorable process of development now taking place in the Republic of Panama in consequence of the decisive action of its Government and of the faith which the Government has been able to kindle in the people—a faith so great that the Government and the people are now making a common cause of work, as if it were a religious conviction, in order to assure that our longings for progress will be realized.

There are also other projects—very understandably—that have not yet been submitted to any lending agency but in which Panama has been investing its own resources. I am thinking of the project we have named “The Conquest of the Atlantic.” This project will enable us to settle land along the whole Atlantic seaboard from the border with Costa Rica to the border with Colombia—an area that now awaits rediscovery by the Panamanian people themselves. It is impossible, of course, to finance a project of this size with our savings alone. We also need a considerable amount of external assistance on soft terms. Therefore, we unconditionally make common cause with those countries which have struggled within our Bank to obtain a measure of preferential treatment for those which have thus far achieved only a relatively low stage of development.

One year ago, I spoke of Panama's trust in the ability, energy and experience of Antonio Ortiz Mena, and stated that these virtues would assure the continued progress of the Bank as an instrument for the development of the region. In the short term of his stewardship events have already proved that this trust was well placed. It is for this reason that we enthusiastically applaud the fact that the amount authorized in loans during 1971 was the highest recorded in the history of the Bank: a total of \$652 million.

If we examine the allocation of credit granted by the Bank, we notice that 82 per cent was for food production and development of economic and social infrastructure—and we are aware of why this must be so. The other 18 per cent was devoted to industry and mining, pre-investment studies, tourism development and export financing.

This distribution although it is fully justifiable, illustrates the need for an organization which, as part of the IDB, would provide complementary support for industrial development, chiefly in the private sector. In other words, our delegation is concerned that the Board of Governors has not yet made a substantive and final decision to create a subsidiary organization of the Bank that would engage in financing industrial activity and manufacturing in the private sector. We feel that

the success of such an enterprise would immediately assure an increase in development investment in the member countries and create a profitable balance between the efforts of the public and private sectors.

Panama, which has become an international financial center in the service of America and the world, would be, by the same token, the ideal site for such a financial organization. We have made this proposal in the past, and we make it now in the hope that the Inter-American Development Bank will arrive at a decision to create what, in our opinion, would be the most effective supplementary instrument of financing that could possibly be placed at the disposal of the gigantic undertaking in which we are all engaged to achieve the advancement of our peoples.

A year ago, I also said that Panama was in the process of making a comprehensive review of its relations with the United States of America as regards the inter-oceanic canal. Today, I can add that this process is still underway. And in a few more words, I wish to add that while we recognize the right of the other party to administer the waterway, the cardinal aim of my country is to exercise the right of full jurisdiction, absolutely in all aspects, over a territory which is ours, for it was never granted, sold, or conquered—nor will it ever be.

The justness of our cause is so clear that only a party interested in not seeing it would deny it. We confidently believe that in the end we will achieve our aim no matter what sacrifices may be necessary so that justice will be done.

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ADDRESSES

THIRD PLENARY SESSION

MAY 10, 1972

Address by Mr. Paul Martin, Governor for Canada and Leader of the Government in the Senate

My first words must be to congratulate you, Mr. Chairman, on your election to preside over our proceedings. I would also like, through you, to extend to the Government of Ecuador the appreciation of my delegation for the warm reception and for the many courtesies that are being extended to us.

There is a sense of symbolism in our meeting in Quito, the city which almost straddles the Equator that has given its name to our host country. According to the geographers, the Equator is the great divide between the northern and the southern hemispheres. It not only divides the two hemispheres but it divides them equally. Historical experience tells us otherwise. Along much of its circumference, the Equator has regrettably become the world's poverty line. It divides a northern sphere of affluence from a southern sphere of underdevelopment. It is for us, in organs like the Inter-American Development Bank, to seek to restore to the Equator the equalizing function which the geographers have attributed to it.

This is not the beginning of Canada's association with the Bank. That association, in fact, goes back to 1964 when the Bank agreed to administer long-term development loans on Canada's behalf. Some \$74 million has been allocated under this arrangement in the intervening eight years. We have found the experience of our association with the Bank to be a constructive one. We believe that the Bank has done likewise. It is a measure of our confidence in the Bank and the confidence which the members of the Bank have placed in Canada that we are speaking here today for the first time by right of full membership. As one who has for many years advocated the course of closer association between Canada and the hemispheric community, I am particularly honored that it should have fallen to me to be Canada's first spokesman in this distinguished assembly.

Canada's accession to full membership in the Inter-American Development Bank is not a matter of accident. It represents, on the contrary, the result of a conscious and deliberate reorientation of Canada's foreign policy. It was not envisaged when that policy was first formulated some two years ago. But the policy developed a momentum of its own, and we found that our intended involvement in the concerns of the hemisphere was likely to lack credibility so long as Canada was not seen to share fully in the task of development which preoccupies our neighbors in the hemisphere to the virtual exclusion of all others. Accordingly, we regard our membership in the Bank as a milestone on the

road to closer cooperation with the countries of Latin America and the Caribbean.

Canada's policy towards the hemisphere represents a new departure. Historically, Canadians have tended to look eastward across the Atlantic and westward towards the Pacific. Our cultural and linguistic origins lie in Europe as do yours. Nationally, we have been preoccupied by the exigencies of forging political institutions and economic patterns that will serve as a framework for our confederation from the Atlantic to the Pacific.

Of course, we have always had a North American perspective. It could hardly be otherwise. There are bonds of history and geography that link us to our neighbour to the south. There is also a broad range of objectives which we share both as continental neighbors and in the international environment. And there is a vast array of links which transcend the boundary that divides Canada and the United States as sovereign nations. Nevertheless we lay claim to a distinct national identity and our policies are designed to reflect Canada's distinct position and perspectives in the world.

Canada has also maintained traditional ties with the Caribbean. These began as ties of trade. They have evolved, within the commonwealth association, into a genuine community of interest. We are delighted to find our Caribbean friends increasingly identifying their interests with the larger hemispheric community.

That is also the direction of the policy which Canada has decided to pursue. Canada's changing outlook on Latin America was explained succinctly in "Foreign Policy for Canadians," the policy review in which we undertook to chart new courses for the 1970s and beyond. "The mainspring of the Government's policy," as that document put it, "is the proposition that, between Canada and the Latin American countries as neighbors in one hemisphere, between Canada and regional groupings of such countries and between Canadians and Latin Americans on a people-to-people basis, there are expanding possibilities for mutual benefits, especially in terms of economic growth, enhancement of the quality of life and promotion of social justice between different parts of the hemisphere."

Canada's decision to draw closer to Latin America was not taken in the abstract. It reflects changing concepts of Canada's interests in the world. But it also reflects changes in the Latin American scene itself.

In Latin America, as elsewhere, old myths are giving way to new realities. Change itself is bound to be a continuing ingredient of the Latin American reality. As the distinguished President of the Bank put it in his impressive address to the Council on Foreign Relations last November, "change, sometimes startling, often upsetting . . . is likely to be the one constant we can look forward to in the coming decade."

One aspect of change to which the President referred was the per-

vative change in development consciousness in the hemisphere. Already the Latin American countries collectively have a respectable development record behind them. Their growth rates in the second half of the 1960s exceeded those registered in the industrialized countries taken as a whole. More than that, nine-tenths of the resources that went to finance Latin American development in that period had their origin in domestic savings. This is not to understate the problems that remain. But if the commitment to development, to economic growth tempered by social justice, that has so clearly taken root in Latin America carries over into the nineteen seventies, there is no reason why our Latin American friends should not face the future with continuing confidence.

While united in their response to the challenge of development, the countries of Latin America will differ in the prescriptions they see as best calculated to ensure success. This concept of a diversity of means strengthening a unity of ends is one which is close to the Canadian national experience. In the larger aggregation of the Latin American sub-continent, each country will want to contribute to the common objective according to its own particular genius and by taking account of its own particular conditions. Even so, it is clear that the variety of political models which is emerging in Latin America will not stand in the way of regional and sub-regional groupings based on the identification of common interests. Canada has already been able to give tangible expression of its support for one such grouping, the Andean Pact, and was privileged to lend its affirmative voice to the accession of Colombia and Venezuela to the Caribbean Development Bank.

Canada's new policy towards Latin America has two facets. We are determined to strengthen our relations with Latin American countries bilaterally. This we are now doing within the measure of our capacities. We also decided systematically to broaden the coverage and enhance the quality of our participation in the activities of various inter-American organizations. As a first priority, we thought it right to concentrate on those inter-American organizations which have particular relevance to Canadian interests and to whose work Canada is in a position to make a distinctive contribution.

The multilateral facet of our Latin American policy is well on the way to realization. A formal link with the Organization of American States has been established for the first time by virtue of Canada's admission to Permanent Observer status. A Canadian Permanent Observer with the rank of Ambassador has been accredited to the OAS within the past fortnight. He is expected to take up his assignment by the summer. We regard this association with the matrix of the inter-American system as a key element in the implementation of our hemispheric policy.

Canada has become a full member of the Pan American Health

Organization and we shall endeavor to play an active and constructive part in its programs. We have applied for full membership in the Inter-American Institute of Agricultural Sciences and we hope that the formalities involved in our application will soon be completed. We are also exploring the prospects of membership in the Inter-American Indian Institute. We look upon the work of all these organizations as contributing in substantial measure to the larger process of hemispheric development.

Apart from the support we are giving and intend to give to the activities of the inter-American institutions concerned with development in the hemisphere, we are concerned that Canadians, too, should become involved in this new dimension of our foreign policy. To this end, we have brought into being a bilateral program of technical assistance to Latin America. In the context of this program we have identified certain areas—agriculture, fisheries, forestry, education and community development—which have been recommended to us as carrying a high priority and in which we like to think that Canadians have a particular capacity to help.

We have also decided to increase the grants we are making to non-governmental organizations which have chosen to work in this part of the Third World. These organizations include religious orders with a long and distinguished tradition of service in Latin America and the Canadian University Service Overseas which has provided a context of international commitment for the more than 1,000 young Canadians at present serving overseas. Canadians who have lived and worked in the countries of the hemisphere under the auspices of these non-governmental organizations express in tangible and human terms our concern for the people of this region and our desire to be associated with them as friends and partners. This association also adds to Canadian understanding of the achievements and aspirations of our hemispheric neighbors and may be expected, over the years, to provide a strong underpinning for the recent reorientation of Canada's foreign policy.

All these initiatives notwithstanding, there was an important gap remaining in our relationship with the region. Canada's decision to seek full membership in the Inter-American Development Bank reflects our determination to close that gap. It is based on our conviction that the Bank is an important instrument for improving the prospects of growth and the quality of life in this region, and in assisting its members to develop their resources, their economies, and their societies. That conviction has been formed as a result of our association with the Bank over the past eight years. It has been buttressed by the strong and imaginative leadership which has been given to the Bank's operations by our distinguished President and his predecessor and by the accumulating evidence of the Bank's capacity to respond flexibly to the chang-

ing challenges confronting its members individually and the hemispheric community as a whole. We consider Canada's accession to full membership as the culmination of our search for a more practical and effective form of involvement in the problems of the hemisphere than was provided by our previous association with the Bank.

Canada is not classed as a developing country and we do not pretend to fall in that category. But there are resources still to be unlocked in Canada and there are new frontiers still to be opened up. There are problems we have encountered in the management of our resources and in the shaping of our national economic environment which may well not be unique to Canada. In joining the Bank we shall be glad to put our experience at the disposal of our partners without endeavoring to export Canadian prescriptions or solutions. We intend to exercise our responsibility in an objective manner. The dictates of sound development will be uppermost in our minds. Our goal will be to assist the Bank in maintaining its role as an effective development institution and to enhance its capacity to serve the needs of its members. We recognize that this capacity is a function of the Bank's distinctive regional character. We are resolved to cooperate in the preservation of that character which is as much in our own interest as it is in the interest of the regional member countries.

It is now widely recognized that development and trade go hand in hand. The relationship was impressed upon me afresh when I had the privilege of representing the Canadian Government at the opening of the Third UNCTAD Conference at Santiago last month. It is a relationship which makes good sense to Canadians who rely on exports to generate nearly one-quarter of their gross national product.

Canada has endeavored to take account of the growing need of developing countries to expand their export opportunities. I venture to say that the Canadian market is as open as the market of any other industrialized country in the world. We have urged the freeing of trade in tropical and other primary products. We also favor the substantial reduction of all barriers inhibiting world trade.

We have maintained close and mutually rewarding trading links with all the countries of the hemisphere. We have tried to ensure that our agreements with them reflect the changes that have taken place over time as we did when we negotiated a new trade agreement with Colombia last year. We participate in many of the international commodity agreements, including those regulating the trade in coffee and sugar, which are of particular interest and importance to the countries of Latin America and the Caribbean.

We are committed to the early implementation of the General Preference Scheme for the developing countries. We have also recognized that a trading pattern featuring large and persistent imbalances is a source of concern to many of our trading partners in the hemisphere.

We have tried to take account of that concern by financing studies which are designed to help the countries concerned discover new trading opportunities in the Canadian market. Such studies have been prepared for the use of the Governments of Mexico and Brazil. It is our hope that the closer association between Canada and the countries of the hemisphere that is implicit in our membership in the Bank will open up new and mutually advantageous channels for harnessing trade to the requirements of development.

The business of this Bank, Mr. Chairman, is development and it is as a partner in development that Canada has opted for the privilege of full membership. But when all is said and done, development is a means and not an end. The end, as one development economist put it more than a decade ago, is "the adventure of seeing what man can and will do when the pressure of scarcity is substantially lifted from him." It is to that end, to the full unfolding of the diverse societies represented in this organization, that we will join our efforts to those of our friends and neighbors in the hemisphere.

**Address by Mr. César Barrientos,
Governor for Paraguay and Minister of Finance**

On behalf of the Paraguayan delegation, I am highly honored to address this Thirteenth Meeting of the Board of Governors of the Inter-American Development Bank which we are attending to share in the great task of seeking to achieve the well-being of our peoples. The Republic of Ecuador is a country with a most appealing history. Cherishing the ideals of its true forefather, Francisco Eugenio de Santa Cruz y Espejo, it achieved its independence after a struggle that began with the first battle for recovery on August 10, 1809. Following the magnificent example set by its illustrious leaders it was able to forge ahead, overcoming the obstacles of nature as well as the problems of underdevelopment.

I congratulate the Government and the people of this noble and vigorous nation that only a few days from now will celebrate an event of utmost significance in its national history, the 150th Anniversary of the Battle of Pichincha, which was decisive for the areas that now make up the Republic of Ecuador. In that memorable clash of arms were Paraguayan soldiers who advanced with the armies of San Martín to Chile, Peru and Ecuador.

The beautiful city of Quito is regaling every Governor, observer and special guest with days that for us will remain unforgettable, and so for its gracious and friendly people we find only words of gratitude for their warm-hearted hospitality that so befits the sense of American brotherhood which happily unites us.

The Government of the Republic of Paraguay praises on this great occasion the accession of Canada to our organization, and I am happy to express our warmest welcome to this new member who now makes a valuable contribution to our collective efforts. Canada joins the Bank as its twenty-fourth member, and in so doing it will assure an even greater measure of efficiency in the performance of the worthy mission of the institution to which we have the honor of belonging. We regard Canada as a distinguished sister country of the American continent because it has always maintained strong bonds of friendship and cooperation with our nations.

We surely will emerge stronger from this meeting because of the forceful action undertaken by Antonio Ortiz Mena in the effective performance of his daily tasks during the second year of this term of office as President of our Bank—a sound institution created by the American States to quicken the pace of development and financial cooperation in Latin America.

This is the proper occasion to express our congratulations to the Bank for its splendid annual report and for the praiseworthy and soundly planned effort carried out by its President, its Board of Executive Directors and its technical and administrative staff for the success made evident by the results obtained in the last fiscal period. The report is a source of great satisfaction for us because it reflects the actual exertions of the Bank's authorities, and we are especially pleased with the yardstick used to measure the results because "the agricultural sector continues to be by far the Bank's leading lending sector," followed closely by sectors such as industry and mining, tourism, transportation and communications, electric power, education, water supply systems, urban development, preinvestment and export financing.

The lending policy is thus in line with the clearly defined general economic policy of the Paraguayan Government, which has the full support of the international lending organizations and is designed to provide greater support for the directly productive sector, as one means of increasing our exports by activating the process of economic development now taking place in Paraguay's rural areas.

The integrated agricultural development project was given decisive support by the Inter-American Development Bank and provided a new framework for lending in the agricultural sector. The principal aim of the project is to increase production, raise productivity in the farm sector, and create the necessary marketing mechanisms with a view to benefiting mostly small- and medium-scale farmers and ranchers engaged in the production of priority farm commodities.

The integrated project comprises four subprojects: first, a farm credit subproject to be executed by the National Development Bank and consisting of three credit lines: agricultural production credit; credit for substantive projects, including livestock production, sericulture and poultry raising, and credit for cooperatives.

Loans under this subproject are to be made in coordination with technical assistance to be provided by the Ministry of Agriculture for the introduction of technology.

The other subprojects provide for the introduction of technology, education and farm commodity marketing facilities and are designed to coordinate the activities of the principal public institutions, expand production and introduce production technology for providing the technical support necessary for lending activity and for other basic research activities; to accomplish during the first stage an integrated farm commodity marketing program throughout the country, and lastly, to increase the efficiency of farm technology applications in order to meet the need for skilled manpower in farming and livestock production.

The mobilization of resources of non-member countries in other

world capital markets is among the Bank's most important activities. The Bank's constant concern is to acquire resources in the international community in order to help develop Latin America. This task has been performed in a most praiseworthy fashion: the volume of funds acquired in 1971 exceeded \$181 million dollars.

At the meeting of the Board of Governors held last year in Lima, the Board of Executive Directors was instructed to intensify and improve the actions it has carried out pursuant to Resolution AG-7/68 for the benefit of the relatively less developed countries and those of insufficient market. We have no doubt that such action will soon become a substantive reality to the extent that financial and technical prospects allow and in keeping with the collective concerns of our Bank.

We fully support the Bank's policy of according priority to loans for infrastructure projects if we are to correct the distorting tendencies in our economy. Our limited ability to purchase capital goods in non-regional markets should lead us into developing a more active, stable and sound export marketing policy which will enable us to increase our share of world trade.

Infrastructure and physical integration projects in our territory are the foundations upon which we may build our nation along progressive and orderly lines. Paraguay has now accomplished one of its key aims: the linking of its cities and towns whose populations are well distributed and are growing outward toward the four points of the compass. These people are thus on the move and rising out of the stagnation in which they were so long immersed for lack of the creativity, know-how and financial resources needed to embark upon a rational plan for exploiting the natural resources that are now serving the national and foreign investor.

On April 1, in a message to the National Congress, President Stroessner stated:

My Government has accomplished a major achievement in providing for the public welfare, and this achievement rests on a policy of financial stability which is an object of pride for all inhabitants of the Republic. As a result of that policy, Paraguay now enjoys a well-founded prestige among the international organizations and financial institutions, which are always ready to collaborate in the projects and plans of my Government in view of its excellent performance record in the fulfillment of its contractual obligations. Another factor which helps to maintain our standing abroad is the fact that we are successfully combating inflation and we can affirm with civic pride that the monetary stability which the country has enjoyed for over ten years now is a major source of strength for our economy, to the advantage of entrepreneurs, bankers, laborers, office workers

and teachers alike, since neither personal nor national savings are eroded by falls in the value of our currency.

There can be no doubt that if these conditions—which can be summed up as financial stability and equilibrium, accompanied by peace and progress—had not prevailed, it would not have been possible to achieve considerable advances as the fruit of more than a decade of uninterrupted development effort.

Within the framework of production in our countries, it remains a source of concern to the financial and monetary authorities to find sources of domestic and outside financing that will enable credit institutions to grant soft loans on extended terms, reasonable interest rates and less rigid guarantee provisions. We understand that this matter does not offer any grounds for controversy among financial experts, but that it does pose a veritable challenge to the leaders with the power to influence developments and on whom the decisions rest at the various levels.

There has been a truly encouraging response to the resolution adopted by the Board of Governors at the Meeting in Lima last year, which recognized “The importance to the developing countries which are members of the Bank of exports of manufactured products of every kind, as well as non-traditional exports, to an area extending beyond Latin America” and requested the Board of Executive Directors to present appropriate recommendations, taking into account the situation of the relatively less developed countries.

The previous Meeting of the Board of Governors pronounced itself on the vital problem of Latin American exports, indicating that we should move to define the present decade as the Decade of Latin American Exports.

The Bank’s Annual Report has, to our satisfaction, underlined the approaches of Bank authorities to the various problems confronting Latin America. The Report states:

The recent interest shown by the Latin American countries in exporting manufactured goods is based mainly on their need to increase export earnings and reduce the vulnerability of their economies to price fluctuations in basic commodities, but there is another reason. Dynamic industrial growth in Latin America in recent years has been restricted by the limited size of national and even regional markets, while market conditions at the national level have prevented the development of competition and efficiency. The goal currently sought through export programs is to revitalize industry in Latin America through selective orientation toward the external sector and its integration with the international sector.

I also feel great satisfaction in being able to quote from the interesting speech the President of the Bank delivered in Caracas this year. In

the course of a panoramic survey of the Latin American economy and the status of development of industry and physical infrastructure in the region, Mr. Ortiz Mena stated that:

The countries of Latin America have, to a greater or lesser extent, recognized the need to promote the development of their basic industries, as a first step in the process of vertical integration of national industry. The most advanced activity in this regard is perhaps the iron and steel industry, principally in Brazil and Mexico, and at the study level, in Argentina, the countries of the Andean Group and Venezuela. These efforts must be directed toward the basic objective of achieving levels of efficiency that will make it possible to compete with producers from outside the region. To this end, we must work to ensure that the countries of Latin America coordinate their national programs and negotiate agreements among themselves that will allow them to use the most economical raw materials, principally iron ore and coal, and to complement one another's output so as to derive maximum benefit from economies of scale and the advantages of specialization within the wider range of a two-or-more country market.

Referring to the relatively less developed countries in the region, Mr. Ortiz Mena went on to say that

Achievement of the objectives just outlined represents a problem that will be more difficult to solve. A positive contribution to this end can be found through agreements for cooperation between Latin American countries providing for the transfer of technical and financial resources from the larger and more developed nations in the region toward the smaller ones. In Central America we are lending our assistance to bring about agreements of this kind between Mexico and the Isthmian nations. I hope that this will provide useful experience for establishing new forms of cooperation between countries in South America.

My country's Government has implemented a plan to increase our exports. At the end of last year it set up a tax system designed to encourage exports by helping to raise levels of competition and assisting national products to compete in foreign markets.

At the beginning of the current year a cooperative development law was enacted granting tax incentives on imports and exports made by cooperatives, and it has been decided to review certain aspects of the credit policy to provide funds to the sectors of the economy that produce agricultural and industrial goods, preferentially for export. With these recent measures, aside from the benefits granted in our investment law, we hope to increase our exports to a level compatible with improved economic development.

With regards to the fiscal and monetary policy, Paraguay continues to maintain close coordination between the two basic mechanisms of national economic policy, and we can affirm that the financial stability reached as the fruitful result of an unremitting struggle against inflation is evidenced unequivocally in the continuing increase in public savings, which at the beginning of 1972 amounted to 6,930 million guaranies in harmony with stable price and salary indexes.

Present-day Paraguay, under the leadership of His Excellency the President, General Alfredo Stroessner, has maintained and will continue to maintain unchanged the machinery of a strong monetary structure as an irreplaceable guarantee for investments, economic progress, and social peace. Consistent with the aims of the Charter of Punta del Este, the Paraguayan Government has introduced a series of tax measures designed to improve public revenue, both from the standpoint of tax legislation and of the administrative resources of the tax-collecting agencies, in the belief that the source of domestic financing, that is, the national effort itself, is the soundest support for economic and social development.

Recognizing the importance of foreign cooperation as a necessary factor of financing, last month the President of the Republic, at the invitation of Emperor Hirohito, visited Japan accompanied by a large group of Paraguayan businessmen, who availed themselves of the opportunity to begin interesting talks with their colleagues in Japan with a view to increasing our trade with that country.

In expressing my warmest wishes for the success of our deliberations at this Meeting, I wish to congratulate Mr. Antonio Ortiz Mena and his staff, and, on behalf of the Delegation of Paraguay, to extend our greetings to all participants in this important Meeting and our deepest gratitude to the Government and people of Ecuador.

**Address by Mr. Ernane Galvêas,
Alternate Governor for Brazil
and President of the Central Bank of Brazil**

It is a happy coincidence that we should meet here today in the charming city of Quito, amid the natural beauty of its carefully cultivated hills and valleys, surrounded by the kind hospitality of its people, in an atmosphere in which tradition and history are joined in harmony with dynamism and progress. Quito surely offers us an ideal climate of elevation, peace and tranquility so that we may carefully ponder the aims and accomplishments, as well as the problems, of the Inter-American Development Bank.

In so propitious a place for our deliberations we are pleased to note that at this Thirteenth Meeting of the Board of Governors a new historical milestone is set in place by the accession to our group of a new partner: Welcome, Canada, to membership in the IDB. Our hearts and our arms open to receive you.

We have met many times before in the same spirit and with the same willingness to build and enlighten. In little more than ten years we have seen the idea of a bank transformed into a great and respectable institution. Many were the obstacles and difficulties overcome in making of the Inter-American Development Bank the most important instrument of financial support in Latin America. Breaking with old taboos and courageously innovating, the Bank took up leadership for initiatives that opened up new prospects for loans in the fields of education, health, housing and vocational work, as well as export financing, rural electrification, communications, tourism, integrated urban development, science and technology.

Thus it is only fair that we should look back and view with pride and satisfaction our accomplishments and the ground we have covered. We have done a considerable part of our task, but we are far from having finished it, for as the most pressing needs are met, prospects open up in other sectors and pressures grow for making new investments and for achieving new goals. Therefore, the difficulties we have overcome seem small in size and importance when we come face to face with the great problems which the Bank will have to resolve now and in the near future if it is to go forward in developing its aims and initiatives. Today we find ourselves at a juncture beset with difficulties. Every day the challenge of world events grows greater for us. But we cannot allow this to undermine our enthusiasm or weaken the eagerness for struggle and the ardor with which we engage in the task. If the aims and scope of international cooperation are not strengthened, if past

commitments are not fully met, if minor problems cause us to lose sight of the greatness of our aims, then it will be our fault—the fault of all of us who today hold in our hands the future of the Bank—if we turn it from its historical path, lose our way in mid-stream, and compromise the achievements that we ourselves worked so long and painfully to bring about. As President Ortiz Mena told us in his speech yesterday: “We are passing through difficult moments and the Bank must be prepared to face up to the challenge presented by them with the collaboration of the most dynamic sectors of our countries and with the continued support at all times of our peoples.”

When some years ago the procedures and schemes of international cooperation were shaped, it was acknowledged that the largest share of the development effort had to be accomplished within each country. Latin America did not fail to meet that commitment. Each of our countries mobilized its domestic resources to the maximum, redrew its plans and political goals, and redefined its objectives. And today we are showing the world that we were able to respond in keeping with our responsibility. In the last few years extraordinary advances have been made, and we have opened our eyes to reality.

Because of this we are no longer enticed by the siren song of demagoguery which proposes to distribute the fruits of progress before they are produced. Every country—rich or poor—in Latin America as well as in other parts of the world, has special problems with its resources, traditions, and social and economic structure. It is pointless to criticize real situations or devise idealistic formulas which can solve neither the problems peculiar to each country and even less, to groups of countries that share the same problems. What must be done is to take substantive initiatives that will enable us to mobilize and invest the necessary resources to provide the technical and financial assistance which the enormous needs of the third world require to break out of the vicious cycle of poverty.

What we need are effective initiatives that will afford us access to world markets and provide for the transfer, at reasonable cost, of the latest achievements in science and technology. Before these remarks can have relevance, it is essential that the major industrial nations become clearly aware of their responsibilities for the future of the two-thirds of the world's population that is now struggling for a place in contemporary civilization. It is essential that the international organizations mobilize the ingenuity of their managements and the technical skills of their specialists in order to facilitate—at the lowest possible cost in terms of money and public employees—that transfer of technology and resources. We also admit that it is unfair to level the criticism, which may very well become a new catch phrase, that one of the biggest mistakes made by the underdeveloped countries in formulating their economic policies was to put their trust in external aid

from rich countries. That criticism is in many respects unfair because it fails to qualify where it ought to qualify. What we have today, in fact, are mistakes and deficiencies in formulation. There is no lack of resources in the private market. The problem is that these resources are expensive and must be repaid on the short term. This makes them incompatible with the need of our countries to program their external debt, and thus greatly reduce our capacity to fill the resources gap by acquiring capital from abroad. Even so, it is truly surprising to note how private resources are readily mobilized at low cost in the great financial centers, and yet in official circles no one has come up with a formula to motivate a closer form of cooperation between governments and international organizations that would allow a reduction of the high charges on their loans.

In the Pearson Report as well as in the "International Development Strategy" of the United Nations, it was recommended that there be an increase in the amount of resources managed by multilateral institutions. The first document proposes an increase in multilateral development programs equal to at least 20 per cent of official aid. Nevertheless, the aggregate amount of official development assistance in the last few years not only failed to increase, but actually declined in absolute value and as a share of the gross national product as well.

These considerations throw light on the fundamental inadequacy and insufficiency of the international transfer of resources, a problem which weighs heavily upon and unfortunately restricts the prospects for the Inter-American Development Bank to continue performing—what we all know to be—its constructive and humanitarian labor. We must do everything we can to prevent the difficulties which we now face from leading us into frustration and despair. At this Thirteenth Annual Meeting, in order to identify the community of interests that must be at work among our countries, we will all be required to redouble our common effort for hemispheric cooperation, bearing at all times in mind the high purpose that led to the creation of this Institution and the decisive part it must play in fulfilling the hopes and yearnings of Latin America.

Our labors and efforts on this occasion, as we are met in the glorious and heroic city of Quito, must bear the stamp of the determination with which we will seek to accomplish these goals, imbued as we are with unshakable faith in our future.

**Address by Mr. Américo Zorrilla,
Governor for Chile and Minister of Finance**

To the representatives of Chile it is a source of great satisfaction that this Thirteenth Meeting of the Board of Governors of the IDB is being held in Quito, the capital of our sister Republic of Ecuador. We join in the celebrations marking the sesquicentennial of the Battle of Pichincha, which gained Ecuador its final independence.

We transmit to the Government and people of Ecuador the intention of the Government and people of Chile to maintain and develop even more our traditional links of friendship, all the more so since both countries are actively involved in the Andean subregional group.

We also wish to make known our Government's support for the request made by the Government of Jamaica last year in Lima that Kingston be selected as the site for the Fourteenth Meeting of the Board of Governors in 1973. Our Government would be pleased if this distinction were bestowed on Jamaica.

We also repeat our own invitation, but postpone it until 1974. The Chilean people, with their unblemished tradition of hospitality, would welcome the opportunity to receive the Governors of the IDB at the Fifteenth Meeting two years from now. The facilities presently serving the Third Meeting of UNCTAD are at your disposal.

The application submitted by the Government of Canada for membership in the Bank has met with our approval and today, on behalf of the Government of Chile, we extend a most hearty welcome to this new member country.

We have come to this Thirteenth Meeting of the Board of Governors of the IDB at a time when crucial matters for the well-being and development of the peoples of Latin America hang in the balance, and also—why not say it—of all the peoples of the world struggling for better living conditions.

Last year in Lima we said that the Twelfth Meeting of the Board of Governors was being held “at a time when many countries of Latin America are going through a stage of unrest and discovery, of growing clamor for drastic changes in their social and economic structure.”

These remarks are even truer now, and they should define the framework and character of the discussions and principles of agreement regarding the present and future activities of the Bank.

In the context of the social process of Latin America, Chile is now in the second year of its own revolutionary experiment. In this brief period, we have taken significant steps toward raising the well-being of

our people and establishing the foundations for the building of a more humane society, a socialist society.

In the first year of the Popular Government, we have revitalized the national economy, which had been stagnant since 1967. Thus the gross domestic product rose 8.5 per cent in 1971, the highest rate our country had achieved in the past fifteen years.

This significant growth in production was more than just a sizable rise in output; it also reflected a growing utilization of the unemployed and a notable and ongoing redistribution of national income.

The employment rate rose considerably in 1971 and the share of the national product that went to wage-earners rose from 51 per cent in 1970 to approximately 59 per cent in 1971. The employment rate, which had stood at only 91.7 per cent of the labor force, rose during the year to 96.2 per cent, the highest rate recorded for several decades.

A recent report of the Economic Commission for Latin America (ECLA), an organization of the United Nations, indicates that the Chilean economy was one of those with the strongest growth trend in Latin America in 1971, reaching second place among 24 countries. This report also recognizes that this high rate of growth was indissolubly linked with the process of a more equitable redistribution of national income.

These achievements of Chile take on greater relevance in the light of the words of the President of the World Bank to the Third UNCTAD Meeting. He said that the situation in the majority of the developing countries was unacceptable "because development programs have been directed mainly toward achieving general economic goals and have not succeeded in ensuring that every nation, and every segment of the population within each nation, obtains a fair share of the fruits of these economic advances." He went on to make another significant remark: "But if the developing countries apply policies designed to ensure that the benefits of growth are distributed more equitably among their various populations, these countries require and deserve to receive the necessary assistance to enable them to achieve a reasonable over-all growth rate."

As Mr. McNamara stated, growth trends in the developing countries have, as a general rule, led to a widening of the gulf between the various social and economic groups, making the poor poorer and the rich richer.

This shows that the rate of growth does not by itself solve the problem of poverty. It is vital to achieve a more equitable distribution of national income, and for this reason our peoples are fighting for greater social justice.

As the culmination to a long process of political growth, the people of Chile have embarked on a road designed to bring about an increase in the national product which will favor the working masses.

The Government and people of Chile are conscious of the fact that the only way to extend and reinforce what the lower income sectors have already achieved lies in a far-reaching transformation of the economic and social structure of the country, transferring to the people the strategic centers of production that for years were held by powerful foreign groups and a minority sector of large national capitalists.

From the outset, the Popular Government has undertaken the revolutionary transformation of Chile's economy and society, strictly observing the system of law obtaining in the country.

We have started the process of setting up the social area of the economy, through the takeover by the Government of large monopolies in the production and distribution sectors. We are extending and strengthening the mixed area, where Government capital and private capital (both domestic and foreign) are combined. The private property area, where most of the existing enterprises in the country remain, is being supported by the Government through technical and credit assistance.

The process of agrarian reform has received formidable backing from the present Government. In 1971 alone, more agricultural properties were expropriated than in the six preceding years, and this year the *latifundia* will be eliminated in Chile.

The Government has taken over practically all the private banks that were operating in the country, which until now constituted the bastion of the economic and financial power of a privileged few. The State thus now has at its disposal the indispensable means for planning the allocation of financial resources.

The exploitation of the basic riches of the country—copper, iron, steel, nitrates and coal—has now passed to the Chilean people.

We nationalized copper, our principal mineral resource, through a constitutional amendment that received the unanimous support of the Chilean Parliament and was backed even by the opposition groups. That ended the control that large United States companies had for many years exercised over large-scale copper mining in Chile, the profits from which benefited not Chile, but the shareholders in those foreign companies.

In implementing these vital measures, the Popular Government has merely fulfilled the sovereign mandate of a people which legitimately aspires to become master of its own destiny. At the same time, Chile is thereby honoring the commitment entered into by the countries of the Third World in the Declaration of the 77 at Lima, namely "to effect the necessary reforms in their economic and social structures so as to fully mobilize their basic resources and ensure the participation of their peoples in the process and in the benefits of growth."

This revolutionary commitment by the Government and people of Chile is perforce reflected in our foreign policy. We are in favor of

peaceful coexistence and international cooperation on the basis of total respect for the principles of self-determination and non-intervention by States in the internal affairs of others. This is the frame of reference within which the international policies of the Government of Chile have developed and will continue to develop.

The course of our revolutionary process has not been without its problems, which we have overcome and are overcoming with the resolve and fortitude of a people conscious of its responsibility to history. Many of these difficulties are rooted in the resistance, open or concealed, of the sectors whose interests are being threatened by the process of change.

Since the Popular Government came to power, we have noted a remarkable shift in attitude toward Chile on the part of the international and multinational financial agencies that have traditionally assisted us with outside financing. The United States banks, for example, have been restricting the lines of credit that Chile had normally used to finance part of its import operations. In November 1970, Chile had \$220 million available for this purpose, but in January of this year the sum available had shrunk to less than \$25 million.

When we nationalized our copper, the United States Treasury Department, in an obvious reference to Chile, instructed its representatives on the multilateral agencies to oppose the granting of loans to countries expropriating United States property.

Both at the preliminary session and in this Meeting of the Board of Governors, the United States representative has confirmed this decision in a direct reference to the Inter-American Development Bank. Mr. Hennessy has replied to the various voices that have been raised in this forum condemning this attempt to involve the IDB in bilateral political or economic problems by stating that this is not what is involved. According to him, it is a problem of international law.

For our part, we—like the United States representative—should like to claim the right to speak forthrightly.

In the matter of the problem concerning the United States copper companies, what we ask is: in the name of what international law can companies which brought \$30 million into the country and in the course of many years took out more than \$4 billion, claim to dictate to our country the amount to be paid as a so-called indemnity?

Our country recognizes the rule of law. The machinery for establishing the amount of possible compensation was determined in a constitutional amendment, entrusting this responsibility to the President of Chile, the Office of the Comptroller General of the Republic and the Ad Hoc Copper Tribunal.

In opening the Third UNCTAD Conference, our President, Dr. Salvador Allende, defined the situation as follows:

An attempt is being made, through a foreign assistance act

adopted by one of the major contributors to the World Bank and the Inter-American Development Bank, to make financial assistance from those banks to Chile subject to our applying policies that would be at variance with the constitutional precepts governing the nationalization of copper. One of these banks is associated with the United Nations and the other with the Organization of American States, the official objectives and principles of which prevent and prohibit the acceptance of any conditions such as these.

With these declared intentions, the object is to transform a multi-lateral agency into an instrument of bilateral policy aimed against another nation, possessed of the same legal rights, that is also a member of the same multinational organization.

Independently of one's viewpoint in considering the relationship between the IDB and each of the Latin American countries, these countries are urging the right to greater powers of decision in the resolutions adopted by the IDB. However, this design, limited until yesterday by the disproportionate power of the majority shareholder, may now be again frustrated by this new attempt of the majority shareholder to exercise additional veto powers.

For all these reasons, we most vigorously condemn and reject this new attempt to exert unilateral control over the decisions of the IDB.

To turn to another subject, we wish to point out that Chile, like other Latin American countries, has found itself faced with perpetual difficulties in financing its balance of payments. This was not a new or incidental problem, but the result of an historical pattern of development, the chief feature of which has been its condition as an economically dependent country.

Our balance of payments deficit has traditionally been covered by a flow of foreign exchange from the financial circles that are now closing their doors to us.

When the Popular Government took office, Chile's foreign exchange liabilities amounted to more than \$4 billion. The terms on which these liabilities had been contracted were such that more than 50 per cent of the amount due was scheduled to be repaid before 1976.

The reason for the origin of conditions like these was given by the President of the World Bank in his address to UNCTAD, when he spoke of the serious inequalities in the distribution of wealth and world income and the considerable differences existing between the rich and poor nations. He added that, even though during the First Development Decade the gross national product rose by the almost inconceivable amount of \$1.1 trillion, 80 per cent of this increase accrued to countries with an average per capita income of more than \$1,000 a year, representing only one-fourth of the world's population.

At the meetings of the CIAP Subcommittee on Chile in February 1971, the representative of the Inter-American Development Bank

offered the following summary of the Bank's views on the subjects then under discussion:

We have made careful note of what has been said at these sessions, not only because a development bank must show special concern about any discussion of economic events in one of its member countries, but also because of the fact that in the Bank's loan portfolio are a number of major investment projects in Chile, and the socio-economic impact of these is closely tied to whatever economic policies are adopted and the success such policies may achieve. We hope to continue to maintain a constructive relationship with the country's authorities with the aim of continuing the exchange of ideas of the past few days, and to discuss more thoroughly the future cooperation of the Inter-American Bank with the social and economic development of Chile.

However, this proper statement of policy has not been translated into an effective contribution to the economic development of Chile.

The Popular Government has submitted a number of loan projects to the Inter-American Development Bank. Ten of these were considered for preliminary examination by an IDB special mission which came to Chile last June. The Bank's representatives and the Chilean authorities both selected the project for a petrochemical complex, chiefly because it would contribute significantly to building the petrochemical industry at the subregional and regional levels.

At this time, the petrochemical project is still in the process of being examined by the IDB, in spite of the fact that we submitted the project in a well advanced stage of planning.

This is evidence of the difficulties we find in having our loans transacted at the Inter-American Development Bank. In the case of Chile it is evident that the Bank's management has not yet managed to materialize a single one of our projects.

We asked the Bank's authorities to give some thought to the ideas expressed by General Francisco Morales Bermúdez at the inaugural session when he referred to bureaucratic procedures, stating, "It is no longer possible to argue that the aim is to arrive at a sound feasibility technique; behind it all is the hidden intention of refusing or delaying loans, with a background of political qualifications, depending on the requesting country and the nature of the resources to be used."

In the days following the earthquake of July 1971, we were pleased to have a visit from Mr. Antonio Ortiz Mena, President of the Bank, who inspected the devastated areas. We are aware that the President of the Bank and the Board of Executive Directors did the one thing it was possible to do: step up the pace of disbursements on loans already authorized by the IDB in order to provide help in the crisis which then beset our country. This kind of support, well-meant as it was, we regard as absolutely unsatisfactory.

The experience of countries that have suffered from disasters indicates the need to face two kinds of problems: in the first place, it is necessary to repair such damage as will most directly affect the survival of the groups of society who are victims of the catastrophe. In such cases, joint aid provided in the form of medicine, food, clothing, emergency shelter, etc. illustrates the humane solution to the first problem. But this is not all. Destruction also extends to the economic infrastructure, to the ports, roads, dams, public works, buildings, and industrial facilities, etc.—damages that lower the levels of well-being and development of the people.

Based on our own experience and on that of other Latin American peoples, we propose that our regional Bank institutionalize a mechanism that can swiftly and promptly go to the aid of member countries whenever they face emergencies of this kind.

We hold the view that such aid from the Bank should be aimed chiefly at solving the problem of economic reconstruction and that any mechanisms created for this purpose should not be subject to the usual slow-moving procedures, and that, to the contrary, they should operate as swiftly and as flexibly as the emergency warrants.

In the light of the principle that technical, scientific and financial assistance is needed for a country's development, we value the part which the IDB plays in the development of our countries.

We also understand that the most meaningful effort to achieve the goals of growth and social justice is one which the people of Chile must themselves undertake. This people, who used to work mostly for the benefit of international and domestic monopolies, is now conscious of its role as the driving force behind a revolutionary process that is destined to achieve a full measure of independence and true freedom.

In this address we have made a special effort to denounce and condemn the efforts of a member country to make of our organization an instrument at the service of the interests it represents.

The Latin American community is duty bound to safeguard in practice the spirit of multilaterality upon which the action of the IDB must be founded.

At this meeting we have heard a number of addresses proposing methods of improving the conduct of the Bank's affairs. And several working committees have been established. We are concerned that many important proposals put forward here have not been included on the agenda of such committees. In order for us to be in a position to appraise the accomplishments of this Meeting of the Board of Governors, the proposals put forward here must be given consideration. We trust that the Board of Executive Directors will suggest some mechanism to prevent such proposals from disappearing into thin air.

Lastly, we wish to stress that we are indeed interested in the successful operation of the IDB—and the responsibility for this success is a commitment undertaken by all member countries of the Bank.

**Address by Mr. Guillermo Hidalgo Quiéhl,
Alternate Governor for El Salvador
and Vice President of the Central Reserve Bank,
on Behalf of the Central American Countries**

I have the honor of complying with the wish of my colleagues of Costa Rica, Guatemala, Honduras and Nicaragua that I act as spokesman for the points of view, comments and suggestions of the five countries of Central America at this Thirteenth Meeting of the Board of Governors of the Inter-American Development Bank.

In addressing you on behalf of these countries, which for a number of years now have been seeking the fulfillment of their interests through economic integration, I wish to reaffirm once again the unshakable aim of our peoples to press ahead with this integration for, although certain temporary difficulties have arisen, these will be overcome in the not-too-distant future, for our peoples share a common destiny.

The Inter-American Development Bank has made an important contribution to our integration process through technical and credit assistance to the entire area, both directly and through the Central American Bank for Economic Integration. The Central American governments wish to express once again their satisfaction, and at the same time to request greater collaboration from the IDB so that in the future it may contribute intensively through massive financing for an integration program and for works of social infrastructure in the different countries and have a truly effective impact on the growth and development of the area.

On previous occasions the Central American countries have manifested their interest in seeing the Bank formulate policies that will permit a more equitable and just preferential treatment for the relatively less developed countries. In this connection, the Board of Executive Directors of the Bank, in pursuance of Resolution AG-7/71 adopted at last year's Meeting of Governors, has been discussing the conditions for this preferential treatment, which the Central American countries reaffirm is necessary and resolutely support. We note that in the document submitted by the Board of Executive Directors this treatment would be extended to the countries concerned by means of a 2 per cent per annum interest rate, amortization terms of up to 40 years, with grace periods of 10 years and financing of up to 90 per cent of project costs. However, this preferential treatment will have positive effects only when more flexible procedures are introduced, coupled with operating and contractual conditions that are really effective—all aspects we are bound to emphasize. We believe that the amount of information required for obtaining approval of a loan is a little exag-

gerated. In many cases the information required relates to superfluous matters of little or no practical application and which only cause unnecessary delay.

We were gratified to hear what the President of the Bank, Mr. Antonio Ortiz Mena, had to say regarding the need to revise the Bank's operating procedures in order to expedite financing, since the troublesome delays involved in certain regional programs of considerable importance for Central America, and for which the Central American Bank for Economic Integration had requested credit assistance from the IDB, such as the preinvestment, regional silo and agro-livestock programs, have already given rise to concern.

For example—and as one instance only—the procedure for authorizing the limits of freedom of action for committing resources in preinvestment and infrastructure projects should be revised, since there have been cases when highway construction has had to be held up for more than six months while waiting for the IDB to state that it had no objection to the use of resources already committed for the projects in question.

It would also be desirable that special care be taken over the composition of missions which the IDB sends to our countries to study projects or applications for financing or technical assistance, in order to ensure that they are made up of high-level, technically qualified personnel empowered to take decisions in their own fields and not having to limit themselves to collecting data for transmittal to other groups of analysts who are generally unfamiliar with the environment in question, as this only results in unnecessary delay in the decision-making process. We have also heard with pleasure the decision to strengthen the technical personnel of the regional offices in order to provide us with greater technical assistance in project preparation and the utilization of the loan funds granted.

We should also like to draw attention to a very special fact and one which, in our opinion, should form the subject of a special resolution.

When the IDB formulates its policies in different fields of activity, it does so with a view to applying them to all the Latin American countries. We do not propose to contest, in general terms, the validity of this criterion. What does concern us, however, is that the same rules cannot be applied to certain activities in developing countries as are applied to the same activities in countries in which they are already highly developed. There are no bases for comparing, for instance, the highly developed stockfarming of certain South American countries with stockraising as practiced in some Central American countries, as their operating rules are necessarily different. Many other examples can be cited, and we would therefore take the liberty of urging the IDB to take appropriate measures so that its loan operations may be in line with the actual situations obtaining in the countries concerned, rather

than based on a uniform—and hence unrealistic—standard for all Latin America.

Despite the efforts made to fashion a new policy that will effectively grant preferential treatment to our countries, we consider that the procedure by which borrowing countries may settle their loans with the Fund for Special Operations in their own currency should be maintained, or at least considered for future contributions to the Fund and for the areas which, like ours, greatly need outside assistance. It may again be claimed that, generally speaking, the criteria taken into consideration in changing this policy are highly technical. Nevertheless, we wish to stress that the amounts used by our countries are relatively small compared with the total volume of resources managed by the IDB and that, consequently, it would make little difference to the Bank to continue this treatment, provided it is limited to the small countries.

The Central American countries are keenly interested in developing sources of wealth by establishing industries that will use our natural resources and manpower intensively and produce goods for markets outside the region. While financing is important in these fields, the necessary technology for handling them is no less important. If we want to export we have to know about the marketing systems, the government regulations in potential markets, the best distribution channels; in short, a number of details which, in countries like ours, can be difficult obstacles to overcome and a heavy burden on the administrative budgets of the governments or private businesses. We know that there are other international technical assistance programs, but we feel that the IDB, which is not only technologically but financially qualified, might contribute more to the solution of those problems, within its present structure, and might even form its own organization to deal with this type of requirement, and train personnel from our countries so that they may efficiently perform this work in the near future.

Another field to which our governments are continuing to devote the utmost attention and in which it would be particularly useful for the IDB to make a special effort is low-cost housing. We should not overlook the deep social implications which the solution to this problem carries, as well as the multiplier effects of housing construction on employment levels. The use of foreign exchange for local expenditures should be accepted even though the imported component in this case is relatively low. We realize there are special resolutions on this subject, but we wish to insist that maximum flexibility should be built into all programs with a deep social content, since the success or failure of a program can depend on the use of the currencies that are really needed.

As mentioned earlier, we feel it is imperative that support be given to our regional organizations such as the Central American Bank for Economic Integration, the Central American Institute of Public Ad-

ministration, the Permanent Secretariat of the Economic Integration Treaty, and others. In the past, the assistance received by the Central American Bank for Economic Integration has been a key factor in starting or continuing programs that have been of decisive importance in maintaining our rates of growth. We also wish that the IDB would effectively support regional programs we already have under way, such as the Common Capital Market and the Central American Export Development Program.

We reiterate our gratitude for the assistance that the Bank has been giving to the Central American countries, and particularly in respect to technical assistance programs, to several agencies responsible for Central American economic integration; but we wish to avail ourselves of this opportunity to draw attention to the difficulties posed by the procedures to which those programs are subjected for the approval of financing of specific projects or enterprises, with a cost-benefit evaluation as if they were profit-earning concerns. Therefore, it would be desirable that these technical assistance programs of the agencies connected with integration receive special treatment in view of their objective and of the fact that the programs have already been approved by authorities or organizations responsible for the economic integration of member countries.

In welcoming Canada to our Bank, we wish to thank the great Canadian people and their Government for the support they are giving to our development by their accession to the Bank. As Governor for El Salvador, I particularly wish to observe that not only were we the first to use the funds that Canada kindly placed at the disposal of the Inter-American Bank, but also that the development gained through the initial loan was so satisfactory that we obtained a second one, with equally favorable results.

In concluding, I also wish to express our sincere thanks to the people and Government of Ecuador for the generous hospitality they have extended to us in this friendly and welcoming city, and our heartfelt wish that they may continue advancing firmly along the road of progress.

**Address by Mr. Felisberto V. Carámbula,
Temporary Alternate Governor for Uruguay
and Vice President of the Bank
of the Republic of Uruguay**

My Government and our people are, as we all are, citizens of the world and especially of America, and it is my happy duty to bring, as a brother and on their behalf, a most heartfelt, sincere and fraternal greeting to the Government and people of Ecuador and to the governments and peoples represented by our fellow Governors.

Hospitality honors both he who dispenses it and he who receives it, the stranger who feels it, partakes of it and returns it, and when, as today in this Meeting, everybody shares it. I thank you, thank you most appreciatively, on behalf of the Government and people of Uruguay for the generosity, courtesy, and perfect and frank reception accorded by all of you—hosts and visitors—and proffered, like ours, without reserve and in a spirit of deep solidarity.

We assume that we have all come here in an essentially realistic frame of mind. Today, when threats are breaking out everywhere which compromise the course of constructive development by providing vehicles for passions of many and varied origins, forcing it into a baffling and complex pattern with major changes in the political, social and institutional order, at times stable and at others unstable; we have all come, as I have said, without doubt, to listen with undisguised and constructive attention to the voices of our sister nations, who will assuredly lead us to reconsider our opinions, our acts, what we do and how we do it and, essentially, cause us to rethink our positions so as to view from different angles the day-to-day, routine and tiresome business of government, both within and without. I say this in homage to my colleagues of America, since I believe, most deeply and sincerely, that this is the moment of truth and that our words and thoughts will not be stifled or forced under by interests or appetites, hates or passions, and that rather they are the expression, as has been said, of our capability and will to press ahead with the reconsideration of our manner of action, deeds and opinions in order that they may be guided and molded solely by reason and what is right and lawful.

Our delegation said at Lima, and please permit me to repeat it because it is true, that satisfaction is sterile and only dissatisfaction is creative, and developing this idea further, we made an evaluation—offering criticism and indicating possible courses to be followed—of the entire framework of the apparatus of international aid, in this case the IDB in the field of relative growth, of exports, of interest rates, of

international financial cooperation, distribution of resources, commitment fees and technical consultations, and concluded by affirming, as we may do today with equal force and validity, that development is constructed and not received, and that if our peoples call for—I could perhaps say at this point, if they demand categorically—the benefits of development, it is our duty to give them development or to prepare ourselves to construct it for them, not just to promise if we do not possess the will and capability to do so, every time that, as at this Meeting, it is possible or that we feel we can assay a sincere and true promise.

The faith and hope enshrined in the words I have recalled, faith and hope in the policy of the Bank, have been if not fully, then at least partially, rewarded over the past year, and we must say so with satisfaction, without this implying that we no longer need to call for closer collaboration, with understanding we could say, since the circumstances through which we have passed and are passing have been and are difficult, and all the more so when that policy and external aid are not always in line, quantitatively and qualitatively, with the complex circumstances of each country, in this particular case Uruguay, for the development thrust in which the Government and people of Uruguay are engaged and have placed their trust.

The IDB, its member countries and their organizations and authorities are being urged to adopt in a constant, sensible and intelligent manner, procedures and paths, to orient their strategy, and channel their action, parallel when not anticipatory or simultaneous, toward the changes which are pressed for and brought about by a dynamic world reality which we cannot ignore, disregard or neglect because it is clearly apparent to all. However, very often the lack of investment capital—national, foreign, public or private—and perhaps—knowing Latin America—the shortage, if not the total lack, of working capital, the failure of the authorities responsible for guiding the economy and development to lay down and follow clear-cut policies, all lead to limitations of which we are aware and from which we suffer.

And what is more—and this is a point on which I wish to lay special emphasis in behalf of my Government—not all the countries and organizations are oriented, directed and resolutely prepared to receive and give, or better still, to participate in the multinational integration without which—and I repeat that I am speaking for my Government—it will be highly difficult for us to find a place in the ever-changing economic picture that is today's world, so that it is in an atmosphere of perpetual change that we have to pursue and reach for profoundly realistic goals for our environment and our society.

This is not the occasion, and I do not propose to give an exhaustive listing of the motivations, opinions and problems the subject has raised and will certainly continue to raise. But on the other hand, I do consider it is the moment, out of true loyalty to you all, to state that my

country, my small homeland, while torn by conflicting viewpoints and ideas as we all are, but nonetheless a vital and upright defender of all the most sacred human and democratic principles, is ready to receive, to act as a vehicle and as a propellant for an integrationist policy of the American Community, for which we request the permanent and preferential attention of the IDB.

Our small country established a new Government on March 1 of this year, and that day marked the beginning of a new course which the President of the Republic outlined on taking office, and which has been given concrete expression in economic and financial and development programs drawn up on a clear-cut and coherent basis within a determined political context—without rigid formulas—in a five-year plan which contains, substantially in theory, neither the Marxist line nor the orthodox, inflexible and traditional capitalism, so that it has become known as “economic and political pluralism.”

My Government has firmly and resolutely decided to formulate a policy which applies and manages coherently, jointly and firmly the different variables of the economy, since modifying only one prepares the way for, and explains, individual and repeated upsets of the country's economy, where they should all act in concert, since experience teaches us that constant coordination to the full and final exclusion of any other possibility is a prerequisite for the classic mold of fiscal, monetary and credit policy, foreign trade, balance of payments, and prices and incomes.

Our Government looks forward to, and will place at the service of, such a purpose its utmost effort to ensure that coherence will be the hallmark of its economic policy. We shall shrink from no sacrifice, however great, and we shall persevere whatever the demands made on us, in order to arrive at balanced budgets through realistic and nonpolitical rates for services and by keeping public spending down, all of which means, in other words, reducing as far as possible the granting of credit, as this leads to the most typical form of monetary inflation.

In saying this I do not lose sight of the fact that the coherence desired has to be rooted in properly balanced budgets which are programmed in every respect in accordance with the gross domestic product and the anticipated rise in prices, since it is axiomatic that any expansion of the money supply over and above this ratio is incontrovertibly inflationary. Strengthening the price and income mechanism is therefore a fundamental objective of my Government, always provided, as I have already noted, the other variables are managed in a coherent fashion at the same time.

Our Government earnestly seeks to improve the tax system, among other things, and will no doubt attain its goal, in such a way that this system will constitute an appropriate and essential instrument of its “development policy” and that income taxes may be oriented toward a

really equitable distribution of income seeking to attain the fundamental goal of growth linked with the creation of opportunities in employment, education, health, housing and social security.

All the above—needless to say—should be achieved by and under a consistent and harmonious administration; that is, through the free interplay of the different economic factors, but under strict Government control, *in line with the compatible but not exclusive concept of government intervention without centralization.*

Such an attitude will thus make the economy dynamic through the continuing growth of the gross domestic product.

Our over-all and permanent efforts will therefore be directed toward maximum promotion of the exporting, agricultural, and industrial sectors; increasing agricultural and livestock production by encouraging the most efficient and largest investments in the sector; improving and strengthening the socioeconomic conditions of rural workers and their settlement, because we are convinced that there is ample room for stimulating an increase in productivity, domestic consumption, volume of exports, through improved, rational land use and better basic agrological, agricultural and livestock techniques, closer integration of both sectors, *elimination of the impoverishing practice of single-crop agriculture*, and all measures designed ultimately to overcome recognized deficiencies, seasonal insufficiencies and weaknesses; in the implementation of this plan, industrial production will receive from the agro-livestock sector progressively increasing quantities of raw materials for the country's requirements and for export.

Domestic savings—without sacrificing consumption—and the possible use of foreign aid—viewed not only from the standpoint of volume but much more from that of its terms—should be channeled toward highly productive investments capable of generating sufficient exports and foreign exchange to cover foreign debt obligations or servicing and the needs of the country.

Finally, the public sector should increase and rationalize its investments in infrastructure, consequently enhancing its role in economic policy. It would appear unnecessary to stress that our Government and the country itself are ready, in spirit and in deed, in their behavior and actions, with clear commitments and unswerving will—as I pointed out earlier—smitten by the “development disease,” if I may be allowed the expression, ready to be recipients as well as vehicles and promoters of the hemispheric integrationist policy that our peoples urgently demand; a policy which the Bank can and must unreservedly support as a fundamental and priority goal, since it is evident at a glance that, if any progress has been made, it is limited and poses arduous and difficult problems that are not always possible to solve.

We do know, and admit with gratification, all that has been achieved in economic integration through interconnected projects; however, as

we said earlier, we must adapt ourselves in advance to the changes caused by an evident and unquestionable world reality.

The Institute for Latin American Integration (INTAL), whose continuing efforts and untiring work are to be commended, should expedite all measures designed to improve plans or programs in the fields of training, research, technical assistance and dissemination of information, so that the Bank, with the store of information thus obtained, may become without delay and unreservedly the promoter of dynamic action and of the necessary and pressing joint effort of the countries of the Americas, applying its utmost investment potential to that end, since it is evident that the need to achieve results has become increasingly urgent.

Our country feels it has, with full responsibility and firm determination, launched economic, financial, and development programs designed to overcome the difficulties inherent in its institutional structure, and feels assured that, with independence and without submission, *merely through its behavior and its deeds, it can and should advance* along the best roads toward growth, following known common patterns; for we are convinced of the intrinsic development potential of those programs. But, I repeat, our country also believes that multinational integration is becoming increasingly urgent, necessary and essential if we are to face the changing economic world with some hope of success; otherwise, through inertia, we will be led to submission and dependence.

In concluding, I wish to extend our hearty congratulations to the former President of the Board of Governors, General Francisco Morales Bermúdez, who has shown such concern and deep feeling for the future of the Bank, and to express our praise to the President of the Bank, Mr. Antonio Ortiz Mena, whom we had the pleasure to welcome in our country a few days ago; to the Board of Executive Directors and, particularly, those who have brilliantly represented Uruguay, Paraguay and Bolivia; and to the technical and administrative personnel, all of whom, without exception, contributed with their capability and devotion to the encouraging and creative evolution of the IDB and the materialization of our hopes.

**Address by Mr. Diógenes H. Fernández,
Governor for the Dominican Republic
and Governor of the Central Bank**

It is extremely gratifying for me to say a few words at this Thirteenth Meeting of the Board of Governors of the Inter-American Development Bank which is being held in this beautiful city of Quito, where the old and the new blend in striking contrast, producing a noble harmony between the traces of an ancient civilization and the quickened progress of development.

Before commenting on the Bank's activities in 1971, I would like to express our warmest congratulations to our sister country, Canada, on its accession to membership in the Inter-American Development Bank. Now all the countries of the Americas are joined together in a common effort with our organization, which will not only strengthen and expand the Bank itself, but will also bring about a deeper understanding and sense of togetherness between all the countries of the New World.

It is an undeniable fact that our Bank is now the main external source of financial resources for Latin America, and this is borne out by the results obtained during its first 12 years of operation, in which it has contributed significantly to the attainment of new goals of progress by all the member countries which benefit from the use of its resources. During the financial year just ended, our Institution again surpassed the levels of previous years both in the volume of loans authorized and in the amounts disbursed out of the loans granted. As shown in the annual report presented to us, the total loans granted in 1971 amounted to \$652 million, representing an increase of \$8 million over 1970, and a higher level than the \$600 million dollars per year in authorized loans recorded during the past three preceding years.

In view of the renewed efforts made by the Bank authorities, it is to be hoped that the growing volume of operations transacted during the past few years will continue to increase in the immediate future, since in recent months it has been possible to find additional funds from sources other than the United States capital market. According to the annual report, \$181 million in such funds were raised, comparing favorably with the \$87 million attained in 1970.

Of the additional resources obtained by the Bank in 1971 outside the United States, approximately one-third was raised by placing short-term bonds in Latin American member countries. The remainder came from the capital markets of Japan, Switzerland, France, the Netherlands, Belgium, and Austria.

Aside from these efforts to obtain resources, the Bank last year re-

ceived the support of the member countries in authorizing an increase in the ordinary capital. At the same time, the foundations were laid for bringing in, for the first time in the Bank's history, new members as suppliers of capital.

If we study closely the use made by the Bank of its financial resources during the three years 1968-70, we will see that agriculture received the largest flow of funds during that period, with \$513 million, which represented 30.1 per cent of the total credits granted during the period. Following agriculture, in order of importance, were electric power with 24.6 per cent, transportation and communications, 16.3 per cent and industry and mining, 13.1 per cent.

In the meeting held in Lima in 1971 we stated that the Inter-American Development Bank should continue to assign priority to financing for the development of agriculture as it had been doing so far, since this is the fundamental sector for speeding up the economic and social development of our peoples. On that occasion we also recommended that the resources devoted to financing education should be increased, because this, too, is a strategic field for the possible solution of the problems of most member countries. We also urged that greater emphasis be laid by the Bank on the need to start a program for financing tourism without delay.

Regarding these points we must note that in 1971, Bank resources amounting to only \$93 million were channeled to the agricultural sector, representing 14.1 per cent of the total loans granted by it. As is apparent, there was a substantial decline in the loans to this important sector in that year as compared with 1968-70, and all the more so compared with 1970, when the absolute figure totaled \$236 million.

I must stress the vital importance of agriculture in the general context of Latin America's economic development. We have noted, however, that the agricultural sector has experienced a certain slackening in its growth compared with that of the industrial sector. Also, as has already been pointed out, there was a distinct falling-off in the amount of Bank loans for agricultural development in 1971. This trend is a matter of concern to us, since, if it continues, it could have a negative effect upon the development plans of many member countries. The economies of the Latin American countries are predominantly agriculture-based, so in our view a greater effort is needed in the preparation and financing of projects that will stimulate agricultural development.

On the other hand, there has been an upward trend in loans for education, from 2.9 per cent in 1968-70 to 10.3 per cent in 1971, which serves to show that the Bank has accorded greater recognition to the importance of education in Latin American development.

It has also been gratifying to note that in 1971 the Bank began to issue loans for the tourism sector in amounts that totalled \$25 million for that year.

During the year under review we have closely followed the application of the policy announced by the President of the Bank of giving special treatment to the relatively less developed countries, as a strategy for checking further widening of the growing gap between the socioeconomic structures of the sister countries of the Continent in their varying stages of development.

We pointed out last year in Lima that this policy had not been put into practice as regards the Dominican Republic in 1970. In 1971, the situation deteriorated even further, as the per capita average of Bank loans to our country fell. This placed us much below the percentages for the other member countries in the same period, with the exception of Haiti.

Notwithstanding the foregoing, we should like to express our gratitude for the special attention which the top echelons of the Bank have paid to the Dominican Republic since our comments in Lima, and everything would appear to indicate that the prospects for our country will show an improvement in the present year, since we expect to sign several contracts for the financing of projects which are being studied promptly by the Bank's officers. These pending projects will serve to complement the assistance begun with the contracts signed when Mr. Ortiz Mena visited our country last March to initiate formally the fulfillment of the promise he made to us in Lima to rectify the situation already referred to.

I should not like to conclude these few words without expressing our most sincere congratulations to the Management of the Bank, and particularly its President, Mr. Ortiz Mena, for the fruitful work of the past year.

And I should like to express, on behalf of the Dominican delegation, our gratitude and appreciation to the Government and people of Ecuador for their generous hospitality during our stay in this friendly and welcoming land.

ADDRESSES

FOURTH PLENARY SESSION

MAY 11, 1972

Remarks by Mr. Antonio Ortiz Mena, President of the Bank, at the Ceremony Marking the Presentation of the Inventory of Projects for the Physical Integration of Latin America

It is with great pleasure that I now present the Governors with the Inventory of Projects for the Physical Integration of Latin America which the Bank has prepared pursuant to Resolution AG-6/68 approved at the Ninth Meeting of the Board of Governors. This study has permitted the identification of more than 600 projects representing a total estimated cost of some \$14 billion. This is assuredly one of the most ambitious studies carried out to date in Latin America for the identification of investment projects in this sector.

There are a number of aspects to which I wish to draw special attention and which confer an exemplary character on the work commissioned by the Board of Governors which could help to guide future efforts of a similar nature in the Bank.

At the very beginning of this study, the Bank decided that its execution should be the result of a joint effort by the planning bodies and various government agencies in the countries, in close cooperation with the regional and subregional integration and development organizations, such as the Permanent Secretariat of the General Treaty for Central American Integration (SIECA), the Central American Bank for Economic Integration, (CABEI), the Latin American Free Trade Association (LAFTA), the Board of the Cartagena Agreement and the Economic Commission for Latin America (ECLA). This merging of technical capacities, with access to national sources of information, the use of which was standardized by applying common methodological standards, made possible a precise and up-to-date description of the ideas and projects that the Latin American countries are at present studying or executing in the fields of transportation, telecommunications, power supply and water resource development. This inventory has for the first time permitted the drafting of a precise map showing the status of regional physical integration; it also points up the lack of communications existing in our continent.

The inventory of projects will be doubly useful. First, it will enable the countries, on the basis of the information each has supplied, to learn of potentially complementary projects in other countries, making it possible to define new projects that may lend themselves to bilateral or multilateral negotiation. Second, the over-all view it provides will enable each country, in defining its national priorities, to take account of the regional framework within which these are to be placed.

It is projects of this type that the Bank wishes to promote through

its future programs of technical cooperation. I believe that we are already leaving the stage of general studies on integration, and that the Bank should increasingly cooperate with the countries in identifying investment projects. It is my firm intention, particularly in the integration field, to establish ever closer links between preinvestment and investment, so as to improve the quality and increase the volume of such integration.

While in the first decade of the integration process special attention was paid to legal and institutional matters, we must in the second decade concentrate technical and financial cooperation on physically integrating this Hemisphere of ours, giving it an efficient transportation, telecommunication and power network, allowing the best possible exploitation of our resources and facilitating the movement of people and goods.

Until we remedy the lack of physical communication in Latin America, it will be very difficult to achieve the objectives proposed in integration conventions and agreements. This explains the importance of this study, providing as it does essential information to enable the Latin American countries to strengthen and complete their basic overland communication systems and identify possibilities for the joint development of their water resources. This inventory will serve to guide the Inter-American Development Bank in its technical and financial cooperation activities within the objective of helping the member countries to conquer once and for all our geographical space.

The effort that the member countries and the Bank have put into preparing this picture of the physical infrastructure of the region should not come to an end with the publication of the study. If this were to be the case, the work that has been done would be of academic interest only, and would rapidly become out of date and lose its interest. We wish to convert this inventory into a permanent service to our member countries. We have therefore decided to incorporate the systematic updating of the information contained in this study in the Bank's integration activities. This inventory thus marks the beginning of a new stage in cooperation by the Bank and its close links with regional realities, which, we trust, will lead toward the achievement of that great final objective that is the establishment of a Latin American common market.

**Address by Mr. P. M. Greaves, Governor for Barbados
and Minister of Housing, Lands,
Labour and National Insurance**

I should like to begin my brief address by congratulating you, Mr. Chairman, on your election to the chair and by expressing my confidence that under your competent guidance the deliberations of this Thirteenth Meeting of the Board of Governors of the Inter-American Bank will be expeditiously and successfully conducted. I should like also to express the gratitude of the Barbados delegation for the wonderful welcome and warm hospitality afforded us by the Government and people of the Republic of Ecuador and for the excellent arrangements made for our stay in your beautiful country. It is indeed a pleasure to be here in this city of eternal spring in the Andes, especially as it permits my delegation to join the chorus of congratulations being offered to the Government and people of Ecuador in commemoration of the 150th anniversary of their political independence.

Ever since joining the Bank in 1969, my country has looked forward to the Annual Meeting of Governors as affording an opportunity to review the achievements of the past year and to chart new courses for the future, and so we note with satisfaction that the Bank committed a record \$652 million in loans in 1971. We congratulate the President and members of the Board of Executive Directors on this achievement, and hope that their future operations will be facilitated by the institutional changes made in the functioning of the Bank. The amendment to the provisions of the Agreement Establishing the Bank with respect to the election of Executive Directors has been approved and is now in force.

New regulations governing the election of Executive Directors will be put into effect for the election of Directors at this meeting. At this stage, I should like to congratulate the Governor for Mexico, under whose distinguished chairmanship the Committee of the Board of Governors appointed to study measures to assure an increased flow of resources to the Bank from countries which are not now its members, has made substantial progress. I should also like to place on record the satisfaction of the Government of Barbados at the able manner in which Mexico has represented our interests on the Board of Executive Directors. We are meeting at the same time as another international conference of major importance which is taking place in Santiago, Chile. I refer, of course, to the Third United Nations Conference on Trade and Development. Many of the issues being discussed in that forum are of paramount interest to our Institution, and I propose later

to mention a few of the issues to which my Government attaches particular importance.

As has been indicated in other speeches, the highlight of this year's meeting is the admission of Canada to membership in the Bank. The admission of a new member is always an occasion for expressions of pleasure, but for us, this occasion is particularly pleasurable because the new member is a country with which we have long enjoyed the most cordial and friendly relations. Canada, like Barbados, is a member of the Commonwealth and of the Caribbean Development Bank, and in both of these forums we have found our relationship to be a fruitful one. I would, therefore, like to join with my fellow Governors in congratulating Canada on its admission to the Bank.

The expansion of membership by the admission of Canada brings the Inter-American Development Bank a step closer to the achievement of its historic mission as an institution representative of all the countries of the Western Hemisphere. This mission will, however, only be fulfilled when those countries presently excluded are admitted to our institution as full members. I refer specifically to the Republic of Guyana, a sister country in the Caribbean with whom we have the closest ties. My Government feels that the expansion of membership to include Canada makes the continued exclusion of Guyana even more anomalous than it has been previously. I should also like to place on record my Government's view that when, in due course, Belize achieves independence in exercise of the inalienable right of its people to self-determination, it should be accorded full membership in this Institution.

The Inter-American Development Bank, in addition to its role in stimulating national development, has a major part to play as the Bank of Latin American Economic Integration, and my Government is convinced that in order to effectively fulfill this role, the Bank must strengthen its ties with the various sub-regional financing institutions. As my fellow Governors are aware, the Commonwealth Caribbean, a sub-region of Latin America, is served by a financing institution, the Caribbean Development Bank, which has as one of its important functions, assisting in the further integration of this area. My Government is pleased to note that the membership of this Bank has recently been expanded by the admission of the Republics of Colombia and Venezuela by decisions of the Board of Governors at their recently concluded meeting in St. Lucia. In our view, the involvement of these two important members of the Inter-American Development Bank in the work of the Caribbean Development Bank will help to bring the two institutions closer together, since six of the members of the American family of nations now belong to both Banks.

The Barbados Government considers that the Inter-American Development Bank should, as a matter of priority, enter into a dialogue with

the Caribbean Development Bank to define a practical program of cooperation. The Caribbean Development Bank is already implementing a policy of concentrating its efforts in the first place on helping its less developed members, and in this task it requires considerable resources. We feel that these countries are as much a part of our hemisphere and the American family as the present members of the Inter-American Development Bank, and as such are entitled to assistance by the major financing institution of the region.

Earlier, I referred to discussions taking place at UNCTAD III. I should like to touch briefly on two related issues which are currently occupying a great deal of the time of that conference, namely, the terms, conditions and quantum of international development assistance and the complex problem of world monetary reform. As a small developing country, Barbados is vitally interested in proposals for increasing the flow of resources to the poor countries. Our particular concern is with the institutional arrangements for the transfer of resources. We are a relative newcomer to the world of international financial institutions and have to date relied principally on our own resources for financing development. However, if the pace of growth is to be maintained, we will require increased flows of concessional finance and we would expect this Bank to be the main source of such funds.

For our part, we recognize that one of the symptoms of our underdevelopment is a certain institutional weakness and shortage of skilled manpower in some sectors of our economy. Both of these deficiencies delay the rate at which resources can be transferred, but we are tackling them vigorously in a variety of ways, and are confident that they will be overcome. We feel strongly, however, that for its part, the Bank must be prepared to be flexible in its dealings with us, and to explore with us, in a spirit of partnership, ways and means of accelerating the rate of transfer of resources. In this context, we note with complete satisfaction the inclusion on the agenda of this meeting of an item which seeks to lay down guidelines for the preferential treatment of the economically less developed members of the Bank. We feel that the Working Group which has been established to examine the matter should pay particular attention to the whole question of the institutional framework for channeling resources as it relates to increasing the Bank's lending to its less developed members.

My Government considers that in order to increase the flow of resources to desired levels there must be a greater exchange of ideas and closer contact between the Bank and Barbados. The Bank's operating rules and procedures, framed from experience in much larger countries with different historical and social antecedents, require considerable modification when applied to a country such as ours. We do not consider it immodest to claim that despite our size and lack of natural

resources we have managed our affairs competently and that we can effectively utilize assistance, even without elaborate institutional reform.

I should like briefly to reiterate a point I made last year about the direction of the Bank's lending policies. My Government feels that in the changing world of the 70s, when the major objectives of development policies are no longer growth of total and per capita output per se, but expansion of employment and redistribution of income, the Bank's lending criteria should be widened to take specific account of projects which serve these new objectives, even though in terms of conventional economic costs and benefits they do not appear to have the highest priority.

Finally, as the Governors are aware, a great deal of discussion is taking place at UNCTAD III and elsewhere about the evolution of a reformed international monetary system. I do not propose to refer to the major arguments which are being advanced on all sides and which are well-known, but to touch briefly on one of the burning issues, namely, the question of the link between the creation of new international liquidity and the provision of additional development finance. It is our understanding that in the discussions taking place in Santiago, a number of mechanisms for effecting this "link" have been proposed, and most envisage the transfer of resources taking place through a multinational institution. My Government feels that any additional development assistance created through the link should be available to all developing countries and should not be appropriated exclusively by any particular group of countries using criteria of underdevelopment which have been accepted for other purposes.

Gentlemen, in this discourse I feel that I have been able to identify some of the challenges which the Bank has to face. It is not beyond the ingenuity or resourcefulness of those who guide the destinies of the Bank to provide solutions.

Indeed, we are fortunate to have at the helm a man of the rare distinction of señor Antonio Ortiz Mena, under whose expert leadership the Bank has made marked progress. He has continued the process of bringing not only greater institutional strength to the Bank but hope to the lesser developed countries that they will be able to achieve a standard of living and quality of life satisfying to their citizens.

We are supremely confident that under such wise leadership, lasting solutions will be found, and bold and firm decisions taken to the benefit of all the peoples of this Hemisphere.

Address by Mr. Hugo B. Margáin, Governor for Mexico and Secretary of Finance and Public Credit

I wish to address my opening remarks to the noble people of Ecuador and to their distinguished Government, in order to convey to them the heartiest greetings of the people and Government of Mexico.

Although rapt in admiration at the majestic beauty of Quito, its surrounding countryside and its cityscapes recording a common tradition and a shared past, we could not but reflect on the future, which will perforce also be a common one, as we will be linked not only by continental geopolitics but also by ethnic, economic and social problems evincing incontestable parallels.

Ecuador, like Mexico, has great natural resources waiting to be exploited rationally for the benefit of its inhabitants. Like Mexico, in fact like the whole of Latin America, Ecuador has, side by side with groups already enjoying the facilities provided by modern technology, large rural populations requiring assistance in their hard daily struggle to avoid being unjustly pushed aside from enjoyment of the benefits of modern living.

Great masses of the population of Latin America, most of them living on the land, are demanding, with an insistence that cannot be ignored, to be integrated into contemporary life, economy and culture. Our great common objective is to meet this insistent call. Passing differences, which can occur at all times in the relations between our countries, should not deter us from seeking this objective. These differences should not obscure our common objective or cause it to be put off to a later date. Whatever the level of development of our economies, we must make a cooperative and friendly effort to augment the volume of financial resources for the development of the continent.

It is with great pleasure and satisfaction that we welcome Canada as a new member of the Bank, not only on account of the importance for our Institution of its accession, but also because this step can represent a further logical stage in the historical process of the integration of our hemisphere.

The entry into the Bank of such a distinguished member reflects the political will of our countries to emphasize the multilateral character of our Institution. The history of modern international relations—and even more so the history of inter-American relations—has shown the excellent results to be obtained from following this general line, insulated as it is from private interests and political situations of a passing nature. All the actions of the IDB should be in accordance with this

philosophy, and even an attempt to change the rules of the game would be at variance with the IDB's very *raison d'être*.

The report presented by the Board of Executive Directors and the masterly address of the President of the Bank have emphasized the importance of making greater efforts to direct our financing toward those fields that increase productivity and help to correct the poor distribution of income. Financial resources must be brought within reach of marginal groups to enable them to participate in the benefits of a rapid and balanced rate of growth. This channeling of funds toward the less privileged sectors should help to achieve the objectives we have set, namely to give our people a tolerable standard of living. I therefore feel that the work the Bank is performing in aiding the member countries to improve their capabilities for project preparation and, consequently, the capacity of absorption of financial resources of our countries, is extremely important.

Soft loans from the Fund for Special Operations should continue to be granted, as provided in the Charter of Punta del Este, to finance social projects and those that directly benefit the lowest income sectors. We require resources under special conditions because, as the President of my country very aptly pointed out only a few days ago at UNCTAD III, this decade has been one of growing marginality for a large number of our peoples. The number of unemployed and illiterates is higher today than ten years ago; the surplus population not productively employed aggravates the already disturbing urban overcrowding, and approximately half of the inhabitants of Latin America do not participate in the fruits of development.

Mexico endorses, as it has done on previous occasions, the aspiration of the less developed countries to receive preferential treatment, and I reaffirm our support for the provisions adopted by the Meeting of the Board of Governors in 1970 on this subject. Particular and preferential attention should be given to projects submitted by the less developed countries, and they should have more frequent access to soft loans, but without hampering the financing of any project which should receive like treatment, because of its similar nature, irrespective of the country concerned.

Our Bank has participated actively in the efforts to attain a decent standard of living for Latin America, and should intensify this work; but in order to do so, it must have available, on a continuous and increasing basis, sufficient funds to perform the great task entrusted to it. The reports of the President of the Bank and of the Committee of the Board of Governors stress the efforts and negotiations being made by the Bank to obtain resources, preferably soft, from countries outside the region.

However, we must be realistic. Development financing has reached a crisis. This crisis affects the volume of resources and the terms on

which they are made available. The difficult terrain of our countries, the pressure of social tensions in our times, the lack of dynamism in exports and, occasionally, excessive financing based on conventional short- and medium-term funds, more than warrant a significant increase of resources under truly useful conditions to finance infrastructure projects and others having a highly social content.

We must admit that increased resources for economic development should be obtained both through greater domestic efforts and larger international contributions. We must certainly increase domestic savings, public and private, to be devoted to productive investments, and avoid wasteful investments and expenditure in poor planning, or in luxury goods, or in the purchase of unnecessary military equipment. Attainment of these aims will improve our progress and enable us to absorb additional foreign resources without affecting our payments capacity. In Mexico we are making even greater efforts than in the past to this end.

However, it would not be possible to continue the rapid progress required by developing nations in this Continent if the sources of international financing were to become scarcer. The current international financial crisis has not come to an end, and it is already affecting resources that were formerly available. The new economic giants are slowly and inadequately taking the place of the countries that in the past bore the heaviest burden of development financing.

There is a danger that the international monetary readjustment may affect still further the possibilities of development financing by the countries and international organizations that have supported it until now. That is why Mexico has stressed that danger at various meetings, and now avails itself of this opportunity to urge the management of the Inter-American Bank to study these problems, together with other financial organizations such as the World Bank, in order to guide the action of the Governors and underscore the seriousness of these matters to those governments whose decisions will weigh most in the international monetary readjustment.

Cooperation among the Latin American countries themselves can be of assistance in the problems that confront us. We can make fuller use of financial mechanisms that contribute, even in part, to providing additional resources to the Inter-American Bank, without detriment to the basic liquidity of the international reserves that support our balances of payments.

For some years past the Inter-American Development Bank has placed short-term bond issues with Latin American Central Banks. Since the area's level of international reserves is already in excess of \$6.6 billion, it would be appropriate to strengthen this means of obtaining funds through the placement of further bond issues of the Inter-American Development Bank among our Central Banks, provided they

are medium-term bonds. It would also be desirable to strengthen the present mechanism used by the Central Banks to support each other reciprocally in the advance settlement of these bonds and increase the scale and acceptance of the securities concerned in the international market.

In recent years, the Bank of Mexico has purchased and sold some Inter-American Development Bank bonds without difficulty. At the present time, approximately one-fourth of the IDB bonds in circulation issued to Central Banks are held by the Bank of Mexico.

By this means, as well as through activities that will effectively contribute toward increasing the resources of the Inter-American Development Bank, and not limiting the access to certain loanable resources, the more developed countries of the area can assist the relatively less developed nations of the Latin American community to increase the volume of loans available to them.

At this stage, in which the Inter-American Development Bank requires our full support to continue to play the vanguard role that is expected of it in Latin American development, I am certain that an effort such as I have described would be a significant indication of the trust and faith we have in our major development organization. In this regard, Mexico is ready to make the necessary contribution.

**Address by Mr. Jorge Wehbe,
Alternate Governor for Argentina
and President of the National Development Bank**

Before beginning my address, I wish to convey to you the good wishes of Mr. Cayetano Licciardo, Titular Governor of the Inter-American Development Bank for Argentina and Minister of the Treasury and Finance, who was unable to attend this Meeting due to last-minute developments.

The Thirteenth Meeting of the Board of Governors of the Inter-American Development Bank that has brought us to this hospitable city, which is preparing to commemorate proudly the sesquicentennial of the decisive battle for freedom of the countries of the Americas, will go down in history as an important one for the future of the Bank, since it marks the culmination of the Bank's aim of embracing the entire continent from South to North, without exception.

All the preceding speakers have pointed out the importance of the recent accession of Canada that we are celebrating at this Meeting, which has made our Bank the Bank of All the Americas.

The undeniable economic, technical, and political importance of Canada's accession should be stressed as a particular success obtained by the President of our Bank, Mr. Antonio Ortiz Mena, during his first year in office.

Mr. Governor for Canada: In extending to you the cordial greetings of my country, I also wish to express our most sincere hope that your action will be as fruitful as we hope. The entry of the twenty-fourth member to our Institution leads us to believe that the Inter-American Bank will shortly be enriched with the active participation of countries outside the Americas, not only because of the financial support this would represent, but also because of the experience and means so needed at this complex stage in international economic relations. We have no doubt that the Bank will attain this objective without thereby deviating from its particular and inter-American character and that means will be found to make full use of that participation which will give the Bank greater flexibility as well as new instruments that will facilitate its task of promoting Latin American development.

The IDB in 1971

We have studied very carefully the Annual Report submitted by the management, particularly because it is the account of President Ortiz Mena's first year in office. The report reveals that, on completing 12

years of operation, the Bank's strong spirit of renewal has enabled it to attain its goals and to show continuing achievements. Our country, which had the honor in March 1971 of playing host to the Special Meeting in which the President took office, is particularly gratified to extend its congratulations on the results obtained in his difficult task.

The year 1971 has been a difficult one for the Bank. While the overall results for the year show that the amount of loans granted was the highest in all its history, this was achieved with many difficulties, and the actual figure was still lower than that envisaged at the Eleventh Meeting held in Punta del Este. The delay in receiving contributions to increase the ordinary capital resources, approved three years ago, provisionally exhausted availabilities with the consequent difficulties in meeting applications from Latin America; this was reflected toward the end of 1971 in the accumulation of loan applications that could not be approved because of the shortage of funds. We therefore experienced deep satisfaction on December 30, 1971, when contributions for increasing the ordinary capital resources were paid in, for this implied that the Bank had recovered its capacity for channeling resources to meet those financing requirements.

Unfortunately, the same result was not obtained with the soft funds. Argentina, which is the country that has received the least of these funds in proportion to its contribution, urges all the other member countries to make an all-out effort to comply with the commitments assumed in Punta del Este within the new extended period that expires next June 30th. This is a responsibility that we must fully accept, bearing in mind, particularly, that the Fund for Special Operations is oriented preferentially toward providing financial support to the relatively less developed countries of the region, which cannot brook further delay in their economic and, fundamentally, in their social development, because this is something which affects the whole Continent.

The changes in the management of the Bank during 1971 and the prompt subscription of the financial resources required, open up favorable prospects and lead us to look forward to the revitalization of the Bank in order to gear it to the needs of the present decade, which is unfolding under different conditions and circumstances from those which obtained during the Bank's initial stage. Now that the Bank's action plan is under way, requirements are larger and, paradoxically, there are greater difficulties in obtaining resources because of the changes that have taken place in the international sphere, which are common knowledge. The progress observed in its project generation and appraisal systems make it highly possible for the Inter-American Development Bank to provide the services we require of it in the form of loans.

However, it will be possible to comply with this obligation only if

the Bank recognizes that the changes that have occurred in the Americas demand adjustments that will be the expression of the mature union of a continent bound by firm ties, in the face of which new bilateral circumstances can and should be creatively overcome by genuine multilateral entities such as our Bank.

The Annual Report also records that a reorganization of the internal structure of the Bank is under study. We express the hope that the recommendations will be promptly implemented, particularly those relating to its decentralization. The assigning of increased responsibilities to the regional offices will make it possible to expedite disbursements and prevent the many conflicts which arise largely owing to the distance that separates loan recipients from the Bank.

Argentina hopes that the Bank's new structure will also be an expression of its multilateral nature, assuring a properly balanced participation for all its members. This balance is especially necessary so that the lending countries will not prevail over the borrowing countries, thus maintaining the basically multilateral character of the Bank.

The Annual Report for 1971 contains indexes that show the increased participation of the 15 less developed countries, basically through greater access to the Fund for Special Operations, although perhaps the over-all result reflects the lower volume of ordinary capital loans to the rest of the member countries.

We trust that future loan statistics will show increased channeling of Fund for Special Operations resources to the less developed countries and, in this connection, Argentina calls upon the countries that enjoy similar economic standards to its own, to curtail their demands for such funds so that they may be used by other states who need them much more.

The IDB and multilateralism

We believe that the programming of the Bank's activity by the Board of Executive Directors is an undoubtedly effective policy inasmuch as the dialogue between the representatives of our countries tends to eliminate frustration and mistrust. We believe that the programming has recently been completed, and therefore hope that the new Board to be elected at this meeting will be able to assume full responsibility in this matter, thereby strengthening the multilateral character of the Bank and its internal equilibrium.

In our view, the Bank's most important new move should be precisely to stress its multilateral nature since, being as it is the expression of the efforts of an entire continent, it should serve it without any limitations whatsoever in this increasingly interrelated world. In this regard, it is essential that the Bank continue and strengthen its support to those countries that have the greatest financial difficulties of an

occasional nature. To maintain the prestige acquired by the Inter-American Development Bank as a result of the manner in which it has oriented its action and its timing, as reflected in its transactions, it is essential that in the future, without neglecting to ensure the soundness of its financial structure, it continue loyal to the principle of nondiscrimination and always be ready to serve its member countries when they really need its support.

A firm policy in this respect, and effective participation whenever our countries are having great financial difficulties, will mark the Bank as an organization which, through technical appraisals in each case, seeks to achieve the balanced and objective development of all Latin America. In times of national prosperity, credit plays an important role and can determine the pace and appropriateness of progress; but it is during the downward phases of economic cycles, when depression threatens, that the importance of this tool of economic policy increases significantly. For this reason, the IDB's action in times of depression will enhance the value and significance of its presence.

This aspect of the Bank's multilateral nature to which we assign such great importance, is not always injured by principles or laws, and it is much more frequently observed that this happens in the operational phases, when interests alien to the Bank attempt to exert pressure to obtain decisions slanted to the benefit of certain interests.

Argentina has found that the procedures at present in force in international agencies have, on more than one occasion, caused difficulties in the granting of credits, in their application or in competitive bidding.

Consequently, when my Government deems it opportune, it will propose modifications to those procedures, to prevent repetition of events which mar the Bank's prestige and, in some cases unfortunately, also that of the member countries.

At this time, before accession of countries from outside the region to the Bank, it is essential to strengthen this interdependence that enhances its prestige, because it should be made clear that its primary and fundamental objective is the harmonious development of all the countries of the Americas.

But we also wish to point out that the participation of other countries will involve operations in different currencies and, in view of the possible international monetary readjustment that is being considered, we must anticipate covering the exchange risk that may be incurred, to prevent borrower member countries from having to bear an unequal share of risks, as recently occurred with our country.

The IDB and industrialization

Mr. Ortiz Mena displayed considerable realism when he referred to the

need to adapt the Bank to the development requirements of "our countries at this time," underscoring two particular fields: industrialization and diversification of exports.

IDB member countries in the take-off stage need assistance for industrialization. Through its experience the Bank has checked out the different possible ways of directing finance toward these sectors. Among other things, the establishment of a Finance Corporation for Latin America (COFIAL) has been proposed, a project which was left in abeyance in 1971, although fresh alternatives for such financing have not been studied.

It is a matter of ever-growing urgency for our countries to implement industrial development projects that will enable them to increase their foreign trade.

It is imperative that the Bank study fresh alternatives for satisfying these growing needs of its member countries, since the industrial progress of a nation is not conditioned by new projects or investments alone, but also by improvement of existing industry.

Providing technology or making patents or know-how available on reasonable terms could prove more significant and less burdensome; we should also mention the need to introduce specific administrative methods that will permit rapid and effective evaluation of the position and potential of enterprises.

Many of our countries are in an advanced stage of industrialization and all are anxious not to be left behind in this process.

But we must point out that industrialization should add wealth and not simply replace existing wealth, and that, in addition, if the expansion of investment is not accompanied by an increase in the payments capacity of each country, the progress achieved may become a source of fresh difficulties.

It is, therefore, important that the IDB not just contribute resources and studies for the industrial development of Latin America, but also be alert to the balance necessary in industrialization.

The IDB and export financing

In the context of the trend toward increasing world trade the IDB has made a considerable contribution through the export-financing arrangements it has developed. The Lima Meeting was the scene of an important and fruitful debate which concluded that the Bank should expand the list of products which may be financed, extending the arrangements to all the Latin American countries, since they all urgently need to export in order to contribute to the financing of their development. It is regrettable to note that the resolutions adopted by the Board of Governors in Lima to the effect that the Board of Executive Directors should propose specific measures along these lines have not evoked a more

positive response, owing to the shortage of resources at the time or because of discrepancies as regards content, in so fundamental a matter as that of increasing our payments capability through increased exports. We must not forget that the bottlenecks which occur in the external sector of our economies through inadequate payments capacity may complicate external aid and even cancel it out.

This is why we view the increasing of exports as a major condition for real and sustained progress and as a task which the IDB should resolutely shoulder, since it can prove equally or more important than the financing provided for other purposes. Moreover, the developing countries of America are engaged in boosting regional trade to the maximum extent possible, as is evidenced by the various associations of countries which form the backbone of this process and in which programs for the granting of reciprocal trade preferences are underway.

In the same way, financial agreements have also been concluded ranging from payments and collection systems to mutual credit arrangements.

Summing up, definite efforts are being made by these countries to clear the way for full integration. However, the implementation of these aims has run into difficulties which are insuperable in certain cases so that the results achieved are not satisfactory in relation to the effort expended.

In the particular case of LAFTA, the countries forming it have accepted the challenge and have started setting up counterpart arrangements which, if implemented, will undoubtedly produce the benefits sought. We are pleased to be able to state that the IDB, through the provision of highly specialized personnel, and the commercial banks of the area, with their wide experience, have provided permanent assistance in this matter.

Nevertheless, the actual introduction of the system considered, which is based on the placement in the capital markets of Latin American bank acceptances will require the effective support of the IDB. Analysis of these possibilities has demonstrated the feasibility of and need for such assistance.

In this connection we offer our full support for the Bank to collaborate unreservedly in the implementation of the market for Latin American bank acceptances planned by the LAFTA countries.

The IDB and integration

The Bank, which has repeatedly and under various circumstances declared itself to be the "Bank of Integration" should perform this role in every respect.

We should also like to express our satisfaction that the Board of Executive Directors of the Bank has made progress with its studies con-

cerning the future of the Institute for Latin American Integration (INTAL). This requires a permanent long-term program, so that its fruitful work may increase and it may continue to maintain its important influence on the process of integration in America which so badly needs new ideas and experiences like those which the small group of specialists who make up INTAL have capitalized so well.

Accordingly, and in the light of the results of the study carried out by the Board of Executive Directors, I reiterate that my Government is prepared to continue the financial support which it has been providing to INTAL so as to ensure its full and permanent functioning.

Development is achieved not only on the basis of the financing of programs and works, but also on the basis of other procedures. We consider that none of these should be ignored, not even those which appear unorthodox.

The IDB and Argentina

Every Meeting is an excellent occasion for evaluating the relations between each member country and the Bank. At the Lima Meeting we expressed our concern about our country's limited access to IDB loans and the low percentage of disbursements from the Fund for Special Operations.

One year from that Meeting, the 1971 figures show a positive trend in disbursements for Argentina that is repeated in the loans from the Fund for Special Operations, which are remaining high in relation to the amount lent from the ordinary capital.

As regards new loans, Argentina received only \$74 million in 1971, a figure that is insufficient in all respects in view of the investment effort required and its long-term financing needs.

It is pertinent to note the figures given for all the countries in the chapter of the Bank's Annual Report headed "Economic Development Trends." These show that Argentina is one of the countries which made a proportionately greater savings effort over the past five years, but with the lowest net contribution by external resources. The Report in fact states that Argentina has invested 18.9 per cent of its gross domestic product, but that 99 per cent of this investment was financed from its own savings. The small amount of net external financing received by Argentina, just 1 per cent of its total investment, is only approached by the figures for Venezuela and Uruguay, which financed 4 per cent of their investments with external resources. The rest of the countries of Latin America received substantially greater outside contributions compared with their savings-investment ratio. These figures reflect the constant preoccupation of the Argentine authorities with increasing the volume of credits from international development agencies. It is also opportune to point out that, as of December 31, 1971, Argentina had

submitted loan applications totaling the largest cumulative amount of funds required, which indicates its capacity for absorbing outside financing.

The flexibility of our country in its policy of recognizing the priority which should be accorded to the less developed countries in no way implies that we can remain silent regarding the present distribution of IDB lending. The recent approval of the Futaleufú project and the progress with the Sierra Grande, Salto Grande and Ullúm projects provide grounds for expecting that there will be a substantial improvement in the amount received by Argentina in 1972. In this connection, the visit of Mr. Ortiz Mena to Buenos Aires in October 1971 aroused expectations which have been mounting since then and which were renewed at the second session of this Meeting. We sincerely appreciate the resolute support of the President of the IDB to such programs as those for iron-ore mining and steel production.

Setting forth these requirements does not mean that we are unaware of the importance of the Bank's contribution to our development, although the amounts have been small. We trust that credits approved in the past quarter will permit proper financing of such important projects as those of Futaleufú and the southern gas pipeline. The Futaleufú hydroelectric plant will provide power for the largest aluminum plant in Latin America, while the pipeline will furnish a means for bringing fuels from the far south of the continent. In addition, the scale of Bank assistance with investments in our country will be considerably increased when two highly important projects submitted for its consideration are approved—those of Sierra Grande and Salto Grande.

The first of these involves the exploitation of the vast mineral reserves of Sierra Grande, and is designed not only to supply the Argentine steel industry with the raw materials for its development, which presently have to be imported, but also to bring about a large-scale mining development which we anticipate will be a significant step toward realizing the country's mining potential. This project, combined with those of Futaleufú and the southern gas pipeline, will contribute to the development of America's southernmost region: Patagonia.

The second of the two projects referred to, under study for financing by IDB and which we trust will be acted on favorably in the coming months, relates to a joint venture undertaken with our sister republic of Uruguay to utilize resources common to both countries.

The Salto Grande dam will satisfy the growing demand for electric power of both countries and serve as a symbol of the unity of neighboring nations prepared to work unselfishly in their joint interest.

The IDB and the Argentine Fund

We have noted, Mr. President, from the Bank's Annual Report, that the

disbursements effected for the countries of Latin America do not always achieve the aims set and that one of the chief reasons for this has been the difficulty of providing the local counterpart.

Argentina has joined up with the relatively less developed countries so that the Bank will recognize that their present economic situation calls for preferential treatment and has, moreover, given concrete evidence of its favorable disposition toward them by setting up the Argentine Fund, which permits the financing with outside resources of parts of the local counterpart funds for loans granted by the Bank to Bolivia, Uruguay and Paraguay. The fact that the conditions of this Argentine assistance are the same as those for the Bank's general loans is an expression of our confidence in the multilateral spirit and nature of the Bank.

The IDB and the Board of Executive Directors

The Governor for Peru in his address on the second day of this Meeting made a warm mention of the manner in which Argentina had represented his country to date. I should like to state that it has been a source of satisfaction and an honor for my country to be able to represent Peru, our sister republic, in this Institution, just as it will be to represent the Republic of Chile in the days ahead.

The development effort of our countries is becoming a matter of ever more imperative importance from day to day and no American may slacken in this task, particularly in times when one sector of humanity is achieving technical and economic advances which are rapidly eroding our relative position in the world. However, this development effort also means working for social peace, since this is the same as the peace of the world, and for the culture and all-round improvement of the lot of man, the ultimate beneficiary of all our efforts.

It now only remains for me to express in behalf of my country our gratitude for the generous hospitality of the people and Government of Ecuador and to exhort us to work tirelessly for the lofty goals of cooperation and progress which were set a little over a decade ago with the establishment of the Bank.

**Address by Mr. Gustavo Jarrín Ampudia,
Alternate Governor for Ecuador
and Minister of Natural Resources**

I should like to say once again that the Government and people of Ecuador are deeply gratified because the Thirteenth Meeting of the Board of Governors is being held in our capital city. We trust the results achieved at this Meeting will effectively contribute toward enhancing and raising the capabilities of the Bank and improving the terms and conditions of international financial cooperation.

I wish also to underscore our warm welcome to Canada, whose significant contribution to this meeting has provided further evidence of its constructive spirit and concern regarding the acute problem of underdevelopment now facing Latin America.

In his inaugural address, the President of the Republic of Ecuador, with forthrightness and clarity stated Ecuador's position in regard to the decline in the volume and unfair conditions of international trade. He, moreover, stated the goals and aims of the Nationalist Revolutionary Government, which is now engaged in bringing about profound changes in order to overcome the difficult problems facing the nation's economic development effort.

In the first year of the term of office of Mr. Ortiz Mena, the Bank's distinguished President, the volume of lending reached the highest level since the Bank was founded, and there is evidence of a praiseworthy trend to give growing attention to lending for projects in the agro-livestock sector which needs strong and decisive support because it is one of the cornerstones of the Latin American economies now and in the future. Transportation, communications, electric energy, industry and mining have also been given preferential treatment by the Bank in its lending for 1971. This leads us to insist on the need for the IDB to pay greater attention to the social and urban development sectors, in which the needs are pressing.

In our opinion, the preferential treatment which the IDB has given the relatively less developed countries of the hemisphere has been unsatisfactory. We are confident that this situation will soon be remedied and that the Bank will adopt the policies and mechanisms needed to provide for an increase in the use of the Fund for Special Operations. Furthermore, export financing, technical assistance and preinvestment funds should be provided to such countries on preferential terms.

We believe that the IDB can make an enormously important contribution to Ecuador's development and transformation effort, and recognizing its dynamism and desire to serve, we trust that the Inter-

American Development Bank will become the financial agent of a consultative group that will seek the financing necessary for the full implementation of the Five-Year Plan.

The interest and favorable disposition which the Bank has displayed in cooperating in the execution of major binational integration projects has also been a source of satisfaction, and it is to be hoped that it will provide greater assistance each time, under appropriate conditions, to the endeavors of the Latin American integration institutions, particularly those of the Andean subregion, which constitute dynamic elements for the development of the five participating countries.

We deem it necessary to stress that the lack of financing for exports of manufactured goods, specifically consumer articles, may tend to cancel out the advantages accorded the less developed countries in the regional development programs, placing them at a competitive disadvantage.

Another matter of concern for Ecuador is the excessive delay and complexity of negotiations for loans. Certain loan applications submitted by Ecuador, and by the municipality of Quito in particular, have run into lengthy delays and administrative complexities which have made it impossible to speed up, as would have been desirable, the execution of the drinking water supply program and basic urban development works.

These constructive criticisms must not in any way be allowed to obscure our gratitude for the way in which the IDB has appreciably increased the volume of its operations on behalf of Ecuador, or the not inconsiderable prospects opened up as a result of the interaction between a planned domestic effort with clearly defined development objectives and the experience gained over the years of fruitful relations with the IDB, together with the fact that the country can rely on more extensive and flexible cooperation from the Bank.

Also worthy of recognition are the vigorous efforts made by the Bank to obtain resources from nonmember countries, efforts which are acquiring greater importance from day to day, in view of the present circumstances regarding the financial cooperation policy of the United States to which the distinguished Temporary Governor for that country has referred. In this connection, without downplaying the balance-of-payments problems which have affected the United States in recent years, and its Government's difficulties in expanding the volume and improving the conditions of financial aid for development, we trust that these problems will shortly be overcome, on terms compatible with the internationally contracted objectives and obligations of cooperation. We must also stress most firmly our rejection of any tendency to use foreign aid as a means of pressure or reprisal.

As the President of the Republic noted at the commencement of our

deliberations, Ecuador, under the aegis of the Nationalist Revolutionary Government, is entering upon a new stage in its economic life.

The Government's first act was to plan the type of economy and society desired, setting out the instruments and fundamental measures to be employed. This future economy and society are defined in the Government's plan. We are working to establish a social system that will provide equal opportunities for all Ecuadorans, with a satisfactory growth and a justly distributed income, productively absorb the manpower at present largely unemployed, and enable all parts of the country to share the fruits of development, with the national majorities participating fully in basic decisions. We are starting from a situation marked by historically linked dependence and underdevelopment, which have produced structural imbalances leading to "the existence of an inequitable and backward society, with small groups of oppressors and large oppressed majorities."

It is vitally necessary to seek greater and more effective national integration and to take rapid and energetic action concerning the socially and economically privileged groups which have rendered a creative social peace in the nation impossible. The Government is aware that a process of change has to be all-embracing, which can be achieved only insofar as structural changes are undertaken in the economic, social, political and cultural sectors.

The "Philosophy and Plan of Action of the Government" envisages a genuine agrarian reform designed to modify the structure of land tenure so as to increase agricultural production and to place the land, credit and modern technology in the hands of those who really work the land. A fiscal policy and tax reform will be introduced in order to modernize, simplify and perfect the budget and tax systems, and to boost the level of national savings so as to be able to channel them to the objectives having the highest priority. The financial, banking and credit structure will be reformed in order to prevent inflationary pressures and achieve greater rationalization of the financial flows to the advantage of those sectors whose production best helps to further the aim of increasing the well-being of the Ecuadoran people.

An extensive administrative reform will also be carried out in order to suit the State machinery to the new responsibilities imposed by the construction of a new economic and social order, including strengthening of the planning agency.

We consider that the objectives proposed can be achieved by making proper use of the very special economic situation of the country as a result of the exploitation of its oil reserves, together with optimum utilization of other sectors such as fisheries, forestry and other forms of mining. We are fully aware of the need to prevent the use of our new resources for ostentatious consumption or speculative investment based on a seemingly dazzling situation which may hide or delay needed funda-

mental changes, thus upsetting the national economy and increasing its dependence on decisions made outside its boundaries.

It is accordingly necessary to assign additional resources, especially those from the oil sector, to those fields which have social priority for the country's development.

This is the context in which we consider international cooperation should be placed. Financial assistance from outside is highly important for achieving our objectives, especially the diversification of the economy and the creation of the conditions that are essential if the country is to continue developing in an ever-increasing degree through its own efforts.

On the basis of its "Philosophy and Plan of Action," the Nationalist Revolutionary Government of Ecuador is presently preparing an Integral Conversion and Development Plan for 1973-79 that will set out a series of objectives and goals that are consistent with the aims of the Government's Plan.

The Plan includes, among other things, the following aims:

- The improvement of living conditions in order to achieve not only full development of the people's physical and mental capabilities but also their effective participation in the country's basic decisions.
- A considerable increase in employment opportunities.
- Elimination of the distortions in the structure of the economy and achievement of a better distribution of the population.
- Extensive and rational use of natural resources, and development of education and of scientific and technological research.
- Utilization of the external sector in line with the objectives of national development, which entails, among other things, making rational use of foreign exchange in order to ease the external financing requirements and reduce the country's dependence on outside sources.
- Greater governmental participation in internal and external marketing of main export products.
- Greater participation by domestic savings in the financing of development.
- A broad policy of cooperation in regional and subregional integration efforts with the countries of Latin America.

In the immediate future we hope to be able to count on timely and decisive attention for Ecuadoran applications now under consideration which are intended for the implementation of major projects that will be of national benefit.

I reiterate Ecuador's support for the intentions behind the establishment of the Inter-American Development Bank and its reinforcement,

designed to promote the economic and social development of the countries of Latin America and the strengthening of international friendship and cooperation.

It has been a particular honor for me to express the viewpoints of the Ecuadoran Government regarding the role and action of the IDB in the development of our country at a time when we are commemorating the Sesquicentennial of our political independence and stand at the threshold of a decisive effort toward economic independence and social justice.

**Address by Mr. George M. Chambers,
Governor for Trinidad and Tobago
and Minister of Finance, Planning and Development**

I would like, on behalf of the delegation of Trinidad and Tobago, to express our delight at being in this fine city of Quito as Ecuador prepares to celebrate the one hundred and fiftieth anniversary of the historic Battle of Pichincha and to say to you, Mr. Chairman, and to your people, how grateful we are for the generous hospitality which is being offered us during our stay. Permit me to congratulate you, Mr. Chairman, on your election to the chairmanship of the Board of Governors of the Bank for the current term, which responsibility I am certain you will discharge with distinction.

The Annual Report of the Bank for 1971 reveals quite convincingly that the high hopes we expressed when we installed Mr. Antonio Ortiz Mena in office in March 1971 have more than been fulfilled, and for this I would like to congratulate him and his staff.

I would like, on behalf of the Government of Trinidad and Tobago, to extend our warmest congratulations to the Government of Canada on its attainment of full membership in this institution. We have no doubt that Canada's decision to take the important step toward achieving full membership in the institution is a further manifestation of its interest in assuming an even more significant role in the development of the inter-American system. In our view, the role of Canada will be an important one, not only because of the anticipated increased flow of funds to the Bank but, principally, because of the tremendous value which the advice, experience and stature of that country would have on the affairs of the Bank.

The amendment of the Agreement Establishing the Inter-American Development Bank in order to facilitate the admission thereto of Canada has been a major success for the principle of inter-American integration and has placed the Bank nearer this goal, at least in a geographical sense.

The Government of Trinidad and Tobago has always maintained that there is a manifest distinction between full membership in the OAS and participation in the economic activities of the inter-American system. Such activities might well include participation in the Inter-American Bank, access to hemispheric markets through economic integration schemes, and membership in the Alliance for Progress through CIAP. The admission of Canada to membership in the Bank is in line with this position, and it is therefore in this context that I refer to the position of Guyana, an independent republic on the American

continent which at the present time is a participant neither in the activities of the Inter-American Development Bank nor of CIAP.

We also draw attention to other territories in the English-speaking Caribbean not now independent countries, such as Belize and the Associated States, which we hope in the process of time will also enjoy the benefits of the Bank. Indeed, the support of Guyana, the Associated States and Belize for this principle of inter-American solidarity has been clearly demonstrated by our recent transformation of the Caribbean Development Bank, originally a regional institution comprised of member countries of the English-speaking Caribbean, to include Colombia and Venezuela, neighboring Latin American countries with which we have had long and friendly relations.

We are confident that the Bank, under the leadership of its distinguished President, has the capacity to devise an appropriate formula providing for the participation of these States in its activities.

When my predecessor addressed this distinguished gathering at its last meeting in Lima, he indicated that the central problem facing us in Trinidad and Tobago was the problem of unemployment. This intractable problem which, according to the latest estimates reveals that 60 per cent of the unemployed are under 25 years old, is still with us. The problem is aggravated by the fact that 62 per cent of the unemployed live in and around Port of Spain, the capital city, and unemployment in this area is 17 per cent, compared with the national average of 12 per cent.

It was against this background that he suggested "that the Bank should in this decade of the 70s, and under its new and experienced leadership, make an official commitment to the goal of full employment in its member countries in the shortest possible time. It should be a commitment clear and firm enough to convince all of us that henceforth a concern for the employment implications will influence every policy, every loan appraisal and evaluation. This implies a change in the direction of the application of funds for developmental purposes, towards more concern with the social and employment implications when considering economic growth and viability."

We have previously indicated that the basic objectives of our development strategy are the full employment of our labor force, as well as the diversification of the economy and the greater localization of decision-making. Consequently our fiscal and economic policies have been geared towards the removal of obstacles which frustrate the fullest utilization of our human and physical resources in our development effort.

Permit me to itemize some of the principal elements of our economic policy, a policy which has received full acceptance in our country and which has been designed to ensure the meaningful participation of our nationals.

- We welcome new foreign investment which brings in new technology, expertise, and access to export markets to assist and supplement our development.
- In key sectors of our economy, 100 per cent foreign ownership will not be permitted, and national participation in joint ventures involving new foreign firms must from the very outset be of meaningful proportion.
- Permanent alienation of land will not be permitted.
- All firms, whatever the structure of their ownership, must, in their operation, take effective steps to transfer to nationals the skills, knowledge and expertise required to run the business.
- The sources of investment funds coming into the country should reflect a wide geographic diversification; and, in particular, we seek the participation in our national development of, among others, European and Japanese capital and entrepreneurship, in addition to capital from the traditional sources such as the United States of America, the United Kingdom and Canada.
- Government will take a leading part, including direct participation, to expedite national control and ownership. The Government in turn is committed to transferring assets which it acquires to the citizens of the country in a manner determined by local market considerations.

Recognizing the need for a comprehensive approach to the problem of unemployment, the Government, in addition to its own efforts, sought the assistance of the President of CIAP in 1970, in the preparation not merely of a study, but of a program or series of programs acceptable to the financing agencies for short-term and long-term solutions. This Mission, under the leadership of Dr. Raúl Prebisch, visited my country last year, and we await its report. We confidently anticipate that the Inter-American Development Bank will give its full support where necessary to the execution of recommendations of the Mission.

In the interim the Government has introduced various programs which are essentially short-term in nature, while the more fundamental structural changes are being introduced. These programs include housing construction, the elimination of slums, road maintenance and other public works. In addition, major emphasis is being placed on technical and vocational education, thus enabling our young people to acquire relevant skills.

With regard to our other basic objectives, we anticipate a continuation of the historical rates of growth in the traditional industries in the short-run, but the outlook for the medium- and long-term appears more favorable. There have been new finds of oil and gas in the country, and these will greatly assist our drive to diversify the economy, particularly

the development of the manufacturing sector. New basic industries which are large users of gas either as energy or as a raw material will be encouraged, with the expectation that these industries will in turn enlarge the scope of the secondary manufacturing activities which can be established in the country. As far as the nonmanufacturing sectors are concerned, special emphasis is being placed on activities that are large employers of labor and which maximize the use of domestic resources such as construction, agriculture, fishing, tourism and forestry.

On the whole, Trinidad and Tobago looks forward to a rate of growth in the 70s in excess of that of the 60s. But much of this growth will become evident only in the medium-term.

We shall accordingly require financial support for various programs such as urban redevelopment, reforestation, road development, housing, clearing our waterways, rejuvenating traditional agriculture, rehabilitating the sugar industry, port development, and for the exploitation of the natural assets below and above the ground with which our people have been fortunate to be endowed.

My presentation so far should clearly indicate that the outlook for our balance of payments is good. The country will be able to service a larger foreign debt which at the moment is by no means high. It is sound policy for us, therefore, to plan on the basis of an increase in foreign debt on reasonable terms.

We welcome the statement made by President Ortiz Mena that special attention is being accorded to less developed member countries of the Bank, and we hope that, in the process, a greater flexibility will be introduced in the present body of rules, which by their inflexibility have grossly hampered the fullest development of small developing economies.

The Government and people of Trinidad and Tobago have clearly demonstrated their commitment to solving their development problems, and the Government will not fail to take any measures or pursue any strategies that may be considered necessary to enable the population to realize their full potential for self-improvement and advancement. The active support of the Inter-American Development Bank will greatly facilitate the achievement of these aspirations.

Address by Mr. G. Arthur Brown, Alternate Governor for Jamaica and Governor of the Bank of Jamaica

I have been asked by the new Governor for Jamaica, the Honorable David Coore, who is unavoidably absent because of the pressure of work due to the very recent change of Government, to convey to the Board of Governors his greetings and best wishes for a successful meeting of the Board.

Mr. Chairman, we congratulate you on your election and are grateful for the warm hospitality which has been extended by the Government and people of your very beautiful country. We are particularly happy to have the opportunity to join in the celebration of the 150th anniversary of your nation. In this regard, Mr. Chairman, Jamaica as a very young, independent nation is proud and honored to be a member of an organization which includes countries like yours, whose independence goes far back in history and which can show solid feats of achievement.

The new administration of Jamaica fully supports the objectives and policies of the IDB. The President, the Executive Directors and the Bank's staff are to be congratulated on the Bank's achievements during 1971, especially the new record of lending, disbursements and technical assistance. The emphasis which has been placed on agriculture and economic infrastructure is most satisfactory.

Jamaica appreciates the contribution which the Inter-American Bank has been making to its development. The loan projects which have been approved are being administered in a satisfactory manner. In addition, the Bank's participation, together with the Organization of American States in sponsoring a capital markets symposium in my country this month will improve the environment for attracting both overseas and local private capital in expanding the productive sectors of the Jamaican economy. We wish to emphasize that it is Jamaica's view that private foreign capital can play a constructive role in meeting the developmental needs of the country, the critical factor being partnership with local private and public capital and establishing an atmosphere where both the rights and obligations of the Jamaican nation and of the foreign investors are fully recognized and established.

Like other member countries of the IDB, Jamaica is experiencing chronic unemployment despite commendable growth rates. For this reason we urge that the Bank give special and urgent attention in the years ahead to the need to expand the range of projects which would be eligible for financing by the IDB, and give priority to loans for social infrastructure and projects with high employment content. While it is

desirable for an international development bank to identify and finance projects with a high direct economic return, it is important, on the other hand, in the interest of the balanced development of member countries that such banks take account of the unquantifiable social benefits which are essential if the quality of life of the inhabitants is to be improved. The President's emphasis in his Report on projects of high social benefits is highly welcome. Investment in human infrastructure by the provision of training facilities of all types must be increasingly undertaken if Jamaica and the other less developed countries are to overcome the chronic shortage of skilled and semi-skilled personnel. We recommend that the Bank explore more intensively what action programs it can formulate and implement in this area.

We believe that these views fit easily into the philosophy already adopted by the Bank that special treatment should be given to the less developed member countries. Undoubtedly, this can be done without undermining the integrity of the IDB as a banking institution capable of mobilizing financial resources. The excellent management of the Bank since its establishment has enhanced its reputation and enabled it to mobilize funds. We note that the Bank's funded debt as of December 31, 1971, has exceeded the \$1 billion mark, an impressive figure when looked at in relation to the capital contributions of the member countries.

We are confident that the Bank's management will be able to devise a formula for expanding its lending operations in the area of social infrastructure projects without damaging its financial reputation and borrowing capabilities.

Jamaica welcomes the results of efforts to expand Bank membership and to increase the flow of resources from industrialized countries on a donor country basis. It gives me great pleasure to extend a welcome to Canada, a country with which Jamaica has had historical ties of friendship. I am extremely happy that the Government of Canada has selected Senator Paul Martin, one of Canada's most distinguished sons, and a close friend of Jamaica, to be its first Governor at the Bank.

At the same time, I must express regret that, despite the expressions in this forum on the strengthening of western hemisphere solidarity by the admission of Canada, no way has yet been found to admit independent non-industrialized and underdeveloped countries which form part of this hemisphere. I must mention in particular the Republic of Guyana—a part of the South American continent—which is now excluded from the IDB on purely procedural grounds. Are we to assume that Guyana's place on the hemispheric map is to be unrecognized? That it does not exist?

If a satisfactory formula is not soon devised to accommodate Guyana and other countries in this Hemisphere, such as Belize which is on the threshold of independence, we create the impression that a group of

countries are to be treated as outcasts. The Commonwealth Caribbean is making every effort to cement its relationship with its Latin American neighbors. Clear evidence of this can be seen in the warm welcome recently accorded to the Republics of Colombia and Venezuela on admission to membership of the Caribbean Development Bank some two weeks ago. We must strengthen rather than disrupt this trend, and my Government fully commends to the Board of Governors immediate action to ensure the admission of Guyana to the halls of the IDB.

Another effort at Latin American-Commonwealth Caribbean cooperation is the use of the Caribbean Development Bank as a pipeline or subregional financial institution for channeling loan funds to member countries of the Caribbean Development Bank. We recommend as a matter of priority that the President and his staff examine ways and means of achieving this objective.

Let me close by reiterating the strong support of the new Government of Jamaica for the philosophy of hemispheric solidarity and institutions, such as the IDB, which give full effect thereto.

**Address by Mr. Edwin Rodríguez,
Governor for Bolivia and Minister of Finance**

First of all, I wish to express at this Thirteenth Meeting of the Board of Governors of the IDB, the warm and cordial greetings of the Bolivian people and Government to those attending the Meeting, to voice their concern and, at the same time, engage in discussions with their brothers of this Continent and the friendly countries that unite their efforts in this common undertaking.

We wish to speak in the clear language of those who desire to solve their problems; thus, departing from the conventional protocol that usually prevails in this type of meeting, we shall express our views plainly, simply and clearly.

The people of Bolivia, like all underdeveloped peoples, are struggling to emerge from their backwardness, which is the result of many circumstances: international conditions that determine the price of our export products, forever fluctuating; governments that failed to or did not wish to interpret the wishes of the people; the distortion of our economic process by a traditional model of outward growth characterized by the development of the export sector, while the rest of the economy languished in an undeveloped state marked by domestic consumption of production.

But that majority which languished in the static, inward-looking economy was soon stirred by the workers of the export sector, mainly miners, and in alliance with all other social classes, organized a political party that was and is its most objective expression, and began the first nationalist revolutionary process in 1952.

Those who did not understand this process and those whose interests were directly or indirectly affected, held it up; when they attempted to turn back the wheel of history, false prophets appeared and, with the siren songs of a childish left of the most Utopian stamp, while promulgating the most demagogic decrees and laws to gain a transient popularity, destroyed the country's entire economic system.

The history of my fatherland teaches us that when peoples awaken, either as a result of the "demonstration effect" of more developed countries that use cinema, television, radio, leaflets, magazines with vivid and enviable photographs to show us their progress, or because the people have become more aware, or for any other reason, their demands must be met, otherwise false messiahs appear, preaching the most Utopian doctrines and, after putting their immature plans to the test, destroy all the progress achieved, sinking the country into chaos, anarchy and economic stagnation. All this follows a grossly sectarian

plan, and is accompanied by political terrorism, with arbitrary executions committed under the pretense of representing the people, exercising, without any right whatsoever, an authority that was never vested in them by the people to commit acts of violence and destruction of their homeland.

In the face of this alternative solution of violence, which leads to want and poverty, we must put forward solutions for the problems, at the proper time and with the financing required to overcome the problems of Latin America, to prevent the return of the false prophets.

In view of the foregoing, it is essential that international financing organizations, and most particularly the Inter-American Development Bank, be made more flexible, that credits be granted promptly, under the most favorable conditions for the least developed countries, so that the wise and objective principle set forth in the Agreement of Cartagena, that growth should be harmonious and balanced, seeking to close the gap that separates the big countries from the small, will become a reality in the continent.

Careful study of the Annual Report on the activities of the Bank in 1971 shows the remarkable effort made by its President, Antonio Ortiz Mena, and his staff, for notwithstanding the fact that it was a period of adjustment, the pace of the work has been significantly quickened.

From the same report and the discussions at the previous Meeting of the Board of Governors in Lima, it can also be concluded that, despite efforts made by Bank representatives, all the goals have not been attained, particularly those relating to the anxiousness of the most numerous group of member countries to obtain effective preferential treatment for the less developed countries.

This concern dates back to the purposes set forth in the Charter of Punta del Este in 1961, reaffirmed in various meetings, studies and statements, such as the Declaration of the Presidents of America in April 1967, which precisely stresses the disadvantageous conditions of the less developed countries and the landlocked countries and contains the commitment to help them. Resolution AG-7/68, approved by the Meeting of our Board of Governors at Bogotá, emphatically recommending preferential treatment for our countries, is even more direct. Finally, at the Meeting of the Board of Governors held in Lima last year, at the proposal of 15 countries, Resolution AG-7/71 was adopted, requesting that we be informed regarding the preferential treatment so far accorded to the less developed countries and the new measures to improve and expedite Bank action in favor of those countries within the shortest time possible.

Consistent with this general trend, the President of the Bank, Mr. Antonio Ortiz Mena, became the advocate of this policy in aptly expressing his thoughts in his address to the Meeting in Lima. Because

of its importance I fully endorse the contents of the following excerpt:

The Bank's special contribution to the less developed countries should go beyond the authorization of larger volumes of resources per capita and more favorable loan conditions. We must develop original approaches by means of which this less developed status will serve as the basis for a new direction that can profoundly alter the IDB's operating relationship with those countries. Precisely because it is a development bank, the imbalances in development between countries should serve as a basic parameter in determining the criteria employed by the IDB in granting resources. It would be a flagrant contradiction to acknowledge the diverse degrees of development attained while at the same time maintaining uniform requirements to be fulfilled by the various countries and employing uniform means of satisfying those requirements. The difference in development levels also entails a difference in capacity for identifying, preparing, executing and administering projects, a difference in capacity to absorb financial resources, and a difference in ability to define priorities aimed at maximum national allocation of these resources. Therefore, in keeping with the letter and the spirit of the Agreement Establishing the Bank, we must develop still more flexible treatment for those countries and seek imaginative ways of overcoming obstacles to their progress. We will, of course, strengthen the Bank's physical presence in these countries by providing technical support for the field offices so that they can work in close contact with the public and private sectors and help to raise the number and caliber of projects financed by the Bank. I am sure that the Governors will agree that it is desirable, necessary and fair to give more to those that need more. If this were not the case we could still be a good bank but we would not be a development bank.

This clear and laudable position of the highest representative of the IDB has unfortunately not been shared, at least with the same determination, by all the mechanisms of the Bank, as shown by the results of the annual report, although its chapter, "New Directions," makes an "impressionistic" presentation of the subject.

From 1961 to the present, the 15 small countries barely received 23 per cent against 77 per cent for the eight remaining countries; this might be explained by the larger capacity of the latter countries to receive credits and administer projects; on the other hand, there is no possible explanation for the fact that the percentage of resources of the Fund for Special Operations and the Social Progress Trust Fund lent from 1961 to 1968 to the 15 countries represented only 31 per cent, dropping to 30 per cent from 1969 to 1970, when these funds,

precisely because they are "soft," are intended to favor the less developed countries. This does not mean restricting the granting of credits to the detriment of some countries, but merely seeking a balanced and harmonious development by encouraging the practice of "giving more to those who have less." For this reason, we believe that the measures submitted to this Meeting by the Board of Executive Directors within the new policy of the Fund for Special Operations should be adopted without delay.

However, we wish to stress one fact: the document that contains the new policy of the Fund for Special Operations fundamentally answers the purpose of preserving the concessionary nature of the FSO as a result of the policy agreed to in Resolution AG-4/70. While with this document the Board of Executive Directors improves loan conditions for our countries, it has not fully fulfilled the request contained in Resolution AG-7/71.

Finally, although it is not covered by the 1971 activities, we should feel concern over the fact that of the loans approved from January to March 1972, there are only \$7,500,000 from the Fund for Special Operations against \$76,150,000 from ordinary capital resources, thus confirming the dichotomy between good intentions and actual results.

Another aspect to which we should like to refer is that relating to the multinational character of our institution. In this connection we should note that the inspiration of our founders led to the setting up of an Inter-American Bank to speed up the economic development, individual and collective, of the member countries; in other words, an Inter-American Bank proper and not a Bank for Latin America, as it has sometimes been interpreted. This is more than just a subtle difference; it is a matter of making it quite clear that the IDB is not a majority partner's bank set up to help the minority partners, but a bank of all the partners to assist the economic development of the member countries. It is not a bank where some ask and others give, but a multinational bank where everyone jointly administers a common fund. On this we wish to lay special emphasis: fundamentally, the IDB is a multinational financial institution in which, with a greater or lesser contribution by all the member countries, a common fund is administered under the general responsibility of all the partners. It is an institution in which above a discrimination based on the capital contributions of its members, the basic equal rights of all are recognized to represent and run the Bank and to obtain financing independent of all pressures. It is, therefore, a Bank *sui generis*, administered by its own borrowers, who accordingly have to put the greatest possible zeal in running it.

As a corollary to the foregoing, in viewing our Institution as an international financing agency established to contribute to the development of our peoples, its development ought to be unaffected by the

influence of the contributors; in particular, the programming of credits should be above the idea that the countries must receive loans in relation to their contributions, since these contributions only indicate the percentage which each partner or member contributes to the Bank and not its proportionate share in the Bank's operations, be they termed credits or functional integration. Let us always bear in mind that we constitute a common enterprise with a philosophy of a high order of solidarity, and not just an ordinary bank with shares and dividends.

Regarding the organization of the Bank, we concur that, while its basic structure was, and in a large measure continues to be, appropriate to the requirements of its operation, certain changes are now called for that will make it more effective and give it greater impact.

We know that the Board of Executive Directors has been considering this matter and we therefore believe it to be the right time to request the Governors to consider a prior suggestion put forward by my country and supported by the Government of Uruguay, at this very Meeting, to the effect that the Board of Executive Directors be asked, in the exercise of the powers assigned to it by the Agreement Establishing the Bank, to appoint, from among the less developed countries, a Vice President in charge of programming credits which, in addition to helping to achieve the purposes of the Bank, would give those countries an active part in programming the credits they themselves receive, both because they know their own needs best and because in this way the multinational nature of the management of this common Institution of ours, the Bank, would be reaffirmed.

As regards the action of the Bank in the field of integration, and taking into account the not very encouraging results achieved over recent years, we believe that a new, more active approach to cooperation with bodies such as the Andean Development Corporation, which by their flexible organization demonstrate that they are suitable instruments for the IDB, by using them, to arrive at the type of operation which by itself alone, and owing to its structure and the limitations imposed by its Charter, it cannot carry out itself. Similar support should be given to CEMLA on account of its resolute action. The IDB should also give serious study to the need to act as guarantor and, when occasion arises, to discount paper issued by our countries, under international agreements, in promoting exports of nontraditional industries or products.

Another aspect that I should like to emphasize is that the IDB, as the agency charged with financing the regional development programs, should convey to the agency responsible for world monetary policy, in an amicable manner, our concern about the problem of the redistribution of international liquidity, since the large countries, who are permanent creditors, are increasing their reserves to the obvious detriment of the small countries, whose reserves steadily shrink. We believe

that one of the causes of the present crisis is the accumulation of international liquidity by a few big countries to the lasting loss of the others.

In this matter of the redistribution of international liquidity, we would leave it to the IDB to suggest, on an amicable basis, judicious solutions which, in our opinion, could include a redistribution of liquidity through greater investments in the less developed countries and those of insufficient market, in the production of goods of a dynamic nature, which can be marketed worldwide and thereby contribute toward improving their balances of payments.

The fields of cooperation are vast and the IDB is equipped to exploit them. We must give our Bank a technique and a philosophy of flexibility, since our peoples are losing patience because of the "demonstration effect" generated by the big countries, and if these have sparked off the impatience of our peoples, they have a duty to help achieve the goals proposed.

We cannot, therefore, set aside the solution of problems while awaiting the formulation of sophisticated programming plans; we have to set to work at once to find solutions to problems that brook no delay.

We have faith in what our Bank is doing and can do and we would like every member of its staff to share this faithfully.

The Government of Bolivia emphatically supports the dynamic thinking of the President of the IDB, Mr. Antonio Ortiz Mena, and his Board of Executive Directors, for it believes that it is consonant with the actual and pressing circumstances of our peoples.

We also unreservedly support the intention of setting up true Bank agencies in the relatively less developed countries and in those with insufficient market, so that they may basically provide two types of necessary services: general technical assistance and project preparation and appraisal.

I want to state for the record that Bolivia will cast its vote in favor of holding the Fourteenth Meeting of Governors in Jamaica in 1973. We also support the motion of Chile that the Fifteenth Meeting of Governors in 1974 be held in Santiago, and we should like to have the record show that Bolivia would like the honor of being host to the Sixteenth Meeting of Governors in 1975.

We are confident that this request will be well received by all our sister republics of the Americas, for Bolivia has not yet had the opportunity of extending its hospitality to the Governors of the Bank and is, therefore, entitled to the privilege of receiving them with the warmth and generosity which characterize its people.

Before concluding my remarks, I would like to express, on behalf of the Bolivian Government and people, our deep satisfaction at the presence of the distinguished representatives of Canada, for we believe

that the entry of that fine country into the Bank will enable us to face the serious problems of underdevelopment more effectively.

Speaking for my delegation and for myself, I wish to express our gratitude to the authorities and people of Ecuador for the splendid hospitality they have shown us, which is only in keeping with the noble traditions of the city justly called the Light of the Americas.

The impressive and majestic setting evokes our countries' common past as parts of the Inca empire, extending to the Battle of Pichincha, the sesquicentennial of which we are celebrating and which forms a highlight in the epic of Simón Bolívar, the Liberator, and his great Marshall, Antonio José de Sucre, mention of whose name fills us with deeply-felt and shared emotion and with the desire to express once again our gratitude to our generous brothers from Ecuador.

ADDRESSES

FIFTH PLENARY SESSION

MAY 12, 1972

CLOSING SESSION

**Address by Mr. Antonio Ortiz Mena,
President of the Inter-American Development Bank**

As our work draws to a close, I wish to express my gratification over the results achieved at the Thirteenth Annual Meeting of the Board of Governors, which was carried out under the intelligent and tactful presidency of the Minister of Finance of Ecuador, Néstor Vega Moreno. At this time I would like to reiterate our thanks to Minister Vega Moreno for the many courtesies which have been bestowed on us during our stay in this beautiful city and I also wish him every success as he carries out his important functions. This meeting has had a rich harvest of important agreements, which will have historic significance for our organization. Among these I might mention:

- The entry of Canada, which has consolidated the continental nature of our Bank and marks the beginning of a new stage that will be characterized by the participation in the Bank of a growing number of capital-exporting countries.
- New policy guidelines have been approved for the Fund for Special Operations which include preferential treatment for the less developed nations, thus converting a long-cherished desire of those countries into reality.
- A resolution regarding the maintenance of the value of the new resources of the Fund for Special Operations has been adopted, thus clearing up and facilitating the procedure for increasing the resources of the Bank.
- Furthermore, the Meeting has approved regulations establishing the procedure to be followed in the future for electing the President of the Bank.
- Significant progress has been made in the work of the Special Committee of the Board of Governors which is considering the conditions under which non-member countries may associate themselves with the Bank.
- A change in the structure of the Board of Executive Directors has been approved and new members who will take office on July 1, 1972, have been elected. I avail myself of this opportunity to congratulate them and to express my best wishes for the success of their work. I also wish to thank the Executive Directors whose terms of office have ended.
- The delivery of the Inventory of Physical Integration Projects in Latin America to the Governors strengthens the decision of the member countries and of the Bank to support the regional integration process.

- The Governor for Mexico transmitted his country's offer to subscribe up to \$25 million in Inter-American Development Bank bonds, if the other Latin American countries of great economic capacity do likewise. The latter countries have expressed their agreement, in principle, with this proposal. Thus, there emerges a gesture of solidarity which will strengthen Bank action to the benefit of the entire region.

At this Meeting the discussion has been frank, and sometimes blunt, but it has always been a discussion among friends. I thank the Governors for their comments and suggestions, and particularly the President of Ecuador for his remarks and statements. Dignified and constructive self-criticism is vital in ensuring the sound development of our organization. The Bank was founded twelve years ago as the concrete expression of a changing trend in international public financing. Since then, we have shown a great capacity for innovation because we are aware that change is the characteristic of our times.

I am sure the Board of Executive Directors will analyze each and every one of the remarks made by the Governors. In a first necessarily general overview, I wish to refer to several comments made by the Governors, grouping them by subject into three major categories: the nature and objectives of the Bank, organization and operations and fields of action.

Nature and objectives of the Bank

Several Governors referred to multilateralism as one of the essential characteristics of our Bank. I maintained in my first statement that it is each country's responsibility to safeguard and strengthen the multilateral character of the Bank. I have a moral obligation to repeat this, for I am convinced that our *raison d'être* as a regional development bank depends on our preserving or losing that character.

It is natural that differences should arise among the partners of the Bank owing to the different view that each has of his own interests and even of the concept of development. It is inevitable that these positions should influence the behavior of each country, and it is desirable that they be clarified in the pertinent organizations. Nevertheless, as a development bank, we cannot become an arena for political confrontations nor an instrument of ideological persuasion, for we would then cease to be what we should be—a financial mechanism whose decisions should be based strictly on technical, economic, financial and social considerations. Our only political standard is unswerving respect for the sovereignty of every member state, large or small.

Nor should we become a sounding board for the discussion of purposes other than the affairs of the Bank.

The multilateral character of our organization has other connotations

that I wish to stress. The increase in the number of developed member countries and the diversification of its sources of funds will tend to mitigate conflicts that arise when only one country is in the position of lender. For this reason, Canada's entry into the Bank not only represents greater financial availabilities, but also the beginning of a process which has profound significance for the establishment within the Bank of a sounder relationship between the industrialized countries and the borrowing countries. The presence of capital-contributing countries with different political concepts, economic structures, cultural values and international tendencies will confer on our Bank a wider diversity in unity and even facilitate relations with the country that has generously been the largest contributor of funds to date.

That is why we view with very great interest some form of association with European and Asian countries, for we are convinced that their knowledge and understanding of the Latin American situation will make it possible for them to participate in the Bank without detriment to its regional character. The preservation of this character will be the primary responsibility of the Latin American nations.

The Bank's multilateral nature implies also a special type of relationship with the borrowing countries. As a fundamental condition for maintaining a constructive relationship, it is necessary to recognize the growing pluralism that characterizes the political, economic and social regimes existing in the region. The acceptance of this fact makes it necessary for us to regulate our relations with the different member states in accordance with those different patterns, on the clear understanding, however, that the programs and projects presented for financing to the Bank will be appraised according to their technical, economic, financial and social feasibility.

In this regard, we should bear in mind that the financial soundness of the Bank and its loan portfolio is subject to constant appraisal when it has recourse to capital markets. Our Bank's capacity to maintain its prestige in those markets redounds to the benefit of member states, not only in regard to the amount of resources it can mobilize but also in regard to their cost and other terms.

Along these lines, I need to stress another basic aspect stemming from the nature and the objectives of the Bank. The IDB is not a distant organization which grants financing for isolated projects, without thought for their influence on a country's economy or its society. The aim of our Bank is to walk together with our member countries and thus make a qualitative contribution through its aid to their development goals and policies, to the preparation of sector programs or the drafting of specific projects. This function is as important as the transfer of financial resources to member countries. We will continue to finance specific projects, we will continue to increase the volume of resources we channel to our members, but, above all, we will continue

to give our cooperation so that the countries may define their development goals more precisely, so that they may draw up consistent programs in specific fields of economic and social development. With this over-all approach—which is no obstacle to precise definitions—we are inaugurating a new language in our relations. We no longer speak only of a loan for a given industrial plant, for a hydroelectric dam or for any university in particular. With increasing frequency we are involved in implementing programs of a broader scope that seek to provide a solution in all aspects of a specific sector or field.

Obviously, this more ambitious conception implies a redefinition of our functions as a regional organization, within which activities designed to attract the participation of other sources of external financing acquire special importance. Thus, the Bank should be prepared to serve increasingly as a financial agent or as a coordinator of consultant groups, and it should strive to find new formulas to attract more external resources to promote the region's development.

In this regard I have noted with great interest the proposal of the President of Ecuador announcing his intention to request the Bank to resume its activities as financial agent for the mobilization of the external resources that will be required for the new development and transformation plan of this country. The Bank is ready to study with the Ecuadoran authorities how it can best give its cooperation.

Organization and operations

Earlier I affirmed that one of our Bank's characteristics has been its permanent capacity for innovation. We are currently engaged in changing the internal organization of the Bank in order to meet the requirements of regional development at the present time. We are determined that this reorganization bring about a closer link with the differing realities of each of our member countries.

If reasons of a financial nature led the member countries to choose the city of Washington as the headquarters of the Bank, equally imperative reasons of operating efficiency demand a more vigorous presence of the Bank in their countries. Hence, we need to strengthen the offices of our representatives so that they may perform duties now carried out at headquarters and so that they might cooperate closely with the countries in identifying and promoting projects, in preparing loan applications and in administering loans and technical assistance.

Other changes are also required in the structure of the Bank to achieve a better functional organization, in both technical and administrative aspects, and to make it possible to decentralize activities to the offices in the member countries without, of course, losing the operational unity of the IDB. This internal change is necessary and urgent. I must confess that until now the reorganization has been delayed by a

lack of consensus among the member countries. The authorities of the Bank therefore require a prompt decision to enable them to carry out this task in accordance with the general guidelines set by the countries, but without conditions that will hinder the finding of a functional solution.

With regard to the internal reorganization of the Bank, we are considering various measures to speed up negotiations and simplify operating procedures in all its fields of activity and we have already established procedures to review loan applications before starting their formal appraisal, to ascertain whether they are in accordance with the policies of the Bank. Some important aspects of this work are linked with the reorganization of the IDB and depend on it. I believe there is much that the Bank can do to deal more rapidly and promptly with applications from its member states. But with equal sincerity I am forced to state that in many cases the delay in processing loans is due to deficiencies in the applications submitted. Frequently those applications are accompanied by projects that are not well formulated and, consequently, much time must be spent in helping the countries to correct them or complete them. These delays cannot be attributed exclusively to the Bank. With similar frankness I must say that some of the loan applications we received are obviously not geared to national priorities and lack a well-founded technical, economic, financial or social justification. We trust that the technical strengthening of our field offices will facilitate the efforts being made by the countries so that the applications submitted to the Bank will contain all the data required to ensure rapid processing.

Fields of activity

The Governors referred to a wide range of subjects that form part of the activities of the Bank. Although I cannot mention them all for lack of time, this omission does not mean that I ignore their importance. In many such cases, as for example, in education, health, tourism and fisheries, the Bank has developed increasingly intensive activities.

Industrial development and export promotion

As I noted in my first address, industrial development and expansion and diversification of exports are closely interrelated fundamental activities having high priority. I should like to underscore now certain concepts which take into account the observations made by the Governors.

The highly peculiar characteristics of these activities impose requirements which are difficult for the external financing agencies to meet. The promotion of industrial development entails the need for technical

and financial instruments which may be used for promotional purposes ranging over numerous activities from the identification of industrial investment opportunities to the organization of strong and efficient enterprises able to compete with producers in other regions. Operations such as underwriting, subscription of share capital and the granting of financing for working capital are also required. Our Bank is barred from operations of this type by its Establishing Agreement. This is why the Bank has made a thorough study of the subject with the assistance of a group of experts. The relevant report was submitted to the Governors just before the Lima Meeting and it is up to the member countries to decide how we should proceed in this important field. At this time all I shall do is repeat the need for an early decision, so that the region might be endowed with effective instruments for promoting industrial development.

When I spoke before, I also stressed the need for national enterprises of larger size and greater technical and economic potential as an essential requirement for exporting manufactured goods. At this time I only wish to add that the multinational enterprise—that is, an enterprise organized with the participation of two or more countries of the region—can be a most appropriate type of solution, particularly for the relatively less developed countries and those of insufficient market which participate in economic development schemes. In this connection, the Bank will consider with the greatest interest its possible collaboration in projects which will lead to the organization of multinational enterprises, either directly or in cooperation with other bodies such as the Andean Development Corporation, the Central American Bank for Economic Integration and the Caribbean Development Bank. It is relevant to note that the Bank has various binational projects under study; these would be financed by loans that would eventually be made to *ad hoc* bodies representing the two countries concerned.

In a number of addresses, various Governors emphasized the importance of expanding and diversifying exports. It is apparent that our countries have arrived at a very clear realization that the weakness of the external sector is a decisively important factor which limits and retards the economic development of the region. I referred to this matter in my first speech in which I pointed out the measures we are studying to intensify the assistance which the Bank can offer member countries to promote their exports. Here I only want to refer to a move by the Central Banks of the region to establish a system of bank acceptances aimed at financing Latin American exports. This is an important initiative which demonstrates the interest of our countries in the subject. For our part, we shall study this proposal to determine its feasibility and to ascertain whether the Establishing Agreement and By-Laws will allow its participation.

Technical assistance

The Bank has made a praiseworthy effort to intensify its efforts in the field of technical assistance, either through programs financed with its own resources or acting in coordination with other international organizations, especially the United Nations Development Programme, the Organization of American States, the United Nations Food and Agriculture Organization and the United Nations Industrial Development Organization.

The technical assistance furnished by the Bank is oriented primarily toward increasing investment in priority fields, improving its quality and achieving a higher degree of coordination between complementary investments. It is our firm intention to strengthen the technical assistance provided by the Bank and to organize these activities in such a way that they will constitute an effective instrument for supporting the member countries in their efforts to improve their capacity for absorbing investment resources, both local and external. As I have already stated, the Bank's action in this field will be expanded by the \$15 million fund placed at its disposal by the United States Government.

To intensify and make more effective the Bank's cooperation in this type of activity, I insist it will be essential to strengthen the technical capacity of its offices in the member countries.

Urban development

Several Governors mentioned the serious problems arising in Latin America from the rapid and haphazard growth of the cities and stressed the need for the Bank to give preferential attention to this matter.

I fully share this concern of the Governors. We have already drawn up a policy which is sufficiently flexible to enable the Bank to work with the countries in tackling the main elements of the urban problems. The Bank's cooperation is extended in three ways: through technical assistance for the planning of urban development; through preinvestment loans to finance the preparation of projects which form part of the comprehensive development of cities and, finally, by financing urban economic and social infrastructure projects, all in the context of a master plan for urban development. By so doing, the Bank has given increasing strength to a policy which provides for the financing of comprehensive urban development programs embracing every aspect of the infrastructure and services that, taken together, determine the quality of life in the cities.

Recently, countries have shown interest in projects of this kind. This enables us to foresee that the Bank will be starting a considerable program of activities in the field of urban development.

Protection of the environment

I cannot fail to make special mention of the views expressed by the President of Ecuador regarding the need to protect the quality of the environment. We fully share these views. We are aware that concern for the environment should be a factor in the preparation of all economic and social development projects. That is why we pay special attention to this aspect in the appraisal of projects. The Bank is prepared to grant technical assistance to member countries for the formulation of national policies and for the drawing up of specific projects designed to prevent development from leading to the repetition of the errors committed by other countries. In the same way, we consider possible the use of soft resources to meet the additional cost entailed by the adoption of environmental protection measures, even in regard to projects in the productive sectors.

The agricultural exports of the region

I take this opportunity to refer to a matter over which I am deeply concerned: agricultural development, with special reference to what is happening to exports of this highly important sector. In our deliberations at this meeting, we have examined the behavior of various key sectors of the regional economy, particularly industrial development and the promotion of nontraditional exports. There is no doubt that the achievement of a more dynamic rate of expansion of regional exports will depend basically on the diversification of our foreign trade and on the opening up of markets for new products which should come substantially as a result of the growth of regional industrialization. Now I wish to note the serious situation arising from the unsatisfactory trend of our exports of agricultural and livestock products. We cannot overlook the fact that these products, if we include sugar, represent almost half the total value of Latin American exports and that over 40 per cent of the active and an even higher percentage of the total population of the region is concentrated in the rural sector of our countries.

It should also be noted that Latin America's declining participation in world trade has been due largely to the poor behavior of important traditional exports such as coffee, sugar, cotton, wheat and meat. Thus the share of Latin American exports in world trade in agricultural products dropped, in fact, from 20 per cent in 1955 to less than 14 per cent in 1969.

This situation is all the more serious viewed from the standpoint that the relative loss of markets has occurred not only in products which have experienced periods of oversupply in international markets—such as coffee and sugar—but also in others—such as beef—for which the demand has expanded considerably.

Furthermore, imports of agricultural products by Latin American countries have been growing at an accelerated pace and in some cases have become a heavy burden on their balances of payments. In certain cases domestic production of the items concerned might be expanded efficiently if suitable conditions were created for so doing and, in others, intraregional production could lead to a reduction of purchases from outside, thus helping to further our goals of economic integration.

The problem of foreign trade in agricultural products certainly cannot be dissociated from the whole complex phenomenon of the backward state of our rural areas. Of course, it would not be efficient—nor do I believe it would be advisable—to think only of promotion measures designed to overcome the obstacles to exports of agricultural products. This approach would help to widen the serious gap which already exists between commercial agriculture and traditional farming and its benefits would not be extended, as desired, to the bulk of the rural population.

The relative stagnation of Latin American agriculture is due to many factors, and this is not the occasion to analyze it in detail. However, it is worth mentioning that while the relatively small increases in the agricultural production of Latin America have been due to the larger area cultivated, in other regions—in both developed and developing countries—there have been substantial increases in productivity per acre and per worker.

Data available for 12 important Latin American products (among them cereals, cotton and tobacco) representing approximately 50 per cent of the region's total agricultural production, show that the average increase in yields per acre of those products during the periods 1957–59 and 1966–68 was only 4 per cent in Latin America, as compared to 29 per cent in the developed countries, 20 per cent in Africa and 15 per cent in East Asia and the Near East. For instance, average yields of corn—a cereal very widely grown in Latin America—are less than one-third of the yields obtained in the United States and Canada, and only about two-thirds of the yields in East Asia and the Near East. Recent FAO research shows that per capita productivity in the agricultural sector of Latin America, taken as a whole, has dropped during the past decade. I need not stress the grave import of this.

The considered opinion of experts is that Latin America is capable of substantially increasing agricultural production for the domestic market and, in certain lines, for export. Particularly in the latter respect, the progress achieved will depend mainly on improved yields and productivity that will make possible successful competition in foreign markets. The great potential of these increases is shown by the difference, often from 300 to 500 per cent, between the yields of traditional farming and the more efficient commercial agriculture, as well as by the differences observed between regions having similar ecological characteristics.

It is frequently said that improvements in productivity will but aggravate the unemployment problem in the rural sector. This is not necessarily so. Many technological advances call for greater use of labor for rational utilization of inputs such as irrigation, seeds, fertilizers and pesticides and the application of more advanced farming methods in the proper preparation of soils and their conservation, in crop rotation, etc. Furthermore, improved and more intensive use of available labor can be applied to the exploitation of under-utilized land and water resources.

The deficiencies in regional agricultural productivity form part of an even more complex picture, if we bear in mind the many basic factors that hamper the development of this sector, such as inefficient land tenure systems, lack of suitable marketing channels, insufficient warehouse and transportation facilities and the scant development of processing activities. The result is a very low average income in the rural population, which accounts for only one-fourth or one-third of the average domestic income, even including the commercial agriculture sector. The situation is even worse when traditional agriculture only is considered.

What is needed to attain the goals of reviving the region's agriculture is an overall strategy in each country that will at the same time include financial incentives such as an appropriate price policy, a consistent effort to eliminate the fundamental obstacles mentioned earlier, and, above all, much more extensive preinvestment work than up to now.

The fact that 25 per cent of our cumulative loan portfolio is for agriculture shows the priority assigned to this sector by the Bank, and, in line with the needs indicated, we shall be ready to increase our support to national efforts in this field.

In this context, with regard to irrigation, regional development, land settlement and agrarian reform programs, for example, the Bank will seek opportunities for implementing integrated programs in which the financing of capital investments will be tied in with other aspects, such as a more efficient use of human resources, technological progress and experimentation, institutional development and the interrelationship of agricultural programs with related processing industries and with the various services required. Likewise, the Bank will intensify its present policies designed to ensure that its financing of capital works is suitably accompanied by other necessary requirements to guarantee its most efficient use, such as extension and credit programs, which are vital adjuncts for obtaining improved efficiency and productivity.

An increased emphasis by the Bank on promoting rural development will also call for greater support to member countries in the preparation of projects and in carrying out sector studies that will make it possible more effectively to determine priorities and comprehensive approaches to deal adequately with the various factors involved.

The Bank must also seek means to promote more ambitious and, at the same time, practical programs of research and adaptation and application of new agricultural technologies in cooperation with the existing national or regional institutions.

This Meeting, in its results and in the open and constructive spirit of its deliberations, reaffirms the purpose of regional cooperation that guides all member countries, and reiterates the unswerving support they have been giving the Bank. These constitute the essential basis for making the IDB an increasingly effective instrument in supporting the task of development and economic and social change in which all of our countries are engaged.

**Address by Mr. Augusto Contreras Godoy,
Alternate Governor for Guatemala
and President of the Bank of Guatemala,
on Behalf of the Delegations**

I should first like to express my gratitude for the distinction conferred on me by the delegations attending the Thirteenth Meeting of the Board of Governors of the Inter-American Development Bank in appointing me to address the following words on their behalf.

I am sure that I convey the unanimous feeling of the delegations in expressing to the generous people and to the illustrious Government of Ecuador our sincere gratitude for the importance and dignity which they have given this meeting, as well as for the many courtesies and facilities they have extended to us to assure its success.

We, the visiting Governors and Delegates, feel honored because we have been given the opportunity of joining Ecuadorans in celebrating the sesquicentennial of the Battle of Pichincha—one of the most glorious dates in the history of our peoples' struggle for freedom and independence.

The deliberations of this Thirteenth Meeting of the Board of Governors have demonstrated once more that in pursuing our collective endeavor to achieve economic and social development we are faced with constant change, and this change is reflected in our Bank in its capacity as the principal instrument of financing in the region. It is against this broad panorama of change that, in keeping with Latin America's view, the Inter-American Development Bank is now strengthened with the accession of Canada. In offering a warm welcome to this important new member country, the Board of Governors has unanimously expressed its conviction that Canada will make a significant contribution to the future growth of our Bank.

It is hard to compare the accomplishments of this Thirteenth Meeting of the Board of Governors of the IDB with the results of past meetings. Generally speaking, it may be said that at each of our annual meetings we have taken important steps to strengthen our Institution and, thereby, enhance the solidarity of the hemisphere. I believe, however, that at this meeting in Quito the debates on the internal operations, financial policy and institutional independence of the Inter-American Development Bank have been highly significant. I should like to refer briefly to each of these three general aspects of our deliberations.

In respect to the IDB's operating procedures, several Governors have emphasized the need for a review of its internal guidelines, now

that the Bank has attained a degree of maturity that enables it to operate with greater flexibility and efficacy. We have been pleased to note that the President of the Bank is himself interested in evaluating the organization as it now stands, in seeking solutions to the many operational problems that naturally beset an institution whose operational complexity and financial responsibilities are constantly growing. This willingness of the management and the Governors to engage in self-criticism is a very healthy sign, and can only lead to satisfactory results for all member countries.

As for the Bank's financial policies, we have seen, year after year, that the discussions at the annual meetings of the Board of Governors reflect a constant concern with overcoming immediate obstacles and drawing up long-term goals so as to augment the capabilities of our Institution. At this meeting in Quito several Governors have made proposals and suggestions of far-reaching scope. Emphasis continues to be placed on efforts to extend and diversify the IDB's operations and to redirect its activities mainly for the benefit of the relatively less developed countries. To accomplish the latter goal, we have at this meeting adopted a major resolution: to implement, as soon as possible, new policy guidelines providing for preferential treatment—in the utilization of the Fund for Special Operations—of the relatively less developed countries and those of insufficient market. Important proposals have been put forward for expanding the Bank's activities in the field of export promotion, which undoubtedly is the key to stepping up the pace of economic development in most member countries. We have also been pleased to hear of the renewed interest in having the IDB bring its resources to bear in order to effectively advance economic integration in Latin America. Furthermore, the Governors have given firm support to the efforts of the Management of the Bank to expand and diversify its financial resource base in the capital markets.

Finally, with regard to the political independence of the Inter-American Development Bank, this Thirteenth Meeting has made it possible to reaffirm the concept that the IDB must steer a course of its own as a multilateral financial organization, above and despite political pressures, whatever their source and however justified they may appear. Now that it has grown to maturity, the future of the IDB can be assured only in terms of its performance as a genuinely independent and multilateral organization which remains above the diverse political and ideological tendencies of its member countries. It is a further source of satisfaction to note that this institutional policy is upheld by the President of the Bank as well. His statements in this connection have met with a satisfactory response from the Governors, who are aware that this is a grave responsibility that devolves equally on the Board of Governors and the Management of the IDB.

Because of their importance, I should like to mention some specific

topics that have been discussed at this Meeting of the Board of Governors. We have extended the term of the Special Committee of the Board of Governors up to the time of the next Meeting in order to allow the Committee—whose work has already yielded positive benefits—to carry on its efforts to raise the IDB's capabilities by providing for the accession of those nonregional nations that have already shown interest in joining the Bank as full members.

At this Meeting of the Board of Governors we have had the pleasure of receiving the Inventory of Physical Integration Projects in Latin America which was prepared by the Bank in a joint effort with national and regional organizations. As the President has told us, the study identifies more than 600 projects whose total cost is estimated at \$14 billion. These figures alone demonstrate the enormous task that lies before us if we hope to achieve the physical integration of Latin America. Aside from its importance for each and every one of our countries, the study shows clearly that the IDB has finally moved to the stage of investment project identification. Therefore, we unrestrictedly support the Management's decision to regularly update the inventory.

We must not neglect to mention a suggestion made during this Meeting to the effect that a study should be made on the possibilities of instituting a mechanism to provide timely and expeditious assistance to member countries faced with emergencies caused by natural disasters. Given the deep-seated social and humane component of the IDB's mission, we are sure that Management will address itself to this task.

Finally, I should like to refer to the fact that the multilateral realignment of exchange rates has had some effect—as was to be expected—on the maintenance of value of the resources of the Fund for Special Operations, especially on the latest increase in the Fund. In order to facilitate the process of adding resources to the Fund, the Governors at this Meeting adopted a resolution—amending the one of 1970—which gives the Bank the flexibility to accept payment from a member country in terms of the par value of the United States dollar in the International Monetary Fund on the date payment is due.

In closing, I wish to congratulate my distinguished colleagues—the Governors—the Executive Directors, President Ortiz Mena and his staff, for the many activities they have performed and the industriousness with which they have worked to make this Thirteenth Annual Meeting of the Board of Governors another success in the annals of the Inter-American Development Bank. I also wish to extend my special congratulations to the distinguished Minister of Finance of Ecuador and Chairman of this Meeting under whose skillful direction we have accomplished our task with efficiency and in the exalted spirit of inter-American brotherhood. To the citizens of Quito and the authorities of this sister country, we convey, on behalf of the Governors, our sincere gratitude for the auspicious setting which they afforded us to bring our deliberations and labors to a happy conclusion.

**Address by Mr. Néstor Vega Moreno,
Chairman of the Board of Governors,
and Governor for Ecuador and Minister of Finance**

At the close of the deliberations and work of this Thirteenth Meeting of the Board of Governors of the IDB, it is appropriate to make a rapid survey of the results obtained in order to determine the significance of this Meeting.

This Meeting has rightly been characterized as an historic one, and one of extreme importance, because of the accession of a new member to this inter-American financial community. With the admission of Canada, which has been received with applause and with expressions of great satisfaction from everyone here—each of the Governors, the officers of the Meeting and of the Bank, and the Republic of Ecuador—the map of the IDB has been considerably enlarged, since it now embraces the American continent from pole to pole. For a bank, new financial resources are always important, but even more important is the fact that Canada's entry means that that country has shown understanding for its sister countries in Latin America and the Caribbean, and manifested its desire to embark on the same ship of destiny. In union there is strength, as the popular motto has it, and the peoples of the Americas have joined together to march with strength and resolve toward the goal of economic and social development.

Resolutions of vital importance have been passed at this Meeting to guide the future operating policy of the Bank. Among the most important of these, I must refer to that relating to the use of the Fund for Special Operations—New Policy Guidelines and Preferential Treatment for Economically Less Developed Countries—contained in document AB-300-R, adopted at the Fourth Plenary Session, recommending that the Board of Executive Directors implement those guidelines as soon as possible. Under the new policy, at least 30 per cent of all loans granted to relatively less developed countries must come from the Fund for Special Operations, which must be paid in the same currencies lent; these loans will bear interest at a rate not exceeding 2 per cent and will have a grace period of from 7 to 10 years for the less developed countries and amortization periods of between 30 and 40 years. Finally, the loans granted with these funds will cover up to between 80 per cent and 90 per cent of the total cost of the project in the less developed countries.

In this way, this Meeting has achieved a permanent aspiration of the countries in question, one that they had repeated at several meetings, including the present one. The Governors have thus shown great understanding for the development needs of the less advanced nations.

The resolution designed to amend Resolution AG-12/70 with respect to the maintenance of value of the additional resources of the Fund for Special Operations, ensures that the value of the IDB's resources is safeguarded against all risks of inflation. All payments from a member are to be made in an amount which, in the opinion of the Bank, is equivalent to the full value, in terms of the par value of the United States dollar in effect in the International Monetary Fund on the date when payment is due. In addition, the currencies of all the members held by the Bank will be subject to the maintenance of value provisions of the Establishing Agreement. This provision is of vital importance for an Inter-American Bank holding its funds in the currencies of all the member countries.

The resolution concerning the adoption of regulations for the election of the President of the Bank lays down practical procedures for future elections.

A new Board of Executive Directors has also been elected at this Meeting. I congratulate the gentlemen elected and wish them success in their work during their period of office.

Since this is a meeting of shareholders in the Inter-American Development Bank, one must also stress the importance of its operations during fiscal 1971. In accordance with the President's report for that year, the Bank granted 59 loans amounting to a record yearly total of \$652 million, bringing the total cumulative net amount as of December 31, 1971, to \$4,745 million. Disbursements also topped all previous figures, amounting to \$462 million in 1971, making a cumulative total of \$2,616 million, a figure which represents 55 per cent of the volume of loans authorized to date. While this is not a Bank primarily concerned with profits, it should be noted that the net consolidated income of all the funds held by the IDB in 1971 was \$148.2 million, a figure higher than the \$135 million registered in 1970. This has enabled the Bank to improve its administration, build up reserves and provide technical assistance. These results have been approved by corresponding resolutions at this Meeting.

During this Meeting the President has taken the opportunity to submit to the Governors a highly important and detailed study in three volumes on the Inventory of Physical Integration Projects in Latin America, which will constitute a guide for the countries in their development plans, facilitating the union of their peoples, the exchange of resources, until the full human, educational, economic and physical integration that will make one single unit of America is achieved.

In their magnificent addresses, the Governors, in addition to informing us about the economic and social advances of their respective countries and about the programs they are undertaking, have referred to the IDB with expressions of gratitude and congratulations and constructive criticism that has to be taken into account. They have congratulated

the Bank for the substantial increase in its loans and for entering many new fields with imagination. On the other hand, they have criticized excessively complicated procedures and slowness in granting loans or technical assistance; they have drawn attention to the insufficient attention paid by the Bank to certain key sectors such as export promotion, in which the smaller countries have been placed at a disadvantage. They have protested the fact that the minority of total lending goes to the relatively less developed countries. It is to be hoped that the resolution adopted at this Meeting will remedy this defect.

The Governors have also made a number of suggestions for the future, in which the IDB can play an important role. Without wishing to repeat all the points raised, I should like to refer to the part the IDB—and with it all the countries of Latin America—could play in the readjustment of the world's monetary and trade systems, which cannot continue being controlled solely by a group of large countries when their implications and consequences affect us all.

As Chairman of the Board of Governors I want to say that for the Government and people of Ecuador it has been a great pleasure to have all of you here—the Governors and other persons attending this Meeting in the city of Quito, which on this occasion has become the center of attention of the financial community within and without the hemisphere.

I should also like to express the gratitude of the people and Government of Ecuador for the kind and lovely words you have spoken about our country and our capital city; for having joined us in our joy at the Sesquicentennial Celebration of the political independence of this nation, and for the fervent wishes you have expressed for the prosperity of Ecuador's people. I hope your predictions will come true and that we may achieve the improvements we look forward to as the reward of effort and work.

To you the Governors I wish to express my deep personal gratitude for electing me Chairman of the Board of Governors. This has not been due, I realize, to any personal merit, but rather to the circumstances and the historic moment which have resulted in this honor being bestowed on me. I trust that this year may be filled with the same practical accomplishments for the benefit of our countries as was last year during and after the Twelfth Meeting of the Board of Governors.

I should like to convey my warm and sincere best wishes to Mr. Antonio Ortiz Mena, President of the Bank, who in the first year of his tenure as President has placed his skills, energy and determination at the service of our peoples. He has known how to lead the Bank along the path to further greatness and prestige.

Likewise, I wish to convey my congratulations to the Board of Executive Directors for their apt decisions in the conduct of the Bank's operations, and especially for the report which it has made to us re-

garding the preferential treatment of the relatively less developed countries. This report has resulted in the adoption of the important resolution of new policy guidelines for the Fund for Special Operations and for the treatment of relatively less developed countries and countries of insufficient market.

Finally, I wish to express my sincere congratulations to the Management of the Bank as well as to local agencies for the documents they prepared and for the magnificent organization of this Meeting. They have my gratitude.

In closing, I have the fervent hope that all of us will be able to meet again next year in the city of Kingston, Jamaica, and that at the Fourteenth Annual Meeting we will be able to reap greater rewards than at the present Meeting. I hope that the Governors and all the foreign guests at this meeting will have a happy voyage home to their countries and a future filled with success and well-being.

**Resolutions Approved by the Board of Governors
between its Twelfth and Thirteenth Meetings**

Resolution AG-9/71

**Extension for Six Months of the Period during 1971
within which the Member Countries Shall Complete
the Necessary Measures to Put into Effect
the Increases of Resources of the Bank**

The Board of Governors,

Taking into account the recommendations presented by the Board of Executive Directors of the Bank for the extension for six months of the period in 1971 for the adoption of the measures established in Resolutions AG-11/70 and AG-12/70, approved on December 31, 1970,

RESOLVES:

To extend until December 31, 1971, the period established in that year during which the members may complete the procedures to put into effect the increases of resources of the Bank contemplated in Resolutions AG-11/70 and AG-12/70.

(Approved June 30, 1971)

Resolution AG-10/71

Recommendation for Amendment of Certain Provisions of the Agreement Establishing the Bank with Respect to Membership and to Related Matters

The Board of Governors,

Taking into account the fact that the Committee of the Board designated by Resolution AG-5/70 has recommended consideration of amendments of certain provisions of the Agreement Establishing the Bank with respect to the membership of Canada and to the possible admission of other developed countries to the Bank,

RECOMMENDS:

That the member countries take such action as may be necessary to give effect to the following proposed resolution:

*Amendment of the Provisions
of the Agreement Establishing the Bank
with Respect to Membership and to Related Matters*

The Board of Governors

RESOLVES:

1. To make the following amendments to the Agreement Establishing the Bank:

(a) To amend subsection (b) of Article II, Section 1, as follows:

“(b) Membership shall be open to other members of the Organization of American States and to Canada, at such times and in accordance with such terms as the Bank may determine. For the purpose of increasing the resources of the Bank, nonregional countries which are members of the International Monetary Fund, and Switzerland, may also be admitted to the Bank, at such times, in accordance with such terms and, under such general rules as the Board of Governors shall have established, subject to such limitations on their rights and obligations, relative to those applicable to regional members, as the Bank may determine.”

(b) To amend subsection (b) of Article IV, Section 3, as follows:

“(b) Members of the Organization of American States that join the Bank after the date specified in Article XV, Section 1 (a), Canada and countries that are admitted in accordance with Article II, Section 1 (b) shall contribute to the Fund with such

quotas, and under such terms, as may be determined by the Bank."

(c) To amend subsection (c) of Article VIII, Section 3, as follows:

"(c) Each Executive Director shall appoint an Alternate who shall have full power to act for him when he is not present. Directors and alternates shall be citizens of the member countries. None of the elected directors and their alternates may be of the same citizenship, except in the case of countries that are not borrowers. Alternates may participate in meetings but may vote only when they are acting in place of their principals."

2. To determine that the foregoing amendments shall enter into force 3 days after the date on which the official communication certifying their adoption has been addressed to the members in accordance with Article XII (c) of the Agreement Establishing the Bank.

(Approved November 8, 1971)

Resolution AG-11/71

Designation of Outside Auditors

The Board of Governors

RESOLVES:

That, pursuant to Article VIII, Section 2 (b) (x), of the Agreement Establishing the Bank, the firm of Price Waterhouse & Co. is selected, with respect to the fiscal year 1972, to serve as outside auditors to certify to the general balance sheet and the statement of profit and loss of the Institution, in accordance with Section 10 of the By-Laws.

(Approved December 13, 1971)

Resolution AG-1/72

Extension for Six Months of the Period within which Member Countries May Complete Measures for Increasing the Resources of the Fund for Special Operations and Readjust the Date of Payment of the Corresponding Quotas in the Years 1972 and 1973

The Board of Governors,

Taking into account the recommendations presented by the Board of Executive Directors of the Bank for an extension of six months of the period within which the measures to put into effect the increase in the resources of the Fund for Special Operations provided for in Resolution AG-12/70 shall be adopted, and for a readjustment of the dates for the payment of the quotas due in the years 1971, 1972 and 1973,

RESOLVES:

To extend until June 30, 1972, the period established during which members may complete the procedures to put into effect the increase in the resources of the Fund for Special Operations and to effectuate the payment of the first quota of the contribution due in 1971 and to set the dates for the payment of the second and third quotas as October 31, 1972, and December 31, 1973, respectively.

(Approved January 31, 1972)

Resolution AG-2/72

Remuneration of Executive Directors

The Board of Governors,

RESOLVES:

1. That, pursuant to Article VIII, Section 2 (b) (v), of the Agreement Establishing the Bank, the Executive Directors and their Alternates shall receive, for the time they devote to the service of the Bank, a remuneration computed at the rate of US\$35,000 per year for an Executive Director and of US\$27,000 per year for an Alternate Executive Director, net of national taxes in both cases. The effective date for this remuneration shall be February 1, 1973. As an interim measure effective February 1, 1972, the remuneration of the Executive Directors shall be US\$33,000 and that of the Alternate Executive Directors US\$26,600, respectively.

2. That, effective February 1, 1973, a system is hereby established to provide for a study of the salaries of the Executive Directors and Alternates and for the making of appropriate recommendations on the following occasions: a) prior to the Annual Meeting in which Executive Directors are elected at intervals of three years; and b) at such other times as it is considered that there is a significant imbalance in the salaries of the Executive Directors and Alternates, owing to cost-of-living factors, changes in salaries of similar organizations, or other important factors.

3. That, in order to implement the provisions contained in clause 2 of this resolution, the Chairman of the Board of Governors, after consulting the President of the Bank, shall convoke a committee of two Governors, on the occasions he considers appropriate, to propose, in conjunction with the President of the Bank, such adjustments as it may believe necessary.

(Approved February 25, 1972)

Resolution AG-3/72

Amendment of the Provisions of the Agreement Establishing the Bank with Respect to the Election of Executive Directors

The Board of Governors

RESOLVES:

To make the following amendments to the Agreement Establishing the Bank:

1. To amend subsection (b) of Article VIII, Section 3, as follows:

“(b) (i) Executive directors shall be persons of recognized competence and wide experience in economic and financial matters but who shall not be governors.

(ii) One executive director shall be appointed by the member country having the largest number of shares in the Bank and the others shall be elected by the governors of the remaining member countries. The number of executive directors to be elected, which shall not be less than six, and the procedure for their election shall be determined by regulations adopted by the Board of Governors by a two-thirds majority of the total number of governors representing not less than three fourths of the total voting power of the member countries. Any change in the aforementioned regulations shall require the same majority of votes for its approval.

(iii) Executive directors shall be appointed or elected for terms of three years and may be reappointed or re-elected for successive terms.”

2. To eliminate subsection (j) of Article VIII, Section 3.
3. To eliminate Annex C, concerning the election of Executive Directors.

(Approved March 23, 1972)

Resolution AG-4/72

Amendment of the Provisions of the Agreement Establishing the Bank with Respect to Membership and to Related Matters

The Board of Governors

RESOLVES:

1. To make the following amendments to the Agreement Establishing the Bank:

(a) To amend subsection (b) of Article II, Section 1, as follows:

“(b) Membership shall be open to other members of the Organization of American States and to Canada, at such times and in accordance with such terms as the Bank may determine. For the purpose of increasing the resources of the Bank, nonregional countries which are members of the International Monetary Fund, and Switzerland, may also be admitted to the Bank, at such times, in accordance with such terms and, under such general rules as the Board of Governors shall have established, subject to such limitations on their rights and obligations, relative to those applicable to regional members, as the Bank may determine.”

(b) To amend subsection (b) of Article IV, Section 3, as follows:

“(b) Members of the Organization of American States that join the Bank after the date specified in Article XV, Section 1 (a), Canada and countries that are admitted in accordance with Article II, Section 1 (b) shall contribute to the Fund with such quotas, and under such terms, as may be determined by the Bank.”

(c) To amend subsection (c) of Article VIII, Section 3, as follows:

“(c) Each Executive Director shall appoint an Alternate who shall have full power to act for him when he is not present. Directors and alternates shall be citizens of the member countries. None of the elected directors and their alternates may be of the same citizenship, except in the case of countries that are not borrowers. Alternates may participate in meetings but may vote only when they are acting in place of their principals.”

2. To determine that the foregoing amendments shall enter into force 3 days after the date on which the official communication certifying their adoption has been addressed to the members in accordance with Article XII (c) of the Agreement Establishing the Bank.

(Approved March 23, 1972)

Resolution AG-5/72

Amendment of the Provisions of the Agreement Establishing the Bank with Respect to the Election of Executive Directors. Period for Bringing the Amendment into Effect

The Board of Governors,

Taking into account the recommendation presented by the Board of Executive Directors of the Bank concerning the desirability that the amendments to the Agreement Establishing the Bank with respect to the election of Executive Directors proposed in Resolution AG-6/71 come into effect prior to the fifth general election of Executive Directors, to be held in Quito in May 1972,

RESOLVES:

To determine that the amendments to the Agreement Establishing the Bank proposed in Resolution AG-6/71, entitled "Amendment of the Provisions of the Agreement Establishing the Bank with Respect to the Election of Executive Directors" shall enter into force three days after the date on which the official communication certifying their adoption has been addressed to the members, in accordance with Article XII (c) of the Agreement Establishing the Bank.

(Approved April 18, 1972)

Resolution AG-6/72

Regulations for the Election of Executive Directors

The Board of Governors

RESOLVES:

1. To approve the regulations for the election of Executive Directors appearing in Document GN-665-6.
2. To stipulate that such regulations shall enter into force on the effective date of the amendments to the Agreement Establishing the Bank approved by Resolution AG-3/72.
3. To agree that entry into force of these regulations will, in fact, nullify the Rules for the Conduct of General Election of Executive Directors adopted by means of Resolution AG-1/69.

(Approved April 19, 1972)

Resolution AG-7/72

Admission of Canada to Membership in the Bank

WHEREAS Article II, Section 1(b) of the Agreement Establishing the Inter-American Development Bank (hereinafter referred to as the "Bank") has been amended to open membership in the Bank to Canada;

WHEREAS Canada has applied for admission to membership in the Bank, and

WHEREAS, pursuant to Section 11 of the By-laws of the Bank, the Board of Executive Directors, after consultation with representatives of the Government of Canada, has made recommendations to the Board of Governors with regard to the application of Canada for admission to membership in the Bank,

The Board of Governors

RESOLVES:

1. That Canada shall become a member of the Bank when the President shall have declared that Canada has fulfilled all the following requirements:

(a) It shall have subscribed to 24,268 shares of the capital stock of the Bank having a par value of US\$10,000 per share, in terms of United States dollars of the weight and fineness in effect on January 1, 1959, divided into 4,000 paid-in shares and 20,268 callable shares, on the following basis:

(i) Payment of the amount subscribed to the paid-in capital stock of the Bank shall be made in three equal annual installments in Canadian currency in accordance with Article II, Section 4(b) of the Agreement. The first quota shall be paid at the time the instrument of acceptance or ratification is deposited in accordance with Section 1(e) of this resolution and the remainder on the same date annually thereafter.

(ii) The callable portion of the subscription shall be subject to the provisions of Article II, Section 4(a)(ii) of the Agreement.

(b) It shall have undertaken to contribute to the Fund for Special Operations of the Bank with a quota of the equivalent of US\$60,000,000, in terms of United States dollars of the weight and fineness in effect on January 1, 1959, payment of which shall be made in three equal annual installments each of the equivalent of US\$20,000,000 of the weight and fineness aforesaid, each in the currency

of Canada. The first quota shall be paid at the time the instrument of acceptance or ratification is deposited in accordance with Section 1(e) of this resolution and the remainder on the same date annually thereafter.

(c) It shall have agreed to make an additional contribution to the Fund for Special Operations of the Bank through an authorization extended to the Bank to transfer to that Fund the repayment in respect of the Canadian \$74,000,000 in loans which will have been committed to Latin American member countries under the "Agreement Between the Inter-American Development Bank and the Government of Canada to Provide for the Administration by the Bank of Funds made Available to the Bank by the Government of Canada" entered into on December 4, 1964, as amended.

(d) Its duly authorized representative shall have signed the original of the Agreement, deposited with the General Secretariat of the Organization of American States.

(e) It shall have deposited with the General Secretariat of the Organization of American States an instrument setting forth that it has accepted or ratified, in accordance with its own legislation, the Agreement and all the terms and conditions prescribed in this resolution, and that it has taken the steps necessary to fulfill all of its obligations under the Agreement and this resolution.

(f) It shall have represented to the Bank that it has taken all action necessary to sign the Agreement and deposit the instrument of acceptance or ratification as contemplated by Sections 1(d) and (e) of this resolution and it shall have furnished to the Bank such information in respect of such action as the Bank may have requested.

2. As a non-borrowing member, Canada shall have the right to elect an Executive Director with its own votes. Sections 1 and 2 of the Regulations for Election of Executive Directors, provided for in Article VIII, Section 3(b)(ii) of the Agreement, are therefore amended, as follows: "1. The Governors eligible to vote in accordance with Article VIII, Section 3(b)(ii), of the Agreement Establishing the Bank shall elect eight Executive Directors. 2. The Governor for Canada shall elect one Executive Director with the votes of his country. Each Governor for a borrowing country shall, for his part, cast in favor of a single person all the votes to which the member country he represents is entitled under Article VIII, Section 4(a), of the Agreement. For the purposes of these Regulations, Sections 3 to 5 shall apply exclusively to the Latin American member countries and the total voting power of those countries shall be counted as 100 per cent." This amendment

shall enter into force on the date on which Canada becomes a member of the Bank.

3. Canada may accept the conditions and fulfill the requirements established for membership in the Bank until December 31, 1972. However, if extraordinary circumstances are deemed by the Board of Executive Directors so to warrant, the Board may postpone such date.

(Approved April 27, 1972)

**Resolutions Approved at the Thirteenth Annual Meeting
of the Board of Governors**

Resolution AG-8/72

Financial Statement of the Ordinary Capital Resources (1971)

The Board of Governors, having reviewed the report of the outside auditors,

RESOLVES:

That the financial statement of the Bank with respect to the ordinary capital resources for the fiscal year ending December 31, 1971, containing the general balance sheet and the statement of profit and loss, is approved.

(Approved May 9, 1972)

Resolution AG-9/72

Financial Statement of the Fund for Special Operations (1971)

The Board of Governors, having reviewed the report of the outside auditors,

RESOLVES:

That the financial statement of the Fund for Special Operations for the fiscal year ending December 31, 1971, containing the general balance sheet and the statement of profit and loss is approved.

(Approved May 9, 1972)

Resolution AG-10/72

Committee of the Board of Governors Appointed Pursuant to Resolution AG-5/70. Extension of its Mandate¹

WHEREAS:

The Committee of the Board of Governors appointed pursuant to Resolution AG-5/70 has presented a report on the activities carried out since the Twelfth Annual Meeting, held in Lima in May 1971, which refers to the admission of Canada to membership in the Bank and to the negotiations with nonregional developed countries,

The Board of Governors

RESOLVES:

1. To take note of the report of the Committee of the Board of Governors and express its appreciation for the work accomplished.
2. To note that the President of the Bank, in consultation with the Committee, will continue the conversations with potential nonregional members and report the results obtained to the Committee in September 1972 in Washington.
3. To extend the mandate of the Committee until the Fourteenth Meeting of the Board of Governors.

(Approved May 10, 1972)

¹ The Committee held its Sixth Meeting in Quito May 7 and adopted the report to the Board of Governors which appears on page 199.

Resolution AG-11/72

Fund for Special Operations. New Policy Guidelines and Preferential Treatment for Economically Less Developed Countries and Countries of Insufficient Market¹

WHEREAS:

The Board of Executive Directors has submitted for consideration by the Board of Governors a report on the new policy guidelines of the Fund for Special Operations and preferential treatment for economically less developed countries and countries of insufficient market;

The Working Group appointed by the Board of Governors to examine this matter recommends the acceptance of the report of the Board of Executive Directors contained in Document AB-300 and suggests the desirability of formulating an appropriate program, to be put into effect at an early date,

The Board of Governors

RESOLVES:

1. To take note of the report of the Board of Executive Directors and express its appreciation for the work accomplished.

2. To recommend to the Board of Executive Directors that the new policy guidelines on preferential treatment of economically less developed countries and countries of insufficient market contained in that document be implemented immediately.

3. To request, without prejudice to the above, that the Bank prepare and implement, as soon as possible, a periodic program of operations including appropriate operating procedures leading to the expeditious implementation of the guidelines contained in Document AB-300.

(Approved May 11, 1972)

¹ Working Group I, appointed in the Preliminary Session and composed of the Governors for Argentina, Brazil, Canada, Colombia, El Salvador, Jamaica, Mexico, Paraguay, the United States and Uruguay, studied in its sessions of May 9 and 10 the report of the Board of Executive Directors concerning this matter. As a result of its deliberations, the Group submitted to the Board of Governors the proposed resolution that was approved as Resolution AG-11/72. In approving this resolution, the Board of Governors took note of the report of the Working Group which appears on page 204 and which contains the statements made by the Governors for El Salvador and Mexico and the modifications proposed by the Working Group to the report of the Board of Executive Directors for the purpose of clarifying the scope of the policy guidelines whose adoption was recommended. The Board of Governors expressed its agreement with the proposed amendments.

Resolution AG-12/72

Regulations for the Election of the President of the Bank¹

WHEREAS:

Article VIII, Section 2(b)(iii) of the Agreement Establishing the Bank provides that the power to elect the President of the Bank is one of the powers of the Board of Governors which may not be delegated to the Board of Executive Directors;

Article VIII, Section 5(a), of the aforesaid Agreement establishes, *inter alia*, the following:

“The Board of Governors, by an absolute majority of the total number of Governors representing not less than a majority of the total voting power of the member countries, shall elect a President of the Bank who, while holding office, shall not be a Governor or an Executive Director or alternate for either.”

“The term of office of the President of the Bank shall be five years, and he may be reelected to successive terms. He shall cease to hold office when the Board of Governors so decides by a majority of the total voting power of the member countries.”

It is desirable to establish regulations for the above provisions,

The Board of Governors

RESOLVES:

To adopt the following Regulations for the election of the President of the Bank:

1. Notice of vacancy

(a) Not less than 60 days prior to the stated expiration date of the contract of a President, the Secretary of the Bank shall send a notice to that effect by cable to the Governors.

(b) As soon as possible after the presentation of the Chairman of the Board of Governors of a resignation by a President, the Secretary of the Bank shall send a notice of the resignation by cable to the Governors.

¹ Working Group II, appointed in the Preliminary Session and composed of the Governors for Barbados, Chile, Ecuador, the United States and Venezuela, examined in its meetings of May 9 and 10 the report of the Board of Executive Directors on the proposed regulations for the election of the President of the Bank. As a result of its deliberations, the Group submitted to the Board of Governors the proposed resolution that was approved as Resolution AG-12/72. The report of the Working Group on this matter appears on page 211.

(c) If a vacancy should occur in the Presidency of the Bank because of the death of the President, or if the Board of Governors should exercise the power vested in it by Article VIII, Section 5(a), the Secretary of the Bank shall immediately notify the Governors by cable.

2. *Nominations*

(a) Within 45 days after the date of the notice of the Secretary under Section 1 above, the Governors shall submit such nominations for the position of President as they may deem appropriate. Each nomination shall be in the form of a special communication by one or more Governors to the Secretary of the Bank. No Governor may present simultaneously more than one nomination.

(b) Immediately upon the receipt of each nomination, or upon receipt of a notification of withdrawal of a nomination, the Secretary shall communicate it by cable to all the Governors and shall also inform the Board of Executive Directors.

(c) The period for presenting nominations or withdrawals of nomination shall expire at the end of the forty-fifth day from the date of the notice of the Secretary under Section 1 of these Regulations, and no further nominations or withdrawals of nominations may be accepted thereafter unless the Board of Governors decides otherwise.

3. *Method of conducting the election*

The election of the President shall be held in an annual meeting of the Board of Governors or in a special meeting at the headquarters of the Bank. The election shall be arranged and shall be held on the date determined by the Board of Executive Directors in such manner that at least the first vote shall be taken within 60 days from the date of the notice of the Secretary pursuant to Section 1 above.

4. *Contract of employment of the President*

Prior to the election of the President, the Chairman of the Board of Governors shall submit to the Board of Governors in a confidential manner the terms of the contract of employment of the President.

5. *Procedure for the election*

If the President is not elected on the first ballot, successive ballots shall be taken until the election is completed.

If he is not elected on the second ballot, the third ballot shall be limited to the three candidates who have obtained the largest number of votes; should the President not be elected on the third ballot,

the fourth ballot shall be limited to the two candidates who obtained the largest number of votes.

6. *Resolution electing the President*

The election of the President by the Board of Governors shall be signalized by means of a resolution which shall include the name of the individual elected, the date for the commencement of his term, and approval of the conditions of the contract of employment, by reference to the conditions submitted to the Board. The term of the President shall commence as early as possible, and normally not more than 60 days after his election.

7. *Signature of contract*

The contract of employment of the President shall be signed by the Chairman of the Board of Governors in behalf of the Bank.

(Approved May 11, 1972)

Resolution AG-13/72

Amendment of Resolution AG-12/70 with Respect to the Maintenance of Value of the Additional Contributions to the Fund for Special Operations¹

The Board of Governors

RESOLVES:

To amend Resolution AG-12/70 by adding the following two paragraphs:

“(e) Each payment of a member shall be in such an amount as, in the opinion of the Bank, is equivalent to the full value, in terms of the par value of the United States dollar in effect in the International Monetary Fund on the date when the payment is due.

“(f) Currencies of all the members held by the Bank which are derived from these additional contributions shall be subject to the maintenance of value provisions of Article V, Section 3, of the Agreement Establishing the Bank, but the standard of value set for this purpose shall be the par value of the United States dollar in effect in the International Monetary Fund on the due date for each installment, provided, however, that the Bank may exercise the waiver provisions of Article V, Section 3(c) in the event of a currency realignment involving a significant number of members of the Bank.”

(Approved May 11, 1972)

¹ Working Group III, appointed in the Preliminary Session and composed of the Governors for Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Ecuador, Mexico, Nicaragua, Peru, the United States and Venezuela, examined at its meetings of May 9 and 10 the report of the Board of Executive Directors on this matter. As a result of its deliberations, the Group submitted to the Board of Governors the proposed resolution that was approved as Resolution AG-13/72. The Board of Governors also accepted the proposal of the Working Group that the mandate of the committee appointed pursuant to Resolution AG-5/70 be broadened to include the performance of a study on the scope and application of the maintenance of value provisions of the Agreement Establishing the Bank, for the purpose of recommending to the Board of Governors the changes that might be required in the pertinent provisions, taking into account the alterations of the World Monetary System and of the provisions of the International Monetary Fund Articles of Agreement. The report of the Working Group appears on page 214.

Resolution AG-14/72

Place and Date of the Fourteenth Annual Meeting of the Board of Governors¹

The Board of Governors

RESOLVES:

That the Fourteenth Annual Meeting of the Board of Governors, which the President shall convene at the appropriate time, shall be held in the city of Kingston, Jamaica, during the month of May 1973.

(Approved May 12, 1972)

¹ The question of the duration of annual meetings was considered in the Preliminary Session. After an extensive exchange of views on the matter, the consensus was reached that the length of each meeting should be related to its agenda. It was recommended in this regard that the duration of each meeting be determined by the President and Board of Executive Directors of the Bank in accordance with the nature of the matters included in its agenda.

**Reports
of the Committee of the Board of Governors
and the Working Groups**

Report of the Committee of the Board of Governors Appointed Pursuant to Resolution AG-5/70

The Committee of the Board of Governors appointed pursuant to Resolution AG-5/70 is pleased to submit for consideration of the Board of Governors this report on the activities carried out since the Twelfth Annual Meeting held in Lima in May 1971.

BACKGROUND

Pursuant to Resolution AG-5/70, adopted by the Board of Governors on April 24, 1970, during the Eleventh Annual Meeting, held in Punta del Este, a committee was established under the chairmanship of the Governor for Mexico, composed also of the Governors for Argentina, Brazil, Nicaragua, the United States, Uruguay and Venezuela, for the purpose of studying various alternatives for assuring an increased flow of resources to the Bank from developed countries that are not its members including, particularly, the matter of such countries in the Western Hemisphere (Annex I).

To carry out this assignment, the Committee held meetings in Mexico City and Caracas in August 1970 and February 1971, on which occasions the efforts made by the Management since the commencement of the Bank's operations to promote increased financial cooperation by nonmember countries were examined, and various alternatives permitting the admission to the Bank of industrialized countries that were not its members were considered.

In the meeting held in Buenos Aires on February 28, 1971, the Committee concluded, after considering the various proposals made, that the time was appropriate for initiating informal, preliminary and exploratory conversations with nonmember countries on ways of increasing their contributions and renewing them periodically. With this in view, a Working Group composed of the President of the Bank and the Governors for Argentina, Brazil, Nicaragua, the United States, Uruguay and Venezuela was appointed to establish contact with those countries and explore the possibility of their becoming more closely allied with the work of the Bank.

Immediately prior to the Twelfth Annual Meeting of the Governors held in Lima in May 1971, the Committee met and adopted a report to the Board, indicating that the Working Group proposed to initiate conversations with the industrialized countries in the near future. The Board of Governors took note of the report and extended the mandate of the Committee to permit continuance of its activities.

ACTIVITIES OF THE COMMITTEE SINCE MAY 1971

Working Group. In June 1971, the Working Group of the Committee visited the United Kingdom, France and Italy to hold interviews with authorities of those countries and discuss with them various formulas that would permit their becoming more closely allied with the work of the Bank. Subsequently, the Group continued its activities in Washington, where interviews were held in September with authorities and representatives of Japan, the Netherlands, Switzerland and Germany.

Meetings of the Committee. The Committee held its fifth meeting in Washington on October 1, 1971, for the purpose of considering the report of the Working Group and of studying a communication which had been received from the Canadian Government on possible admission of Canada to the Bank.

In January 1972, the Committee held its sixth meeting in Brasilia. On that occasion the Committee considered the possible financial conditions for Canadian membership in the Bank and studied various alternative formulas for admission of nonregional developed countries to the Bank.

The seventh meeting of the Committee was held in Quito on May 7, 1972, for the purpose of receiving the reports of the President of the Bank on the admission of Canada to the Bank and the result of his consultations with certain nonregional developed countries regarding the bases for their possible admission to the Bank.

ADMISSION OF CANADA TO MEMBERSHIP IN THE BANK

In a letter to the Bank of July 29, 1971, the Honorable Mitchell Sharp, Canadian Secretary of State for External Affairs, stated that one of the ways in which Canada was interested in developing and strengthening its relations with other countries in the Hemisphere was by widening its development assistance program for Latin America. He further stated in this respect that, since the Inter-American Development Bank plays a key role in the promotion of economic and social development in the region, Canada wished to pursue the possibility of becoming a full member of the Bank.

The Board of Executive Directors took cognizance of the inquiry presented by Canada and found that the matter of Canadian membership was directly related to the purpose of Resolution AG-5/70 adopted by the Governors at the Punta del Este meeting. The Board of Executive Directors therefore recommended that the Canadian communication be referred to the Committee for consideration.

In its fifth meeting, the Committee considered the communication from Canada and welcomed this initiative. After studying a report of the President of the Bank presenting various formulas for responding

to the interest of Canada and providing for possible admission of other developed countries to the Bank, the Committee decided that a proposed resolution should be submitted to the Governors, through the Board of Executive Directors, recommending that the member countries take such measures as needed to amend the provisions of the Agreement Establishing the Bank for that purpose. It should be noted that, in regard to possible admission of nonregional developed countries to the Bank, the Committee thought it desirable that the proposal for amendment be sufficiently broad so that whatever decisions were taken in the future by the Board of Governors could be put into effect without the need for further amendment of the Agreement Establishing the Bank. This proposal was approved by the Board of Governors on November 8, 1971, by Resolution AG-10/71. Subsequently, the member countries took the necessary measures to amend the Agreement as set forth in Resolution AG-4/72. These amendments went into effect on March 27, 1972.

During the Brasilia meeting, the Committee considered the possible financial conditions for the admission of Canada to membership in the Bank and requested the President of the Bank to continue the conversations with the Canadian authorities within the framework of the Committee's recommendations.

After the amendments to the Agreement Establishing the Bank had entered into force, a new communication was received from the Canadian Secretary of State for External Affairs formally requesting the admission of Canada to membership in the Bank. In compliance with the request received from the Committee, the President of the Bank negotiated with the Canadian authorities the conditions for the admission of Canada to the Bank and reported the results to the Committee and, in accordance with Section 11 of the By-laws of the Bank, to the Board of Executive Directors.

On April 13, 1972, the Board of Executive Directors submitted a report to the Governors containing its recommendations with respect to the conditions for admission of Canada to the Bank. On April 27, 1972, the Board of Governors approved Resolution AG-7/72 providing that Canada would become a member of the Bank when the President of the Bank declared that Canada had subscribed the number of shares of authorized capital stock, and undertaken to provide the contribution to the Fund for Special Operations assigned to it, and that it had, in addition, signed the Agreement Establishing the Bank and deposited the relevant instrument of ratification with the General Secretariat of the Organization of American States.

As the Board of Governors is aware, on Thursday, May 3, Canada having fulfilled all the requirements established for admission, the President declared Canada to be a member of the Inter-American Development Bank.

NEGOTIATIONS WITH NONREGIONAL DEVELOPED COUNTRIES

As mentioned in the first part of this report, the Working Group established by the Committee in its meeting in Buenos Aires held discussions with authorities of France, Germany, Italy, Japan, the Netherlands, Switzerland and the United Kingdom for the purpose of exploring, in a preliminary way, the possibility of those countries becoming more closely allied with the work of the Bank.

In each presentation to officials of these countries, the Working Group pointed out the fundamental position of the Bank that any decision adopted in this regard should provide for a substantial increase in resources, most of which should be available for lending on soft conditions, without altering the basic aspects of the Bank's regional nature.

In general, the Governments of the seven countries showed interest in the Bank's initiative in seeking formulas permitting an increase in the aid provided by them to the Latin American countries through the Bank, and after examining the various features of the formulas presented by the Working Group they offered to study such proposals as the Bank might submit to them for this purpose.

In its Washington meeting, the Committee took note of the activities carried out by the Working Group, thanked the members of the Group for their efforts and, after an exchange of views in this regard, requested the Management of the Bank to present to the next meeting of the Committee a study of possible alternatives permitting the admission of nonregional developed countries to the Bank, in which the position of those countries on the matter should be taken into account.

As noted above, the new text of Article II, Section 1(b), of the Agreement Establishing the Bank provides that "for the purpose of increasing the resources of the Bank, nonregional countries which are members of the International Monetary Fund, and Switzerland, may also be admitted to the Bank, at such times, in accordance with such terms and under such rules as the Board of Governors shall have established, subject to such limitations on their rights and obligations, relative to those applicable to regional members, as the Bank may determine." It is understood that the limitations on the rights and obligations to which reference is made in this new text will be determined without prejudice to the other provisions of the Agreement Establishing the Bank.

At the Brasilia meeting, the Management submitted alternative formulas to the Committee for the admission of nonregional developed countries. After a general exchange of views, the Committee approved the basic principles relating to admission of such countries to the Bank and authorized the President of the Bank to examine these principles with certain potential nonregional members.

The report which the President of the Bank has presented to the Committee in the meeting just held in Quito points up the continuing interest of the nonregional developed countries in becoming more closely allied with the work of the Bank and gives an account of the consultations with those countries and the substantive aspects raised in reply.

In view of the foregoing, the Committee has requested the President of the Bank to continue the conversations with potential nonregional members and to report the results obtained to the Committee at the time of the annual meetings of the International Monetary Fund and the World Bank in Washington in September 1972. The Committee, for its part, proposes to submit recommendations subsequently to the Board of Governors on the form in which nonregional countries might be admitted to the Bank.

Annex

Resolution AG-5/70

Measures to Assure an Increased Flow of Resources to the Bank from Nonmember Countries

WHEREAS:

It appears desirable to evaluate all possible avenues leading to an increase in the flow of resources available for economic and social development of the member countries of the Bank, consistent with the maintenance of its regional character,

The Board of Governors

RESOLVES THAT:

1. A Committee of the Board of Governors shall be appointed which, taking into account Document AB-212, will examine the various alternatives to assure an increased flow of resources, on improved conditions, to the Bank from developed countries not presently members of the Institution, including particularly the matter of such countries within the hemisphere.

2. The Committee shall (a) consist of one Governor or his deputy for each member country which appoints or each group of member countries which elects an Executive Director; (b) elect its own chairman and meet at such times and places as he shall decide in consultation with the members, and (c) draw, as it deems necessary, upon the resources of the Board of Executive Directors and the staff of the Bank.

3. The Committee shall make its report, together with its recommendations, to the Board of Governors not later than December 31, 1970.

(Approved April 24, 1970)

Report of Working Group I:

New Policy Guidelines of the Fund for Special Operations and Preferential Treatment for Economically Less Developed Countries and Countries of Insufficient Market

Working Group I, appointed at the Preliminary Session of the Thirteenth Meeting of the Board of Governors and composed of Argentina, Brazil, Canada, Colombia, El Salvador, Jamaica, Mexico, Paraguay, the United States and Uruguay, met on May 9 and 10 to consider Item 6 of the Agenda of the Meeting: New Policy Guidelines of the Fund for Special Operations and Preferential Treatment for Economically Less Developed Countries and Countries of Insufficient Market. At its first session the Group elected Mr. G. Arthur Brown, Alternate Governor for Jamaica, as its Chairman.

After having examined the report submitted by the Board of Executive Directors on this topic (Document AB-300), the Working Group recommends that the following changes be made in the report in order to clarify the scope of the proposed policy guidelines:

1. The first sentence in the second paragraph of point 4 will read as follows:

“At the same time, the use of FSO resources is recommended for projects in relatively less developed regions in *all* the member countries, for projects and programs of a social nature, and for projects directly benefiting low-income sectors.”

2. The paragraph on currency of repayment in point 5 will be written as follows:

“*Currency of repayment.* Payments of principal on loans from the new resources of the Fund for Special Operations should be in the respective currencies lent. Entry into effect should be no later than the initial use of the increase of the Fund for Special Operations contemplated under Resolution AG-4/70 of the Board of Governors. The further modifications of financial policies below should also apply beginning with the new policy on currency of repayment.”

Mr. Guillermo Hidalgo Qüehl, Alternate Governor for El Salvador, speaking for the group of Central American countries, asked that the record show their request that in the case of future increases in the resources of the Fund for Special Operations the Bank consider loans to economically less developed countries payable at least in part in the currency of the borrower.

The representative of the Governor for Mexico stated that while he was in agreement with Document AB-300 as regards the preferential

treatment to be accorded the economically less developed countries, as he considered that this represented full compliance with what the Board of Governors provided for in Resolution AG-4/70, he could not endorse the document in question where it presupposes acceptance of a hardening of terms of access to and use of the resources of the Fund for Special Operations for any member country.

Taking into account the conclusions and recommendations of the report of the Board of Executive Directors, as contained in Document AB-300, the modifications proposed by the Working Group, and the statements of the Governors for El Salvador and Mexico, the Working Group recommends that the Board of Governors approve the proposed resolution appended to this report.¹

¹ The text of the Resolution appears on page 191.

Annex

Report of the Board of Executive Directors to the Board of Governors on Compliance with the Second Part of Resolution AG-7/71

NOTE: This document contains a report on the measures being taken by the Board of Executive Directors in compliance with Paragraph 2 of Resolution AG-7/71 to improve the action of the Bank in favor of the economically less developed countries and, to the extent appropriate, in favor of those of insufficient market. During the consideration of this document, the Executive Director for Mexico and the Alternate Executive Director for the United States issued the statements which are reproduced in the annex hereto.

BACKGROUND

The report of the Executive Directors of April 23, 1970, entitled "Proposal for an Increase in the Resources of the Inter-American Development Bank," approved by the Board of Governors in Resolution AG-4/70, dated April 24, 1970, in addition to acknowledging the continued and growing need for concessionary resources to support social and economic growth in the region, recommended that:

Strengthened emphasis be placed in granting soft loans to the relatively less developed countries; concurrently, a larger proportion of ordinary capital be assigned to the relatively more developed countries.

Payment of amortization in the respective currencies loaned be es-

tablished on new loans to be authorized from the Fund for Special Operations (FSO).

Management undertake a review of loan terms and conditions, with respect to rates of interest, and grace and amortization periods, with a view to maintaining the concessionary character of the Fund for Special Operations.

In addition, Resolution AG-7/71 (paragraph 2), approved by the Board of Governors on May 14, 1971, at its meeting in Lima, requested that the Board of Executive Directors inform the Governors of the new measures proposed to be taken to improve the action of the Bank in favor of the less developed countries and those of insufficient market.

In carrying out the review called for in Resolution AG-4/70 Management has taken into consideration prior policies approved by the Board of Executive Directors governing the use of FSO resources. These policies relate to the matter of utilization of the Fund for Special Operations by member countries, fields of activity appropriate for FSO financing, and the relationship between concessionary terms and conditions of loans from the Fund for Special Operations and the financial requirements of the Bank for administration and technical assistance.

Insofar as Resolution AG-7/71 is concerned, this statement takes into account the existing policies of the Bank and the results of their implementation as well as the impact on the operations of the Bank of the proposals contained herein.

Certain substantive items contained in the original policy guidelines for the FSO, document GN-123-4 of September 28, 1965, are not considered in this document, either because they are not directly related to policies governing the use of FSO resources or the concessionary terms and conditions for FSO loans or because Management does not consider them to be within the terms of reference of this review. For the purposes of this report, it is assumed that present policies on these matters will continue.¹

CONCLUSIONS AND RECOMMENDATIONS

The following conclusions and recommendations are presented for the consideration of the Board of Governors:

1. In accordance with Article IV, Section 1, of the Agreement Establishing the Bank, loans from the resources of the Fund for Special Operations will be made "... on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects."

2. FSO resources will be made available to the countries of the

¹ These policies relate to: i) use of foreign exchange for local expenses (GN-275-12); ii) procurement with Bank loans (GN-123-4), and iii) use of FSO contributions by certain member countries (GN-455-8).

region in accordance with the provisions of paragraph 5.05 of the report of the Executive Directors, "Proposal for an Increase in the Resources of the Inter-American Development Bank," approved by the Board of Governors through Resolution AG-4/70 at Punta del Este on April 24, 1970, which is quoted as follows:

"5.05 Since one of the Bank's fundamental objectives is to promote the balanced growth of its members, and taking account of the differences in the stage of development and economic potential existing between the various countries, the Board of Executive Directors intends to place strengthened emphasis in granting soft loans to the relatively less developed countries. In programming the utilization of these resources, as well as in its operations, the Bank will assign first priority to the requirements of the relatively less developed countries. By the same token, the Bank, in the programming of loans and in its operations with ordinary capital resources, will assign a larger proportion thereof to the relatively more developed countries. Preferential attention to the relatively less developed countries will include the financing with soft resources in such countries of projects which, taken individually, could be considered of inherently economic character. In these cases the benefit of the soft terms of the loans should be made available by the beneficiary countries to promote additional economic and social development in their territories."

3. In the group of the relatively less developed countries, projects of either an economic or social character will normally be financed from FSO resources and should represent at least 30 per cent of all FSO funds committed in the initial period. Thus, it is expected that, afterward, the less developed countries will be able to continue to increase their utilization of FSO resources. Greater efforts will need to be made through technical assistance in project preparation and for strengthening development institutions in order to increase the absorptive capacity of these countries. A "two-step"¹ procedure should be used in these countries for projects which are primarily of an economic nature and which in the other countries would normally be financed from ordinary capital.

4. While all fields of activity of interest to the Bank should generally be eligible for FSO financing in loans made to the relatively less developed member countries, in other member countries emphasis can be

¹ The "two-step" procedure provides that the especially favorable conditions which are derived from FSO financing should benefit the country in which the project is carried out, and not the executing institution or business, since, as a result of its economic or directly productive nature, concessionary treatment is not required. This permits the government, acting as a borrower, to pass on to the executing institution or business resources at a higher rate of interest, and on shorter reimbursement terms, than those applied by the Bank to the primary borrower.

given certain fields of activity. The concessionary nature of the Fund's resources can serve to encourage highly important but slow yielding activities in the expectation that Bank financing will augment country development efforts in these and other fields.

At the same time, the use of FSO resources is recommended for projects in relatively less developed regions in member countries, for projects and programs of a social nature, and for projects directly benefiting low-income sectors. The financing of projects which serve two or more member countries may be eligible for the use of FSO resources in order to induce investment for integration in those cases in which clearly identifiable benefits accrue to other countries in the integrated region which bear little or no part of the cost.

5. The following modifications in the terms and conditions of loans from the Fund for Special Operations are recommended:

Currency of repayment. In accordance with the views of the Board of Executive Directors, payments of principal on new loans to be authorized from the Fund for Special Operations should be in the respective currencies loaned. Entry into effect should be no later than the initial use of the increase in the Fund for Special Operations contemplated under Resolution AG-4/70 of the Board of Governors. The further modifications of financial policies below should also apply beginning with the new policy on currency of repayment.

Interest rates. Interest rates for loans from the Fund for Special Operations should reflect the concessionary nature of FSO resources, providing greater concession to less developed countries. At the same time, the minimum yield of the interest rate structure that is established should, overall, be adequate for Bank administrative and technical assistance needs that can be foreseen. Careful study of these needs indicates that an average interest rate of at least 2 per cent is required. In view of the fact that Bank loans will be repaid in the currency loaned, the service charge applied up to now would be eliminated.

Based on these conclusions, the following interest rates are proposed: For loans on projects in more advanced member countries, a rate of interest of 4 per cent or 3 per cent is recommended, depending on whether the project is of an economic or social nature. For loans on projects in the remaining countries, a 2 per cent rate of interest is recommended. In the case of the group of relatively less developed countries, it is recommended that a 1 per cent interest rate be established during the grace period. All interest payments would be made in the currency loaned. A commitment fee of $\frac{1}{2}$ of 1 per cent for all countries would be applied.

Grace period. On the basis of the Bank's experience that grace periods are lengthening and as a further element of concession in its terms, consideration should be given to grace periods up to five years in more

advanced countries and between seven and ten years in the other countries. Individual country situations will be taken into consideration in granting grace periods of less than ten years. In exceptional cases, and depending upon the nature of the project, grace periods of up to ten years could be considered for projects in the more advanced countries.

Period of amortization. As has been Bank practice, the length of the repayment period should take into account the nature of the project, the need to mobilize domestic resources and the overall economic prospects of the country. It is suggested that FSO loans to more advanced countries should have an amortization period of up to 25 years. FSO loans made in the other countries could have a period of amortization between 30 and 40 years. In granting amortization periods of less than 40 years, the situation of the country concerned will be taken into account.

Local contribution to the cost of projects. Increased mobilization of investment resources in the member countries is regarded by the countries as an essential element for social and economic development. The Bank should continue to expect borrowers to provide a reasonable share of the initial costs of a particular project or program and to expect an appropriate local entity to provide for the costs of continued support of the project or program.

In considering the proportion of local contributions to the total cost of projects and taking into account the fact that the Bank's share of financing for all projects would be approximately 50 per cent, careful attention should continue to be given to the level of development of the country. In some cases, the nature of the project should be an important factor for consideration. In general, it would be appropriate that in the relatively less developed countries the Bank finance up to 80 per cent of the total cost of the project and in exceptional cases up to 90 per cent.

6. *Application of the policy.* The Management will take into consideration, within the guidelines above mentioned, the economic and social situation of the various countries in making recommendations for the different rates of interest and grace and amortization periods.

Annex

**Statement by Mr. Jesús Rodríguez y Rodríguez
Executive Director for Barbados, the Dominican
Republic, Jamaica, Mexico and Panama, at the Meeting
of the Board of Executive Directors on May 7, 1972**

The Executive Director for Mexico states that he is in agreement with

document AB-300 as regards the preferential treatment to be accorded the economically less developed countries, since he considers that this represents full compliance with what the Board of Governors has provided for in Resolution AG-4/70. However, he cannot endorse the document in question where it presupposes acceptance of a hardening of the terms of access to and use of the resources of the Fund for Special Operations for any member country.

**Statement by Mr. Reuben Sternfeld,
Alternate Executive Director for the United States**

The Alternate Executive Director for the United States declares that while he supports the report contained in document AB-300, he considers that the report alone is insufficient and has to be accompanied by a program which will implement the proposed policy guidelines. To do otherwise would not give effect to the proposals approved in Punta del Este in 1970.

Report of Working Group II:

Regulations for the Election of the President of the Bank

Working Group II, appointed at the Preliminary Session of the Thirteenth Meeting of the Board of Governors, composed of the Governors for Barbados, Chile, Ecuador, United States and Venezuela, met on May 9 and 10 to consider the report of the Board of Executive Directors concerning the Election of the President of the Bank (Document AB-287). The Draft was presented pursuant to the request made by the Board of Governors at the Special Meeting held in Washington on November 27, 1970. At its first session the Group appointed Mr. Sixto Durán Ballén, Temporary Alternate Governor for Ecuador, as its Chairman.

After an exchange of views, the Working Group agreed to the text appended to this report. During the debate, one of the Delegates suggested, without insisting on it, that in special cases it would be advisable, at the discretion of the Board of Executive Directors, that the election be effected by the voting procedure without convening a meeting as provided for in Section 5 of the By-Laws of the Bank.

The Working Group unanimously recommends that the Regulations be adopted by the Board of Governors, by approving the proposed resolution appended to this report.¹

Annex

Proposed Regulations for the Election of the President of the Bank

1. Authority

(a) Article VIII, Section 2(b)(iii) of the Agreement Establishing the Bank provides that the power to elect the President of the Bank is one of the powers of the Board of Governors which may not be delegated to the Board of Executive Directors.

(b) Article VIII, Section 5(a), of the aforesaid Agreement establishes, inter alia, the following:

“The Board of Governors, by an absolute majority of the total number of Governors representing not less than a majority of the total voting power of the member countries, shall elect a President of the Bank who, while holding office, shall not be a Governor or an Executive Director or alternate for either.”

“The term of office of the President of the Bank shall be five years, and he may be reelected to successive terms. He shall cease

¹ The text of the Resolution appears on page 192.

to hold office when the Board of Governors so decides by a majority of the total voting power of the member countries.”

2. *Notice of vacancy*

(a) Not less than 60 days prior to the stated expiration date of the contract of a President, the Secretary of the Bank shall send a notice to that effect by cable to the Governors.

(b) As soon as possible after the presentation to the Chairman of the Board of Governors of a resignation by a President, the Secretary of the Bank shall send a notice of the resignation by cable to the Governors.

(c) If a vacancy should occur in the Presidency of the Bank because of the death of the President, or if the Board of Governors should exercise the power vested in it by Article VIII, Section 5(a), last paragraph, the Secretary of the Bank shall immediately notify the Governors by cable.

3. *Nominations*

(a) Within 45 days after the date of the notice of the Secretary under the preceding section, the Governors shall submit such nominations for the position of President as they may deem appropriate. Each nomination shall be in the form of an official communication by one or more Governors to the Secretary of the Bank. No Governor may present simultaneously more than one nomination.

(b) Immediately upon the receipt of each nomination, or upon receipt of a notification of withdrawal of a nomination, the Secretary shall communicate it by cable to all the Governors and shall also inform the Board of Executive Directors.

(c) The period for presenting nominations or withdrawals of nominations shall expire at the end of the forty-fifth day from the date of the notice of the Secretary under Section 3 of these Regulations and no further nominations or withdrawals of nominations may be accepted thereafter unless the Board of Governors decides otherwise.

4. *Method of conducting the election*

The election of the President shall be held in an annual meeting of the Board of Governors or in a special meeting at the headquarters of the Bank. The election shall be arranged and shall be held on the date determined by the Board of Executive Directors in such manner that at least the first vote shall be taken within 60 days from the date of the notice of the Secretary pursuant to Section 2 above.

5. *Contract of employment of the President*

Prior to the submission of the resolution of election of the President, the Chairman of the Board of Governors shall submit to the Board of

Governors in a confidential manner the terms of the contract of employment of the President.

6. Procedure for the election

If the President is not elected on the first ballot, successive ballots shall be taken until the election is completed.

If he is not elected on the second ballot, the third ballot shall be limited to the three candidates who obtain the largest number of votes; should the President not be elected on the third ballot, the fourth ballot shall be limited to the two candidates who obtain the largest number of votes.

7. Resolution electing the President

The election of the President by the Board of Governors shall be signalized by means of a resolution which shall include the name of the individual elected, the date for the commencement of his term, and approval of the conditions of the contract of employment, by reference to the conditions submitted to the Board. The term of the President shall commence as early as possible, and normally not more than 60 days after his election.

8. Signature of contract

The contract of employment of the President shall be signed by the Chairman of the Board of Governors in behalf of the Bank.

Report of the Board of Executive Directors

In compliance with the request made at the Special Meeting of the Board of Governors held in Washington, D.C., on November 27, 1970, and pursuant to the provisions of Article VIII, Section 2(b)(iii) and Section 5(a), of the Agreement Establishing the Bank, the Board of Executive Directors is pleased to submit to the Board of Governors the following proposed resolution to approve the Regulations for the Election of the President of the Bank:

(The proposal submitted by the Board of Executive Directors was presented by the Working Group to the Board of Governors with only slight changes.)

Report of the Chairman of Working Group III:

Amendment to Resolution AG-12/70 with Respect to the Maintenance of Value for the Additional Contributions to the Fund for Special Operations

Working Group III, appointed at the Preliminary Session, and composed of the Governors for Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Ecuador, Mexico, Nicaragua, Peru, United States and Venezuela, met on May 9 and 10 to discuss the proposed amendment of Resolution AG-12/70 with respect to the maintenance of value of the increased resources of the Fund for Special Operations. The Governor for Panama participated in the meeting of May 10. In its first session the Working Group elected the Alternate Governor for Peru, Mr. Emilio C. Barreto, as its Chairman.

The Working Group had an ample exchange of views with respect to the effect of the maintenance of value provisions of the Agreement Establishing the Bank on the proposed increase of the Fund for Special Operations as set forth in Resolution AG-12/70. The Working Group unanimously recommends to the Board of Governors the adoption of the following resolution amending said Resolution AG-12/70:

Proposed Resolution

The Board of Governors

RESOLVES:

To amend Resolution AG-12/70 by adding the following two subsections:

“(e) Each payment of a member shall be in such an amount as, in the opinion of the Bank, is equivalent to the full value, in terms of the par value of the United States dollar in effect in the International Monetary Fund on the date when the payment is due.”

“(f) Currencies of all the members held by the Bank which are derived from these additional contributions shall be subject to the maintenance of value provisions of Article V, Section 3, of the Agreement Establishing the Bank, but the standard of value set for this purpose shall be the par value of the United States dollar in effect in the International Monetary Fund on the due date for each installment, provided, however, that the Bank may exercise the waiver provisions of Section 3 (c) in the event of a currency realignment involving a significant number of members of the Bank.”

In recommending that these subsections be added to Resolution AG-12/70, the Working Group solicited the opinion of the General Counsel of the Bank with respect to the interpretations inherent in the proposed resolution.

The General Counsel of the Bank issued the following opinion:

"It is the opinion of the General Counsel of the Bank that the Board of Governors has authority to establish the terms and conditions for the increase of resources as well as to make final decisions on the interpretation of the provisions of the Agreement Establishing the Bank. The provisions of subsections (e) and (f) which are being recommended as additions to Resolution AG-12/70 are interpretations of the provisions of the Agreement Establishing the Bank and within the authority of the Board of Governors as provided in said Agreement."

In addition, the Working Group proposes that the mandate of the Committee established by Resolution AG-5/70 be broadened to include a study in depth of the scope and application of the maintenance of value provisions of the Agreement Establishing the Bank for the purpose of recommending to the Board of Governors changes as required in the respective provisions, taking into account the alterations of the world monetary system and in the provisions of the International Monetary Fund's Articles of Agreement.

Report of the Board of Executive Directors to the Board of Governors

1. As a result of the Smithsonian Agreement of December 18, 1971, the Group of Ten agreed upon a multilateral realignment of currencies. Following the Group of Ten action, a number of other IMF members have taken similar measures affecting their exchange rates by establishing central rates, new par values or retaining their existing par values. As contemplated in the Smithsonian Agreement, the United States Government has obtained the approval of the United States Congress to a change in the par value of the dollar through an 8.57143 per cent devaluation to \$38.00 per ounce of gold. It is expected that most of the Bank's other member countries will also effectively devalue their currencies to the same extent as the United States dollar.

2. This multilateral currency realignment raises some fundamental problems concerning the pending \$1,500,000,000 increase in the Fund for Special Operations authorized by Resolution AG-12/70. This resolution has not yet become effective with respect to payment of the

additional FSO contributions, because the requirements therefor have not yet been satisfied and will not be satisfied before formal devaluation of a number of member currencies, including the United States dollar, has taken place. In the light of these circumstances and of certain difficulties which have been encountered in connection with this FSO increase, it does not appear realistic to expect the member countries to contribute \$1,500,000,000 in terms of dollars of the weight and fineness in effect on January 1, 1959.

3. For the foregoing reasons the Board of Executive Directors recommends that the Board of Governors amend Resolution AG-12/70 to provide that the dollar equivalencies presently set forth therein for the members' contributions be considered as referring to current dollars of any given moment rather than 1959 dollars. This action, by limiting rather than increasing the financial obligations of the member countries, should minimize the need for them to take additional legislative action regarding the pending FSO increase.

4. In order to further facilitate favorable action by the member countries regarding the FSO increase it would also appear desirable to limit the potential future maintenance of value burden with respect to these additional resources. After FSO contributions have been paid and received by the Bank they become currency holdings subject to maintenance of value provisions included in Article V, Section 3, of the Bank's charter, which provides in part:

(a) Whenever the par value in the International Monetary Fund of a member's currency is reduced or the foreign exchange value of a member's currency has, in the opinion of the Bank, depreciated to a significant extent, the member shall pay to the Bank within a reasonable time an additional amount of its own currency sufficient to maintain the value of all the currency of the member held by the Bank in its ordinary capital resources, or in the resources of the Fund, excepting currency derived from borrowings by the Bank. The standard of value for this purpose shall be the United States dollar of the weight and fineness in effect on January 1, 1959.

The application of these maintenance of value provisions to the existing ordinary capital and FSO resources of the Bank will place a substantial additional financial burden on the member countries. As a result of the devaluation of the United States dollar and of other member currencies the respective member countries will be requested to make substantial additional payments to the Bank in order to adjust for the depreciation of the Bank's holdings of their respective currencies in relation to the equivalencies thereof in terms of United States dollars of the weight and fineness in effect on January 1, 1959.

5. In order to minimize, therefore, this maintenance of value burden on the additional contributions to the FSO under Resolution AG-12/70 and thus to facilitate favorable action thereon by the member countries, it is recommended that the Board of Governors also amend Resolution AG-12/70 to provide that the additional FSO resources received thereby would not be subject to maintenance of value by the member countries in terms of any specific gold content of the dollar, but only in terms of dollars of the weight and fineness in effect at any given time. It would appear that this result could be most simply accomplished by having the Board of Governors appropriately amend Resolution AG-12/70 so as to thus condition the additional FSO contributions provided thereby, rather than actually amend Article V, Section 3, of the charter. In this connection it should be recognized that the Board of Governors of the Bank has authority to establish the terms and conditions for increases of resources of the Bank as well as to make final decisions on the interpretation of the provisions of the Agreement Establishing the Bank.

6. There is a certain logic for such a revised approach to future maintenance of value in the Fund for Special Operations, based on the essential nature of the FSO as compared to the ordinary capital. To the extent that full maintenance of value may be important in the ordinary capital to preserve voting ratios and to facilitate borrowing operations, it is not as relevant to the FSO. Furthermore, unlike the ordinary capital, where world-wide procurement and appreciating non-member currencies are involved, FSO loans are expended almost entirely within the Western Hemisphere and involve only member currencies, most of which are expected to devalue proportionately with the dollar. Thus, it does not appear unreasonable to apply the maintenance of value provisions in a somewhat more flexible manner to future FSO resources than in the case of the ordinary capital resources. The new, and, to an extent, unforeseen problems raised by the devaluation of the dollar form the basis for applying such a revised maintenance of value standard to future contributions to the FSO as compared to the Fund's existing resources.

7. Accordingly, the Board of Executive Directors recommends that the Board of Governors adopt the proposed resolution appended to this report. This resolution would provide that the dollar equivalencies set forth in Resolution AG-12/70 for the members' contributions would be considered as referring to dollars of the weight and fineness in effect at any given time and would also provide that the additional contributions received thereunder would only be subject to maintenance of value in terms of dollars of the weight and fineness in effect at any given time.

Proposed Resolution

Amendment of Resolution AG-12/70 to Establish United States Dollar Equivalencies and Maintenance of Value of Increased Resources of the Fund for Special Operations

WHEREAS:

The current multilateral realignment of currencies has implications with respect to the application of the maintenance of value provisions in the Agreement Establishing the Bank;

WHEREAS:

The contributions envisaged by Resolution AG-12/70, entitled "Increase of \$1.5 Billion in the Resources of the Fund for Special Operations and Contributions Thereto" approved by the Board of Governors on December 31, 1970, will become payable only after changes have taken place in the par value of the United States dollar and of other member currencies;

WHEREAS:

It would appear desirable to amend Resolution AG-12/70 to provide that the United States dollar equivalencies set forth herein shall refer to United States dollars of the weight and fineness in effect at any given time and to provide that the additional contributions by the members pursuant to Resolution AG-12/70 shall be subject to maintenance of value only in terms of United States dollars of the weight and fineness in effect at any given time;

WHEREAS:

The Board of Governors of the Bank has authority to establish the terms and conditions for increases of resources of the Bank as well as to make final decisions on the interpretation of the provisions of the Agreement Establishing the Bank;

The Board of Governors

RESOLVES:

To amend Resolution AG-12/70 by the addition of the following two paragraphs:

"(e) The standard of value for purposes of this resolution shall be the United States dollar of the weight and fineness in effect at any given time. Therefore, each payment of a member shall be in such an amount as, in the opinion of the Bank, is equivalent to

the full value, in terms of United States dollars of the weight and fineness in effect at the time of payment, of the portion of the additional contribution being paid.

“(f) Currencies of the members held by the Bank derived from these additional contributions shall be subject to the maintenance of value provisions of Article V, Section 3, of the Agreement Establishing the Bank, but the standard of value for this purpose shall be the United States dollar of the weight and fineness in effect at any given time.”

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SPECIAL GUESTS

The Thirteenth Meeting of the Board of Governors was attended by 414 special guests from 35 countries.

